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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1)	<p>Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?</p> <p>yes</p> <p>Please comment.:</p> <p>While Section 4 of the Philippine Intellectual Property Code^[1] includes ‘protection of undisclosed information’ as one of the intellectual property rights, it does not define it. At present, there is no law that defines trade secrets but the Supreme Court in the case of <i>Air Philippines Corp. v. Pennswell Inc.</i>^[2] adopted the definition of the term from Black’s Law Dictionary stating that:</p> <p>“xxxA trade secret may consist of any formula, pattern, device, or compilation of information that: (1) is used in one's business; and (2) gives the employer an opportunity to obtain an advantage over competitors who do not possess the information.^[3] xxx” (Emphasis supplied)</p> <p>Going by the above definition, trade secrets may fall into the Unfair Competition provisions found in Section 168 of the Intellectual Property code, which states:</p> <p>“Section 168. <i>Unfair Competition, Rights, Regulation and Remedies.</i> - 168.1. A person who has identified in the mind of the public the goods he manufactures or deals in, his business or services from those of others, whether or not a registered mark is employed, has a property right in the goodwill of the said goods, business or services so identified, which will be protected in the same manner as other property rights.xxx” (Emphasis supplied)</p>
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Therefore, the subsequent provisions (Sec. 168.2, 168.3) relating to the employment by any person of “deception or any other means contrary to good faith by which he shall pass off the goods manufactured by him or in which he deals, or his business, or services for those of the one having established such goodwill, or who shall commit any acts calculated to produce said result,”^[4] shall apply and such person “shall be guilty of unfair competition, and shall be subject to an action therefor.”^[5]

In this connection, Article 39.1 of TRIPS, provides that in “ensuring effective protection against unfair competition”, it “shall protect undisclosed information x x x “

The elements of a cause of action for unfair competition through misappropriation of a trade secret are:

1. The existence of a trade secret or secret manufacturing process;
2. The value and importance of the trade secret to the employer in the conduct of his business;
3. The employer’s right by reason of discovery or ownership to the use and employment of the secret;^[6] and

The communication of the secret to the employee while he was employed in a secret of trust and confidence and under circumstances making it inequitable and unjust for him to disclose it to others or to use it himself to the employer’s prejudice.^[7]

[1] An Act Prescribing the Intellectual Property Code and Establishing the Intellectual Property Office, Providing for Its Powers and Functions, and for Other Purposes [Intellectual Property Code], Republic Act No. 8293 (1997).

[2] *Air Philippines Corp. v. Pennswell Inc.* G.R. 172835, Dec. 13, 2007.

[3] AMJUR EMPLOYMENT Subsection 178, citing *Saunders v. Florence Enameling Co., Inc.*, 540 So. 2d 651 (Ala. 1988); *Air Products and Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114 (1982). The foregoing citation also expounded that trade secrets need not be technical in nature. Market-related information such as information on current and future projects, as well as potential future opportunities for a firm, may constitute a trade secret., citing *Air Products and Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114 (1982).

[4] Intellectual Property Code, Sec. 168.2.

[5] *Id.*, Sec. 168.2.

[6] Fr. Ranhilio Aquino, *Intellectual Property Rights: Protecting Economic Interests* (Last accessed May 7, 2015 at <http://www.dlsu.edu.ph/research/centers/cberd/conferences/ipr.pdf> [<http://www.dlsu.edu.ph/research/centers/cberd/conferences/ipr.pdf>])

[7] 55 Am Jur 2d, “Monopolies, Restraints of Trade and Unfair Trade Practices”, s704.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

General Skills/Knowledge. It was held in the *Molina v. Pacific Plans, Inc.*^[1] that “an employee's skill, aptitude, and other subjective knowledge obtained in the course of employment are not the property of his employer.” Even if an employee obtains information regarding a formula, process, device or compilation that the company used in its business but is a matter of public knowledge or is of general knowledge within the industry, he is not obliged to protect such information.^[2]

