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Bumps Along The Silk Road: Protecting Trade Secrets From Europe To India To China

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> [T]rade on the Silk Road … included … oasis merchants who served as intermediaries in this down-the-line trade, as it is called, [and who] were careful to discourage longer-distance trade by exaggerating the distances and dangers involved, and they suppressed detailed accounts of distant lands, treating such information as trade secrets. One odd result of this is that [those who]… were in regular trade contact …were still almost entirely ignorant of each other.
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> – John Major, *Historical Background of the Silk Roads* (2002)

The 7000-mile Silk Road was one of the world's first great international trade routes. It moved westward across China, through Northern India and the Middle East, to Europe. Though many in today's economy do not regularly travel through the inhospitable Taklimakan desert and other difficult areas, China, India and Europe remain economically linked, and merchants must still protect their trade secrets in such regions. But now that requires more than guarding caravans. Now one's best protection comes from understanding the protections available under European, Indian, and Chinese law.

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Basic Trade Secret Protection Under U.S. Law

Simply stated, in the United States a trade secret "may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving a pattern for a machine or other device, or a list of customers." *Restatement of Torts* § 757, cmt. b (1939). Most importantly, the organization must take steps "reasonable under the circumstances" to protect it. One should always consider including certain provisions in employment and independent contractor agreements. These include non-compete covenants reasonable in scope, duration and geographical area that protect a legitimate interest of the employer. They also include "assignment of inventions" agreements and confidentiality agreements that can supplement the existing common law protections found under the law in many states.

Protecting Trade Secrets Along The Old Silk Road

A. The European Union

The EU does not have a monolithic approach to restrictive covenants or other trade secret issues. For example, in the United Kingdom, restrictive covenants are enforceable provided that they are reasonable (judged on geography, length and subject matter) and are narrowly tailored. In France, Switzerland, Italy and Germany similar principles apply. But French non-competition covenants must also be further supported by compensation paid during the covered time period and can only apply to those who either have high technical qualifications or are aware of valuable confidential business information about the company. Italy has a similar compensation requirement, but allows the payments to be made as an additional monthly payment during employment. In Belgium, such required payments must be made in a lump sum at the outset of the restricted period. In a related manner, Germany and Denmark will only require enforcement of restrictive covenants if the former employee is paid 50 percent of his former compensation (including bonuses and benefits) during the restricted period; if the agreement calls for lesser payment, the former employee has the option of taking lesser payment and abiding by restriction, or foregoing the compensation while competing without restriction. Some European countries have not upheld restrictions of longer than one year, (e.g. Austria) consider those of longer than one year presumptively abusive (e.g., Poland) or void them unless employee's termination is with cause (e.g., Denmark and Iceland). Moreover, one must consider

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choice of law questions when using restrictive covenants overseas. For instance, in *Duarte v Black & Decker, [2007] EWHC 2720*, the UK High Court ruled a restrictive covenant governed by U.S. law unenforceable because it contravened English public policy. Thus, employers have to meet additional requirements before their restrictive covenants will be enforceable.

B. China

Trade secrets, or "business secrets," are protected by China's Anti-Unfair Competition Law and some rules and provisions of contract law, civil law, and criminal law. Business secrets are defined as nonpublic technical and operational information that bring economic benefit to the owner, and for which the owner has adopted confidentiality protection.[1] Under the Anti-Unfair Competition Law, when any party infringes the business secrets of another, the violator may be ordered to stop the illegal act and may have to pay a fine or damages, or face criminal penalties.

To protect its business secrets in China, a U.S. company should: (1) mark and maintain documents as "confidential" and "trade secret"; (2) restrict access to trade secret subject matter; and (3) execute Confidentiality Agreements or Non-disclosure agreements with employees and business partners. Additionally, one may employ non-competition agreements, which are generally enforceable as long as they are reasonable and employees are compensated for such agreement. The terminology used in such agreements should come from the 2006 Standard Industrial Classifications of economic activities. Likewise, all agreements (with employees, licensees or licensees' employees) should contain express assignments of ownership of any works derivative of the licensed technology because "China Technology Regulations" give licensees "the right by law to make improvements in technology" and become "the owner of such derivative works."[2] Moreover, to obtain and protect the technology under such agreements in China, one should also register that technology with the Chinese Ministry of Foreign Trade and Economic Cooperation.

