# Legislation Reform for Trade Secrets to Become Collateral for MSMEs in Indonesia

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# Legislation Reform for Trade Secrets to Become Collateral for MSMEs in Indonesia

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# ABSTRACT

In the year of 2010 the Government of Indonesia started the discussion on the use of the Intellectual Property Rights (IPRs) certificates as collateral by SMEs. The forms of IPRs discussed were: patents, copyrights, trademarks and lay out of integrated circuit designs. Nevertheless, actually there is one more IPRs form which is recognized by other countries, which can be used as collateral also, that is trade secrets.

This work will examine three matters, why trade secrets were excluded from the plan; how should the Government of Indonesia change the laws to classify trade secrets to be used collateral and what the contents of regulations which should be amended and established to qualify trade secrets can be used as collateral for MSMEs.

This study applied the framework of documentary research in the style of comparative legal research. Regulations which are used to make comparison with the Indonesian's regulations are regulations related to collateralization on trade secrets in Australia, the USA, Thailand and the PRC. In order to get insightful from the Indonesian authorities' perspective, the writer conducted consultations with officers of the Ministry of Cooperation and SMEs and Directorate General of IP Office of Indonesia.

The finding of this study shows that, trade secrets were excluded from the plan to use IPRs certificates as collateral because the officer did not mention trade secrets explicitly like the other forms of IPRs. In order to qualify trade secrets as collateral, the procedures to change the law should be conducted based on the Law Number 12 Year 2011 regarding the Establishment of Regulations. There are some regulations which should be amended, The Law Number 30 Year 2000 regarding Trade Secrets, The Law Number 42 Year 1999 regarding Fiduciary matters, The Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment and a Ministry Regulation. In addition there are some technical regulations need to be established.

The finding of this study is significant for knowledge and hopefully can give contribution to the Government of Indonesia to not be reluctant to establish policies or regulation to include trade secrets in the plan to use certificates of IPRs as collateral. Furthermore, this study proposes recommendations on what regulations which should be amended and established to qualify trade secrets as collateral and matters which should be stated in those regulations.

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# ABBREVIATIONS

| | |
|---|---|
| APEC | Asia-Pacific Economic Cooperation |
| IPRs | Intellectual Property Rights |
| IP | Intellectual Property |
| MSMEs | Micro, Small and Medium Enterprises |
| OECD | The Organization for Economic Co-Operation and Development |
| PPSA | Personal Property Security Act |
| PRC | People's Republic of China |
| RWAs | Risk-Weighted Assets |
| SMEs | Small and Medium Enterprises |
| TRIPS | Trade-Related Aspects of Intellectual Property Rights |
| UCC | Uniform Commercial Code |
| UNCITRAL | United Nations Commission on International Trade Law |
| USA | the United States of America |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade Organization |

# GLOSSARY

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| Bankruptcy | means: 1. Jurisdiction or proceedings under or by virtue of (CTH) Bankruptcy Act 1966 SS 27, 5 (1). 2. The state of a person's affairs after becoming a bankrupt. 3. The process by which the State takes possession of the property of a bankrupt through the Official Trustee in Bankruptcy or a registered trustee and such property is realised and subject to certain priorities, distributed rateably amongst the person to whom the debtor owes money: (CTH) Bankruptcy Act 1996. |
| Borrower | means: A person to whom money is lent. Borrowing necessarily implies repayment at some time and under some circumstances: See *Southern Brazilian Rio Grande Do Sul Railway Co Ltd* [1905] 2 Ch 78 at 83.<br>Source: Butterworths Concise Australian Legal Dictionary |
| | Source: Butterworths Concise Australian Legal Dictionary |
| Certificate | means: 1. a document in which a fact is formally attested <death certificate>. 2. A document certifying the bearer's status of authorization to act in a specified way <nursing certificate>. 3. A notice by one court to another court of the action it has taken <when issuing its opinion, the Seventh Circuit sent a certificate to the Illinois Supreme Court>.<br>Source: Black's Law Dictionary |
| Civil Law | means: 1. One of the two prominent legal systems in the Western world, originally administered in the Roman Empire and still |

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| | influential in continental Europe, Latin America, Scotland, and Louisiana, among other parts of the world. 2. The body of law imposed by the state, as opposed to moral law. 3. The law of civil or private rights, as opposed to criminal law or administrative law.<br>Source: Black's Law Dictionary |
| Collateral | Property that is pledged as security against a debt; the property subject to a security interest or agricultural lien<br>Source: Black's Law Dictionary |
| Commune | A community of people who share property and responsibilities.<br>Source: Black's Law Dictionary |
| Common Law | means: 1. The body of law derived from judicial decisions, rather than from statutes or constitutions; CASE LAW <Federal common law>. 2. The body of law based on the English legal system, as distinct from a civil-law system; the general Anglo-American system of legal concepts, together with the techniques of applying them, that form the basis of the law in jurisdictions where the system applies <all states except Louisiana have the common law as their legal system>.<br>Source: Black's Law Dictionary |
| Confidential Information | Facts or knowledge that are not in the public domain.<br>Source: Butterworths Australian Legal Dictionary |
| Copyright | means: 1. The right to copy; specifically, a property right in an original work of authorship (including literary, musical, dramatic, choreographic, pictorial, graphic, sculptural, and architectural |

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| | works; motion pictures and other audio visual works; and sound recordings) fixed in any tangible medium of expression, giving the holder the exclusive right to reproduce, adapt, distribute, perform, and display the work. 2. The body of law relating to such works.<br>Source: Black's Law Dictionary |
| Creditor | A person to whom a debt must be paid. A creditor can look directly to the debtor and assert a direct entitlement to the benefits or fruits of the order or judgment that is made against the debtor: (CTH) Bankruptcy Act 1996 ss 40, 41 (2); *Abigroup Ltd v Abignano (1992)* 39 FCR 74; 112 ALR 497 at 508. A person entitled to enforce a final judgment or order for the payment of money is deemed to be a creditor under a bankruptcy notice: (CTH) Bankruptcy Act 1996 S 40 (1) (d), (g).<br>Source: Butterworths Concise Australian Legal Dictionary |
| Debtor | means: Someone who owes money to another, the creditor.<br>Source: Butterworths Concise Australian Legal Dictionary |
| Fiducia | means: An early form of transfer of title by way of mortgage, deposit, etc., with a provision for conveyance upon payment of the debt, termination of the deposit, etc.<br>Source: Black's Law Dictionary |
| Fiduciary | Relating to or based on a trust.<br>Source: Encarta Dictionary |
| Franchise | means: 1. the right to vote. 2. The government-conferred right to engage in a specific business or to exercise corporate powers. |

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| | Source: Black's Law Dictionary |
| Industrial Design | The shape, configuration, pattern, or ornament applied to finished article of manufacture, often to distinguish the product's appearance.<br>Source: Black's Law Dictionary |
| Intellectual Property | A group of legislative and common law rights affording protection to creative and intellectual effort and includes laws on copyright, design, patent, circuit layouts, plan varieties, confidential information, trade mark and business reputation (passing off and trade practices). Intellectual property encompasses both industrial property (patent, design and trade mark) as well as intellectual property. The term originally referred to copyright.<br>Source: Butterworths Concise Australian Legal Dictionary |
| Intangible Property | means: Property which lacks a physical presence. It is constituted by a right enforceable in a court of law or equity. An example is copyright.<br>Source: Australia Legal Dictionary |
| Invention | means: 1. A patentable device or process created through independent effort and characterized by an extraordinary degree of skill or ingenuity; a newly discovered art or operation. 2. The act or process of creating such a device or process. 3. Generally, anything that is created or devised.<br>Source: Black's Law Dictionary |

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| License | means: 1. A permission, usu. revocable, to commit some act that would otherwise be unlawful; esp., an agreement (not amounting to a lease or profit à prendre) that it is lawful for the licensee to enter the licensor's land to do some act that would otherwise be illegal, such as hunting game.<br>Source: Black's Law Dictionary |
| Patent | means: 1. the governmental grant of a right, privilege, or authority. 2. The official document so granting.<br>Source: Black's Law Dictionary |
| Property | means a word which can be used to describe every type of right (that is, a claim recognised by law), interest, or thing which is legally capable of ownership, and which has a value.<br>Source: Butterworths Concise Australian Legal Dictionary |
| Trade Secrets | Any formula, pattern, device, or compilation of information that is used in a person's business and that gives that person an opportunity to derive an advantage over other persons who do not know or use it: *Bacchus Marsh Concentrated Milk Co Ltd (in liq) v Joseph Nathan & Co Ltd* (1919) 26 CLR 410.<br>Source: Butterworths Concise Australian Legal Dictionary |
| Trademark | A word, phrase, logo, or other graphic symbol used by a manufacturer or seller to distinguish its product or products from those of others.<br>Source: Black's Law Dictionary |

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| Valuation | means: 1. The act or process of ascertaining the worth of a thing. 2. The assigning of a value to land, property, or assets, in principal to establish the current likely market price.<br>Source: Butterworths Concise Australian Legal Dictionary |

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# INTRODUCTION

## 1. Background to the Research

In January 2010 the Director General of the Indonesian Intellectual Property Rights (IPR)[1] Office suggested that, from the various functions of the IPR system, for instance the function to protect IPRs[2], only one function has not yet been implemented in Indonesia. That is, the use of intellectual property rights certificates as collateral.[3] Collateral is property which will be used to guarantee the debt that is promised by a debtor to a creditor.[4]

The Indonesian IPRs Office has a long history of existence back to the time of Dutch colonialism. The first IPR registered was a trademark on 10 January 1894.[5] In 1947, after Indonesia's Independence Day, the office was given a name by the Indonesian Government, as the Crafts Office. Since 1965, through time and need, the office has evolved. Its duty expanded, to include not just trademarks but also patents and copyright.[6] The latest regulation for this office is the Regulation from the Ministry of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010. According to this regulation, article 675 (2), the office's name is *Direktorat Jenderal Hak Kekayaan Intelektual* (Directorate

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[1]IPRs is a set of rights over the results of human minds, to be protected by law and granted exclusive rights for the inventor, usually for a certain period of time. See: WTO, 'Intellectual Property (TRIPS) – what are intellectual property rights?' no date <http://www.wto.org/english/tratop_e/trips_e/intel1_e.htm> (4 February, 2011)
The regime of IPRs is based on TRIPS/GATT. According to this agreement, types of these exclusive rights are:

> The areas of intellectual property that it covers are: copyright and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); trademarks including service marks; geographical indications including appellations of origin; industrial designs; patents including the protection of new varieties of plants; the layout-designs of integrated circuits; and undisclosed information including trade secrets and test data.

WTO, 'intellectual property—overview of TRIPS Agreement' no date <http://www.wto.org/english/tratop_e.htm> (4 February, 2011)
[2]IPR Media, 'IIPAA Seminar' 2010 <http://mediahki.wordpress.com/vol-viino-01februari-2010/ragam/hki/> (22 March 2011) (Original in Bahasa Indonesia)
[3]Ministry of Cooperatives and Small and Medium Enterprises, 'Function of Intellectual Property Certificate As Collateral Not Running Yet' 2010 <http://www.sentrakukm.com/index.php/direktorihaki/301-fungsi-sertifikat-haki-sebagai-agunan-belum-berjalan> (22 March, 2011) (Original in Bahasa Indonesia)
[4]Bryan A. Garner (ed in chief), *Black's Law Dictionary*, 9th ed, A Thomson Reuters, St. Paul, 2009
[5]Directorate General Intellectual Property Rights, 'History in a Glance' no date <http://www.dgip.go.id/ebscript/publicportal.cgi?.ucid=376&ctid=30&id=245&type=0> (10 May, 2011)
[6]Ibid (Original in Bahasa Indonesia)

General of Intellectual Property Rights). Moreover, Article 676 of this regulation states that the IPR office has a duty regarding the formulation and application of policy and technical standardization of IPRs. This office gives services for patents, trademarks, copyright, industrial designs, integrated circuits, trade secrets, traditional knowledge, and geographical indications.

The issue that has been brought up by the Director General of Intellectual Property Law was followed up by the Ministry of Cooperation and Small and Medium Enterprises (SMEs)[7] by holding discussions on IPR Development Model Certificates as Collateral for Indonesian SMEs in August 2010. This issue appeared because the authorized officers learned of the success of the United States of America (USA) and China, which have already used IPRs as collateral.[8]

Furthermore, on intellectual property rights certificates, such certificates are proof of rights issued by the Directorate General of Intellectual Property Law as regulated in Laws of each of these IPRs: the Trademarks, Patents, Industrial Designs, Copyrights, Integrated Circuits and Geographical Indications. For example: In Law Number 14 Year 2001 on Patents, article 55 (1) stated that the Directorate General (of Intellectual Property Law) provides that the Certificate is based on substantive examination. Moreover article 57 states that a certificate is a proof of rights. As for copyright, based on Law Number 19 Year 22 on Copyright article 5 and its explanation, even though the right of copyright is not based on registration, a certificate is one of proof of such right.

[7]Every country has each definition of SMEs. The definition usually based on the amount of asset, number of employees and revenue. See: Shahid Alikhan & Raghunath Mashelkar, *Intellectual Property and Competitive Strategies in the 21st Century*, 2nd ed, Kluwer Law International, The Netherlands, 2009, pp 101-122.

