Kluwer Arbitration Blog

Paris Arbitration Week: Arbitration and Trade Secrets

Estelle Hiard, Angelina Boland (Linklaters LLP) · Friday, October 1st, 2021

The Silicon Valley Arbitration & Mediation Center (SVAMC) held a virtual panel discussion on Arbitration and Trade Secrets during the Paris Arbitration Week. SVAMC's CEO, Les Schiefelbein, opened the event and Stan Putter (Partner, Smallegange Lawyers) moderated the panel discussion. The panel included Sana Belaïd (Senior Counsel, Cisco Systems), Ignacio de Castro (Director, World Intellectual Property Organization (WIPO)), Sarah Reynolds (Managing Partner, Goldman Ismail Tomaselli Brennan & Baum LLP), Dr Patricia Shaughnessy (Professor, Stockholm University), and Claire Morel de Westgaver (Partner, Brian Cave Leighton Paisner).

The panellists shared practical perspectives on trade secrets and provided the participants with tools to optimise protection thereof in arbitration.

What is a trade secret?

Sana Belaïd opened the discussion by defining a trade secret – it is information, which has an actual or potential economic value and whose secrecy is protected by its owner. In practice, it is information that gives its owner an "edge". Commercial edge is information based on years of market practice, experience, knowledge of what works in a specific industry, or learning from past mistakes. Technical edge is plans, designs, processes, cost and pricing methods, or formulas.

Ms Belaïd gave a few other examples of the type of information that can constitute trade secrets, such as customer lists, cost and pricing information on production goods, personal information, etc.

She noted that trade secrets may be more valuable than physical assets, as the former guide a company's commercial efforts on the market.

Preservation of trade secrets in arbitration

Claire Morel de Westgaver explained that there are two areas where arbitration and trade secrets intersect: (i) protecting trade secrets during arbitration and (ii) the developing area of trade secret disputes.

On the first point, she explained that there are two relevant aspects: confidentially between the

parties and towards third parties. During arbitration, there are three points where confidentiality may be at risk:

- *when trade secrets are at the heart of the dispute* there is tension between protecting them and winning the case for their owner;
- *during document production* parties might request information constituting trade secrets; and
- *during the pleadings* a party may argue that it is unable to present its case without disclosing its trade secrets.

Ms Morel de Westgaver reminded the participants that it is a mistake to assume all arbitrations are confidential. If the applicable law does not provide for confidentiality, it is crucial to put processes in place to make the arbitration as "leak-proof" as possible. This could also concern orders and awards, which can contain confidential information that could be disclosed, for example, in enforcement proceedings. Special attention must also be paid to cybersecurity, to ensure the arbitration is, in fact, secure.

On the second point, Ms Morel de Westgaver noted that trade secret disputes typically relate to alleged misappropriation of trade secrets or improper use of confidential information. Parties may raise different types of claims including breach of contract, e.g. license agreements, non-disclosure agreements, development agreements, manufacturing agreements, consultancy agreements, or even joint-venture agreements. These disputes usually revolve around contract interpretation. A common defence is arguing the claimant and owner of the trade secret had not taken adequate steps to protect its rights.

Trade secrets & WIPO

Ignacio de Castro introduced the WIPO arbitration centre, whose work focuses on trade secrets within patent disputes. He noted that he often sees pharmaceutical cases with issues relating to know-how concerning specific manufacturing processes, or IT-related disputes in relation to software licenses or telecoms-matters. WIPO also deals with other commercial disputes, e.g. franchising or distribution disputes.

Mr de Castro explained that he often sees disputes concerning breach of confidentiality obligations. Former employees joining a competitor can also be an important source of disputes, for example in IT disputes regarding source codes or client lists.

Mr de Castro provided some examples of the protective measures that can be adopted regarding trade secrets, e.g. issuing a redacted and unredacted versions of an award, and stated that he regularly comes across protective orders or provisions on confidentiality. Confidentiality advisors have, however, rarely been used although provided for by the WIPO rules.

Confidentiality advisors

As a confidentiality advisor, Dr Patricia Shaughnessy explained the importance of this third-party/neutral role. At times called "experts" or "document production managers", confidentiality advisors are not new and have been around in the United States for well over 40 years.

But why go to an advisor? Arbitrators should maintain their independence and impartiality and protect the right to be heard and equal treatment. They must be careful that they do not receive information that may affect their attitude when the other party is not aware of what that information is. Indeed, a party may not feel comfortable with information being provided to the arbitrators, even if the latter determine that such information is confidential and should not be considered in the adjudication of the dispute. The party's issue is usually that their opponent's claim of confidentiality is overly broad or that the information sought to be protected is exactly the information needed for a fair adjudication of the case.

This is when a confidentiality advisor becomes necessary. They assess whether information should be protected as a neutral third party and can provide assistance to the parties and the tribunal without participating in the adjudication of the dispute. Parties would typically agree that the confidentiality advisor should express an opinion on which document protective measures seem justified and which overly broad.

She concluded by pointing out that, of course, advisors must sign a confidentiality agreement, which can be very detailed and perhaps include provisions relating to the destruction of all information within a certain period.

