

TAIWAN TRADE SECRETS PROTECTION: TSMC & Samsung Dispute

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As one of the world's most important locations for design and manufacture of computers, mobile devices, semiconductors, and other technology products companies in Taiwan (including both local companies and the Taiwan operations of multinational companies) are periodically the victims of trade secrets theft by departing employees and/or competitors. This has led to the development of sophisticated laws and judicial experience for trade secrets owners to protect their data. Typically, victims of trade secrets theft will seek redress in the civil courts while simultaneously providing evidence to the public prosecutor to investigate potential criminal charges.

1 Relevant Legislation

1.1 Specify all legislation which impacts upon any trade secrets civil enforcement action.

Taiwan's Trade Secrets Act ("TSA"), as last amended on 30 January 2013, is the primary law to enforce protection of a trade secret. Generally, information is a trade secret if it:

- a. Is not generally known to public;
- b. Has economic value due to its secretive nature; and
- c. The owner has taken reasonable measures to maintain its secrecy.

In addition, Taiwan's Civil Code and Fair Trade Act ("FTA") provide for broad civil actions that a theft victim may take. Thus, a victim typically pursues a multi-part legal strategy.

To force the offender to remove the stolen trade secrets from its computer systems, files, etc., and prevent the use of such information, the TSA allows a victim to request a court to order the removal and destruction of the materials and files, the Civil Code offers injunctive relief, and if a former employee has joined another firm that is making use of the stolen information, the FTA allows the victim to demand the competitor cease to do so and to remove the stolen information from its systems.

The FTA permits a victim company to seek remedies via Taiwan's Fair Trade Commission ("FTC") against a competitor that uses stolen trade secrets. Application may be made to the FTC to order the competitor to cease using the stolen trade secrets, impose administrative fines between

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NT\$50,000 and NT\$25 million (approximately US\$1,500 to US\$800,000), and further fines between NT\$100,000 and NT\$50 million (approximately US\$3,000 to US\$1,600,000) until the competitors complies with the FTC orders. However, the FTC process in trade secret theft matters is relatively untested, as the court system tends to offer speedier remedies in the context of such cases.

With regard to damages, under the TSA the individual offender who steals the information is liable for actual damages and lost profits. Where it can be proved the offender's actions are intentional, treble damages are possible. The FTA provides for damages to be paid for the company that employs the individual who stole the trade secrets, and the Civil Code's provisions against unjust enrichment also provides for judicial remedies.

1.2 Specify all legislation which impacts upon any trade secrets criminal enforcement action.

The TSA provides for criminal penalties against both individuals and the competitor company that uses the stolen trade secrets. The individual engages in the unauthorized reproduction and usage of the trade secrets can be sentenced to up to five years imprisonment and a fine between NT\$1 million and NT\$10 million (approximately US\$32,000 to US\$320,000). An individual who steals trade secrets in Taiwan, with the intent to use the information in a foreign jurisdiction (including China, Hong Kong and Macau) can be sentenced to between one and ten years imprisonment and a fine between NT\$3 million and NT\$50 million (approximately US\$96,000 to US\$1,600,000) and if the proceeds from the crime exceed the range of this fine, a fine of two to ten times the proceeds may be imposed. If the individual uses or discloses the trade secrets while in the employ of a competitor, such competitor whether a natural person or corporate can be fined. However, the competitor may reduce or eliminate its liability if it can demonstrate it had in place measures to prevent the use of stolen trade secrets.

The FTA provides for criminal penalties of up to two years imprisonment and a maximum fine of NT\$50 million (approximately US\$1,600,000).

The Criminal Code imposes a penalty of up to one year imprisonment and minimal fines for the taking (such as downloading) commercial and industrial secrets without authorization and disclosing same to a competitor, though the Criminal Code definition of secret can be construed more narrowly than the provisions of the TSA, making the TSA a more effective tool for criminal charges. The Criminal Code also penalizes the individual or third person (such as a competitor) who obtains an "illegal benefit", with up to five years imprisonment and a fine of up to NT\$500,000 (approximately US\$800,000).