But having the appropriate agreements is not enough; one also has enforcement decisions to consider. Though China is somewhat notorious for the difficulties it presents as to the enforcement of patents and copyrights, it is somewhat more friendly to trade secret claims, as "Chinese culture holds a long tradition of passing down expertise and industrial and commercial secrets within a family to continue a family business," and is thus "more accepting of granting legal protection to the intellectual property right of trade secrets." [3] But, as a civil law country, China's case law is not binding as precedent, no matter which of the different courts at the national, provincial, regional and municipal levels issue an opinion.[4] Indeed, different people's courts may issue different opinions on the same or similar legal issues. For example, in recent intellectual property cases tried by Kaifeng Intermediate People's Court in Henan Province and in the basic People's Court in Beijing, the courts reached conflicting decisions, with one holding that employers may have their employees sign a confidentiality agreement with a non-competition clause provided they pay appropriate compensation to their employees during the non-competition period. The other held that no compensation is necessary as long as the living standards of the employee do not deteriorate after leaving the company.[5] Such completely different decisions on whether a compensation clause is needed or what constitutes a sufficient amount of compensation only compounds the frustration some feel with the Chinese judicial system. Native Chinese look with disfavor on litigation as a "reflection of disharmony" and "foreign investors" bemoan "the blind eye that local officials turn on infringing practices" (even while admitting that "the impetus" for such conduct "may not always be corruption or bribery").[6]

On the other hand, there are administrative procedures available as well. The State Intellectual Property Office ("SIPO") accepts administrative complaints, and sometimes refers them for criminal prosecution.[7] The advantages of such procedures are a reasonably prompt investigation in many cases and the possibility of injunctive relief; the disadvantages can include "lack of compensation to the rights holder," lack of deterrent effect of modest fines, and possibility of falling prey to lack of local follow-up, either because of inadequate resources or parochial protectionism.[8]

C. India

The Indian Contract Act, 1872, prohibits restraints of trade or professional employment. This means that employment contracts in India can preclude competition during employment, but not afterward.[9] The two exceptions to this rule are: (1) restrictive covenants are generally enforceable under Indian law to reasonably protect a party's proprietary or commercial interest in connection with the sale of a business,[10] and (2) the Indian Supreme Court has found an exception to this rule is cases where a covenant exists for "non-solicitation," which are covenants that "prohibit either party from enticing and/or alluring each other's employees away from their respective employments."[11] Additionally, Indian law does not automatically assign rights in work product of employees to employers, so any agreement with an employee should include detailed provisions on this score. Consequently, when dealing with the notion of trade secrets in India, one must contract in detail concerning confidential information and trade secrets.

Additionally, one must note that litigation in India has advantages and disadvantages. For instance, injunctions may be obtained quickly, but cases may continue for over a decade. Additionally, damages remedies are more difficult to obtain. Consequently, even many Indians prefer private arbitrations and international enforcement, and India is a party to the New York Convention on Enforcement of Arbitral Awards, whose members have agreed to enforce arbitration decisions made by recognized arbitration bodies.

Conclusion

To traverse today the Silk Road of international business, one needs to remember that it has always been "a path of danger and intrigue,"[12] and one must protect one's business at all times by understanding applicable law.

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[1] See *J. Crane, Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People's Republic of China, 7 Chi-Kent. J. Intel., Prop. 95, 113 (2008).*

[2] *Bates, Type & Butler, "Intellectual Property Challenges for US Companies Operating In China,"* Intellectual Property Today *(December 2006) at 38.*

[3] Crane, *supra* at 114 (2008).

[4] *Jian Hiang, "Doing Business in China: Protecting Your Intellectual Property Rights," as appeared in "The Bullet" on the International Lawyers Network Web Site. Now available at http://www.ebglaw.com/showarticle.aspx?Show=3789.*

[5] *Hiang*, supra.

[6] *Crane*, supra *at 116.*

[7] *Bates*, supra *at 38.*

[8] *Bates*, supra *at 37.*

[9] *Madhukar Tomar*, *"Wake Up Call,"* Legalweek.com *(April 26, 2007).*

[10] *Bindu Sridhar*, *"Read Agreements Rather Than Regret Later,"* The Hindu, *Wednesday, Dec 27, 2006.*

[11] *Tomar*, supra.

[12] *Esther Mitchell*, Silk Road Trade: History of Gunpowder (2002).