



Date: 22nd June 2015

Q247

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

Responsible Reporters: by Sarah MATHESON, Reporter General John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General Yusuke INUI, Ari LAAKKONEN and Ralph NACK Assistants to the Reporter General

National/Regional Group	Singapore
Contributors name(s)	Renee XAVIER
e-Mail contact	rxavier@alphaandomega.com.sg
Date	22-06-2015

I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) 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)?

no

If not please comment.:

Trade secret protection and restraint of trade actions are separate and trade secret protection will not be viewed as a form of restraint of trade unless the restraint of trade clause in an employment contract is general, overreaching and against public policy. Trade secret protection and the enforceability of a restraint of trade clause sit on separate sides of a coin, the circumstances and effects of which are duly considered by the courts when deciding on a case.

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

In Singapore, trade secret and restraint of trade actions are subject to the rules of common law, equity and applicable statutory provisions (e.g. Computer Misuse and Cybersecurity Act). Trade secrets (Confidential Information) are protected in Singapore under TRIPS and common law. Restraint of trade on the other hand is a matter of public policy and common law.

Restraint of trade contracts are prima facie void, particularly when the restraint is at the expense of the ex-employee utilizing his skill and knowledge to compete (even if against an ex-employer) or to seek alternative employment.

Restraint of trade clauses can be used to protect trade secrets if:

- i. There is a legitimate proprietary interest to be protected.
- (ii) The clause is reasonable in reference to the interests of the parties.
- i. The clause is reasonable in reference to the interests of the public.

Trade secret protection and restraint of trade protection are therefore separate and the courts will give the following due consideration when making a decision:

- i. Private policy - of the employee and the employer. The right to use its skill and knowledge (employee) and the right to maintain its confidential information (employer).
- ii. Public policy - the public should be entitled to the rules on competition.
- iii. The Law of Confidence - to protect proprietary rights of an employer.
- iv. The Law of Contract - Express terms of any contract.
- v. An implied term of employment - Fidelity and good faith of an employee towards its employer is implied by law.
- vi. Policies and actions of the employer.
- vii. Circumstances of the parties and surrounding circumstances

Trade secret protection and restraint of trade protection is therefore more a balance between regulating the relationship between employer and employee. Different interests are at stake and they often conflict with one another. On one side the employer's private interest to maintain confidentiality and on the other side the employee's private interest to freedom of employment and the public interest to encourage competition.

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 skill or knowledge acquired during the course of employment is the general stock of knowledge, skill and talent of the employee which does not carry the elements of confidential information and its necessary quality of confidence. The test is whether the "info in question can fairly be regarded as a separate part of the employee's stock of knowledge which a man of ordinary honesty and intelligence would recognize to be the property of his employer, and not his own to do as he likes" . An employer may use its general skill and knowledge post-employment.

Confidential Information means that the information must not be something that is public property or public knowledge. As such, the information must not be in "public domain". Two important factors help determine whether the information is in the "public domain":

- a. degree of exposure or publication of the information; and
- b. accessibility of public to the information

The information need not be new or contain any inventive ideas. Additionally, just because the idea is a simple idea will not detract from its confidential nature. Therefore any kind of information, factual or fictional, commercial or government which the law considers of value qualify as confidential information.

Singapore does not make a distinction between confidential information and trade secrets however trade secrets are recognised as a subset of confidential information and how the secrecy of this confidential information is controlled and protected within a business and the commercial value of such confidential information will influence the Singapore courts in recognising it as a trade secret and make the difference between deciding to uphold a breach of confidential information clause and possibly a restraint of trade clause as not against public policy.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?
 yes
 If yes please answer the following sub-questions::

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

During employment, in the absence of any express confidentiality clause in the employment contract or in the absence of any employment contract, employees owe implied obligations in respect of the use and disclosure of information. There is a duty of fidelity to act honestly and faithfully to their employers.

It is not necessary to be broader. However, express confidentiality clauses provide certainty as to the intentions of the parties and the obligations imposed on an employee and if reasonable and not against public policy can be upheld post-employment as well. The express confidentiality clause removes any uncertainty as to whether there is an obligation to keep the relevant information confidential. It remains however that the status of the confidential information must be proven and the clause is established as not against public policy.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

Because trade secrets are protected in Singapore under TRIPS and common law, the obligation to keep confidential is a continuing obligation of confidentiality so long as the employer can establish confidentiality of the information i.e,

- a. The information must have the necessary quality of confidence;
- b. The information must have been imparted in circumstances importing an obligation of confidence; and
- c. There must have been an unauthorised use of that information to the detriment of the party communicating it.

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?:

The Singapore courts will not sanction a restraint of trade clause which seeks to prevent the employee from exercising his own natural skill and talent, even if these are acquired by the employee in the course of his employment. Yes, the employee may use skill and knowledge acquired from its previous employment even if to compete against its previous employee.