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1.3 What other laws may have an impact on a trade secret case?

Taiwan's Personal Information Protection Act ("PIPA") is the basic law governing personal data protection, and applies to any collection, processing and use of personal identifiable information ("PII") that occurs within the territory of Taiwan, regardless of whether the owners of the PII ("Data Owner") are local or foreign entities. PIPA applies both to local and foreign individuals whose data is collected, processed or used ("Data Subject"). Theft or misuse of a Data Subject's PII is subject to civil and criminal penalties. Thus, cases involving client contact list theft should be investigated for potential PIPA violations.

1.4 Specify the party that may initiate a civil or criminal action enforcement action.

In either a civil or criminal case, the plaintiff may be an individual or corporate entity. Individuals without a domicile, and corporates without a fixed place of business, in Taiwan must satisfy procedural steps such as payment of court fees, placing a security deposit with the court, and when engaging a law firm, issuing a power of attorney that authorizes the law firm in Taiwan to represent the plaintiff.

2 Venues

2.1 What are the judicial venues to take enforcement actions in trade secrets cases?

Taiwan has an Intellectual Property Court that handles both civil and criminal cases involving intellectual property, including trade secrets. Although a relatively new institution, the Intellectual Property Court judges have developed a reputation for efficiency and professional knowledge. The usual venue for civil and criminal cases is the District Court in the region of Taiwan where the theft occurred. Under Taiwan's three tiered court system, appeals would be made to the High Court and subsequently the courts of final appeal, the Supreme Court. Actions seeking FTC intervention would be filed directly with the FTC.

2.2 What restrictions are placed upon parties seeking judicial or administrative law remedies?

Significant impediments to a successful action in Taiwan include the lack of mandatory discovery as well as the lack of jury trials. A provisional injunction available under civil law, and premises searches for evidence pursuant to a search warrant obtained by prosecutors under criminal law, are steps utilized to address the lack of discovery and safeguard evidence.

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3 Other Employee Issues

3.1 Non-Compete Clause Enforcement

Historically non-compete clause enforcement cases tended to favour employers. More recent cases indicate that judges will apply reasonableness tests as to duration and geography in the context of the employee's position.

3.2 Does an employer face greater challenges if the trade secrets are stolen by a junior employee?

Unlike the more mature hardware industries, in the rapidly developing mobile applications industry junior employees tend to change employers more often, which also leads to trade secrets theft accusations.

In our experience, provisional injunctions against junior employees can be challenging as the judge may set the bar higher to prove material harm or imminent danger to the employer. The employer may need to establish that the employee's actions will lead to an imminent revenue loss, or provide to the court evidence that the departed employee stole algorithms, client information, software codes, etc. A court will balance the need to issue an injunction against the harm to the employee (such as loss of salary).

4 Other Industries

4.1 What remedies are available for financial industry professionals?

Employees frequently change employers in Taiwan's highly competitive financial industry, which also leads to trade secrets theft accusations. Financial industry employees must maintain the confidentiality of customer data, thus, theft of client contact lists may violate applicable financial industry regulations in addition to the other legal remedies discussed above. A provisional injunction might be easier to obtain where a theft of client contact lists can be established.

In addition, financial industry professionals who must be licensed by the competent authority or trade associations may face license suspensions or denials if an employer brings evidence of trade secret theft.

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5 Cross Border Cases

5.1 Are foreign judgments enforceable in Taiwan?

A final foreign judgment or arbitral award may be enforceable in Taiwan subject to a multi part test that includes, among other factors, reciprocity and that the judgment or award is not contrary to public order or good morals in Taiwan. The process is lengthy and costly, with reciprocity often an insurmountable hurdle.

However, the existence of a concurrent overseas action may be introduced in both civil and criminal actions in Taiwan and there may be strategic value to doing so, in addition to a subsequent attempt to enforce the foreign judgment or award.