[8]Ministry of Cooperatives and Small and Medium Enterprises of Republic of Indonesia, 'IPRs' Certificate can be used as Loan Guarantee' 2010 < http://www.sentrakukm.com/index.php/direktorihaki/301-fungsi-sertifikat-haki-sebagai-agunan-belum-berjalan> (22 March, 2011) (Original in Bahasa Indonesia)

Actually, attention to the importance of IPRs, related to SMEs has already been given by experts in Indonesia. Several years before, Indonesia's former[9] IPR Office Directorate Generals had presented the importance and the benefit of IP for SMEs[10] in Indonesia. The two experts brought up issues of the importance of SMEs registering their IPRs (for instance: patents, trademarks, copyrights), for they will give economic benefit for their business. This will avoid other parties using and taking the benefit of the results of their creative and innovative minds without their knowledge.

As a country, Indonesia cannot live alone without receiving any influence in many aspects from other countries. This influence extends to aspects of law, trading and technology. In the area of law, particularly in intellectual property, Indonesia already had intellectual property regulations since 1885 (Trade Mark Law), 1910 (Patent Law) and 1912 (Copyright Law) which were implemented by the Dutch Government when it colonized Indonesia.[11]

This has happened as well with other countries. Developing countries are influenced by developed countries. For example: Malaysia applies copyright law that came from English copyright law. Meanwhile, Philippines implemented patent law which was Spain's.[12]

The regime of IPRs, that influenced many countries in the world to implement them, was through the World Trade Organization (WTO)[13] Agreement, called Trade Related to

[9]A. Zen Umar Purba, 'Intellectual Property Rights System and Its Connection with SMEs' 2001 <http://www.dgip.go.id/ebscript/publicportal.cgi?.ucid=374&ctid=21&type=0> Adobe Reader – [hki_ukm[1].pdf] (5 January, 2011) (Original in Bahasa Indonesia)

[10]Shahid Alikhan and Raghunath Mashelkar also share the view that intellectual property brings benefit to SMEs. See: Shahid Alikhan & Raghunath Mashelkar, *Intellectual Property and Competitive Strategies in the 21st Century*, 2nd ed, Kluwer Law International, The Netherlands, 2009, pp 101-122,
Esteban Burrone, 'Intellectual Property Rights and Innovation in SMEs in OECD Countries' 2005 <http://nopr.niscair.res.in/bitstream/123456789/3612/1/JIPR%2010%281%29%2034-43.pdf> (25 January, 2011)

[11]Directorate General of Intellectual Property Rights, 'Development of Intellectual Property Rights Protection System in Indonesia' 2008 <http://www.dgip.go.id/ebhtml/hki/filecontent.php?fid=10105> (18 March, 2011) (Original in Bahasa Indonesia)

[12]Peter Drahos, 'Developing Countries and International Intellectual Property Standard-Setting' 2002 <http://onlinelibrary.wiley.com/doi/10.1111/j.1747-1796.2002.tb00181.x/pdf> (17 March, 2011), p 766

[13]In its website, the information on what WTO in brief is:
"the World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible." WTO, 'The WTO In brief ' no date <http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm> (4 February, 2011)

Intellectual Property Rights (TRIPS)[14]. In TRIPS[15] there are some IPRs recognized, which are:

1. Copyright and related rights (Articles 9 – 14);
2. Trade marks including service marks (Articles 15 -21);
3. Geographical indications (Articles 22 -24);
4. Industrial designs (Articles 25 – 26);
5. Patents (including plant varieties rights) (Articles 27 – 34);
6. Layout (or designs of integrated circuits) (Articles 35 -38);
7. Undisclosed information (Article 39).

The significance of giving protection to IPRs is that it is believed that this will give benefits in trade, technology and innovations.[16] In the process scholars and practitioners realize that these benefits from IPRs can be expanded. One extra benefit is that IPRs can be used as collateral. The focus of using IPRs as collateral is significant as many of the most important assets of companies are in IPR form such as patents, trademarks, copyright and trade secrets.[17]

If we look at the form of IPRs from TRIPs[18] and the Government of Indonesia's plan to use the certificates of IPRs as collateral, there are two forms that were not included. They are geographical indications and undisclosed information.

Geographical Indications are an identification of products that come from a particular territory, which gives the product distinct characteristics from other members of the WTO and other members agree to the identification.[19] Some examples are Champagne, Florida

[14]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[15]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[16]WTO, 'Understanding the WTO – Intellectual Property: protection and enforcement' no date <http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm7_e.htm> (10 May, 2011)
[17]Lars S. Smith, Trade Secrets in Commercial Transactions and Bankruptcy' 2000 <www.buscalegis.ufsc.br/revistas/files/anexos/4090-4084-1-PB.pdf> (27 January, 2011), p 549
[18]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[19]Article 22 (1) of The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994

oranges and Swiss watches.[20] In Indonesia, Geographical Indication is regulated under *Pasal 56 Undang-Undang Nomor 15 Tahun 2001 Tentang Merek* (the Law Number 15 Year 2001 regarding Trademark) in Article 56. Because of the nature of Geographical Indications, they cannot be possessed individually[21], therefore the writer assumes that Geographical Indications cannot be used as collateral for SMEs.

Another form of IPR which is not included in that plan is undisclosed information, which, in Indonesia is translated into *rahasia dagang* (trade secrets). The trade secret, as regulated in TRIPs,[22] is secret information which is kept undisclosed from others, brings profit to its owner in business because it is kept secret and the owner takes necessary steps to keep it secret.[23] The protection of such forms of IPRs makes a valuable step certain, in fighting unfair competition.[24]

Furthermore on trade secrets, the acceptance of trade secrets varies in every country and not all scholars and practitioners all over the world look at these forms of intellectual rights with the same opinion. Robert G. Bone[25] is a scholar, whose work has been cited by many other scholars, who has concluded that it is not necessary to have a particular law to regulate trade secrets because this kind of right has been regulated in "other legal norms—contract, fraud, and the like...".[26] The principle of protecting trade secrets is keeping them safe from others who may breach the confidence. But, Michael Risch has a different view to that of Bone. According to Risch, recognizing trade secrets and treating them appropriately will give a huge advantage to their owners and businesses.[27]

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[20]GeographicalIndications.com, 'Geographical Indications' no date <http://www.geographicindications.com/> (23 March, 2011)
[21]As regulated in Article 56 (2) of the Law Number 15 Year 2001 regarding Trade Mark
[22]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[23]Article 39 (2) of The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994
[24]Article 39 (1) of The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994
[25]Robert G. Bone, 'A New Look at Trade Secret Law: Doctrine in Search of Justification' 1998 <http://heinonline.org/HOL/Page?handle=hein.journals/calr86&div=16&g_sent=1&collection=journals> (30 March, 2011)
[26]Ibid, p 245
[27]Michael Risch, 'Why Do We Have Trade Secrets?' 2007 <https://law.marquette.edu/ip/Risch.pdf> (3 May, 2011), p 3

USA has been an aggressive country in the course of giving recognition to trade secrets. It is a common law country, and usually common law countries are reluctant to administer trade secrets in one particular regulation, but it has had the Uniform Trade Secrets Act (UTSA) since 1979 and this was amended in 1985. UTSA has been adopted by nearly all of the states in that country. The USA takes trade secrets very seriously. Protection for trade secrets also has been given by the Espionage Act. The USA was also one of the countries which proposed the urgency of giving protection for such intellectual rights in TRIPS[28] in the Uruguay Round in 1994. Therefore, trade secrets were included in the TRIPS[29] in Article 39 under the name of "Undisclosed Information".

The Government of Indonesia has ratified TRIPS[30] and implemented it into some Acts. One of them is the Law of Trade Secret which is ruled by *Undang-Undang Nomor 30 tahun 2000 tentang Rahasia Dagang* (Law Number 30 year 2000 regarding Trade Secrets). Long before Indonesia had its Trade Secret Law, there were some articles in the Civil Code, used to regulate the rights which were later called trade secrets. Thus, this means that regulations on trade secrets today in Indonesia are:

1. Law Number 30 year 2000 regarding Trade Secrets
2. Article1234 Civil Code jo Article 1242 Civil Code: concerning engagement to do or not to do something (when one is bound not to tell business/technology secret information, one must not tell it to anyone otherwise he/she may need to reimburse the costs, losses and interest);
3. Article 1338 Civil Code: protection based on contracts in accordance with the principle of freedom to make contracts (as the basis of protecting trade secrets through contracts which are made between parties);
4. Article 1603b and 1603d Civil Code: about labour obligations;

[28] The Agreement on Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994
[29] The Agreement on Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994
[30]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994

5. Article 322 (1) Criminal Code: about the crime of disclosing trade secrets;
6. Article 323 (1) Criminal Code: it is a crime when someone tells a particular thing of a trading company which must be kept secret;
7. Article 382 bis Criminal Code: about unfair deeds;
8. Principles based on article 1365 Civil Code, which are legal principles on unfair competition and laws based on torts.
9. Article 50 (b) of the *Undang-Undang Nomor 5 Tahun 1999 tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat* (Law Number 5 Year 1999 Regarding Prohibition of Monopolistic Practices and Unfair Business Competition): about agreements related to IPRs, including trade secrets which are exceptional to the agreements which are prohibited by this law—therefore the rights holders or the owners of trade secrets can make agreements which are related to their trade secrets without sharing their rights to those trade secrets with another party.

The United Nations Commission on International Trade Law (UNCITRAL) issued the UNCITRAL Legislative Guide on Secured Transactions in 2010. The Aim of this Guide is to help countries which would like to make efficient and effective secured transactions laws, as stated below:

> The purpose of the UNCITRAL Legislative Guide on Secured Transactions (hereinafter referred to as the "Guide") is to assist States in developing modern secured transactions laws (that is, laws related to transactions creating a security right in a movable asset) with a view to promoting the availability of secured credit. The Guide is intended to be useful to States that do not currently have efficient and effective secured transactions laws, as well as to States that already have workable laws but wish to modernize their laws and harmonize them with the laws of other States. [31]

Therefore, this Guide should be used as one of the references for states which have an intention to establish an effective and efficient secured transaction regulation.

[31]United Nations, 'UNCITRAL Legislative Guide on Secured Transactions' 2010 <www.**uncitral**.org/pdf/.../09-82670_Ebook-**Guide**_09-04-10English.pdf> (10 January, 2012), p 1.

Moreover, with the increasing awareness of the importance of IPRs used as credit[32], relating to the UNCITRAL Legislative Guide on Secured Transactions, the UNCITRAL issued the UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property in 2011. The goal of this supplement is "to make credit more available and at a lower cost to intellectual property owners and other intellectual property rights holders, thus enhancing the value of intellectual property rights as security for credit."[33] The writer noted that the term "intellectual property" used in the *Legislative Guide* and the *Supplement* of UNCITRAL covers many forms of IPRs, including trade secrets.[34]

Business is an area where business owners try to compete with their competitors and in their efforts they sometimes need more capital to make their businesses larger. In order to build larger businesses, there is one of way and that is seeking loans. There are also new comers in business where they have many great ideas which are manifested in IPRs, and who are willing to make efforts in business but lack capital. However, financial institutions need collateral to give them loans. As the awareness and recognition of IPRs has grown stronger and people realize that the results of human creativity are never ending, scholars and practitioners have been discussing and have tried to propose the ideal method to implement the use of IPRS as collateral.[35]

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[32]United Nations, 'UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property' 2011 < www.**uncitral**.org/pdf/english/.../e/10-57126_Ebook_Suppl_SR_IP.pdf> (15 July, 2012), p 14.
[33]Ibid, 1.
[34] Ibid, 7.
[35]Lars S. Smith, above n 17, Peter S. Menell, 'Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis' 2007 <www.btlj.org/data/articles/22_02_02.pdf> (12 November, 2011),
Susan Barbieri Montgomery, 'Security Interests in Intellectual Property' 2004 <files.ali-aba.org/thumbs/datastorage/.../pdf/ck090-ch14_thumb.pdf> (11 November, 2011),
R. Mark Halligan & Richard F. Weyand, 'The Economic Valuation of Trade Secret Assets' 2000-2004 <http://www.thetso.com/Info/evaluation.html> (1 August, 2011),
Paul Flignor and David Orozco, 'Intangible Asset & Intellectual Property Valuation: A Multidisciplinary Perspective' 2006 <www.wipo.int/export/sites/www/sme/en/documents/pdf/IP_Valuation.pdf> (14 October 2010),
Federico Guicciardini C.S., 'Raising Capital Through IP (2004) WIPO-WASME Special Program on Practical IPRs Issues' 2004 <http://www.wipo.int/edocs/mdocs/sme/en/wipo_wasme_ipr_ge_04/wipo_wasme_ipr_ge_04_10.pdf> (7 May, 2013),
United Nations Commission on International Trade and Law, above n 32,
United Nations Commission on International Trade and Law, above n 31

The availability of trade secrets used as collateral has also been discussed, although there are a few scholars and practitioners that still argue[36] and doubt that it can be implemented and well accepted by lenders (banks). Even so, some scholars have analyzed how to convert trade secrets as intangible assets into currencies (valuation). Some of them are Paul Flignor and David Orozco[37]; and R. Mark Halligan and Richard F. Weyand[38]. They have given suggestions about methods which can be used to value trade secrets. While Flignor and Orozco suggested methods for valuing patents, trade secrets, copyrights and trademarks, Halligan and Weyand addressed their suggestion to trade secrets only. Halligan and Weyand's method is called "net present value of future cash flows".[39]