Confidential Information. Jurisprudence has stated that employees with access to confidential information, or “confidential employees”, are those who are **entrusted with confidence on delicate, or with the custody, handling or care and protection of the employer's property**, in the course of the performance of their functions.^[3] In *San Miguel Foods, Inc. v. San Miguel Corp. Supervisors and Exempt Union*,^[4] the Court held that confidential employees – such as accounting personnel, Human Resource Assistants, Personnel Assistants – should be excluded from the bargaining unit, as their access to confidential information may become the source of undue advantage.^[5] Some of the functions which would give confidential employees access to confidential information, such as vital labor relations information, were stated in the case, to wit:

“[T]he scope of one's work necessarily involves labor relations, recruitment and selection of employees, access to employees' personal files and compensation package, and human resource management. x xx[T]he recording of minutes for management during collective bargaining negotiations, assistance to management during grievance meetings and administrative investigations, and securing legal advice for labor issues from the petitioner's team of lawyers, and implementation of company programs.”

From the foregoing, it can be seen that confidential information may also relate to administrative matters, which are not necessarily related to the purpose of the company's business.

Trade Secrets. No Philippine statute provides for a definition of “trade secrets.” However, in the case of *Air Philippines Corporation vs. Pennswell, Inc.*,^[6] the Supreme Court made an extensive discussion of the definition, applying foreign laws and resources. It was held that:

“A trade secret is defined as a plan or process, tool, mechanism or compound known **only to its owner and those of his employees to whom it is necessary to confide it.**^[7] The definition also extends to a **secret formula or process not patented**, but **known only to certain individuals** using it in compounding some article of trade having a commercial value.^[8] A trade secret may consist of any formula, pattern, device, or compilation of information that: (1) is used in one's business; and (2) **gives the employer an opportunity to obtain an advantage over competitors who do not possess the information.**^[9] Generally, a trade **secret is a process or device** intended for continuous use in the operation of the business, for example, a machine or formula, but can be a price list or catalogue or specialized customer list.^[10] It is indubitable that trade secrets constitute proprietary rights. The inventor, discoverer, or possessor of a trade secret or similar innovation has rights therein which may be treated as property, and ordinarily an injunction will be granted to prevent the disclosure of the trade secret by one who obtained the information ‘in confidence’ or through a ‘confidential relationship.’^[11]

American jurisprudence has utilized the following factors^[12] to determine if an information is a trade secret, to wit:

- (1) the extent to which the information is known outside of the employer's business;
- (2) the extent to which the information is known by employees and others involved in the business;
- (3) the extent of measures taken by the employer to guard the secrecy of the information;
- (4) the value of the information to the employer and to competitors;
- (5) the amount of effort or money expended by the company in developing the information; and
- (6) the extent to which the information could be easily or readily obtained through an independent source.^[13]

Air Philippines Corporation also cites some of the Philippine laws which afford protection to trade secrets:

1. The **Interim Rules of Procedure on Government Rehabilitation**, which applies to:

- a. Petitions for rehabilitation filed by corporations, partnerships, and associations pursuant to Presidential Decree No. 902-A,^[14] as amended; and
- b. Cases for rehabilitation transferred from the Securities and Exchange Commission to the RTCs pursuant to Republic Act No. 8799, otherwise known as The Securities Regulation Code, expressly provides that the court may issue an order to protect trade secrets or other confidential research, development, or commercial information belonging to the debtor.^[15]

1. The **Securities Regulation Code**, which is explicit that the Securities and Exchange Commission (SEC) is not required or authorized to require the revelation of trade secrets or processes in any application, report or document filed with the Commission.^[16] This confidentiality is made paramount as a limitation to the right of any member of the general public, upon request, to have access to all information filed with the Commission.^[17]

1. The **Revised Penal Code**^[18]

- a. Art. 291. *Revealing secrets with abuse of office.* — The penalty of *arresto mayor* and a fine not exceeding 500 pesos shall be imposed upon any manager, employee or servant who, in such capacity, shall learn the secrets of his principal or master and shall reveal such secrets.
- b. Art. 292. *Revelation of industrial secrets.* — The penalty of *prision correccional* in its minimum and medium periods and a fine not exceeding 500 pesos shall be imposed upon the person in charge, employee or workman of any manufacturing or industrial establishment who, to the prejudice of the owner thereof, shall reveal the secrets of the industry of the latter.

