

the sale of certain assets was subject to the mortgage, a procedure in which actualizing the will of the contracting parties over-riding on formal and the merchandise sought to be sold was necessarily displayed during the formality. Nevertheless, the acquisition of an asset, whether tangible or intangible, and the transfer of capital occur instantaneously, through electronic transactions.

The difficulties faced by the legislator in Brazil with respect to the nature of property in a trade secret is not typical for this country. Even in the United States, a country in which, having the English heritage as background the notion of trade secret has flourished since the beginning of the 19th century and reached a much more refined development than in any other nation, the Supreme Court only recognized the existence of property over trade secrets in 1984, when deciding the *Rankbush v. Montano Company* case (452, 175 1984), ruling that:

"... A Missouri inventor is entitled property rights in the data compiled in EPA.... The property rights Missouri possess in its industrial property data are the right to exclude others from the use of such data. In particular, the right to prevent the unauthorized use of the right to prohibit disclosure of its data."

The Court also held that:

"This general conception of trade secrets as property is consistent with a notion of 'property' that extends beyond land and tangible goods and includes the products of individuals' labor and invention."

In our view, although the Brazilian law of 1996 improved the treatment of trade secrets dramatically, enlarging the protection of confidential information and contemplating much more effective remedies for its enforcement, at the same time it missed the opportunity to grant trade secrets the status of property, as our lawmakers had done, in previous laws, in relation to inventions and trademarks. In our opinion, the argument that a trade secret is a highly fragile asset,

melting away at the very moment of its disclosure, is insufficient as a basis to reject the extension of the notion of property to it, inasmuch as any asset is vulnerable. The difference resides solely in the form of extinction, which, in the case of trade secrets, coincides with the simple act of public disclosure.⁴

In the United States, however, the courts have recognized the preservation of the efficient trade secret covered by a contractual obligation more than public disclosure, as in the well-known dispute between *Master-Landest Pharmaceutical Co.* and *John I. Ryanckis, Inc.* A court of New York held in 1999 that the defendant, licensed to use the formula of the *Lactine* product, was required to continue paying royalties to the plaintiff, even after public disclosure of the subject matter of the license, ruling that, among other aspects, the 1880 agreement made between the parties did not clearly hinge on the maintenance of the confidential nature and that the formula, created by Dr. Landest, had assumed the defendant an advantageous business position.⁵ John Richards, addressing this issue, recommends that the license, when entering into this kind of agreement, specifically include a provision under which the obligation to pay royalties shall cease if and when the trade secret is lost.⁶

RIGHTS AND CLAIMS DERIVED FROM THE POSSESSION OF A TRADE SECRET

The possession of a secret relating to a new industrial process or strategic information that, as we have seen, may consist of disclosure of clients and suppliers, gives rise to a panoply of rights and claims. There are initially personality rights, as-

sociated with the preservation of privacy, set out as one of the fundamental rights in the Brazilian Federal Constitution. The right to privacy is one of the highest achievements of civilization, translating the recognition of man's dignity and unreachability, the respect for silence with regard to what one does in his or her private life, and the replacement of the primitive concept of communication prevailing among the herds, a concept adopted by the totalitarian regimes, particularly those imposed by Hitlerism, which conceived man as a simple link in a long chain of members of a community serving a chaotic state that is totally composed of nothing but a dominant group.⁷ The right to privacy expresses itself not only in secrets related to business but also for secrets related to correspondence, bank accounts, professions, etc., which will not be addressed by this article. Such right respects on that's right not to express his thoughts.⁸

There are further a strictly personal authorship right and its authorship right associated with the

4. It is important to note that the expression "disclosure" of the trademark legend, based on an alleged "Monsieur van Halbe" (the "Geographical" in his trademark) "Secret Recipe". This process is completely prohibited by virtue of art. 159, § 1º of the Brazilian Law of the Trade Mark, as a crime against the authorship of the trademark, but which is not a crime against the authorship of the trademark. The right to publish and disseminate information and literary work is not subject to the application of the trademark law, causing the failure to invade the right of the individual, as done by *Walter Kautsky* in his first book after the French circumstances, in the six-year process of the process initiated by the trademark of 1980, based on the trademark, having been made to deal with the idea of property and representation, as proposed by *Francisco Pinto* in his book "Formas de Revolucionamento". In this respect, previous statements of copyright law by representatives of the state are made to be clear.

