EMERGING INTELLECTUAL PROPERTY RIGHTS IN THE PHILIPPINES AND COMPETITION CLAUSE

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The hypothetical presented in this year’s Emerging IP rights issue deals with two major issues:

1. Protection of trade secrets; and
2. Validity of an exclusivity provision under an employment contract (non-disclosure clause)

Both issues are squarely addressed under Philippine laws under various statutes and recent jurisprudence.

I. Protection of trade secrets

Philippine jurisprudence defines trade secret as:

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.

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.¹

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.

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. 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."²

² Id.
In Cocoland Development Corporation v. National Labor Relations Commission, the issue was the legality of an employee's termination on the ground of unauthorized disclosure of trade secrets. The Court laid down the rule that 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.

Based on the facts presented, the success of Smart Sphygmo is attributed to a large degree with the software created by Cardia Serva’s programmers at their R&D facility. Section 172.1 (k) of the Intellectual Property Code of the Philippines (IP Code) states that computer programs may be protected under copyright law. Section 172.2 of the same law provides that these works are protected from the moment of their creation. In this case, the development of the software and its functions may be properly regarded as a trade secret, properly guaranteed the right of protection from misappropriation or application of others without the consent of Cardia Serva. However, it is incumbent upon Cardia Serva to show that indeed, their trade secret is based on substantial factual basis which can pass judicial scrutiny.

Various Philippine statutes recognize the protection of trade secrets:

1. 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. (Section 4, Rule 3 of the Interim Rules of Procedure on Government Rehabilitation) Moreover, the Securities Regulation Code is explicit that the Securities and Exchange Commission is not required or authorized to require the revelation of trade secrets or processes in any application, report or document filed with the Commission. (Section 66.2 of the Securities Regulation Code of 2000). 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. (SEC. 66. Revelation of Information Filed with the Commission)

2. Furthermore, the Revised Penal Code endows a cloak of protection to trade secrets under the following articles:

   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.

   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

3 328 Phil. 351 (1996).
establishment who, to the prejudice of the owner thereof, shall reveal the secrets of the industry of the latter.

3. Similarly, Republic Act No. 8424, otherwise known as the National Internal Revenue Code of 1997, has a restrictive provision on trade secrets, penalizing the revelation thereof by internal revenue officers or employees, to wit:

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.

4. Republic Act No. 6969, or the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990, enacted to implement the policy of the state to regulate, restrict or prohibit the importation, manufacture, processing, sale, distribution, use and disposal of chemical substances and mixtures that present unreasonable risk and/or injury to health or the environment, also contains a provision 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. (Section 12 of RA 6969. — Public Access to Records, Reports or Notification)

In citing these statutory provisions, the Philippine Supreme Court has aptly ruled that intellectual and industrial property rights / trade secrets are of private character and thus, entitled to broad protection under the law:

“Clearly, in accordance with our statutory laws, this Court has declared that intellectual and industrial property rights cases are not simple property cases. Without limiting such industrial property rights to trademarks and trade names, this Court has ruled that all agreements concerning intellectual property are intimately connected with economic development. The protection of industrial property encourages investments in new ideas and inventions and stimulates creative efforts for the satisfaction of human needs. It speeds up transfer of technology and industrialization, and thereby bring about social and economic progress. Verily, the protection of industrial secrets is inextricably linked to the advancement of our economy and fosters healthy competition in
trade. Jurisprudence has consistently acknowledged the private character of trade secrets. There is a privilege not to disclose one's trade secrets.”

In the case of Chavez vs. Presidential Commission on Good Government, the Philippine Supreme Court ruled that "the drafters of the Constitution also unequivocally affirmed that aside from national 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 Deposit Act) are also exempted from compulsory disclosure." It is thus clear from the foregoing that a party cannot be compelled to produce, release or disclose documents, papers, or any object which are considered trade secrets.

In the case of Garcia v. Board of Investments, the Court held that trade secrets and confidential, commercial and financial information are exempt from public scrutiny.