Compared to the other IPRs, trade secrets have their own advantages to be used as collateral. The reasons for this include that the protection for trade secrets is timeless,[40] borderless, costless regarding registration[41] and immediately effective.[42] The meaning of timeless is that they are unlike other IPRs, which are protected for a certain amount of time, for example, patents given protection for 20 years can be expanded for another 10 years. Borderless means that as long as the owner take steps to protect it as secret the protection given is not limited by geographical boundaries, like patents.[43] This is different compared to patents, for instance, that require registration in every country to give protection for their exclusive rights. However, levels of protection of trade secrets can be different from one country to other countries.[44] The reason can be because of the different approaches in applying trade secrets or even the cultural values and the levels of

[36]Lars S. Smith stated that trade secrets are 'often ignored or dealt with superficially' compared to the other IPRs: patents, trademarks and copyrights. Lars S. Smith, above n 17
[37]Paul Flignor and David Orozco, above n 35
[38]R. Mark Halligan and Richard F. Weyand, above n 35
[39]Ibid
[40]Talhiya Sheikh, 'Trade Secrets and Employee Loyalty'no date <http://www.wipo.int/export/sites/www/sme/en/documents/pdf/trade_secrets_employee_loyalty.pdf> (2 March 2011), p 1.
[41]Ibid
[42]Ibid
[43]Karl F. Jorda, 'Trade Secrets and Trade-Secret Licensing' 2007 <http://www.iphandbook.org/handbook/chPDFs/ch11/ipHandbook-Ch%2011%2005%20Jorda%20Trade%Secret%20Licensing.pdf> (27 March, 2011), p 1046
[44]Pedro A Padilla Torres, 'An Overview of International Trade Secret Protection from the International Trade and Investment Perspective' no date <http://www.natlaw.com/pubs/spmxip14.htm> (1 June, 2008), p 9.

advancement in technology.[45] To be protected, the owner of the trade secret does not have to pay registration. Unlike other IPRs, which are protected after being registered in the IPRs office, a trade secret is protected right away when the owner takes steps to keep it secret.

One of the conclusions of the researcher's master's thesis[46] is that it is possible that trade secrets, under current law, could become collateral in Indonesia.[47] This is based on analysis of the Articles below:

1. Article 1131 Civil Code
2. Article 499 Civil Code
3. Article 570 Civil Code
4. Article 5 (1) – 5 (5) Law Number 30 Year 2000 regarding Trade Secrets
5. Article 1(1), (2) and (3) Law Number 42 Year 1999 regarding Fiduciary Security
6. Article 1 (2) Law Number 10 Year 1998 regarding Banking

Article 1131 Civil Code stated that all materials a debtor has can be used as security for his/her loans. Article 499 Civil Code regulates that material is every matter or every title which can be controlled as proprietary. Article 570 Civil Code defines what proprietary is. Based on that article, it means that the owner can use his/her matter freely as long as it does not contradict other laws. Article 5 (1) Law Number 30 Year 2000 regarding Trade Secrets stated that trade secrets can be transferred by: inheritance, gift, bequest, a written agreement, or other causes that are justified by legislation. Furthermore, the rest of this

[45]Ibid.

[46]Irawaty, '*The Development and Juridical Perspective on Trade Secret as Collateral'*, paper submitted in part completion of Magister of Law at University of Indonesia (Indonesia), 2008 (Original in Bahasa Indonesia)

[47]Based on analyzing some regulations which have already existed in Indonesia:

a. Law No. 30 Year 2000 regarding Trade Secret
b. Law No. 10 Year 1998 regarding Indonesia Banking Law
c. Law Number 42 Year 1999 regarding Fiduciary Law
d. Indonesia Civil Code

And secondary data is from interviewing one of Indonesia's leading Banks. The writer interviewed The Assistant Vice President Legal Group and The Senior Manager Legal Group. They agreed that there is a probability trade secrets can be used as collateral, not as primary collateral but together with other IPRs. The reason is whether trade secret itself can have value regardless of its trademark, for instance. And to be implemented as collateral there should be regulation which regulates that trade secrets can be used as collateral. (Interview with Harwanto and Chairiyah Djohan, The Assistant Vice President Legal Group and The Senior Manager Legal Group of Mandiri Bank, Plaza Mandiri, 11 July 2008)

article regulates the transfer of trade secrets. Following the documents regarding the transfer, it is required to be registered in the Directorate General's Office of Intellectual Property Rights. If it is not registered, it will not bring any impact on any third party. Such a transfer will be announced in trade secret official news.[48] By analyzing Article 1(1), (2) and (3) Law Number 42 Year 1999 regarding Fiduciary Security, when trade secrets as intangible property are used as collateral, it will be under Fiduciary Law. And the Article 1 (2) Law Number 10 Year 1998 regarding Banking states that banks distribute funds—gained from people—in the form of credit to improve the welfare of the society.

The considerations of *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secret stated the reasons why the Government of Indonesia constructed Trade Secrets Law are, firstly, the Government of Indonesia sees that giving protection to trade secrets will motivate Indonesians to be more creative and innovative. Indonesians' creativity and innovation will make Indonesia's industry grow more and Indonesia will have greater power to compete nationally and internationally. Secondly, Indonesia has ratified TRIPS[49] with Law Number 7 Year 1994 regarding The Validation of TRIPS (The Endorsement of the Establishment of WTO).

However, until now there are not many people in Indonesia who know what a trade secret is. Trade secrets are not as popular as patents, copyright or trademarks. Probably one of the reasons is because people have not given attention to it. It is undeniable that people usually pay more attention to things that give them (economic) advantages.[50]

Although trade secrets are not as well recognised as patents, copyrights or trademarks, attention and awareness of trade secrets have increased recently. Actually, trade secrets

[48]In the explanation of Article 5 Law Number 30 Year 2000 regarding Trade Secret stated that the notification does not record the substance of the trade secret itself. It only records about administrative data.

[49] The Agreement on Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994

[50]In USA the protection of IPRs are well received and even the scholars keep on researching the advantages of the IPRs as intangible assets. Claire Philpott and Susan Jahnke wrote: "However, more businesses are finding that their most valuable asset is their intellectual property portfolio, and they want to take advantage of these values in financing transactions." Claire Philpott and Susan Jahnke, 'Intellectual Property: A New Form of Collateral' 2005 <http://www.bizjournals.com/seattle/stories/2005/0/07/focus9.html> (8 June, 2008)

have been recognized in Indonesian laws since the laws which have been used from the Dutch. However, the regulations on trade secrets are scattered in various regulations.

Liman[51], one of Indonesia's scholars, has identified the importance of trade secrets in Indonesia. She argues that giving protection to trade secrets will also stimulate foreign investors to do their business in Indonesia, because they will not be worried about the security of their trade secrets. More foreign investors may come and do business in Indonesia, which means more income for Indonesia and the economy will grow more. This study also argues that giving protection trade secrets in Indonesia will lead Indonesia to become a stronger economy. As more Indonesian business owners, particularly MSMEs owners, are aware of trade secrets, they will protect their secrets. MSMEs are the backbone of Indonesian economy.

The background to why people of Indonesia do not pay much attention to trade secrets can be related to Indonesian culture. Indonesia is an Islamic majority country. As one such country, there is a value of living in communalism.[52] Communalism holds the view that everyone shares what they have with others. This contradicts the principle of trade secrets where one keeps the information he/she has to himself/herself. But, globalization has made the values shift. Even though they are not a large number, there are people/businessmen who have been aware of the benefit that can be gained from keeping their information secret, for example, one corporate called UM Wedding Card.[53]

[51] Padma D. Liman, 'Copyrights as Collateral' no date <http://docs.google.com/viewer?a=v&q=cache:CC-MveRjYKQJ:www.digilib.uns.ac.id/upload/dokumen/112821504201008521.pdf+Padma+D+Liman+hak+cipta+sebagai+benda+jaminan&hl=en&gl=au&pid=bl&srcid=ADGEESjtjdTp8NweBBhgAs_bmDoy_6mfhf-voSUSrN2J6r1lvv4lRWyY9ZehVbN523sAlZ4wV3Eo7gDMfC8w8tj2ZNKR3X3laGWlWkDUSo79ezQushQ32-NzixEH-0d3Ko9nC17FB6Fc&sig=AHIEtbSTKlLMrswFgU_fZU5cdQV53049MQ> (5 September, 20110) (Original in Bahasa Indonesia)

[52] Tim Lindsey (ed.), *Indonesia Law and Society*, 2nd ed, The Federation Press, NSW, 2008, p 623.

[53] Ulfah85, 'Corporate Identity' no date <http://www.scribd.com/doc/44688364/Coorporate-Identity> (10 May, 2011) (Original in Bahasa Indonesia)

Actually the protection of trade secrets gives (economic) advantages to inventors[54]. Robert Dean has pointed out that trade secrets are vital in developed countries[55]. Moreover he stated that the most important matter is how to prevent such valuable business information from spreading without the knowledge of the owners.[56] Indonesia probably has not become such a society; however, trade secrets give high economic benefits for Indonesia. Liman pointed out that "*Perlindungan rahasia dagang dalam suatu negara akan mendorong masuknya investasi, inovasi industri dan kemajuan teknologi*."[57] (Protection of trade secrets in a country will increase investment, industry innovation and technology advancement.). Indonesia definitely needs such conditions to make its economy better.

There are times when business people need more money to build or to develop their businesses. So, they need to borrow money from financial institutions, banks, for instance. When there are such movements among business people, it can be said that country or society is trying to increase its economic development.[58]

As trade secrets have characteristics which give protection to the results of the human mind, which give economic benefits to its creator/inventor/owner, they can be kept undisclosed to the society, particularly to her/his competitor(s) by appropriate steps. These trade secrets do not have to be novel, but original, a way for the creator/inventor/owner to have legal protection if they cannot be protected by patents and/or have very major benefits if they are kept secret. Therefore, it is important for the government of Indonesia to include trade secrets in planning to use IPRs as collateral in Indonesia, because it can give a way for business people who have trade secrets, even if they only have trade secrets

[54]The advantages that owner can get from his or her trade secret according to article 4 Law Number 30 Year 2000 regarding Trade Secret the owner has rights to use by himself or herself and give license to other party.
[55]Robert Dean, *The Law of Trade Secrets and Personal Secrets*, 2nd ed, Lawbook Co, NSW, 2002, p 7.
[56]Ibid.
[57]Padma D. Liman, 'The Law Principles on the Protection of Trade Secret (Part V)' 2009 <https://gagasanhukum.wordpress.com/2009/04/23/prinsip-hukum-perlindungan-rahasia-dagang-bagian-v/> (19 August, 2011) (Original in Bahasa Indonesia)
[58]Padma D. Liman, above n 51

as their asset, to borrow money to build or develop their businesses. One example of the use of trade secrets as collateral is given by Silicon Valley Bank[59] and Ruckelhaus v Monsanto Co., 467 US 986 (1984)[60].

Often in Indonesia MSME owners need capital to develop their businesses but they do not have more capital to do this. There are also potential entrepreneurs who have potential ideas and innovations to build their businesses, but do not have enough capital or even do not have capital at all, but they do have strong faith and efforts. These MSMEs owners need help from financial institutions. To get loans from those institutions they have to have something to be used as collateral.

The potential economic benefit can be achieved by Indonesian people through the use of trade secrets as collateral however, Indonesia as a civil law country[61] needs to have regulations in order to put this matter into practice. Therefore, the writer believes that the government of Indonesia has to take some steps to encourage the people of Indonesia to pay more attention to trade secrets, by giving them more advantages from trade secrets. It is necessary for the government of Indonesia to make regulations on trade secrets as collateral to develop better economic conditions.

In order to develop better economic conditions, it will need many people to give their efforts. Therefore, all business elements in Indonesia should participate in this struggle. There are four types of enterprises in Indonesia. They are: large enterprises, medium enterprises, small enterprises and micro enterprises.[62] Tambunan stated that the roles of micro, small and medium enterprises are very significant in economic development. They

[59]Getfilings.com, 'Vringo Inc – Form S-1 – EX-10.12 – INTELLECTUAL PROPERTY SECURITY AGREEMENT DATED DECEMBER 29, 2009 – January 28, 2010' no date <http://www.faqs.org/sec-filings/100129/Vringo-Inc_S-1/dex1012.htm> (16 March, 2011)

[60]Scott J. Lebson, 'Trade Secrets as Collateral: a US Perspective' 2007 <http://jiplp.oxfordjournals.org/content/2/11/726.full> (2 August, 2013)

[61]Alamo D. Laiman et.at, 'The Indonesian Legal System and Legal Research' 2009 <http://www.nyulawglobal.org/Globalex/Indonesia.htm> (12 September, 2011)

[62]Ministry of Cooperative and SMEs, 'Data of the Development of Micro, Small and Medium Enterprises (MSMEs) and Large Enterprises (LEs) Year 2011-2012' n.d <http://www.depkop.go.id/phocadownload/data_umkm/sandingan_data_umkm_2011-2012.pdf> (17 June, 2013) (Original in Bahasa Indonesia)

provide much more job availability and their contributions to *produk domestic bruto* (gross domestic product) are bigger compared to large enterprises.[63] Data from *Kementerian Koperasi dan Usaha Kecil Menengah* (the Ministry of Cooperative and Small Medium Enterprises) stated that the prediction of the latest number of Micro, Small and Medium Enterprises (MSMEs) are much higher compared to large enterprises which are 56,534,592 compared to 4,968. Furthermore, regarding the predicted numbers of MSMEs themselves, in 2012, the majority are Micro Enterprises, which are 55,856,176 enterprises.[64]

The Ministry of Cooperative and Small Medium Enterprises[65] has followed up the issue of the use of the IPR certificates as collateral (as has been mentioned earlier), however, the types of enterprises which will be included in the program are only Small and Medium Enterprises.[66] Regarding the discussion for this particular work, micro enterprises will also be included. There are some reasons for that, which are: awareness of the fact that the highest number of types of enterprises in Indonesia is micro enterprises (which have been stated above); and, protection of trade secrets is suitable for micro enterprises as it does not cost a lot of money for registration, as mentioned earlier.