1. The **National Internal Revenue Code** of 1997 (R.A. No.8424)^[19]

- a. SECTION 278. *Procuring Unlawful Divulgence of Trade Secrets.* — Any person who causes or procures an officer or employee of the Bureau of Internal Revenue to divulge any confidential information regarding the business, income or inheritance of any taxpayer, knowledge of which was acquired by him in the discharge of his official duties, and which it is unlawful for him to

reveal, and any person who publishes or prints in any manner whatever, not provided by law, any income, profit, loss or expenditure appearing in any income tax return, shall be punished by a fine of not more than two thousand pesos (P2,000), or suffer imprisonment of not less than six (6) months nor more than five (5) years, or both.

1. The **Toxic Substances and Hazardous and Nuclear Wastes Control Act** of 1990 (R.A. No. 6969)^[20]

Contains a provision (Section 12) that limits the right of the public to have access to records, reports or information concerning chemical substances and mixtures including safety data submitted and data on emission or discharge into the environment, if the matter is confidential such that it would divulge trade secrets, production or sales figures; or methods, production or processes unique to such manufacturer, processor or distributor; or would otherwise tend to affect adversely the competitive position of such manufacturer, processor or distributor.^[21]

Footnotes

1. [^] *Molina v. Pacific Plans, Inc.*, G.R. No 165476, Mar. 10, 2005, citing *American Buildings Company v. Pascoe Building System, Inc.*, 392 S.E.2d 860, 260 Ga. 346 (1990).
2. [^] *Id.*
3. [^] *San Miguel Foods, Inc. v San Miguel Corp. Supervisors and Exempt Union*, G.R. No 146206, Aug. 1, 2011.
4. [^] *Id.*
5. [^] *Id.*, citing *Golden Farms, Inc. v. Ferrer-Calleja*, 256 Phil. 903, 909 (1989), cited in *Standard Chartered Bank Employees Union (SCBEU-NUBE) v. Standard Chartered Bank*, G.R. No. 161933, Apr. 22, 2008, and *Philips Industrial Development, Inc. v. NLRC*, G.R. No. 88957, Jun. 25, 1992.
6. [^] *Air Philippines Corp. v. Pennswell Inc.* G.R. 172835, Dec. 13, 2007.
7. [^] *BLACK'S LAW DICTIONARY* 1494 (1991), 6TH ed.
8. [^] *Id.*, citing *Palin Mfg. Co., Inc. v. Water Technology, Inc.*, 103 Ill.App.3d 926, 59 Ill.Dec. 553, 431.
9. [^] *AMJUR EMPLOYMENT* Subsection 178, citing *Saunders v. Florence Enameling Co., Inc.*, 540 So. 2d 651 (Ala. 1988); *Air Products and Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114 (1982). The foregoing citation also expounded that trade secrets need not be technical in nature. Market-related information such as information on current and future projects, as well as potential future opportunities for a firm, may constitute a trade secret., citing *Air Products and Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114 (1982).
10. [^] *Id.*, citing *Saunders v. Florence Enameling Co., Inc.*, 540 So. 2d 651 (Ala. 1988); *Air Products and Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114 (1982). A former employee of an insurance company, who routinely received information regarding the company's customer list and policy termination dates while serving as vice-president, was barred from disclosing that information, even though the company had partially disclosed the customer list in attempts to secure new clients. *Alexander & Alexander, Inc. v. Drayton*, 378 F. Supp. 824 (E.D. Pa. 1974), *aff'd*, 505 F.2d 729 (3d Cir. 1974).
11. [^] 9 A.L.R.3d 665, citing *Am Jur, Injunctions* (Rev ed Subsection 72). The Restatement of the Law of Torts Subsection 757, emphasizes that liability for the disclosure of a trade secret learned under conditions giving no privilege of disclosure or use is not based on the mere copying or use but on the improper means by which the information was procured.
12. [^] *Id.*, as adopted from the Uniform Trade Secrets Act which is intended to provide states with a legal framework for improved trade-secret protection.
13. [^] *Id.*
14. [^] SEC Reorganization Act.
15. [^] Section 4, Rule 3 of the Interim Rules of Procedure on Government Rehabilitation.
16. [^] Section 66.2 of the Securities Regulation Code of 2000 provides that, "66.2. Nothing in this Code

shall be construed to require, or to authorize the Commission to require, the revealing of trade secrets or processes in any application, report, or document filed with the Commission.