However, if the ex-employer is able to prove that the information used by the ex-employee is confidential information, the employee may be restrained from using such information under common law. It has to be shown that a reasonable man given the circumstances of the case would recognize the information as being confidential to one party, such that equity would intervene and impose a duty of confidence.

It is also important to note that separately, the new employer may also be restrained from using such confidential information. The general rule of Law is that the knowledge of the ex-employee is imputed into the new employer company and the new employer company is put on notice of the confidentiality of the information that the new employer came into possession through the ex-employee and the new employer would therefore owe an equitable obligation of confidence to the ex-employer.

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?:

Yes, the nature of the employment is relevant. In a situation where an employee habitually handles confidential information, the law will recognise that it is more reasonable to impose a stricter restraint of trade clause to protect the confidential information.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

The Supreme Court in Singapore is made up of the High Court and the Court of Appeal. In response to increasing complex commercial cases reaching the judiciary, Singapore has a specialist list of IP Judges in the High Court. The proceedings in the Supreme Court are governed by the Rules of Supreme Court and the IP Court Rules.

A Party may ask the Court for the following orders:

- for restricted disclosure to only a group of people;
- no copies of documents containing confidential information to be made;
- all documents containing confidential information to be returned to the proprietor;
- all documents containing confidential information be classified under "Confidential Bundle" and sealed (which means this bundle cannot be inspected by any party unless it goes through the Registrar);
- the case to be heard in camera;
- no person must reveal or publish any information or document relating to the case;
- confidentiality undertakings may be requested before confidential information is disclosed.
- Disclosure subject to a non-disclosure agreement;
- Confidentiality clubs - i.e disclosure to named individuals only, usually the legal representatives, experts and representatives of the litigants.

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;

Yes. On a case to case basis. The Courts have the power to make such orders under the Rules of the

Supreme Court and the IP Court Rules.

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

Yes. On a case to case basis. The Courts have the power to make such orders under the Rules of the Supreme Court and the IP Court Rules.

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

Yes. On a case to case basis. The Courts have the power to make such orders under the Rules of the Supreme Court and the IP Court Rules.

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

Not necessarily. It depends on the judge and if the need to disclose the confidential information is essential to the reasoning of his/her decision.

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?

It is not by default. The trade secret holder must convince the judge of the merits.

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 trade secret holder would make the necessary applications to ensure the confidentiality of the information post proceedings.

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?

If the trade secret is published and made available to the public, the owner of that trade secret suffers economic loss since the value attached to the secret is then diminished and the business loses its competitive edge and resources invested into developing the trade secret. Furthermore, the information may lose its confidential nature and lose the legal protection it deserves

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?

A successful plaintiff is entitled to various forms of relief in Singapore. Typically:

- a. an injunction to prevent damage or further disclosure;
- b. an account of defendant’s profits or an award of damages; and
- c. Delivery up or disposal of materials containing the confidential information.

Damages may be quantified in the form of loss of profits which is unjust enrichment. Yes, what the trade secret holder would or might have charged as a reasonable royalty fee or license can be used to assess the loss of profits i.e. the quantifiable damages.

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?

no
If not please comment.:

In Singapore, damages awarded are compensatory and not punitive. As such, it is unlikely that a claim for damages for moral prejudice will succeed. Damages will be awarded for losses incurred and this in itself is quite difficult in IP cases as even future earnings etc. and the value of an IP (be it trade mark, patent, trade secret) is subjective.

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

Aspect (iv) - Proving infringement

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

In order to succeed in an action for violation of a trade secret, the courts must be satisfied that there was an obligation to keep the information confidential and the information was in fact confidential in nature. Under the law of confidence, the elements to be proven are

- a. The information must have the necessary quality of confidentiality
- a. The Information was imparted in circumstances which gives rise to an obligation of confidence
- a. There has been unauthorized use of the information to the detriment of the party who communicated the information

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?

The common law of confidence in Singapore, does not limit its protection to only one particular type of information such as trade or commercial secrets, nor does it confine the application of the law to information with commercial value by virtue of it being secret.

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? :

Ex-employee

- a. In determining whether there was breach of confidence, the knowledge of the ex-employee and the circumstances under which the information was disclosed to the ex-employee may go toward establishing that the information was imparted in circumstances which gives rise to an obligation of confidentiality
- a. In determining whether certain information is a trade secret, the court will consider whether the employer had impressed on the employee the confidentiality of the information. As such, the attitude of the employer toward the information would also be considered. However, this is also balanced by the court taking into account the nature of the employment and the nature of the information as well.

New employer

- a. The general rule of Law is that the knowledge of the ex-employee is imputed into the new employer company and the new employer company is put on notice of the confidentiality of the information that the new employer came into possession through the ex-employee . The new employer would therefore owe an equitable obligation of confidence to the ex-employer.