5. "It is distinctive," says the American of trademark in "People" (a law review article) in its positive conditions, it did not have a group in a 1999 article that already demonstrates a trade secret, however, as it is not a trademark, it is not a trademark. (See the author's edition, 1996, *Revista Brasileira de Propriedade Industrial*, with the *Journal of the Brazilian Institute of Industrial Property*, the Institute of August 16, 1996 by the National Assembly, established by the first statute, copyright article 170, the same law, and the article 170, paragraph 1, of the same law, and the article 170, paragraph 1, of the same law, through the Brazilian law promulgated in 1996, with rights law *George L. Latham*, in "Monsieur van Halbe" (Book of the Institute, 1996).

6. See *Rankbush v. Montano* in "Copyright in a Confidential Information" comments on the 1987 Federal Constitution.

7. Quoted by *C. Bruce Rosenberg* in his article "U.S. Trade Secret Law," published in the *Intellectual Property in Technology*, second February 1994.

exploitation of the subject matter covered by a particular trade secret. In fact, the act of concealing a new industrial process immediately originates a right of authorship and consequently the right to obtain a patent. The author is however entitled to choose between seeking patent protection, with the public disclosure of his or her invention and maintaining it secret, and the latter option should be observed by the community as long as confidentiality is not lost for some reason. The conception of a new industrial process also gives rise to the exclusive right to exploit the invention, even though such exclusive right does not characterize property due to lack of a prior declaration by the law. The same principle applies to secret industrialities of a purely business nature, as in the examples mentioned above. Their elaboration and organization also originate rights of the nature analyzed in this paper.

Once an industrial or business secret is violated, its owner is entitled to seek damages and a restraining order, in parallel to criminal remedies, in as much as violation of trade secrets is treated not only as a tort but also as a crime under the Brazilian law.

In light from the view, sustained by several commentators, that under the rule of the previous law the protection of trade secrets was contingent upon the existence of a contractual relation, being covered by a labor or service agreement. The confusion originates from the fact that, in reality, subsections XI and XII of section 128 of the revoked decree-law 200/69, which dealt with trade secrets in the framework of competition, solely regulated those two specific situations. This does not, however, mean that the owner was deprived from civil and/or criminal remedies against competitors who have or hire employees or ex-supplier of services might have obtained the secret in fraud. The owner of a trade secret was entitled to criminal remedies under subsection III of the same section and civil remedies under the sole paragraph of that statutory provision, as well as under section 159 of the Brazilian Civil Code. In

a nutshell, the real question was that under the previous law the protection of trade secrets was watered.

TREATMENT OF TRADE SECRETS UNDER LAW 8270/96

The law of 1996 strengthened the notion of trade secrets, clearly consolidating in two subsections of the statutory provision relating to unfair competition the subject matter of protection and the extension of the rights, besides classifying the violation of trade secrets as a crime susceptible of prosecution upon purely private initiative.

The above-stated provisions state the following:

Section 159 - A crime of unfair competition is committed by he who:

[...]

XI - Discloses, exploits or uses, without authorization, confidential knowledge, information or data, usable in industry, commerce or the providing of services, excepting that which is of public knowledge or which is obvious to a person skilled in the art, to which he has had access by means of a contractual or employment relationship, even after the termination of the contract.

XII - Discloses, exploits or uses, without authorization, knowledge or information as mentioned in the previous item, when obtained directly or indirectly by illicit means or in which he has had access by fraud.

The new law therefore addresses two distinct situations, which had been previously treated separately and quite often misunderstood. On the one hand, trade secret as an intangible asset subject to a contractual relation, and on the other hand, trade secret as an intangible asset subject entitled to a right of enforcement against third parties (erga omnes effect). In fact, in accordance with the specific rules of the former legislation (subsections XI and XII) of section 128 of decree-law 200/69, subsection XII of section 159 of the new law covers the case of violations resulting from the fraudulent obtaining of a trade secret by third parties not neces-

sarily having had a previous contractual relation, a situation that so far demanded a systematic interpretation of the whole set of criminal and civil legal rules applying to this area.