The tribunal's perspective

Sarah Reynolds shared the tribunal's perspective. She reminded participants that even though arbitration is not public, confidentiality is not necessarily applicable in arbitration proceedings. For example, the Uniform Arbitration Act adopted in most of the US states does not impose confidentiality.

If trade secrets are involved, it is important to have clear procedures in place. First, the tribunal should examine the arbitration clause to see whether it includes terms for protection of confidential information or incorporates any relevant rules. If it does not provide sufficient guidance, the tribunal can issue a protective order detailing such procedures. These orders can be drafted by the tribunal or negotiated by the parties. Ms Reynolds stated that it is better from a procedural fairness and efficiency perspective if guidance is laid out early in the proceedings.

Ms Reynolds also underlined that the tribunal has a range of approaches that it can employ, depending on the party's priorities and on the degree of sensitivity of the information. For example, she has experienced tribunals require prima facie showing that a breach occurred before requiring disclosure of sensitive information. It is a method that prevents the parties from using arbitration as a way of conducting a fishing expedition. Confidentiality advisors can also be useful. Using an attorneys' eyes only approach can also be a good solution: the lawyers can bring a claim to the tribunal, without their clients accessing any information. However, it can be cumbersome to manage the redacted versions of the submissions and hearings organization.

Ms Reynolds insisted that good terms of reference and protective orders should guard against external disclosure of the trade secrets; and concluded by saying that the parties can also chose the tribunal based in their previous experience and methods of protecting confidential information.

What are the main issues?

The panellists wrapped up their discussion by summing up their conclusions on the main issues related to trade secrets and arbitration.

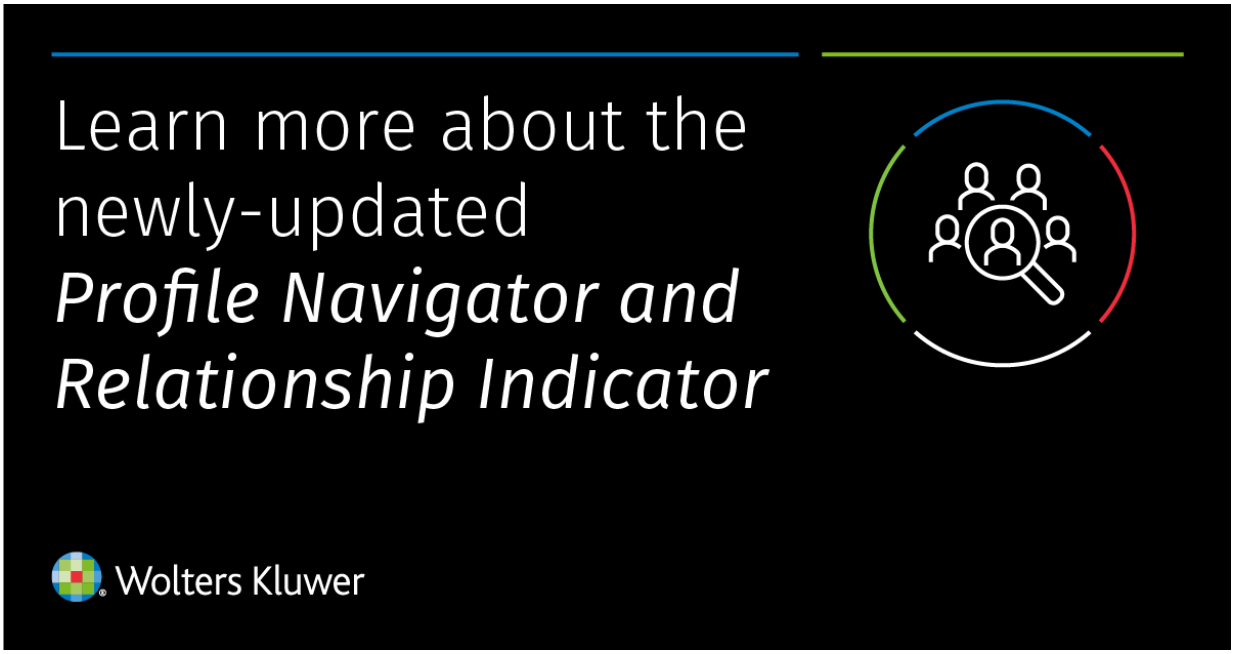
Ms Belaïd noted that in-house counsel should not assume arbitration is confidential. Furthermore, a trade secret can also be any piece of information: a photocopy, a scribbled note. This information can be monetized especially in today's knowledge-based economy.

Ms Morel de Westgaver noted the difficulty in balancing winning a case while preserving trade secrets. One party may be trying to preserve a secret while the other party's main concern may be that the claim is brought in bad faith. Parties may also assert that information contains trade secrets to shield it if it is harmful to their case.

Ms Reynolds said that the main issue is to find the right balance between protecting confidential information and maintaining an efficient process. The more sensitive the information, the more appropriate it is to include layers of protection.

Mr de Castro noted that where trade secret is disclosed, damages are irreversible. Arbitration does not provide a full answer to the situation and even a company with a lot of protection in place may find itself in a difficult situation.

Dr Shaughnessy summed up that it is sometimes difficult to be a confidentiality advisor, e.g. due to not having access to the submissions of the parties, or the need to have a technical expertise in some sectors.



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