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?:	
<u>Pre-action Discovery</u>	
Yes, pre-action discovery is available. Application must be supported with	
a. Grounds for the application	
a. Material facts pertaining to the intended proceedings	
a. Whether person against whom the order is sought is likely to be party to subsequent proceedings in Court	
a. Specification or description of the documents in respect of which the order is sought	
a. Show, if practicable by reference to pleadings served or to be served, that the documents are relevant to an issue arising or likely to arise out of the claim made, or relevant to the identity of likely parties to the proceedings	
<u>Discovery against Third Parties</u>	
Yes, discovery is available but only after commencement of proceedings .An application must be supported with affidavit stating	
a. Specification or description of the documents in respect of which the order is sought	
a. Show, if practicable by reference to pleadings served or to be served, that the documents are relevant to an issue arising or likely to arise out of the claim made or relevant to the identity of likely parties to the proceedings.	

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?
no	

15)	<p>Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?</p> <p>yes</p> <p>If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:</p> <p>Singapore's law allow for the application of an <u>Anton Piller / Search Order</u>. Among the safeguards:</p> <ul style="list-style-type: none">a. The reason(s) the application is made on an ex parte basis, including whether the applicant believes there is a risk of destruction of evidence.a. Urgency of the application, including whether there is any particular event that may trigger the destruction of evidence.a. Factual basis for the application, including the basis of any belief that there will be destruction of evidence, whether there have been any past incidents of the opponent destroying evidence, and whether there is any evidence or dishonesty or bad faith of the opponent.a. Factual basis for any reasonable defences that may be relied on by the opponent.a. Whether the applicant is aware of any issues relating to jurisdiction, forum non conveniens or service out of jurisdiction, and if so, whether any application relating to these issues has been or will be made.a. Undertaking to pay for losses that may be caused to the opponent or other persons by the granting of the orders sought, stating what assets are available to meet that undertaking and to whom the assets belong.a. Any other material facts which the Court should be aware of. <p><u>The conditions</u> for application of Anton Pillar / Search Order are that there must be:</p> <ul style="list-style-type: none">a. Very strong prima facie casea. The damage (actual or potential) to be avoided must be serious - the fact that the Plaintiff would not be able to prove its case if the evidence were destroyed may be an indication of serious damage if the order was not granted.a. There is clear evidence that the Defendants have in their possession incriminating evidence, and there is real possibility that they may destroy such objects/evidence before any inter partes application can be made.a. Consider whether the effect of the order would be out of proportion to the legitimate object of the order.a. There is a requirement for full and frank disclosure of evidence.a. The Applicant gives an undertaking (via payment into Court, provision of bond by an insurance company, a banker's guarantee or a payment to the applicant's solicitor to be held by the solicitor as an officer of the Court).a. To execute the Order, the Plaintiff must appoint a supervising solicitor to ensure that the search order is carried out in accordance with the terms stated in the order and explain the effect of the order to the persons at the premises to be searched. The Solicitor cannot be from the firm representing the Plaintiff and should be an experienced solicitor who is familiar with the operation of search orders. There is a requirement to provide the name and experience of the supervising solicitor to court at the time of application for the Order.
-----	--

a. The Order must be carried out only during prescribed times and the Defendant must be provided with a list of items seized before removal.

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?

To be used in the proceedings

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? :

Limits need to be placed in the form of well-defined laws on what is a trade secret (harmonized elements on what is required for something to qualify as a trade secret) and what are the remedies available to the proprietor of a trade secret. Once a trade secret is clearly defined the repercussions of breach of confidence will not be found to be an unlawful restraint on trade of an employee but instead provides businesses with certainty in developing and commercializing their intellectual assets leading to more job creation and increases competition through honest commercial practices.

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

Yes, different obligations of confidence or non-use should apply. This is however easier said than done but if successfully determined by statute will provide certainty to both employer and employee. An employer has an obligation to manage its confidential information well. Simply signing of employment contracts and allowing free access of all confidential information to all its employees will not be fair to employees and ex-employees and allow business owners unlimited relief for loss of its trade secrets. Business owners must be required to be responsible for the trade secrets if they want are of the view that such secrets are of value to the business. As such, employee levels and access should be categorized and similarly confidentiality of business information should be categorized.

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, there should be an order not to use the trade secret in order to preserve the status of the information being secret and for the owner of the secret to continue to derive economic benefits from the secret exclusively. To not require such prohibition from use would mean that the secret is likely to lose its status and the owner will not be able to enforce its proprietary right against other infringers and third parties whose knowledge of the status of the information is imputed.

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?