The rules introduced by the new law undoubtedly represent an improvement, in as much as they directly resolve the most sensitive problem existing in this area, responsible for the heavy criticism that Brazil suffered from the international community (mostly as the local treatment of trade secrets is concerned) and which in my view is unjustified. Indeed, because under the former law trade secret was allegedly protected only in the realm of a contractual relationship (sic), and because the accused parties, normally individuals, most of the times lacked financial means to satisfy an award of damages, the view was usually taken that the protection afforded by the law had a very limited bearing, falling far behind the real economic dimension of the violation and causing the lamentable judgments of lawyers to become *Paritica* verdicts.

At this time it does not appear useful to contest this criticism any longer, since the points that raised have been largely superseded by the new law, which has introduced an undeniably advantageous change, providing the injured party with a broad spectrum of relief both at a civil and at a criminal level. The remark should however be made that a violation existing to a restraining order, indemnification and criminal sanctions only occurs when the disputed trade secret has been taken by illegal means. Otherwise, the invention could be reasonably considered as being *coincidentis*¹¹.

Another innovation introduced by the current law is the elimination of the dichotomy of the commercial secret/industrial secret in two legal concepts surprisingly subject to

11. Usually one of the most serious acts of the rights violation in commerce occurs if third parties are authorized to access a database (mainly independently and consequently in a pure or random). Considering that third copies, the first one is equal, once a patent issue, the database is the one copying, under rights, which the law specifically recognizes as property rights.

direct treatment. Even the same pair of such concepts has been left out. The current law uses a different terminology, referring to confidential knowledge, information or data that we collectively cover by the term "trade secret," derived from the Anglo-Saxon law and much more preferable to the international community. In fact, as opposed to decree law 793/1943, incorporated in the former Code of Industrial Property, the new law no longer uses the terms industrial secrets and commercial secrets. It simply speaks of confidential information, knowledge and data, disclosing what should be understood under trade secret, contrary to other special rules, such as Decree 244 of the Cartagena Agreement¹¹ and the Mexican law of June 27, 1991.¹² The notion conveyed by the statute is clear but not distinct. It may be regarded as tautological to a certain extent.

In my view, the treatment of trade secrets as framed by the new law on industrial property abides by the minimal standards laid down by TRIPS. It is interesting to note, in this respect, that TRIPS does not go as far as to mandate that the member countries should

grant trade secrets specifically as property, being satisfied with the notion of lawful possession. In fact, its article 39, item 2 establishes the following:

1. Natural and legal persons shall have the possibility of possessing information lawfully within their control (and being affected by, acquired by, or used by others without their consent) in a manner contrary to honest commercial practices as long as such information is secret in the sense that it is, as a whole or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question. [...] This shall not be the case if:

As seen, Brazilian law, in light of TRIPS, addresses in a single set of rules the three situations to be covered when defining trade secret protection: the non-disclosed acts of disclosure; the acquisition and use by third parties; TRIPS, however, establishes a condition that the Brazilian law does not expressly contain, but which, in my view, is inherent to the very notion of trade secret and could therefore not be reasonably left out — the clear intent of the trade secret owner to preserve confidentiality, taking the appropriate steps to attain this goal. Item 3 of the abovementioned article of TRIPS states the following:

I. has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

It is noteworthy that, also in conformity with the rules of TRIPS and responsive to old claims, item XIV of section 195 of the current Brazilian law on industrial property protects confidential information disclosed to governmental agencies as a condition for the obtaining of a license to sell a certain product. It must be clear, even before the enactment of Law 829/96, which contains the improvement, the Federal Constitution and the general principles of law afforded a solid basis to prohibit the disclosure and use of such information, but it is unquestionable that the existence of an express rule represents a safer basis for trade secret owners to justify disclosure and use, in par-

ticular when such claim is enforced before a governmental agency and not in court.

COMMERCIALIZATION OF TRADE SECRETS

As mentioned, trade secret is a valuable intangible asset comprising the owner's estate. I consequently take the view that it may properly well be commercialized, being proper subject matter for assignment, licensing, donation and other means.¹³ In this respect, I do not consider any essential difference between the former Brazilian law and the current one, enacted in 1996. Furthermore, even though this may appear shocking to many people, it does not seem to me that a trade secret should be held improper for use as collateral for a debt, being subject to procedural remedies designed to hold it inalienable and seize it in case of nonperformance of the obligation or inadequate in basis for a security interest.