In the effort to formulate regulations to make it possible for trade secrets to be used as collateral, it is important to learn from other countries. Countries which have been chosen for this study are: Australia, United States of America (USA), Thailand and People's Republic of China (PRC). The reasons for choosing Australia are because Australia is one of the members of the WTO and one of the founders of Asia-Pacific Economic

[63]Tulus Tambunan, *Key Issues of Micro, Small and Medium Enterprises in Indonesia*, LP3ES, Jakarta, 2012, p 1 (Original in Bahasa Indonesia)
[64]The Ministry of Cooperative and SMEs, above n 62
[65]The functions of the Ministry of Cooperatives and Small Medium Enterprises are to deal with micro, small and medium enterprises. Ministry of Cooperatives and Small and Medium Enterprises of Republic of Indonesia, 'Duties and Functions' nodate <http://www.depkop.go.id/index.php?option=com_content&view=article&id=20&Itemid=37> (17 July, 2013) (Original in Bahasa Indonesia)
[66]Ministry of Cooperatives and Small and Medium Enterprises of Republic of Indonesia, 'IPRs' Certificate Can Be Used As Collateral' 2010 <http://www.depkop.go.id/index.php?option=com_content&view=article&id=410:sertifikat-haki-bisa-jadi-jaminan-utang&catid=50:bind-berita&Itemid=97> (22 March, 2011) (Original in Bahasa Indonesia)

Cooperation (APEC)[67] and it is geographically near to Indonesia. Australia applies a common law system (which is different to Indonesia, therefore it can broaden the writer's perspective in establishing a legal construction to use trade secrets as collateral, which will be proposed), recognizes trade secrets through its common law and is aware of the usage of trade secrets as collateral. As a developed English speaking country, Australia has Personal Property Securities Act which also includes Intellectual Property and Indonesia's IPR Office has built cooperation with IP Office Australia, and gives attention to SMEs regarding IPRs[68]. The reasons for choosing the USA are almost the same as the reasons for choosing Australia, as it is a developed country, uses a common law system, is aware of the usage of trade secrets as collateral and already has regulations regarding the use of trade secrets as collateral (through Uniform Commercial Code (UCC)) and the issue regarding the use of IPRs as collateral has been discussed, based on success in implementing these intangible assets as collateral, as stated earlier[69].

The reasons for choosing Thailand are that Thailand is also a member of the WTO and APEC, uses a civil law system (the same law system which is applied in Indonesia), already has a Trade Secrets Act and regulations on using IP as collateral (including trade secrets which have been notified by its IPRs Office), gives special attention to SMEs regarding IPRs[70] and is a developing country. The reasons why the PRC was chosen are because the PRC plays important economic roles in the world and it has a Security Law which regulates IPRs used as collateral and the issues regarding the use of IPRs as

[67]APEC is one of organizations which give attention to IPRs and SMEs as well.
[68]See: Paul H. Jensen, 'IP and SMEs: Australian Evidence' no date http://www.wipo.int/edocs/mdocs/sme/en/wipo_smes_ge_2_09/wipo_smes_ge_2_09_www_129474.ppt#389,1, (14 June, 2011)
[69]Ministry of Cooperatives and Small and Medium Enterprises of Republic of Indonesia, above n 66
[70]See: SME Bank, 'Other Services' no date <http://www.smebank.co.th/eng/other-services-business-development-training.html> (11 March, 2011),
Michael Doyle even stated that "Thailand may serve as a model for other countries in Southeast Asia interesting in assisting their SME's in this manner." As written in: Michael Doyle, 'Using IP as Collateral' 2003 <http://www.serimanop.com/index.php?option=com_content&view=article&id=113:using-ip-as-collateral&catid=43:presentations&Itemid=115> (6 January, 2011)

collateral are discussed, based on success in implementing these intangible assets as collateral (as stated earlier).[71]

Therefore, this research will analyze the decision of the Ministry of Cooperation and Small and Medium Enterprises (SMEs) of Indonesia to exclude trade secrets from the plan of using IPR certificates as collateral and analyze how the Government of Indonesia should change the law to classify trade secrets to become collateral to be used by SMEs as well as the other IPRs. The research will also consider whether to add article(s) into the Trade Secret Law (Law Number 30 Year 2000) or to construct a new regulation and make recommendations on legislation reform regarding trade secrets to become collateral to be used by SMEs in Indonesia.

## 2. Research Questions

1. Why does the Ministry of Cooperation and Small and Medium Enterprises of Indonesia exclude trade secrets from the plan of using IPR certificates as collateral?
2. How should the government of Indonesia change the law to classify trade secrets as collateral to be used by MSMEs?
3. What could the new regulations contain for legislation reform in accommodating trade secret to become collateral in Indonesia?

## 3. Research Contributions

This research is aimed to propose legal construction for trade secrets to be used as collateral for MSMEs in Indonesia. However, it does not mean that the other types of enterprises in Indonesia are not allowed to use trade secrets as collateral. The writer chooses MSMEs as her focus because the issue which has arisen for the Director of IPRs in Indonesia was the use of IPR certificates as collateral, which, followed by the Ministry of Cooperatives and SMEs of Indonesia was aimed at SMEs.

[71]Ministry of Cooperatives and Small and Medium Enterprises of Republic of Indonesia, above n 66

The writer is aware that there are some important factors in applying trade secrets as collateral in Indonesia. These factors were drawn from some aspects which, in the end will give benefits to the economy of Indonesia. These factors are stated below:

1. Recognising the existence of regulation on the possibility of using trade secrets as collateral:

   Trade secrets are not as well-recognized as patents, copyrights or trademarks in Indonesia. Patents, Copyrights and Trademarks have been regulated in particular regulations in Indonesia since it was colonized by the Dutch. Before trade secrets were regulated under The Law Number 30 Year 2000 regarding Trade Secrets, secret information was regulated under some regulations. The discussion which was held by the Ministry of Cooperation and SMEs regarding the use of IPR Certificates as collateral did not mention that trade secrets were included as one of those IPRs. Nevertheless, trade secrets are not a form of trade secrets to which the rights holders are given certificates to acknowledge their rights to secret information. This is because trade secrets are protected right away, as soon as an innovation is made and the innovator has kept the information hidden from the public. However, the writer has not found any regulation which prohibits trade secrets being used as collateral. In fact, based on the laws which already exist in the Indonesian—Civil Code, Law Number 30 Year 2000 regarding Trade Secrets, Law Number 42 Year 1999 regarding Fiduciary Security and Law Number 10 Year 1998 regarding Banking, it is possible to implement trade secrets as collateral.

2. To propose law reforms as an effort to implement the use of trade secrets as collateral.

   There are no laws which clearly state that trade secrets cannot be used as collateral in Indonesia and since there is no particular regulation which regulates operations regarding the use of trade secrets for MSMEs in Indonesia, this thesis proposes

arrangements which could be used to establish regulations to use trade secrets as collateral by MSMEs in Indonesia. This research also attempts to find out what kind of regulation is the most adequate to govern trade secrets as collateral, to make it possible for this to be implemented effectively. Later on, this thesis will also give recommendations for reforming law regulations. The law which will be proposed will be the result of analysis which the writer finds from regulations from the countries which have been chosen and have been mentioned in the chapter on Research Methodology and from the Legislation Guide from UNCITRAL, which has been mentioned in the Introduction.

3. In the information era, trade secrets need close attention.

   The USA Government has been very serious in handling their secret information including their secret business information. The U.S. has the UTSA, which has been adopted by 47 states.[72] And they also have a particular law which protects trade secrets at the federal level. It is the Economic Espionage Act. Furthermore, in February 2013 the USA Government issued the "Administration Strategy on Mitigating the Theft of U.S. Trade Secrets".[73] The Strategy which was drawn up by the US Government to protect trade secrets includes: (1) to protect their trade secrets in overseas, they will focus on their diplomatic ability; (2) the U.S. Government also urges private companies to protect their trade secrets with their best efforts; (3) the U.S. Government promotes implementation of law enforcement in protecting trade secrets; (4) the U.S. Government also advances their laws which aim to protect trade

[72]Executive Office of the President of The United States, 'The Administration Strategy on Mitigating the Theft of U.S. Trade Secrets' 2013 <http://www.gwu.edu/61CC3069-9A50-465C-A5C1-51E5BF789BCE/FinalDownload/DownloadId-2E26EDDE2663DF645DE3BC9617C4A9CB/61CC3069-9A50-465C-A5C1-51E5BF789BCE/~nsarchiv/NSAEBB/NSAEBB424/docs/Cyber-082.pdf> (27 May, 2013)
[73]Ibid.

secrets better; and (5) the U.S. Government also urges the U.S. people and stakeholders to be aware of the importance of protecting trade secrets.[74]

Regarding those efforts which were made by the U.S. Government, it is hoped that this research will provide insight for the Government of Indonesia, the enterprises and their stakeholders and the people of Indonesia about the urgency of giving attention to trade secrets. Trade secrets when related to the information era, are very valuable because the value of information (moreover secret information) is precious. Everyone wants to have information (especially secret information) because it can help them compete and win in life and business.[75] One of the trade secrets which was stolen in 2006 to try to sell to its competitor, Pepsi Co., for a huge amount of money, is the formula for Coca Cola.[76] Therefore, if trade secrets can be used as collateral in Indonesia, hopefully Indonesian people will be more aware of the importance and the power of information. And also this means that hopefully there will not be any unlawful activity or unfair competition related to trade secrets, because people know and understand the value of trade secrets to build their business and the effort in finding and maintaining trade secrets.

4. For Indonesian people, mentality matters.

   In 2008, the Government of Indonesia issued *Pengembangan Ekonomi Kreatif Indonesia 202: Rencana Pengembangan Ekonomi Kreatif Indonesia 2009-2015* (the Development of Creative Economy of Indonesia 2025: Indonesia Creative Economy

[74]Ibid.
[75]Talhiya Sheikh, above n 40
[76]BBC News, 'Coca Cola Trade Secrets 'Stolen'' 2006 <http://news.bbc.co.uk/2/hi/5152740.stm> (31 March, 2011)

Development Plan 2009-2015).[77] According to that plan, in which the economy will be based on creativity, it requires the people of Indonesia to be creative.[78]

Indonesian people, have always been told that Indonesia is a fertile land so it is a rich country that they are living in. However, it has turned out that this has a bad impact on the people. Most Indonesians do not think about how to maintain and develop the natural resources, but instead just enjoy and even devastate them.[79] Not many people think about the importance of being creative in order to develop what they already have. Inventions and innovations are things that can be produced when there is creativity.[80] Thus, the writer believes that if the government of Indonesia provides ways to motivate its people to be creative and innovative and one of the ways is by governing trade secrets as collateral, such mentality can be reduced.

Another perspective is the importance of being innovative, creative and more creative for the Indonesian people[81] and respecting the results of the Indonesian people's minds as well. New inventions are found when there is creativity and are the result of the human mind.

5. Economic matters.

Indonesia is quite a big country which has a large population. People who live in Indonesia come from many different ethnic backgrounds and they hold different religions. Taylor articulated Indonesia as stated below:

> Indonesia is the fourth largest country in the world. It is important as exporter of petroleum, natural gas, and manufactured goods, as consumer of Western and Japanese aid and investment funds, and as the world's largest Muslim nation. It is an archipelago country, made up of 17,506 islands, populated by 230 million

[77]Indonesian Working Group Design Power-Ministry of Commerce of the Republic of Indonesia, 'Development of Creative Economy Indonesia 2025: Creative Indonesian Economic Development Plan 2009-2015' 2008 <http://dgi-indonesia.com/wp-content/uploads/2009/05/buku-I-rencana-pengembangan-ekonomi-kreatif-indonesia-2009.pdf> (2 May, 2011) (Original in Bahasa Indonesia)
[78]Ibid, 1
[79] Bappenas,Chapter XII: Development on Natural Resources and Biotic Environmental, n.d <http://www.bappenas.go.id/files/4513/5228/2873/bab-xii-narasi-bidang-sumber-daya-alam--lingkungan-hidup__20081122044606__528.pdf> (8 September, 2014) (Original in Bahasa Indonesia), p 1
[80]Ibid, 34
[81]Iswi Hariyani, 'World Intellectual Property Day's 10th (26 April 2010): Reinventing National Identity' 2010 <http://mediahki.wordpress.com/vol-viino-2april-2010> (22 March, 2011) (Original in Bahasa Indonesia)

> people speaking more than three hundred languages. It has been an independent republic for more than fifty years, before that a colony of the Dutch and a zone of Islamic monarchies. The world's largest Buddhist temple survives from the ninth century in the heart of Java, and a form of Hinduism lives on in Bali. A fringe of Christian communities encircles Java. [82]

Taylor's book was released in 2003, however the number of population of Indonesia has grown to as many as 237,641,326 in 2010 and the number is still growing.[83] Indonesia is a developing country which has a strong belief in prosperity for its people[84]. With the great number of people, there should be a great number of jobs available. In order to make this become a reality, it is important to move people to work harder in trying to help themselves live in better conditions. As an illustration, there are 31,023,400 people or 13.33% of all Indonesian who live in cities and villages who are poor.[85]

A country can be more prosperous when more people stand by themselves financially. One of the ways to do this is by people running their own businesses.[86] Thus, it is important for the government to make this possible for its people.[87] In this matter what is needed is to make regulations or laws on trade secrets as collateral. This is because one of the problems faced by many SMEs in Indonesia is that they lack capital.[88] Unlike other IPRs, trade secrets have qualities that allow and embrace the situation of keeping all elements and parties in business doing their part without preventing each other, because trade secrets allow two or more parties to have the same trade secrets,

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[82]Jean Gelman Taylor, *Indonesia: Peoples and Histories*, Yale University Press, New Haven, 2003

[83]Central Bureau of Statistic, 'Indonesian Statistic Data' no date <http://www.bps.go.id/tab_sub/view.php?tabel=1&daftar=1&id_subyek=12&notab=1> (15 March, 2011) (Original in Bahasa Indonesia)

[84]It can be seen at the paragraph 2 and 4 of the *Preambule* of The Constitution of Republic of Indonesia.