17. [^ SEC. 66. Revelation of Information Filed with the Commission. — 66.1. All information filed with the Commission in compliance with the requirements of this Code shall be made available to any member of the general public, upon request, in the premises and during regular office hours of the Commission, except as set forth in this Section.](#)
18. [^ An Act Revising the Penal Code and Other Penal Laws \[Revised Penal Code\], Act No. 3815 \(1932\).](#)
19. [^ National Internal Revenue Code of 1997, Republic Act No. 8424 \(1997\).](#)
20. [^ An Act to Control Toxic Substances and Hazardous and Nuclear Wastes, Providing Penalties for Violations Thereof, and for Other Purposes \[Toxic Substances and Hazardous and Nuclear Wastes Control Act\], Republic Act No. 6969 \(1990\).](#)
21. [^ Toxic Substances and Hazardous and Nuclear Wastes Control Act. Section 12. — Public Access to Records, Reports or Notification. The public shall have access to records, reports, or information concerning chemical substances and mixtures including safety data submitted, data on emission or discharge into the environment, and such documents shall be available for inspection or reproduction during normal business hours except that the Department of Environment and Natural Resources may consider a record, report or information or particular portions thereof confidential and may not be made public when such would divulge trade secrets, production or sales figures or methods, production or processes unique to such manufacturer, processor or distributor, or would otherwise tend to affect adversely the competitive position of such manufacturer, processor or distributor. The Department of Environment and Natural Resources, however, may release information subject to claim of confidentiality to a medical research or scientific institution where the information is needed for the purpose of medical diagnosis or treatment of a person exposed to the chemical substance or mixture.](#)

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

no
If no please comment:

Generally, such duty must be set out in the contract of employment to be able to affect the relationship between the parties. In the case of *Portillo v. Rudolf Lietz, Inc.*, it was held that the "Goodwill Clause" or the "Non-Compete Clause," as it is known in Philippine Jurisdiction, is a contractual undertaking effective after the cessation of the employment relationship between the parties; hence breach of the undertaking is a civil law dispute, not a labor law case.^{[1][#_ftn1]} The Civil Code^{[2][#_ftn2]} provides that the employer-employee may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.

The provisions of the Civil Code^{[3][#_ftn3]} dealing with human relations may also be the basis for a claim for damages against persons who breach their duty of confidence. The pertinent provisions are as follows:

1. Article 19. Every person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.
2. Article 20. Every person who, contrary to law, wilfully or negligently causes damage to another, shall indemnify the latter for the same.
3. Article 21. Any person who wilfully causes loss or injury to another in a manner that is contrary to morals, good customs or public policy shall compensate the latter for the damage.

Absent a non-compete or goodwill clause, an employer or formal employer may claim damages pursuant to the abovementioned provisions.

[1][#_ftnref1] Portillo v. Rudolf Lietz, Inc., G.R. No. 196539, Oct. 10, 2012.

[2][#_ftnref2] An Act to Ordain and Institute the Civil Code of the Philippines [Civil Code], Republic Act No. 386 (1949).

[3][#_ftnref3] *Id.*

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes

If yes, is there any distinction between the types of knowledge they can use?:

As earlier adverted to, the Philippines has as yet no codified trade secrets statute. Thus, to resolve this question, recourse has to be made to jurisprudence and specific provisions of certain special laws and the Civil Code and Revised Penal Code discussed above.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes

If so, which employees, and what is the rationale for any distinction between employees?:

Employees holding a position of trust and confidence may be dismissed due to a breach of trust pursuant to Article 282 of the Labor Code,^[1] which states:

“Article 282. *Termination by employer.* An employer may terminate an employment for any of the following causes:

x xx

c. Fraud or willful breach by the employee of the trust reposed in him by his employer or duly authorized representative;”