Those who oppose that theory would probably inquire: what is novel, what is held indisponible? Something invisible, like the wind? Something abstract? I question that view, since the fragility and the intangibility of an asset are not necessarily conclusive to the conclusion that the asset is inalienable as a guarantee of a debt. It is true that the utilization of a trade secret for such purpose poses far more complex operational problems but is not unworkable at all.

The secret may constitute a body of knowledge described and recognized as a potential source of practical results, besides being encapsulated in a physical medium ("*corpus mysticum*") instrumented in making it essentially visible.¹⁴ When rendered in guarantee of an obligation, they may continue under the custody of their owner, as recognized by the prevailing jurisprudence in respect of security

¹¹ See like in the United States as pointed out by Felix Rodriguez, "Trade Secret Law: Is it still in the area of a hazy gray?" (1994), page 190.

¹² See, also, Mexican Decree 2/91, also though made in only nonobligatory procedure to the extent that it applies from the results of greater non-consultation than is the usual.

¹¹ Article 71, items 8), Article 72, items 1) and 2). Attention is due to the essentially neutral nature of the investigation, performance, dissemination, or disposition of products, production methods or procedures, and distribution or marketing methods, scientific data and services, disclosed by Economic Entities, as a paper on trade secrets in Ecuador published in "Industrial Trade Secret Law" — November 1994 edition by Dale Henderson Publishing.

¹² Article 160, items 1) and 2) would apply to the following: any information with industrial potential which is treated by an individual as a confidential information, which, previous and without being disseminated, contains or contains components or components, or the practical application in the economic or economic activities, and for which and person has adopted enough systems or means for preventing its confidentiality and economic value (which, will be considered a trade secret). A trade secret may relate to the nature, characteristics, or the practical application, the methods or procedures of production or the manner or way of distribution or commercialization of products or the procedure of services, contained here on Article by Article 160, items 1) and 2) of the Code of Industrial Property, enacted in 1996, edited by Dale Henderson Publishing.

¹³ Adopting a different terminology, the EC Directive 34/84 which exemplifies the American license system as a body of confidential information, is not subject, against all confidentiality in any appropriate form.

interests in commerce, or of an institution regarded as reliable by the contracting parties and proper measures must be taken to insure their integrity. In reality, neither the owner nor the third party receiving the trade secret in guarantee has interest in its disclosure, which would otherwise automatically imply the destruction of the asset that serves as guarantee. The propriety residing in Brazil, among commentators and businessmen, at the notion of retaining an intellectual asset as guarantee of an obligation, in particular when maintained in secrecy, derives from the awareness of the value of ideas as tools for the generation of wealth, which are still rare in this country, as opposed to the U.S., where such awareness arose very early.

Indeed, as generally known, the economic power of the United States was originally anchored primarily as the policy of fostering the inventive capacity of their citizens. It has been generally acknowledged that the flowering progress of that nation throughout the 19th century resulted precisely in the effective protection of inventions and in the respect for trade secrets. The importance of intellectual assets may be illustrated by a very simple example: the strength of The Coca-Cola Company is sustained by two elements, namely, a secret formula existing over one century and a trademark which crossed the 20th century as the notorious mark "per seculum."¹⁷

As regards licensing, Brazilian law treats it as a sui generis agreement, essentially equivalent to rental. In my view licensing is by its means incompatible with the notion of trade secret, which is ontologically a body of secret knowledge the access to and the temporary use of which are authorized by contract. Unpatented knowledge is just as proper subject matter of a temporary authorization of use (allowing) as patented knowledge. If the knowledge is patented, the agreement implies the assignment of certain rights within the general concept of property for a given time. If the knowledge is secret, the agreement implies the temporary assignment of an author-

ship right of exploitation.