[85]Central Bureau of Statistic, above n 82

[86]The important contribution of SMEs for a country's economy has been acknowledged by: Edy Suandi Hamid, 'Development of MSMEs to Boost Regional Economic Growth', no date <http://dppm.uii.ac.id/dokumen/dikti/files/DPPM-UII_01._1-5_Pengembangan_UMKM_untuk_Meningkatkan_KEYNOTE_SPEECH_REKTOR_UII.pdf> (2 May, 2013) (Original in *Bahasa Indonesia*), Megan Clark et.al, 'Key Statistics Australian Small Business' 2011 <http://webcache.googleusercontent.com/search?q=cache:1CECneEOREsJ:www.innovation.gov.au/SmallBusiness/KeyFacts/Documents/SmallBusinessPublication.pdf+Small+Medium+Enterprises&cd=13&hl=en&ct=clnk&gl=au> (10 May 2013), OECD Observer, 'Small and Medium-sized Enterprises: Local Strength, Global Reach' 2000 <www.oecd.org/dataoecd/3/30/1918307.pdf> (10 May, 2013)

[87]OECD Observer, Ibid

[88]Edy Suandi Hamid, above n 85, Indonesian Working Group Design Power-Ministry of Commerce of the Republic of Indonesia, above n 77

as long as each of them has trade secrets without violating the law. In the writer's opinion, this is the advantage of trade secrets, for the state of Indonesia as a developing country. This opinion, however, contradicts what is considered as one of the disadvantages of trade secrets. There are some points that have been considered as the disadvantages of protecting IPRs by trade secrets and the point discussed is the fear of reverse engineering[89].

The article 33 (4) of The Constitution of The Republic of Indonesia stated that the economy of Indonesia is based on a democratic economy. Thus, if trade secrets can be implemented as collateral, it can open wider door for more people to build or run their own larger businesses.

6. Political matters.

By paying attention to trade secrets and exercising them as collateral by SMEs in Indonesia, which has been discussed above, hopefully it will help the growth of the Indonesian economy. As one of the developing countries and a member of the WTO, it is important for Indonesia to make the best effort to strengthen its economy. It can give better political power in international relations with other countries.

## 4. Research Methodology

To bring about the primary result, which is to propose legal construction on trade secrets becoming collateral in Indonesia, this thesis adopts the framework of documentary research in the style of comparative legal research[90] on the adequacy of Indonesia's Trade Secrets Law and relating regulations to accommodate trade secrets becoming collateral.

It is important to make a comparison between common law and civil law. Moreover, it is also important to analyse the use of trade secrets as collateral in developed and

[89]Talhiya Sheikh, above n 40

[90]Tilburg University, 'The Functional Method(s) of Comparative Legal Research' no date <http://www.tilburguniversity.edu/research/institutes-and-research-groups/methodology-law-legal-research/workinprogress/area1/adams.html> (31 March, 2011)

developing countries. Those approaches are taken in order to get broad information about the matter in question which allow the writer to propose the best and appropriate legal reform regarding the use of trade secrets as collateral in Indonesia. Below is the table of comparison countries which are being examined:

| **Countries** | **Law Systems** | **Economy** | **Recognition on Trade Secrets** |
|---|---|---|---|
| Australia | Common Law | Developed Country | Common Law |
| USA | Common Law | Developed Country | UTSA, EEA |
| Thailand | Civil Law | Developing Country | Trade Secret Law |
| PRC | Civil Law | Developing Country | Unfair Competition Law |

Table 1 Table of Comparison Countries Which Are Being Examined

The comparisons are between Indonesia's Trade Secrets Law, and other laws related to the possibility of implementing trade secrets as collateral, and Australia's common law related to trade secrets and Personal Property Security Act (2009)(Cth)(PPSA), the USA's regulations, particularly Uniform of Commercial Code (UCC), Thailand's Trade Secrets Law[91] and Procedures for the Loan Application using Intellectual Property as the Collateral[92] and China's regulations (Property Law). The aspects that will be compared are:

a. in what category trade secrets can be used as collateral.

b. what form of regulation best suits Indonesia, to regulate trade secrets as collateral.

c. what the procedures are and what institutions should deal with this matter.

The writer also believes that it will be useful in this thesis to discuss and analyze the publications of the United Nations Commission on International Trade Law (UNCITRAL) regarding the use of intellectual property used as collateral. These are called "The Guide on Legislative Secured Transactions" and "The Guide on Legislative Secured Transactions, the Supplement on Security Rights in Intellectual Property". It is

[91]Thailand Law Forum, 'Thailand Trade Secret Act B.E. 2545 (2002)' 2010 <http://www.thailawforum.com/database1/trade-secret-act.html> (4 October, 2010)

[92]IP Thailand, 'Procedures for the Loan Application Using Intellectual Property as collateral' no date <http://webcache.googleusercontent.com/search?q=cache:gynYrpt7pbEJ:www.ipthailand.go.th/ipthailand/images/Edittt/capital/procedure_loan_eng.doc+&cd=1&hl=en&ct=clnk&gl=au> (5 October, 2010)

noted that the term "intellectual property" in these publications includes trade secrets. The UNCITRAL also has a publication on bankruptcy[93], which will be discussed.

In addition, qualitative research is applied to this thesis to explore the use of trade secrets as collateral. The qualititative research approach used draws on a variety of resources, including literatures, articles, laws and consultations from relevant sources. [94]

As Creswell[95] states:

> "Qualitative research begins with assumptions, a worldwide, the possible use of a theoritical lens, and the study of research problems inquiring into the meaning individuals or groups ascribe to a social or human problem. To study this problem, qualitative researchers use an emerging qualitative approach to inquiry, the collection of data in a natural setting sensitive to the people and places under study, and data analysis that is inductive and establishes patterns or themes. The final written report or presentation includes the voices of participants, the reflexivity of the researcher, and a complex description and interpretation of the problem, and it extends the literature or signals a call for action." [96]

There are some laws in Indonesia which will be discussed also in order to make the law reform regarding trade secrets to be used as collateral in Indonesia more comprehensive. Qualitative analysis[97] of judgments will be used which is phenomenology, in identifying, recording and analyzing key variables.

The laws that will be discussed are:

1. Law Number 30 Year 2000 regarding Trade Secrets;
2. Law Number 12 Year 2011 regarding The Establishment of Regulations; and
3. Law Number 42 Year 1999 regarding Fiduciary Security, remembering that this law applies to intangible properties which are used as collateral.

To collect additional data, consultations will be conducted with officers in the Ministry of Cooperation and Small and Medium Enterprises and Directorate General of Intellectual

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[93] United Nations, 'Legislative Guide on Insolvency Guide' 2005 <www.**uncitral**.org/pdf/english/texts/insolven/05-80722_Ebook.pdf> (20 May, 2013)

[94] John W. Creswell, Qualitative Inquiry and Research Design Choosing Among Five Approaches, 2nd ed, SAGE Publications, Inc, California, 2007 <https://is.vsfs.cz/el/6410/zima2013/B_KV/um/Creswell_2007_Qualitative_Inquiry_and_Research_Design__Choosing_among_Five_Approaches__2nd_edition.pdf> (10 November 2014), p 39-40

[95] Ibid

[96] Ibid, p 37

[97] John W. Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*, 3rd ed, SAGE Publications, Inc, California, 2009, p 199.

Property Office of Indonesia. The consultations will be conducted by using semi structured questions (list of guidance questions is attached to the thesis as appendix).

The aim of conducting the consultations with officers in the Ministry of Cooperation and Small and Medium Enterprises and Directorate General of Intellectual Property Office of Indonesia is to obtain information on why the Ministry of Cooperation and Small and Medium Enterprises of Indonesia excludes trade secrets from the plan to use IPR certificates as collateral in implementing trade secrets as collateral and how the legal construction relating to it could be improved. In addition, this can be a good opportunity to disseminate the research that has been conducted and later create possibilities for giving the results and the legal construction to the Indonesian government.

## 5. Intended Outcomes

1. To analyse the decision of the Ministry of Cooperation and Small Medium Enterprises of Indonesia which excludes trade secrets from the plan for using IPR certificates as collateral.
2. To analyse how the Government of Indonesia should change the law to classify trade secrets as collateral to be used by MSMEs as well as the other IPRs.
3. To provide suggestions for the contents of regulations regarding the use of trade secrets as collateral for MSMEs in Indonesia.

## 6. Research Overview

This thesis is conducted to propose appropriate regulation(s) which could make it possible to implement trade secrets to be used as collateral in secured transactions in Indonesia for MSMEs. Therefore the thesis will analyze why the Ministry of Cooperation and Small and Medium Enterprises of Indonesia excludes trade secret from the plan for using IPR certificates as collateral and analyze how the government of Indonesia should change the law to classify trade secrets as collateral, to be used by MSMEs as well as the other IPRs.

The thesis will also consider whether to add article(s) containing statements regulating trade secrets to be used as collateral into Trade Secret Law (Law Number 30 Year 2000), or to construct a new regulation and will make recommendations on legislation reform in Indonesia regarding trade secrets becoming collateral to be used by MSMEs in Indonesia. In order to develop the topic, this thesis will be devided into the following chapters:

- Introduction, which covers the background to the research, research questions, research contributions, research methodology, ressearch overview and scope and limitations of the research.

Part 1: "Analysis of Trade Secrets and Matters Related to Trade Secrets Regarding their Use as Collateral" which consists three chapters, which are:

- Chapter 1 is "The Nature of Trade Secrets" which will consist of four parts. In the first part, the writer will examine the definitions and characteristics of trade secrets according to the selected countries, which are: Australia, USA, PRC and Thailand. In the second part, the writer will explore trade secrets based on international views, according to TRIPS (WTO) and WIPO.
- Chapter 2 will explore whether trade secrets can be categorized into property. The last part will explain the collateralization of trade secrets.
- Chapter 3 is on "Trade Secrets and MSMEs in Indonesia". In this chapter, the writer will be focusing on what happens in Indonesia regarding matters which need to be considered if trade secrets are implemented as collateral in secured transactions in Indonesia. Therefore, this chapter will be divided into three parts. Part One will explain about the nature of trade and regulations in Indonesia; while Part Two will examine the importance of trade secrets in Indonesia; and the last part will examine the importance of Micro, Small and Medium Enterprises (MSMEs) in Indonesia.

Part 2: “Analysis of the Use of Trade Secrets as Collateral for MSMEs in Indonesia” which contains three chapters:

- Chapter 4 is “Analysis of the Current Law”. In this chapter the writer will analyze, examine and discuss about current laws in Indonesia which are related to the topic, in the process of making the implementation of the use of trade secrets as collateral in secured transactions possible, through appropriate regulation(s). Furthermore, the chapter will discuss whether Indonesia should conduct law reform or not for this matter in question. This chapter will also examine the Law Number 12 Year 2011 regarding the Establishment of Regulations, to suggest what the institutions need to do and the procedures needed in revising laws and Ministry Decisions. Furthermore, the writer will also examine what institutions and procedures are that need to be addressed in establishing technical procedures.
- Chapter 5 is “The Analysis on How to Classify Trade Secrets as Collateral”. This chapter aims to seek answers for the second research question—“How should the Government of Indonesia change the law to classify trade secrets as collateral to be used by MSMEs as well as the other IPRs?” Therefore, this chapter will cover issues regarding procedures of establishment and amendment of regulations according *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations); types of regulations which have been used to regulate trade secrets as collateral in the other jurisdictions (Australia, USA, Thailand and PRC) and recommendation from UNCITRAL. Finally this chapter will consider the regulations which exist in Indonesia which can be interpreted in order to classify trade secrets to become collateral.