The requisites of a valid dismissal based on loss of trust and confidence were discussed in the case of *M+W Zander Philippines, Inc. v. Enriquez*,^[2] as cited in the more recent case of *Wesleyan University Philippines v. Reyes*,^[3] where the Court stated that:

“Article 282 (c) of the Labor Code allows an employer to terminate the services of an employee for loss of trust and confidence. Certain guidelines must be observed for the employer to terminate an employee for loss of trust and confidence. We held in **General Bank and Trust Company v. Court of Appeals**, viz.:

[L]oss of confidence should not be simulated. It should not be used as a subterfuge for causes which are improper, illegal, or unjustified. Loss of confidence may not be arbitrarily asserted in the face of overwhelming evidence to the contrary. It must be genuine, not a mere afterthought to justify earlier action taken in bad faith.

The first requisite for dismissal on the ground of loss of trust and confidence is that **the employee concerned must be one holding a position of trust and confidence.**

There are two classes of positions of trust: **managerial employees** and **fiduciary rank-and-file employees.**

Managerial employees are defined as those **vested with the powers or prerogatives to lay down management policies and to hire, transfer, suspend, lay-off, recall, discharge, assign or discipline employees or effectively recommend such managerial actions.** They refer to those whose primary duty consists of the management of the establishment in which they are employed or of a department or a subdivision thereof, and to other officers or members of the managerial staff. Officers and members of the managerial staff perform work directly related to management policies of their employer and customarily and regularly exercise discretion and independent judgment.

The second class or fiduciary rank-and-file employees consist of **cashiers, auditors, property custodians, etc., or those who, in the normal exercise of their functions, regularly handle significant amounts of money or property.** These employees, though rank-and-file, are routinely charged with the care and custody of the employer's money or property, and are thus classified as occupying positions of trust and confidence.

x xx

The second requisite of terminating an employee for loss of trust and confidence is that **there must be an act that would justify the loss of trust and confidence.** To be a valid cause for dismissal, the loss of confidence must be based on a **willful breach of trust and founded on clearly established facts.**" (Emphasis supplied)

Hence an employee holding a managerial position or one who is a fiduciary rank-and-file employee may be terminated if proven, by clearly established facts, that such employee wilfully breached the trust of his employer resulting in loss of confidence.

Aspect (ii) – Ensuring confidentiality during Court Proceedings

Footnotes

1. [^](#) *A Decree Instituting a Labor Code thereby Revising and Consolidating Labor and Social Laws to Afford Protection to Labor, Promote Employment and Human Resources Development and Insure*

Industrial Peace Based on Social Justice [Labor Code], Presidential Decree No. 442 (1974).
 2. [^](#) *M+W Zander Philippines, Inc. v. Enriquez, G.R. No. 169173, Jun. 5, 2009.*
 3. [^](#) *Wesleyan University Philippines v. Reyes, G.R. No. 208321, Jul. 30, 2014.*

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

Section 27 of Rule 27 of the Philippine Rules of Court provides for methods of the production and inspection of documents. Notable is the exclusion of privileged communication in the said provision, which states:

“Section 1. Motion for production or inspection; order. — Upon motion of any party showing good cause therefor, the court in which an action is pending may (a) order any party to produce and permit the inspection and copying or photographing, by or on behalf of the moving party, of any designated documents, papers, books, accounts, letters, photographs, objects or tangible things, **not privileged**, which constitute or contain evidence material to any matter involved in the action and which are in his possession, custody or control, or (b) order any party to permit entry upon designated land or other property in his possession or control for the purpose of inspecting, measuring, surveying, or photographing the property or any designated relevant object or operation thereon. The order shall specify the time, place and **manner of making the inspection and taking copies and photographs, and may prescribe such terms and conditions as are just.**”

Moreover, Rule 130, Section 24, enumerates the affairs which fall under the classification of being “privileged.” The application the foregoing provision may also be found in jurisprudence such as in *Air Philippines Corporation vs. Pennswell, Inc.*¹ where the Court held that:

“Section 24 of Rule 130 draws the types of disqualification by reason of privileged communication, to wit: (a) communication between husband and wife; (b) communication between attorney and client; (c) communication between physician and patient; (d) communication between priest and penitent; and (e) public officers and public interest. **There are, however, other privileged matters that are not mentioned by Rule 130.** Among them are the following: (a) editors may not be compelled to disclose the source of published news; (b) voters may not be compelled to disclose for whom they voted; (c) **trade secrets**; (d) information contained in tax census returns; and (d) bank deposits.