Since in certain, secret, unpublished (i.e. unpatented) knowledge constitutes technology, it seems reasonable to infer that agreements covering trade secrets are subject to control of the Brazilian Patent and Trademark Office if become enforceable in respect of third parties. In fact, the Brazilian Patent and Trademark Office is the agency in charge of agreements of this nature (section 211 of the industrial property law). It is true that the corresponding statutory provisions authorize the Brazilian Patent and Trademark Office to record agreements implying transfer of know-how and the case under examination implies a simple license. Nevertheless, the term "transfer" is used here, in broad and inclusive, being able to be construed as meaning the nature of the contract (acquisition of the subject matter of the agreement, equivalent to a sale) or also of the acts necessary for the performance of the agreement (the transmission of knowledge, which occurs not only in purchase agreements but also in license agreements). Thus, it appears logical to conclude that, for the purposes of the law (prevention and fiscal deduction of the royalties, in addition to the enforceability in respect of third parties that might have any claim in the technology), records at the Brazilian Patent and Trademark Office is required.

As generally known, the Brazilian Patent and Trademark Office ("INPI") has always retained the notion of licensing of copyrighted and, in particular, secret technology,¹⁸ which is supposed to remain confidential even after termination of the agreement for use case. The rationale of INPI's practice was allegedly the promotion of an effective technological capacity of the country, which, according to those favoring this philosophy, is precluded upon a clear and precise de-

¹⁷ The above statement between technology (know-how) and trade secret (technology) is not a knowledge which may be actually transferred or conveyed with one of strictly contractual law of industrial assets to the other corporation, whereas one technology (know-how) is knowledge in which there are clear dividing lines that permit control of by the owner (trade secret).

limitation of the subject matter of the agreement. In so far as patents are concerned, the subject matter is clearly outlined and precisely or eventually of public access. Insofar as unpatented, but not necessarily secret technology is concerned, non-disclosure for a certain time may be demanded as counterpart for the advantage acquired by the recipient of the know-how. If, then, however, a secret technology is involved and the content of the secret constitutes the contractual obligation not to disclose a secret it falls into public domain, the either to an accidental leakage or to the recipient's gross negligence or bad faith, thus being its source, the view taken by those opposing the notion of secret is that handling this type of agreement means sending into the unknown, diving into the mystery. Governmental authorities are normally suspicious of the mysteries of the private sector and therefore the notion that someone may retain confidential knowledge and authorize its temporary use against a compensation, forbidding disclosure at any time, even when the deal provides an economic advantage to the licensee, their attitude is however purely political (it lacks a legal basis, since the law not only supports trade secret but also contains no formal prohibition in its temporary assignment against payment. Under the Federal Constitution no services are precluded from doing something not expressly prohibited by law, a principle that constitutes the backbone of a democratic state. Indeed, the absence of a prohibition implies liberty, creating a "locus apertus." Shaping a territory in which money can freely walk. Thus, any prohibition imposed by INPI, by the Central Bank or by the fiscal authorities in fee payment, restriction of payment of fiscal deduction of royalties for the transmission of knowledge covered by a trade secret is unconstitutional and illegal. In particular, any intervention of the Brazilian Patent and Trademark Office in the contractual liberty of the parties or in the specific contents of the agreement is non-statutory in light of sections 211 and 248 of the current law on industrial property, which limit INPI's authority to the

simple record of agreements involving transfer of technology; the law does not impose DPA to control the specific classes of the agreements or its lay down normative acts containing substantive directions. Violations of such limitations may be typically challenged by means of writs of mandamus.

Brazil is not the only country in which agreements providing for a temporary right of use of trade secrets are openly favored upon or treated with suspicion. Other developing countries have adopted a policy of control over the trade of know-how, with a view to enhancing the flow of technology, such as, e.g. Mexico, which subjected the acquisition of technology to a legal control from December 1992 to July 1991, when the area was dismantled. Brazil, at the outset of the 1990s, also initiated a process of liberalization, resulting in the elimination of state interference, as clearly follows from the amended article 711 of the current law on industrial property. Nevertheless, in practice the former system of state intervention still hampers the routine treatment of this type of agreement, and since this policy is devoid of legal basis, the courts use the adequate forum for its discussion.