5.2 What remedies are available if the employee who stole trade secrets is now employed outside Taiwan?

Several high profile recent cases in the technology industry involve some former employees who took up employment with a competitor where the employee's place of work is in jurisdictions outside Taiwan, such as China or South Korea. Remedies available to a Taiwan company in such situations include requesting the public prosecutor to bring criminal charges under the above cited law that penalizes overseas use of stolen trade secrets, request the extradition back to Taiwan of the accused (though this is subject to the existence of an extradition agreement), and an injunction issued by a Taiwan court against the disclosure of the stolen trade secrets.

In the United States, in addition to remedies available in the federal courts, Taiwan companies have brought cases to the International Trade Commission (ITC) to bar competitors from importing goods where the competitor's employee's misappropriated trade secrets, even where the theft occurred in Taiwan.

6 Best Practices

6.1 What data security practices should companies implement to satisfy the TSA requirements for "reasonable measures" to safeguard trade secrets?

- a. Establish the identification and classification of trade secret assets and information.
- b. Password protection / restricted access to network drives where trade secrets are stored.
- c. Periodic upgrades to computer and network security.
- d. Surveillance cameras and access control to areas where trade secrets are stored.

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6.2 What employee polices should employers implement to satisfy the TSA requirements for "reasonable measures" to safeguard trade secrets?

- a. Require employees to sign non-disclosure agreements upon joining, termination, and/or when the employee learns trade secrets.
- b. Employment contracts should include non-competition provisions specific to the employee's role and seniority.
- c. Codes of practice, confidentiality obligations / policies, etc., both global and specific to the Taiwan office, should be periodically transmitted to and acknowledged by employees.
- d. Mandatory periodic training that emphasizes the importance and value of trade secrets.

7 TSMC v. Liang Mong-song

7.1 In a judgment announced on 24 August 2015 in a closely watched case, Taiwan's Supreme Court (the terminal appellate court) issued a ruling in Taiwan Semiconductor Manufacturing Co., Ltd. vs. Liang Mong-song. Mr. Liang was a 17-year veteran of TSMC. In 2009, Mr. Liang resigned from TSMC, upon which a two year non-compete clause in his employment agreement with TSMC went into effect. Shortly after his resignation, Mr. Liang became a faculty member at Korea's Sungkyunkwan University, a university that closely collaborates with Samsung, and in 2011 Mr. Liang commenced employment at Samsung at a location in Korea.

TSMC sought the following legal relief: 1) prohibit Mr. Liang from disclosing trade secrets, 2) impose a non-compete period (that would prohibit Mr. Liang from working at Samsung) until 31 December 2015, and 3) prohibit Mr. Liang from assisting Samsung to poach TSMC employees.

At trial, in Taiwan's Intellectual Property Court, the court ruled for TSMC on Items 1 and 3, but rejected TSMC's request to impose a prohibition on Mr. Liang's employment at Samsung. On appeal, also in the Intellectual Property Court, the court ruled in TSMC's favor on all counts, including the employment restriction. The Supreme Court upheld the appellate court ruling.

Legislative Response

Partly in response to industry concerns that arose from this case, while the matter was still before the courts Taiwan's Legislative Yuan revised the TSA to impose stiff criminal liabilities for trade secret disclosure (Article 13-1), criminalize the use of stolen trade secrets in foreign jurisdictions, including China (Article 13-2), and where, as part of their work duties, a corporate or natural person's representative, proxy, employee or personnel commits the criminal activities listed in Articles 13-1 and 13-2, that corporate or natural person may be fined as a penalty separate from the criminal liability imposed on the offender (Article 13-4).

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Impact on Trade Secrets Protection

As in other jurisdictions, the enforcement in Taiwan of non-compete provisions depends on the reasonableness of the restrictions as to duration and geography and role of the individual. Although the judgment text is confidential per the request of the litigants, according to press reports the decision was based on concerns about the potential impact of Mr. Liang's employment at Samsung on TSMC's market position in the semiconductor fabrication industry.

The willingness of Taiwan courts to agree to a plaintiff's request for a non-compete period in excess of what the parties agreed to in the employment agreement is a potentially powerful tool for employers seeking judicial relief when senior employees depart for a competitor.

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