Jurisprudence has consistently acknowledged the private character of **trade secrets**. There is a privilege not to disclose one’s **trade secrets**. Foremost, this Court has declared that **trade secrets** and banking transactions are among the recognized restrictions to the right of the people to information as security matters and intelligence information, **trade** or industrial **secrets** (pursuant to the Intellectual Property Code and other related laws) as well as banking transactions (pursuant to the Secrecy of Bank Deposits Act), are also exempted from compulsory disclosure.” (Emphasis supplied)

Footnotes

1. [^](#) *Air Philippines Corp. v. Pennswell Inc. G.R. 172835, Dec. 13, 2007.*

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

- a) restricted access to the hearing and / or evidence;

No. Transcripts of proceedings are generally available but may be disallowed by the Court.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

No. The client is entitled to know.

c) non-confidential versions of documents being provided to all except authorised individuals;

Yes.

d) only non-confidential parts of any judgment / decision publicly available?

Generally, decision are public record but the Court using its discretion may disallow circulation.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

The trade secret holder must convince the court that the information merits protection. In the case of *Cocoland Development Corporation v. National Labor Relations Commission*,^[1] the Court held that the party claiming information to be a trade secret must prove by clear and convincing evidence that such information was not readily available to the public. Mere assertions will not suffice. The Court decision stated that:

“Petitioner’s naked contention that **its own determination** of what constitutes a trade secret should be binding and conclusive upon public respondent is erroneous and dangerous, and deserves the barest consideration. ~~x xx~~**Any determination by management as to the confidential nature of technologies, processes, formulae or other so-called trade secrets must have a substantial factual basis which can pass judicial scrutiny.** This is but an ineludible corollary of the time-tested principle that “(t)he rules, instructions or commands in order to be a ground for discharge on the score of disobedience, must be reasonable and lawful, must be known to the employee, and must pertain to the duties which the employees have been engaged to discharge.” **A fictitious or non-existent “secret” (or a publicly known one as in the instant case) can in no wise be the basis of a reasonable and lawful rule or company policy regarding confidentiality.**”

The parameters for determining trade secrets set by the Court in the case of *Cocoland Development Corporation*^[2] are (1) that the party, through substantial factual basis, must establish the **confidential nature** of its technologies, processes, formulae or other so-called tradesecrets, and (2) such must pass judicial scrutiny

Footnotes

1. [^](#) *Cocoland Development Corporation v. National Labor Relations Commission*, G.R. No. 98458, Jul. 17, 1996.
2. [^](#) *Cocoland Development Corporation v. National Labor Relations Commission*, G.R. No. 98458, Jul. 17, 1996.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

The Court generally does.

Aspect (iii) - Valuation of loss

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Evidence has to be presented to show how the damages were mitigated by the publication.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

Generally, evidence has to be presented to show the extent of business lost by the trade secret holder or the profits made by the violator as a result of the trade secret violation.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

yes

Please comment:

Yes, damages are available as a remedy. Given that it is the violation of the "Goodwill Clause" or the "Non-compete Clause" which will serve as the basis of an employer's claim against the employee who divulges a trade secret, and that such violations are considered as a breach of the employee's contractual obligations,^[1] hence the provisions of the Civil Code will govern.