In the most recent case of Air Philippines Corp. vs. Pennswell Inc., the Court upheld that Pennswell, Inc. may not be compelled to present documents which will show the formulation of its various products. In the said case, the court upheld that the documents and information sought to be disclosed are considered as trade secrets and thus, may not be subject to compulsory disclosure. The Court held:

By reason of [their] confidential and privileged character, ingredients or chemical components of the products ordered by this Court to be disclosed constitute trade secrets lest [herein respondent] would eventually be exposed to unwarranted business competition with others who may imitate and market the same kinds of products in violation of [respondent's] proprietary rights. Being privileged, the detailed list of ingredients or chemical components may not be the subject of mode of discovery under Rule 27, Section 1 of the Rules of Court, which expressly makes privileged information an exception from its coverage.

[Respondent] Pennswell has a proprietary or economic right over the ingredients or components of its lubricant products. The formulation thereof is not known to the general public and is peculiar only to [respondent] Pennswell. The legitimate and economic interests of business enterprises in protecting their manufacturing and business secrets are well-recognized in our system.

[Respondent] Pennswell has a right to guard its trade secrets, manufacturing formulas, marketing strategies and other confidential programs and information against the public. Otherwise, such information can be illegally and unfairly utilized by business competitors who, through their access to [respondent]

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4 Mirpuri v. Court of Appeals, 376 Phil. 628 (1999).
5 299 SCRA 744, p. 764
6 177 SCRA 374 [1989].
Pennswell's business secrets, may use the same for their own private gain and to the irreparable prejudice of the latter.\textsuperscript{7}

Clearly, under Philippine laws, Cardia Serva's right to guard its trade secrets is guaranteed.

\textbf{II. Validity of Exclusivity Provisions / Non-Disclosure Agreements in an Employment Contract}

Exclusivity provisions / non-disclosure agreements in an employment contract are generally considered as valid. However, said provisions are made subject to careful scrutiny if it appears that the same is in violation of the provisions prohibiting restraint of trade or competition.

Section 19 of Article XII of the 1987 Constitution on the National Economy and Patrimony states that:

\textbf{SEC. 19.} The State shall regulate or prohibit monopolies when the public interest so requires. No combinations in restraint of trade or unfair competition shall be allowed.

Hence, each contract which provides for an exclusivity agreement must be looked into depending on the circumstances. In the case of Avon Cosmetics Incorporated et. al. vs. Leticia H. Luna\textsuperscript{8}, the Philippine Supreme Court has laid down tests to determine whether the exclusivity provision in an employment contract is void as being against public policy by being a contract in restraint of trade. It held:

There are two principle grounds on which the doctrine is founded that a contract in restraint of trade is void as against public policy. One is, the injury to the public by being deprived of the restricted party's industry; and the other is, the injury to the party himself by being precluded from pursuing his occupation, and thus being prevented from supporting himself and his family.\textsuperscript{9}

The main objection to exclusive dealing is its tendency to foreclose existing competitors or new entrants from competition in the covered portion of the relevant market during the term of the agreement.\textsuperscript{10}

\textsuperscript{7} Id. supra note 1.
\textsuperscript{8} G.R. No. 153674. December 20, 2006.
\textsuperscript{9} Id. citing the case of United States, in Oregon Steam Navigation Co. vs. Winsor (20 Will., 64), quoted with approval in Gibbs v. Consolidated gas Co. of Baltimore (130 U.S., 396).
\textsuperscript{10} Id. citing Roland Machinery Co. v. Dresser Industries, Inc., 749 F. 2d 380, 393 (7th Cir. 1984).
Only those arrangements whose probable effect is to foreclose competition in a substantial share of the line of commerce affected can be considered as void for being against public policy. The foreclosure effect, if any, depends on the market share involved. The relevant market for this purpose includes the full range of selling opportunities reasonably open to rivals, namely, all the product and geographic sales they may readily compete for, using easily convertible plants and marketing organizations.\footnote{11}

In the given case, the Philippine Supreme Court upheld the validity of the exclusivity provisions, recognizing the fact that there is reasonable duty to preserve the confidentiality of trade secrets in order to protect employer’s trade or business.