- Chapter 6 is The Use of Trade Secrets as Collateral – Options for Reform". This object of this chapter is to seek answers for the last research question, that is: "What do the new regulations contain for legislation reform in accommodating trade secrets to become collateral in Indonesia?" The content of this chapter will be the comparison analysis of the contents of Personal Property Security Act (2009)(Cth)(PPSA); Uniform Commercial Code (UCC) Article 9 of United States of America, Property Law of People's Republic of China; Procedures for the Loan Application using Intellectual Property as Collateral in Thailand, and the UNCITRAL Legislative Guide on Secured Transactions Supplement on Intellectual Property Rights. There are three parts to this chapter. They are procedures on using trade secrets as collateral; institutions which deal with registration and contents of suggested regulations.
- The last chapter is Conclusions and Recommendations. The writer will explain the conclusions of this research and also will explain her recommendations for the implementation of the use of trade secrets as collateral for MSMEs in Indonesia.

**7. Scope and Limitations of the Research**

This research will be conducted to seek the appropriate regulation(s) which make it possible to implement trade secrets as collateral in secured transactions for SMEs in Indonesia. Therefore, the scope of this thesis will be discussing, examining and analyzing laws and regulations regarding this matter which are used in the selected countries (Australia, USA, Thailand, PRC), internationally (UNCITRAL) and in Indonesia herself. The laws and regulations which have been mentioned are:

a. In the selected countries: Australia has the Personal Property Security Act (2009)(Cth)(PPSA); USA has the Uniform Commercial Code (UCC) Article 9 of United States of America; the PRC has the Property Law of the People's Republic of

China; and Thailand has the Procedures for the Loan Application using Intellectual Property as Collateral.

b. Internationally: the UNCITRAL Legislative Guide on Secured Transactions: Supplement on Intellectual Property Rights.

c. In Indonesia: Law Number 30 Year 2000 regarding Trade Secrets; Law Number 10 Year 2004 regarding The Legislation Formation; Law Number 42 Year 1999 regarding Fiduciary matters, remembering that this law applies to intangible properties which are used as collateral.

This research also has limitations. The limitations are in the beginning of the year 2011, through *Surat Edaran Bank Indonesia Nomor 13/6/DPNP perihal Pedoman Aset Tertimbang Menurut Risiko Untuk Risiko Kredit dengan Menggunakan Pendekatan Standar* (Bank Indonesia Circular Letter Number 13/6/DPNP regarding Guidelines on Risk-Weighted Assets for Credit Risks using the Standard Approach) the Central Bank of Indonesia decided that all assets which will be used as collateral in secured transactions should be counted as Risk-Weighted Assets (RWAs) first. Unfortunately, the Central Bank of Indonesia has not issued guidelines for Risk-Weighted Assets for IPRs yet.

RWAs is an approach which was developed by the Basel Committee on Banking Supervision[98] in order for banks to anticipate the probability of applicants who would like to propose loans not being able to satisfy their obligations. According to Leslé and Avramova[99] there are three functions of RWAs that the RWAs can:

> (i) to provide a common measure for a bank's risks; (ii) to ensure that capital allocated to assets is commensurate with the risks; and (iii) potentially to highlight where destabilizing asset class bubbles are arising.[100]

[98]Bank for International Settlements, 'An Explanatory Note on the Basel II IRB Risk Weight Functions' 2005 <www.bis.org/bcbs/irbriskweight.pdf> (10 May, 2013)
[99]Vanessa Le Lesle & Sofiya Avramova, 'Revisiting Risk-Weighted Assets "Why Do RWAs Differ Across Countries and What Can be Done About It?"' 2012 <www.imf.org/external/pubs/ft/wp/2012/wp1290.pdf> (10 May, 2013)
[100]Ibid, p 5

While the aim of this research is to propose a reform of the legal construction regarding trade secrets used as collateral in secured transactions for MSMEs in Indonesia, this research will be conducted under a legal framework which will not cover the matter of RWAs. Therefore the process of trade secrets being implemented as collateral in secured transactions for SMEs in Indonesia will need more effort from the Central Bank of Indonesia to regulate the RWAs.

**Part One: Analysis of Trade Secrets and Matters Related to Trade Secrets Regarding their Use as Collateral**

# CHAPTER 1

# THE NATURE OF TRADE SECRETS

## 1. Introduction

Trade secrets are a type of IPR which have different nature compared to the other types of IPRs. What is meant by the aforementioned statement is that while the rest of the IPRs are protected from others by being disclosed to the public, trade secrets will get protection by being undisclosed to the public. And also, many of the other IPR's, with the exception of copyright, can only be used lawfully with the consent of their owners. This is not the case with trade secrets. Others can use a trade secret without any concern of the owner, when they can figure out a trade secret through reverse engineering. The value of trade secrets lies in the secrecy of valuable business information. Thus, when the secret information goes public, the value will be gone unless that secret information has been registered as a patent. Smith stated that trade secrets can lose their value through reverse engineering[101], if trade secrets are sold accidentally[102] or when a person conducts a misappropriation act to obtain a trade secret—for which he/she must receive punishment. However if another party can get the secret information through reverse engineering the punishment should be diminished, since that trade secret is considered to have no value anymore[103].

[101]Smith cited Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 9 U.S.P.Q.2d (BNA) 1847 (1989). Lars S. Smith, above n 17, p 561

[102]If the buyer uses the trade secret, it is not considered as misappropriation. Smith cited Acuson Corp. v. Aloka Co., 10 U.S.P.Q.2d (BNA) 1814 (Cal. Ct. App. 1989). Ibid.

[103]Smith referred to the Commissioners' Comment on Section 2 of UTSA. Ibid, pp 552-553. Moreover the writer learnt that the Commissioner gave such comments based on K2 Ski Co. v. Head Ski Co., Inc., 506 F.2d 471 (CA9, 1974). National Conference of Commissioners on Uniform States Law, 'Uniform Trade Secrets Act With Amendment 1985' 1985 <http://www.uniformlaws.org/shared/docs/trade%20secrets/utsa_final_85.pdf> (3 June, 2013), pp 7-8

Trade secrets are often compared with patents, probably because they both protect innovations in technology. However, the coverage of trade secrets protection is broader than patents as trade secrets do not only protect technological innovations but in almost all information which the owners keep undisclosed. Related to the way the protection is also different, because trade secrets request that the innovations are kept confidential, while patents require the innovations to be disclosed to the public. Moreover, innovations which will be protected by trade secrets are not required to be registered, while innovations which are to be protected by patent should be registered.

The importance of trade secrets is becoming more widely realized nowadays. Saunders stated that enterprises must maintain their secret business information in order to win competition in business. And every type of enterprise may have trade secrets as one of their valuable assets.[104]

It has been discussed in INTRODUCTION that the U.S. Government really makes great efforts to protect their trade secrets, whether the trade secrets are in the U.S. or overseas.[105] The U.S. Administration believes that they have to protect their trade secrets, because the number of cases of trade secrets theft is increasing.[106] That fact is seen by the U.S. Administration as a serious situation which has to be overcome, as stated below:

> Trade secret theft threatens American businesses, undermines national security, and places the security of the U.S. economy in jeopardy. These acts also diminish U.S. export prospects around the globe and put American jobs at risk.[107]

Even though the protection of trade secrets has existed for a long time, up until now the popularity of trade secrets is not as well understood as the other types of IPRs. Actually, the protection for trade secrets has been given for a long time, when Roman law gave punishment to a slave who disclosed his master's business. Pedro A. Padilla Torres said,

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[104]Kurt M. Saunders, 'The Law and Ethics of Trade Secrets: A Case Study' 2006 <http://cwsl.edu/content/journals/Saunders.pdf> (29 May, 2013), pp 201-211.
[105]Executive Office of the President of the United States, above n 72
[106]Ibid, 1
[107]Ibid

> The law of trade secrets could be traced to Roman law, whereas under such ancient legal system a competitor corruption of slave to divulge his master commercial affairs was punished. [108]

He also said that the objectives of giving protection to trade secrets are to keep the standard of commercial ethics and to give motivation to researchers to make innovations.[109] The reasons why trade secrets have to be protected is regarding these three theories:[110]

1. Contractual obligation theory

   According to this, the simple reason that an obligation not to unmask the secret appears is because there is a contract between parties who hold the right (trade secret right) with another who has access to it.

2. Fiduciary relations theory

   Common law countries used to apply this approach. The objective of this theory is that some particular relations include a full obligation to keep secrets. So, the emphasis of this theory is that the party who is trusted by another party who holds the right (trade secret right) must keep it undisclosed.

3. Misappropriation theory

   This approach informs a new theory that it is not permitted to have trade secrets by using inappropriate ways.

Trade secrets in the modern law system started to develop in England throughout the Industrial Revolution.[111] However, until now the protection of trade secrets is still controversial because there are scholars[112] who do not agree that trade secrets should be protected under a particular law named trade secrets law. Why is it important to give

[108]Pedro A Padilla Torres, above n 44
[109]Ibid
[110]Ibid
[111]Ibid
[112]For instance: Robert G. Bone. He insisted that "trade secret is mainly just a collection of other legal norms." Robert G. Bone, above n 25, p 243

protection to trade secrets? The aim of giving protection to trade secrets is to maintain commercial ethics standards and to trigger research and innovation.[113]

Later, the decision regarding putting trade secrets into TRIPs[114] was based on Article 10 *bis* of the Paris Convention.[115] However, The Paris Convention for the Protection of Industrial Property did not clearly mention infringements over trade secrets but it addressed unfair competition. The rationale of giving protection to trade secrets was based on the unfair competition approach and the misappropriation theory.[116]

Generally, the information which can be protected as trade secrets includes[117]: costumers lists, market research, technical research, recipes, working systems, and ideas or concepts of advertisement or marketing. Even negative information about something based on research can be very valuable information for business.[118] Such information is important to keep secret. Many large companies have used trade secrets to protect their business. They include The Coca Cola Co.[119], KFC and Wal-Mart[120]. Nevertheless, often they have managed to keep their trade secrets since the enterprise was only a micro one—such as the Coca Cola Co[121]. By keeping its secret formula for the drink, it gives benefit to the trademark.[122]

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[113]Pedro A. Padilla Torres, above n 44
James W. Hill, 'Trade Secrets, Unjust Enrichment, and the Classification of Obligations' 1999 <http://www.vjolt.net/vol4/issue/home_art2.html> (28 January, 2011)
[114]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[115]Nuno Pires de Carvalho, *The TRIPS Regime of Untitrust and Undisclosed Information*, Kluwer Law International, The Netherland, 2008, p 189.
[116]Ibid.
[117]AusAID, *Intellectual Property Rights, Indonesia Australia Specialised Training Project—Phase II*, pp 287-288
[118]WIPO Magazine, 'Trade Secrets Are Gold Nuggets: Protect Them' 2002 <http://www.wipo.int/sme/en/documents/wipo_magazine/04_2002.pdf> (2 March, 2011), p 13
[119]Robert G. Bone, above n 25, p 248
[120]WIPO Magazine, above n 114, p 13
[121]Jamal Booker, 'Barelling Up the Secret Formula in 1936' 2010 <http://www.coca-colaconversations.com/2010/10/barrelling-up-the-secret-formula-in-1936.html> (17 July, 2013)
[122]Talhiya Sheikh, above n 40

In their development, trade secrets have been seen as a type of IP that is valuable, important, crucial[123] but on the other hand, according to other scholars and practitioners, weaker than other IP, less valuable and even not included as IP.

As has been mentioned in the first paragraph, page 29, trade secrets have a different nature compared to the other IPRs. They are considered weaker compared to the other forms of IPRs because trade secrets lose their value when the secret information is revealed to the public. Therefore, they are really fragile.

Regarding the value of trade secrets, which are often seen as less valuable compared to the other forms of IPRs, Smith stated that in the U.S. the writings about the use of IPRs as collateral mostly refer to the IPRs which are created and protected by federal patents, trademarks and copyrights[124] while trade secrets are regulated by state law through statutes and common law.[125] Therefore, "trade secrets are often ignored or dealt with superficially."[126] While in Indonesia when someone uses another party's trade secrets without his knowledge the owner will be given as punishment a maximum of 2 years imprisonment and/or given maximum fine of Rp 300.000.000,00 (three hundred million Rupiahs). This is stated in Article 17 (1) the Law Number 30 Year 2000 regarding Trade Secrets. The sanctions are less than for the other forms of IPRs. As a comparison, (1) the Law Number 14 Year 2001 regarding Patents regulates that the maximum term of imprisonment is 4 years and/or a maximum fine of Rp 500.000.000,00 (five hundred million Rupiahs) when someone uses someone else's patent as if it is his own without the

[123]Shahid Alikhan & Raghunath Mashelkar, above n 7, p 5,
James W. Hill, above n 109,
Mark A. Lemley, 'The Surprising Virtues of Treating Trade Secrets as IP Rights' 2009 <http://heinonline.org/HOL/Page?handle=hein.journals/stflr61&div=12&g_sent=1&collection=journals> (27 January, 2011), p 313,
Karl F. Jorda, 'Patent/Trade Secret Interface: A Synopsis' 2009 <http://ipmall.info/hosted_resources/jorda/Jorda%20Speeches/2009OSIS_NYPatentTrade_Secret_SynergySynop.pdf> (27 January, 2011), p 1

[124]Cited in Lars S. Smith, above n 17

[125]Cited in Lars S. Smith who refers to Roger M. Milgrim, On Trade Secrets § 1.01(1) at 1-4 (rel. no. 61, Mar. 1999). Ibid, p 550

[126]Ibid, p 549
However, Smith noted that in 1996 the U.S. Government established the Economic Espionage Act which gives protection to trade secrets at federal level. (p 551)

knowledge of the rights holder—as stated in Article 130; (2) under the Law Number 19 Year 2002 regarding Copyright, the maximum imprisonment is 7 years and/or the maximum fine is Rp 5.000.000.000,00 (5 billion Rupiahs) when someone uses someone else's copyright without the permission of the owner or the rights holder—as stated in Article 72 (1); (3) The Law Number 15 Year 2001 regarding Trademarks regulates that the maximum punishment for breaching someone else's trademarks will be imprisonment for a maximum as long as 5 years and/or a maximum fine of Rp 1.000.000.000,00 (one million Rupiahs)—as stated in Article 90; and (4) the unlawful use of a Geographic Indication will be a maximum imprisonment of 5 years and/or a maximum fine as much as Rp 1.000.000.000,00 (one million Rupiahs)—as stated in Article 92 of The Law Number 15 Year 2001 regarding Trademarks.