Very specific orders will have to be made after the court establishes (with the help of experts) (or parties agree by private settlement) what was developed independent of the trade secret and what was developed as a result of knowledge of the trade secret. Generally, some confidentiality obligations have to put in place, it is the scope of the obligations that must be carefully crafted and be specified on a case-to-case basis.

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?

b) only where injunctive relief is not adequate

c) only where injunctive relief is not necessary?

d) If by default, why?

Damages should be a remedy so long as the Plaintiff can prove that it has suffered damages. Injunctive relief alone may be insufficient to remedy an infringement that has already taken place and caused damage. In Singapore, damages are awarded when a party has incurred a loss due to the defendant's action or inaction (non-performance). Damages should therefore be awarded so long as damages can be proven.

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? :

It should be imputed particularly if the new employer engaged the ex-employee for its experience and know how in an identical or competing industry. In any case so long as the ex-employee had brought the trade secret to the new employer the new employer would have imputed knowledge.

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?:

The current powers of the court allow for quick preservation of evidence (where required and justified). An ex parte injunction can already be taken out and enforced quickly yet allowing a defendant to respond to apply to lift the injunction if it can establish that the need for an injunction is not necessary.

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?:

The current powers of the court allow for quick preservation of evidence (where required and justified). An ex parte injunction can already be taken out and enforced quickly yet allowing a defendant to respond to apply to lift the injunction if it can establish that the need for an injunction is not necessary.

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

The granting of interim ex parte injunction is discretionary. As a condition to the grant of the order, the judge has discretion (and should be encouraged) to request a confidentiality undertaking to the court from the applicant. This in effect will impose an obligation on the applicant to handle anything seized with care. Should the applicant make use of the defendant’s trade secrets, the defendant may initiate breach of confidence actions against the applicant. To impose punitive measures on use of trade secrets learnt during the course of seizure will have to be studied clearly. Knowledge of parties that the information was a trade secret will have to be established.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes. This is particularly so now with global trade and free movement of knowledge and skill between territories. Harmonization of laws will also reduce cost of doing business as businesses will be able to develop business models based on a harmonized law knowing that protection of their assets and enforcement of their rights are similar across most countries.

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.

Trade secret enforcement should not be at the compromise of the employee’s private rights and the public’s right to the benefits of competition. Therefore as is the case now in Singapore, an ex-employee should be allowed to use non-confidential skill and knowledge it acquired to compete (even if against the employee’s ex-employer). However, if the information utilized to compete is confidential in nature and of commercial value (perhaps taking advantage of the employer’s trade connection or utilizing information confidential in nature) then the law must protect the trade secret. Clear and limited scope and period restraint of trade clauses should be upheld. The courts should also give more weight to how the confidential information was managed within the plaintiff organization when deciding if a restraint of trade clause should be upheld - meaning the actual status of the information should be studied and decided on.

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. Injunction to stop use and further disclosure of the trade secret
- a. Delivery up of any information that is linked to the trade secret
- a. Damages to be paid by the defendant
- b. Damages to be paid by the new-employer

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

No. To preserve the trade secret status, there should be no exceptions/circumstances for release of obligation. Theft /unauthorized use of trade secrets or other intellectual property is very difficult and expensive to prove due to the intangible nature of the asset; as such the laws against unauthorized use must be stringent. I do not think such stringent laws will go against public policy or private rights to compete. Clear and stringent laws will instead increase competition due to certainty or rights and fuel innovation and business growth via collaboration and other sharing and utilizing of intangible assets.

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?

Our current powers of the court allow for the following to be achieved.

- a. Restricted access to the hearing and/or evidence;
- a. Disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
- a. Non-confidential versions of documents being provided to all except authorized individuals;

Perhaps Singapore can work towards only non-confidential parts of any judgment / decision to be publicly available or judgements/decisions to not contain confidential information.

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?

The court when deciding on the confidentiality of the disclosed information is likely to make some decisions or findings on other related information. Confidentiality obligations should therefore continue on what remains confidential.

Aspect (iii) - Valuation of loss

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

Apart from loss of profits, IP valuation principles can be considered for quantifying damages (cost, market value, income method)

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

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

Evidence should be preserved for a fixed period of time and then returned to the owner to ensure the risk of exposure of the trade secret is nil or nominal (as the control of trade secret is returned completely to the owner).

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

Seized evidence should be returned or sent for destruction immediately after a decision on the status of the confidential information is decided on. Particularly if the information is found to be confidential, there is no need for the court to retain the evidence. The court may proceed to decide on the facts of the matter for example if there was a duty to keep the confidential information secret and if that duty went against public policy. The courts and any other related third party's limited access to the confidential information will provide the owner of the confidential information assurance and sufficient control to retain the confidentiality of the information.

Additionally, seized evidence by the claimant should only be used for court proceedings and nothing else. Possibly to provide for orders to be made for the evidence to be sealed and kept by a third party (like an accounting firm)

Summary

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