According to Art. 1170 of the Civil Code, "[t]hose who in the performance of their obligations are guilty of fraud, negligence, or delay, and those **who in any manner contravene the tenor thereof**, are liable for damages."

a. The employee has the burden of proof to show that the publication has mitigated the damages.

b. Section 156.1 of the Intellectual Property Code also provides that:

"Section 156. *Actions, and Damages and Injunction for Infringement.* - 156.1. **The owner of a registered mark may recover damages from any person who infringes his rights, and the measure of the damages suffered shall be either the reasonable profit which the complaining party would have made, had the defendant not infringed his rights, or the profit which the defendant actually made out of the infringement**, or in the event such measure of damages cannot be readily ascertained with reasonable certainty, then the court may award as damages a reasonable percentage based upon the amount of gross sales of the defendant

or the value of the services in connection with which the mark or trade name was used in the infringement of the rights of the complaining party.”

c. There is nothing in our laws which defines the term “moral prejudice.” Moral damages, however, are provided but much is left to the discretion of the judge to determine the amount of moral damages.

[1][#_ftnref1] Portillo v. Rudolf Lietz, Inc., G.R. No. 196539, Oct. 10, 2012.

d) If so, how is moral prejudice defined and how are such damages quantified?

As earlier stated the term “moral prejudice” is not defined in Philippine law. However, “moral damages” is defined in Article 2217 of our Civil Code as follows:

“Moral damages include physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation, and similar injury. Though incapable of pecuniary computation, moral damages may be recovered if they are the proximate result of the defendant's wrongful act for omission.”

As can be gleaned from the above definition, it is difficult to quantify “moral damages” and a lot depends on the discretion of the judge. However, jurisprudence provides for norm, namely, before moral damages can be awarded, actual damages should be proven.

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

Despite the lack of a general or codified law governing trade secrets, the three provisions under Chapter III, Book II of the Revised Penal Code^[1] may be applicable as they provide for the elements for the discovery and revelation of secrets. The three prohibited acts, as well as the requisites that must concur to establish their existence, are:

- a. **Art. 290. Discovering secrets through seizure of correspondence.** The elements are: (1) that the offender is a private individual or even a public officer not in the exercise of his official function; (2) that he seizes the papers or letters of another; (3) that the purpose is to discover the secrets of such another person; and (4) that offender is informed of the contents of the paper or letters seized.^[2]
- b. **Art. 291. Revealing secrets with abuse of office.** The elements are: (1) that the offender is a manager, employee, or servant; (2) that he learns the secrets of his principal or master in such capacity; and (3) that he reveals such secrets.^[3]
- c. **Art. 292. Revelation of industrial secrets.** The elements are: (1) that the offender is a person in charge, employee, or workman of any manufacturing or industrial establishment; (2) that the manufacturers or industrial establishment has a secret of the industry which the offender has learned; (3) that the offender reveals such secrets; and (4) that prejudice is caused to the owner.^[4]

Hence, after proving the existence of a trade secret, the above provisions may be applied to establish its violation.

Footnotes

- 1. [^](#) *An Act Revising the Penal Code and Other Penal Laws [Revised Penal Code], Act No. 3815 (1932).*
- 2. [^](#) *Luis B. Reyes, The Revised Penal Code, 648 (18th ed. 2012).*
- 3. [^](#) *Luis B. Reyes, The Revised Penal Code, 651 (18th ed. 2012).*
- 4. [^](#) *Luis B. Reyes, The Revised Penal Code, 652 (18th ed. 2012).*

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

In a breach of confidence, the following elements must be proven: (1) that the employee is holding a position of trust and confidence, which is either a managerial employee or a fiduciary rank-and-file employee; and (2) that the loss of confidence was based on a wilful breach of trust and founded on clearly established facts.¹⁴¹*[For a more extensive discussion, see answer to Question 5]*

For a trade secret violation, the parameters for determination of trade secrets set by the Court in the case of *Cocoland Development Corporation*¹⁴² are (1) that the party claiming the violation, through substantial factual basis, must establish the **confidential nature** of its technologies, processes, formulae or other so-called tradesecrets, and (2) such must pass judicial scrutiny.

Footnotes

- 1. [^](#) *Wesleyan University Philippines v. Reyes, G.R. No. 208321, Jul. 30, 2014.*
- 2. [^](#) *Cocoland Development Corporation v. National Labor Relations Commission, G.R. No. 98458, Jul. 17, 1996.*

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes
If so, in what circumstances? :

While no specific provision of Philippine law covers this situation, constructive knowledge of a trade secret by an ex-employer can be imputed if there is no possible way for him to obtain the trade secret except through its connection with his work.