In regards to the statement that trade secrets sometimes are considered not to be a form of IP, this can be found in the official pages of the Intellectual Property Office of the United Kingdom.[127] It is stated that when someone chooses his/her invention—one of the reasons which is used as a consideration is that "It is not appropriate for Intellectual Property (IP) protection".[128]

## 2. The Definition and Characteristics of Trade Secrets

### 2.1. According to International Dimensions

In this part, the writer will discuss the definition and characteristics of trade secrets given by some international bodies. Those bodies are: World Trade Organization (WTO) through the TRIPs Agreement, World Intellectual Property Organization (WIPO) and The Organization for Economic Co-Operation and Development (OECD).

[127] Intellectual Property Office, 'Trade Secrets' no date <http://www.ipo.gov.uk/types/patent/p-about/p-need/p-need-secret.htm> (14 May, 2013)
[128] Ibid

Trade secrets were included expressly in the international stage when trade secrets were included in TRIPs and it was stated that trade secrets are one form of IPRs. There were some countries (India and Brazil) which did not agree that trade secrets should be included as one form of IPR and trade secrets licensing should not be acknowledged as a licensing agreement. Therefore, the protection of trade secrets should be just enough under Article 10 *bis* of the Paris Convention which classified the protection of trade secrets under the protection against unfair competition. Regarding this, Dessemontet stated that:

> "The inclusion of trade secrets under the TRIPs has been hailed as a major innovation. At the onset of the Uruguay Round, trade secrets were mentioned in the U.S. Proposal of October 28, 1987, then in ensuing European and Swiss proposals. Brazil and India, among others, opposed the inclusion of trade secrets on the agenda. In 1989, the Indian Government exposed for example that trade secrets are not a form of intellectual property right and that the licensing of proprietary information is not a licensing agreement; further, the protection against unfair competition under Article 10 bis of the Paris Convention would suffice; finally, protection by contract and under civil law was to be preferred to intellectual property rules. None of those tenets has been accepted by the community of nations, as Article 39 TRIPs now demonstrates." [129]

TRIPS[130] regulates trade secrets in Section 7 Article 39:[131]

1. In the course of ensuring effective protection against unfair competition as provided in Article 10 *bis* of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

[129]Francois Dessemontet, 'Protection of Trade Secrets and Confidential Information' <www.unil.ch/webdav/site/.../Protection%2520**Trade**%2520**Secrets**.pdf> (12 June, 2012)
[130]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[131]World Trade Organization**, '**URUGUAY ROUND AGREEMENT: TRIPS
Part II — Standards concerning the availability, scope and use of Intellectual Property Rights' no date <http://www.wto.org/english/docs_e/legal_e/27-trips_04_e.htm> (10 March, 2011)
WTO, 'intellectual property (TRIPS) – agreement text – standard' no date <http://www.wto.org/english/docs_e/legal_e/27-trips_04d_e.htm#7> (10 March, 2011)

(a) is secret in the sense that it is not, as a body 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;

(b) has commercial value because it is secret; and

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

Therefore, the definition of trade secrets based on TRIPs is: information which is kept undisclosed and not known by the public or by people who have the same interest in such kinds of information. The information has to have value in business because it is kept undisclosed. In order to keep it not known to the public, the owner or the rights holder should take appropriate steps in maintaining the secrecy of the information.

Another international body which the writer discusses here regarding the definition of trade secrets is WIPO. WIPO gives a definition of trade secrets based on the definition given by TRIPS[132] which is:

> The information must be secret (i.e. it is not generally known among, or readily accessible to, circles that normally deal with the kind of information in question); It must have commercial value because it is a secret; and it must have been subject to reasonable steps by the rightful holder of the information to keep it secret (e.g., through confidentiality agreements).[133]

To sum up, the definition of trade secrets according WIPO is that a trade secret is information which must remain secret, where such information has value in business and the value exists because it is kept not known to the public. In order to get access to this information, another party should obey the requirement of the party which has the right to it. The requirement could be by signing a confidentiality agreement.

[132]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[133]WIPO, 'How are Trade Secrets Protected?' no date
<http://www.wipo.int/sme/en/ip_business/trade_secrets/protection.htm> (12 January, 2012)

OECD gave recognition to trade secrets as one form of of intangible property.[134] The recognition was given after careful consideration, as Wright stated below:

> The first matter of interest in Chapter VI is the definition of the term "intangible property". It is interesting to note that the OECD has been careful to include the commonly identified intangibles such as patents, trade marks, trade names, designs or models, literary and artistic property rights, as well as know-how and trade secrets. The OECD "concentrates on business rights, that is intangible property associated with commercial activities, including marketing activities. [135]

Furthermore, regarding the definition of trade secrets in the discussion which was held between 6 June and 14 September 2012, trade secrets are:

> Know-how and trade secrets are proprietary information or knowledge that assist or improve a commercial activity, but that are not registered for protection in the manner of a patent or trademark, Know-how and trade secrets generally consist of undisclosed information of an industrial, commercial or scientific nature arising from previous experience, which has practical application in the operation of an enterprise. The value of know-how and trade secrets is often dependent on the ability of the enterprise to preserve the confidentiality of the know-how or trade secret. The confidential nature of know-how and trade secrets may be protected to some degree (i) under unfair competition or similar laws, (ii) under employment contracts, and (iii) by economic and technological barriers to competition. Know-how and trade secrets are intangibles within the meaning of section A.1. [136]

In general, the term trade secret is used to define information which is used in business and gives benefit to the holder by keeping it confidential. Furthermore, the characteristics of a trade secrets will be:

1. A trade secret is not a thing because it refers to information;
2. The information should not be known by the public or a party who has the same interest in the information;
3. The information can be used in business and should give benefit to the holder or the innovator; and

[134]Deloris R. Wright, 'OECD Chapter VI: Special Considerations for Intangible Property Issues and Analysis' no date <www.wrighteconomics.com/wp-content/.../**OECD**-Chapter-VI.pdf> (14 May, 2011), p 16
[135]Ibid.
[136]Organization For Economic Co-Operation and Development Centre for Tax Policy and Administration, 'Discussion Draft: Revision of the Special Considerations for Intangibles in Chapter VI of the OECD Transfer Pricing Guidelines and Related Provisions' 2012 <www.oecd.org/tax/transferpricing/50526258.pdf> (11 July, 2012), p 9

4. The holder or the innovator has rights to take lawful steps to protect the information, for example: to ask another party which should have contact with this information to sign an agreement to keep the information confidential.

2.2. According to Different Countries

In the Article 1 (1) of TRIPS, it is stated that the members shall implement the provisions of TRIPS into their law. However, the implementation is entrusted to the members. The most important thing that the members must establish in the regulations in their own countries is that the regulations are not opposite to the TRIPS. Moreover, the members are allowed to establish regulations on IP which are more sophisticated than the TRIPS.[137] Regarding this matter, the definitions and characteristics of trade secrets in different countries will be discussed. The important message from discussing them is to learn how far the countries below implemented regulations on trade secrets. The countries which will be discussed are: Australia, the U.S.A., Thailand, and the PRC. These countries are chosen because: Australia and USA are using common law, so that they are chosen to broaden perspective as Indonesia uses civil law; Thailand and PRC are chosen because they are using civil law so that they are used as comparisons, as they use the same law platform with Indonesia. The details of the reasons of choosing these countries have been explained in the INTRODUCTION.

2.2.1. Australia

As has been stated in Chapter 1, one of the ways Australia protects trade secrets is through common law. Vermeesch and Lindgren stated that: "The courts have not attempted to define exhaustively the term 'confidential information'."[138] In Australia, in terms of the subject, trade secrets are identified as secret information

[137] WTO, 'Intellectual Property (TRIPS) – Agreement Text – General Provisions and Basic Principles' no date <http://www.wto.org/english/tratop_e/trips_e/t_agm2_e.htm> (9 June, 2013)
[138] R.B Vermeesch & K.E Lindgren, *Business Law of Australia*, LexisNexis Butterworths, NSW, 2005, p. 412.

which is used in business. Secret information is divided into two categories, which are commercial information, and information of no inherent utility (which refers to personal secrets and public or government secrets).[139]

The writer found out that there are 191 trade secrets cases in Australia's Courts.[140] Some cases which give definitions of trade secrets in Australia are stated below:

1. *Cusack and Australian Postal Corporation* (2007) 45 AAR 552, 49

   In this case, secrets which can be qualified as trade secrets are information which is used in business and gives economic value to the business.

2. *Woolworths Ltd v Olson* (2004) 184 FLR 121, 247

   Based on this case, trade secrets are considered the same as confidential information. Other points which can be understood from this particular case are: 1) examples of forms of information which can be qualified as trade secrets or confidential information, which are: "operations, processes, strategies or dealings of the Company or any of its Related Bodies Corporate or any other information concerning the organisation, business, finances, transactions or affairs of the Company or any of its Related Bodies Corporate which the Executive knows, or which a reasonable person ought to know"; 2) the information must not be known by the public; 3) trade secrets are still qualified as trade secrets if they are disclosed because of a law which requires it.

3. *University of Western Australia v Gray* (2009) 179 FCR 346, 163

   This case gave a definition of trade secrets cited in some previous cases. Those cases are: *Saltman Engineering Co* 65 RPC at 216; *Interfirm Comparison (Australia) Pty Ltd v Law Society (NSW)* [1975] 2 NSWLR 104 at 117; *H & R*

[139] Ibid
[140] As found in Westlaw Australia. The oldest case was identified in 1910 which is *Prebble v Reeves (1910) VLR 88, 15 ALR 631, 31 ALT 114.*

*Block Ltd v Sanott* [1976] 1 NZLR 213; *Cranleigh Precision Engineering Ltd v Bryant* [1966] RPC 81 at 88-89. There are two qualifications of secret information that can be classified as trade secrets, which are: 1) to invent such secret information, one must go through some research which costs money and time and the information must be kept secret, so that if another party wants to know that secret information—that party must find the information by himself/herself; 2) the process of getting the information must be original; 3) the information is not known or common.

4. *EBOS Group Pty Ltd and Others v TEAM MEDICAL SUPPLIES Pty Ltd and Others* (2012) FCR 533, 35

   This case gives qualifications regarding what information which can be protected as trade secrets. The qualifications are: 1) the information should be not known by the public; 2) someone can have access to the information by signing a confidential agreement; 3) when one uses the information without permission of the owner of that information, he or she will face a lawsuit from the owner or the information rights holder.

5. *Spotless Group v Blanco Catering* (2011) 212 IR 396, 18

   This case indicates that trade secrets are the same as confidential information. Information which complies with some particular requirements can be qualified as trade secrets. Those requirements are: 1) the intended information is related to "the business, financial arrangements or any financial information"; 2) it is kept secret from anyone else; 3) another party can have access to the information with permission of the rights owner.

6. *Workpac Pty Ltd v Steel Cap Recruitment Pty Ltd* (2008) 176 IR 464, 71

   Based on this case, trade secrets are one of the forms of confidential information. However, there is no explanation of what trade secrets are. In addition, there is secret information which is usually classified as trade secrets, but is not classified as trade secrets, for example customer lists.

7. *Luxottica Retail Australia Pty Ltd v Carr* (2006) 156 IR 402, 10

   This case gives insight that confidential information is broader than trade secrets. This is because it is stated that trade secrets as one type of confidential information. Moreover, this case gives examples of trade secrets—which are pricing formulae, a wide range of non-public information about the business and affairs of the employer and information about patients. In addition, parties who can get benefit from trade secrets are the owners or the right holders.

Learning from those cases above, it can be concluded that trade secrets in Australia are: information which has value in business and gives benefit to the business, is not common to the public and the owner or the rights holder must protect the information from disclosure by another party and such information can be legally disclosed when the law requires it or the owner or the rights holder gives permission.

Regarding the characteristics of trade secrets, from the above cases, these are:

1. The information must have value and give benefit to the business;
2. The information is not commonly known and is protected from the public and access to the information must be agreed to by the owner or the rights holder or if the law requires it;

3. The process to get the information should be original and to produce such information one must invest much effort in it[141];

However, this analysis concluded that the content of the information which can be categorized as a trade secret is rather unique. For example: based on *Workpac Pty Ltd v Steel Cap Recruitment Pty Ltd (2008) 176 IR 464, 71* which categorized written customer lists as apart from trade secrets, while they are usually categorised as trade secrets, while in *Luxottica Retail Australia Pty Ltd v Carr (2006) 156 IR 402, 10,* information about patients is categorised as a trade secret. Nevertheless, the characteristics of trade secrets which are acknowledged in Australia are still consistent with the core of TRIPS.