For instance, the Philippine Supreme Court has upheld the validity of the policy of a pharmaceutical company prohibiting its employees from marrying employees of any competitor company, on the rationalization that the company has a right to guard its trade secrets, manufacturing formulas, marketing strategies and other confidential programs and information from competitors.\footnote{12}

In the case of Ollendorf v. Abrahamson\footnote{13}, the Philippine Supreme Court upheld the validity of a post-employment restraint especially to those employees who have gained special access or knowledge to an employer’s trade or business. It held:

“the contract here in question... does not seem to us to be obnoxious to the rule of reasonableness. While such restraint if imposed as a condition of the employment of a day laborer would at once be rejected as merely arbitrary and wholly unnecessary to the protection of the employer, it does not seem so with respect to an employee whose duties are such as of necessity to give him an insight into the general scope and details of his employer’s business.”

Based on the aforementioned doctrines, under Philippine law, the exclusivity provision contained in James Cuddihy’s employment contract is necessarily valid. He had special access and knowledge to Cardia Serva’s R&D technology which created the special product. His particular knowledge, if applied to Cardia Serva’s competitor, will be violative of Cardia Serva’s protected right to trade secrets. The subject exclusivity clause does not aim to foreclose competition but rather a valid mode to protect one’s intellectual property.

\section*{III. Issue on Compulsory Licensing}

\footnote{11 Id., citing Tampa Electric Company v. Nashville Coal Company, 365 U.S. 320, 81 S. Ct., 623.}
\footnote{12 Duncan Association of Detailman-PTGWO vs. Glaxo Wellcome Philippines, Inc., G.R. No. 162994, 17 September 2004, 438 SCRA 343, 352; See also Star Paper Corporation vs. Simbol, G.R. No. 164774, 12 April 2006, 487 SCRA 228, 242.}
\footnote{13 38 Phil. 585, 592 (1918).}
On the issue of whether the software must be subjected to compulsory licensing in order to promote the public interest, the case of Air Philippines Corp. vs. Pennswell\textsuperscript{14} ruled that the law on Consumer Products is not applicable. It held:

In the case at bar, petitioner cannot rely on Section 77 43 of Republic Act 7394, or the Consumer Act of the Philippines, in order to compel respondent to reveal the chemical components of its products. While it is true that all consumer products domestically sold, whether manufactured locally or imported, shall indicate their general make or active ingredients in their respective labels of packaging, the law does not apply to respondent.

"Consumer products," as it is defined in Article 4 (q), 44 refers to goods, services and credits, debts or obligations which are primarily for personal, family, household or agricultural purposes, which shall include, but not be limited to, food, drugs, cosmetics, and devices. This is not the nature of respondent's products. Its products are not intended for personal, family, household or agricultural purposes. Rather, they are for industrial use, specifically for the use of aircraft propellers and engines.

In the hypothetical case, the product of Cardia Serva is not intended for personal use but rather for a skilled medical practitioner. Hence, the R&D software which was used to develop Smart Sphygmo is entitled to protection.

Likewise, an essential element of Compulsory Licensing under the IP Code states that it is the Director of Legal Affairs which may determine the need for compulsory licensing. Section 93 of the IP Code states:

The Director of Legal Affairs may grant a license to exploit a patented invention, even without the agreement of the patent owner, in favor of any person who has shown his capability to exploit the invention, under any of the following circumstances:

93.1. National emergency or other circumstances of extreme urgency;

93.2. Where the public interest, in particular, national security, nutrition, health or the development of other vital sectors of the national economy as determined by the appropriate agency of the Government, so requires; or

93.3. Where a judicial or administrative body has determined that the manner of exploitation by the owner of the patent or his licensee is anti-competitive; or

93.4. In case of public non-commercial use of the patent by the patentee, without satisfactory reason;

\textsuperscript{14} Id. supra note 1.
93.5. If the patented invention is not being worked in the Philippines on a commercial scale, although capable of being worked, without satisfactory reason: Provided, That the importation of the patented article shall constitute working or using the patent. (Secs. 34, 34-A, 34-B, R.A. No. 165a)

Likewise the Philippine Senate has the power to modify its laws and provide for more criteria in cases of compulsory licensing. However, it is clear that only a competent body may determine when compulsory licensing is necessary in the interest of the public.

In the given hypothetical, under the Philippine law, James Cuddihy and Meditech Systems cannot conveniently argue the need for compulsory licensing in the interest of the public in order to subvert the protected rights of Cardia Serva to their trade secret and technology.