13) Does your jurisdiction provide for discovery?

yes
If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Yes, both at the pre-action stage and against third parties. (Rule 24, Rules of Court).

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes

If yes, what is this threshold?:

In the Philippines, though, burden of proof and burden of evidence are treated differently. The burden of proof does not shift as it remains throughout the trial with the party upon whom it is imposed; the burden of evidence shifts from party to party depending upon the exigencies of the case in the course of the trial (Remedial Law Compendium, by Florenz D. Regalado, Revised Edition, p. 795.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

Rule 126, Secs. 4-6 provide for the requisites and safeguards to prevent abuse. There must be probable cause to be determined personally by the judge after examination of the complainant and witnesses under oath, describing with particularity the things to be seized.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Generally, it is to secure evidence for further prosecution of an action.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

yes

If so, what limits? :

Yes, there should be limits. The complainant should be able to establish abuse of rights by the defendant in using the trade secret for commercial gain.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Please see our answer to Question No. 5.

Aspect (iii) -

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

Yes, because the information remains confidential.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

Since it was developed independently, the obligations of confidentiality should not attach to the information so developed before or after the proceedings.

Aspect (iii) -

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

yes

If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?

yes

If so please comment.:

Generally, whether or not injunctive relief is available, where damages are established, they should be recoverable.

b) only where injunctive relief is not adequate

yes

If so please comment.:

Please see our answer to 21(a) above.

c) only where injunctive relief is not necessary?

yes

If so please comment.:

Please see our answer to 21 (a) above.

d) If by default, why?

It should be available by default as a deterrent. This can find support in our law on damages.

Aspect (iv) -

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

yes

If yes, in what circumstances? :

Yes, if it is established that the hiring of the ex-employee of another employer by the new employer was intended to benefit the new employer.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes, because urgent ex parte orders may be needed in emergency situations.

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes, because urgent ex parte orders may be needed in emergency situations.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

The claimant should be prohibited from disclosing the new trade secret learned.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes, harmonization is desirable.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

Such actions should fail if :

1. The trade secret has been held for a lengthy period of time already.

If the trade secret has already become known to the specific trade involved.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

A temporary restraining order may be issued pending the determination of the merits of the case.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

Yes, after a long period has passed from the time such employee has left the service, also, an exception may be made if public welfare is involved.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

The court proceedings should be closed to the public. The claimant should also establish that serious prejudice will be suffered by him if a disclosure of the trade secret is made.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

Under the circumstances, confidentiality or non-use obligations should generally cease to apply.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

The following principles may be applied:

1. The substance and nature of the trade secret should be established;
2. The expense and effort, particularly, research and development involved in developing the trade secret should be quantified; and

The actual damages suffered by the trade secret holder due to the disclosure of the trade secret.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Yes, it is difficult to quantify moral damages and it should generally be left to the court's discretion.

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

The following measures may be taken:

1. Hearings should be closed to the public;
2. All documents and evidence presented should be kept under seal; and
3. All the litigants, witnesses and even court personnel should take an oath to not disclose information obtained during the hearing under contempt.

34) What restrictions should apply to the use of seized evidence by the claimant?

Seized evidence should be used only for forensic purposes.

Summary

Up to the present time, the Philippine legislature has not yet passed a general trade secrets statute. Thus, the basis of the rights and obligations of trade secret holders can be found in different laws such as the Civil Code of the Philippines, the Revised Penal Code and the Intellectual Property Code and decided cases of the Supreme Court.

Regarding procedural matters, e.g. seizure of objects containing trade secrets, damages, etc. , the Philippine Rules of Court may be used as basis for the steps and remedies to be taken.

Harmonization of laws regarding trade secrets is desirable because of the global nature of business nowadays. An employee from one country may be hired by a foreign company and in the course of employment may obtain trade secrets. The relative rights and obligations of the parties may be more easily determined if the laws of the jurisdictions involved are uniform.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.

Generally, the conflict between the need to protect trade secrets and restraint of trade are not specifically covered by actual provisions of law and may have to be resolved depending on the particular circumstances of each case.