ECONOMIC IMPORTANCE OF TRADE SECRETS IN THE FRAMEWORK OF GLOBALIZATION

As pointed out above, when criticizing a work in the field of industry, the inventor is exposed to two alternatives: disclosing the invention to the public against a title that the law qualifies treats as representing a property right, or keeping it secret. Both decisions present fundamental legal consequences and the apriori depends on the evaluation of the pros and cons from the perspective of the specific interest of the trade secret owner. The same reasoning applies to concepts that are intrinsically valuable in commerce and in the supply of services, such as but not limited to databases of clients and suppliers, mentioned before, and which, lacking patent protection, should be maintained confidential as the sole means to preserve their usefulness,

insuring an advantageous position to the owner.

Trade secret is a tool utilized worldwide despite its increasing vulnerability. A report disclosed in the U.S. states that nearly 80% of the surveyed companies had already attempted to misappropriate secrets in the year immediately preceding the survey.³⁷ This vulnerability is closely associated with the progress of telecommunication. Internet itself is a true river through which information flows, and such information, even if codified, runs the risk of being captured and analyzed. Alain Miné, in a book on globalization recently published in France, doubts man's ability to keep know-how confidential in view of the fluidity of communication.³⁸

In my view, despite the risks of leakage, susceptible of entailing serious economic consequences, the tendency will not cease to grow, and will certainly grow, to make use of trade secret as a means to shelter either industrial or commercial technology, in particular as a natural reaction to the circumstantial competition of the world triggered by globalization. This reaction had been precisely pointed out by Naisbit and Abelson in their book "Megatrends 2000" about seven years ago, in an analysis of the European Union, then in the process of formation: "The trend toward a global lifestyle," say the authors, "and the counteracted toward cultural assertion represent the classic dilemma how to preserve individuality within the unity of the family or community." Naisbit and Abelson further remark that "If the more homogeneity sees itself as inhibiting a single planet, the greater the need for each

³⁷ In Michael Vito, in a speech entitled "Trade Secret Protection in High Technology" delivered during the annual round table organized on intellectual property in Seoul in December 1994.

³⁸ "Given our rate of dissemination, we cannot do production, invention, and innovation, as before, in secret, in closed domains, private non-employment can be done, there are more degrees of freedom, but we cannot do it in secret anymore, for technical or legal reasons, for economic or technological reasons." (Alain Miné, *Le Mondialisation* (Paris: L'Esprit, 1997), page 24).

culture on that globe to own a unique heritage."³⁹ It is not for a different reason that, for instance, following the unification of the economically more significant part of Europe, in a version of Charles Miquel's simile at the time of this unification, movements burst out in favor of larger spaces by international groups, like the Britons, in the northwest of France, in a certain manner, Europe — and to some extent, the whole world — simultaneously writes itself and legislates itself, as put by Umberto Eco in his theory of medievalism of today's world. Thus, in my view, two parallel conflicting tendencies will spread: the tendency to seek patent protection for inventions, on the one hand, and the tendency to preserve the autonomy of knowledge, on the other hand, as tools for the maintenance of more advantageous positions in competition, with the simultaneous creation of more efficacious methods to curb espionage.

CONCLUSION

As a closing remark, I would observe that, following the enactment of more modest rules adjusting the country to the global trends, Brazil should adopt a more flexible and mature attitude toward trade secrets, and trade secret should burgeon in this country, with the development of jurisprudence on its scope of protection. Kaffee than an instrument of discrimination, hostile to the interests of developing countries, as conceived by a distorted view, the effective protection of trade secrets stimulates those who create inventions and commercially valuable works and for different reasons do not wish to assume the costs and risks associated with the obtaining of patents. Through licensing, these creations may be utilized by other companies that will consequently enjoy their benefits, along with the marketplace. It does not appear correct to suppose that the mere act of imposing a permanent confidentiality and the secret marks

³⁹ In Ugo Eco, *1984* (Rio de Janeiro: Nova Fronteira, 1990).

away constitutes an abuse. This is nothing but the exercise of a right of intimacy of what has been divulged, as mentioned above, when I quoted *Parsons de Miranda*. The

exercise of any right may result in abuse, so that this is not a peculiarity of the right associated with a trade secret. For such situations there exists a body of legal

rules which, if and when applicable, should be enforced by the competent authorities, not a prior, but when concrete factual situations impose its enforcement.