2.2.2. United States of America (U.S.A)

As has been stated in the Introduction to this chapter, the U.S. Government believes that trade secrets are very important for their country. Therefore, they take trade secrets seriously. It can be seen that regulations which give protection to trade secrets continue to be developed. Jorda, in one of his works[142] even wrote all the definitions which are given by all the regulations regarding trade secrets. Those regulations are the Uniform of Trade Secrets Act (UTSA), The Restatement of Torts, Restatement (Third) of Unfair Competition and the Economic Espionage Act (EEA). Table 1 below compares the relevant sections of these Acts:[143]

[141] *University of Western Australia v Gray (2009) 179 FCR 346, 163*
[142] Karl F. Jorda, above n 43
[143] Ibid, pp 1044-1045

| Uniform of Trade Secrets Act (UTSA) | The Restatement of Torts | Restatement (Third) of Unfair Competition | Economic Espionage Act (EEA) |
|---|---|---|---|
| *A trade secret is any information, including a formula, pattern, compilation, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy* | *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 [or her] 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 materials, a pattern for a machine or other device, or a list of customers.* | *A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.* | *(A) The term trade secret means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if —*<br>*(B) the owner thereof has taken reasonable measures to keep such information secret; and the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.* |

Table 2: the Definitions of Trade Secrets in the USA

It was found that all of them referred to trade secrets as information which gives benefit in business to their owners/rights holders. However, both in The Restatement of Torts, Restatement (Third) of Unfair Competition—there is no requirement for the party who holds the right to trade secrets to keep trade secrets undisclosed to another party or the public. The requirement in question is established both in UTSA and EEA.

Furthermore, in the same work, Jorda described the characteristics of trade secrets from the above definitions, as stated in Uniform of Trade Secrets Act (UTSA), The Restatement of Torts, Restatement (Third) of Unfair Competition and in the Economic Espionage Act (EEA). Those characteristics are as mentioned below:

> "For trade secrets, there is no subject matter or term limitation, registration or tangibility requirement. Furthermore, there is no strict novelty requirement, and trade-secret protection obtains as long as the subject matter is not generally known or available. What *does* matter is secrecy—that the information is not known by outsiders. And maintaining secrecy requires reasonable affirmative measures to safeguard it... It is important to consider that while sufficient economic value or competitive advantage is significant, the proper touchstone for a trade secret is not *actual use* but only *value to the owner*. This means that negative R&D results can give a competitive advantage (just as positive results can), in that the owner of the information has a greater knowledge of what are, and *what are not*, feasible and/or viable options for further commercialization. ... Finally, the misappropriation of trade secrets is actionable if the secrets were acquired improperly, if a trade secret that was acquired improperly is either used or disclosed, or if an individual violates a duty to maintain confidentiality." [144]

There is one interesting point from the character of trade secrets given by Jorda as stated above. It is that while scholars and practitioners frequently compare trade secrets with patents, trade secrets are different from patents, which require an innovation or invention in technology that must be original, but this is not a stringent requirement for trade secrets. Therefore, this point can be used as one of the considerations when one would like to choose whether he/she should use patent or trade secrets to protect his/her innovation/invention. Regarding this matter, Jorda believes that more benefit can be achieved when one uses both of these IPRs in protecting his or her innovation/invention. How can one protect one invention with two forms of IP? The answer is when one protect an invention with patent for the technology and know how for the knowledge to make the invention operate.[145] In addition, Jorda also made it clear that the aforementioned trade secrets are know-how which is protected through a legal framework. Therefore, trade secrets are one of the forms of IPR while know-how is one IP form. [146]

Moreover, he stated that protection given to a technology invention become optimal when such invention is protected by some forms of IP. Scholar who brought up

[144]Ibid, p 1047
[145]Karl F. Jorda, 'Patent and Trade Secret Complementariness: An Unsuspected Synergy' 2008 <http://heinonline.org/HOL/Page?handle=hein.journals/wasbur48&div=4&g_sent=1&collection=journals> (21 September, 2011), p 1
[146]Ibid, pp 3-4

such idea is Professor Jay Dratler[147]. Jorda acknowledged him as the first scholar who 'tie[s] all the fields of intellectual property together'[148]. After that the idea became acknowledged by more scholars. Those scholars are: Stephen Elias (who wrote Patent, Copyright and Trademark) and Professor Robert P. Merges, Peter S. Menell and Mark A. Lemley (they wrote Intellectual Property in the New Technological Age).[149]

The operational of aforementioned protection is that is illustrated by the following example which is given by Professor Drake:

> Multiple protection for a data processing system can involve; patented hardware and software; patented computer architecture on circuit designs; trade secrecy for production processes; copyrighted microcode; copyrighted operating systems; copyrighted instruction manuals; semiconductor chips protected as mask works; consoles or keyboards protected by design patents; trade dress under trademark principles; and trademark registration.[150]

Thus, in one product there could be some forms of IP which are needed to give it maximum protection. However, Jorda stated that since trade secrets have different nature compared to the other form of IP, thus it can cause problem. The problem arises between patents and trade secrets. It is because they both can be used to protect technology invention.[151] Nevertheless, back to the aforementioned above that trade secrets and patents actually give more protection for technology when the inventor knows how to combine them to become synergic. That is by protecting the technology invention by patent and the know how with trade secrets.

### 2.2.3. Thailand

Thailand is protecting trade secrets through the Trade Secrets Act B.E. 2545 (2002). The definition of trade secrets is stated in Section 3, as stated below:

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[147]Jay Dratler, JR. & Stephen M. McJohn, 1 Intellectual Property Law: Commercial, Creative, and Industrial Property. Seen from: Ibid, p 12
[148]Ibid.
[149]Ibid, pp 12-13
[150]Jay Dratler, JR. & Stephen M. McJohn, 1 Intellectual Property Law: Commercial, Creative, and Industrial Property. Seen from: Ibid, p 13
[151]Ibid, pp 14-15

> *Trade Secrets*" means trade information not yet publicly known or not yet accessible by persons who are normally connected with the information. The commercial values of which derive from its secrecy and that the controller of the trade secrets has taken appropriate measures to maintain the secrecy.[152]

Furthermore, the Act also establishes what 'trade information' means.[153] Any trade secrets dispute in Thailand will be processed in the Intellectual Property and International Trade Court.[154]

The characteristics of trade secrets in Thailand based on the Trade Secrets Acts are:

1. Trade secrets are items of information in trading which have commercial value because they are kept secret and the holders of trade secrets have the right to take appropriate steps to keep them undisclosed.
2. Trade secrets can be transferred.[155]
3. There is a time limitation for transferring trade secrets if the period is not stated in the agreement, except by inheritance, and the time limit is 10 years.[156]

2.2.4. People's Republic of China (PRC)

The PRC regulates trade secrets under many statutes; however the primary law is the Anti-Unfair Competition Law in Article.[157] Definition of trade secrets is based on Article 10 on the paragraph which explains the definition of "Business Secrecy" as stated below:

> "Business secrecy", in this article, means the utilized technical information and business information which is unknown by the public, which may create business interests or profit for its legal owners, and also is maintained secrecy by its legal owners.

[152]WIPO, 'Trade Secrets Act, B.E. 2545 (2002)' no date <http://www.wipo.int/wipolex/en/text.jsp?file_id=129785> (15 January, 2012)
[153]"Trade Information" means any medium that conveys the meaning of a statement, facts, or other information irrespective of its method and forms. It shall also include formulas, patterns, compilations or assembled works, programs, methods, techniques, or processes.
[154]Section 3 paragraph 9 of Trade Secrets Act B.E. 2454 (2002)
[155]Paragraph 1 Article 5 Trade Secrets Act, B.E. 2545 (2002)
[156]Paragraph 3 Article 5 Trade Secrets Act, B.E. 2545 (2002)
[157]J. Benjamin Bai & Guoping Da, 'Strategies for Trade Secrets Protection in China' 2011 <http://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1005&context=njtip> (18 July, 2012), p 355

Therefore, the characteristics of trade secrets are: 1) trade secrets are information which can be technical and business information; 2) the information has to be known by the party who has the right to know; 3) the information must give economic benefit to its owners; and 4) the owner must maintain the secrecy of the information in question.

Protecting trade secrets through the-Anti Unfair Competition Law, seems to imply that the PRC only considers trade secrets as a business strategy which protects trade secrets from being exploited in an unfair way by competitors.

To sum up, based on the discussion regarding the definitions and characteristics of trade secrets in the countries above—there are some points which can be highlighted, which are:

1. The definitions and the character of trade secrets in those countries do not contradict with TRIPS[158];
2. There are three different legal forms of protection which are used to protect trade secrets, which are: through common law (Australia); particular law on trade secrets (USA and Thailand); and unfair competition law. This matter is not a problem because TRIPS[159] has established that the implementation of protecting IPRs in each country is surrendered to those countries.

## 3. Conclusions

In general, the definition of trade secrets is information which is used in business and gives benefit to the business and the rights holder takes great care of them. When another party would like to access the secret information, they should ask permission from the rights holders. The characteristics of trade secrets are that, unlike the other forms of IPRs, trade secrets are given protection by keeping the information undisclosed to the public and

[158]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[159]The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.

to competitors of a company. They can be transferred and there is a lawful way to obtain trade secrets without any consent of the rights holders, which is through reverse engineering.

There are some issues which will be discussed in the next chapter. These are whether trade secrets are considered as property or not; collateralization on trade secrets; methods used to monetize trade secrets; and how trade secrets should be treated when an enterprise files for bankruptcy.

**Part One: Analysis of Trade Secrets and Matters Related to Trade Secrets Regarding their Use as Collateral**

# CHAPTER 2
# ISSUES REGARDING TRADE SECRETS IN BUSINESS

## 1. Introduction

Chapter 1 discussed the nature of trade secrets. Trade secrets have a different character when they are compared to the other form of IPRs, for example, patents or trademarks. The difference is trade secrets are protected when the owner or the right holder keeps the information of the innovation or invention secret, while patents or trademarks are protected when the innovation or invention is announced to the public by the IP Office. Furthermore, to be protected, patents and trademarks must be registered at the IP Office. Trade secrets do not need to be registered to get protection by law.

According to Falcon, IPRs could be the highest value of enterprises' assets. In this particular work Falcon included trade secrets as one of IPRs. He acknowledged that trade secrets are important for businesses as many enterprises have been using trade secrets to protect their most valuable information.[160]

Enterprises should know how to treat their IPRs to get benefits from those IPRs. IPRs are different to other assets which are tangible. Therefore, they need to be treated differently to accommodate their intangible nature. When owners of enterprise can manage their IPRs' well then they will keep the IPRs safe and may even be able to get compensation if they suffer loss to their IPRs in certain ways. Falcon stated that 'a logical intellectual

[160]Joseph Richard Falcon, 'Managing Intellectual Property Rights: The Cost of Innovation' 2004 <heinonline.org/HOL/Page?handle=hein.journals/duqbulslr6&div=18&collection=journals&set_as_cursor=5&men_tab=srchresults#264> (2 November, 2013), p 249

property strategy can dramatically reduce intellectual property risks and may indemnify such risks'.[161]

Related to the trade secrets characteristics outlined above, there are some aspects which give effect to the operation of business. This chapter will discuss several aspects which are pose challenges related with the nature of trade secrets in business. The first aspect which will be discussed is the challenges with employees' migration, the second is in regards to insurance and the last one is trade secrets and green IP. These issues are discussed to find out their correlation with the use of trade secrets as collateral.

## 2. Trade Secrets and Employees' Migration

Trade secrets are a part of an enterprise's assets that may be taken by employees after leaving their employers. They are easier to take than other assets. Trade secrets can be copied or memorised. Therefore, it is important for employers to maintain and protect their trade secrets very careful, especially in regards to their employees.

At the beginning of August this year, a PRC's court passed a sentence on an Eli Lilly ex-employee. The employee was fired by Eli Lilly when he decided not to destroy the company's trade secrets after they caught the ex-employee red-handed copying the files. The sentence which was imposed was that the employee be prohibited from circulating the trade secrets and ordered to pay compensation of 20 million Yuan. The case is the first time a court in PRC imposes a sentence like that sentence aforementioned.[162]

Many cases have arisen between an employer and employee regarding trade secrets. Many cases which have appeared are in respect of former employers and ex-employees. Sheikh stated that migration of employees cannot be avoided. The reasons to the employees' migration are due to "restructuring, company relocations, and downsizing"[163]. According

[161]Ibid, p 241
[162]Shanghai Daily, 'Ex-employee Banned from Circulating Trade Secrets' 2013 <http://www.china.org.cn/china/2013-08/03/content_29613779.htm> (2 November, 2013)
[163]Cited in Talhiya Sheikh, above n 40, p 3 who refers to Sandra L. Robison, Trust and Breach of the Psychological Contract, 1996

to Sheikh, companies that cut off their employees for those reasons have violated the culture where employers and employees are bound for a life time.[164]

In regards to that matter, there are many problems that have arisen relating with trade secrets. One of the cases is a case which has been stated above. Another example is a case between PepsiCo, Inc. v. Redmond. Redmond worked for Quaker Oats Company after quitting his job at the PepsiCo. PepsiCo suspected that Redmond would use PepsiCo trade secrets at Quaker Oats Company. Therefore, PepsiCo asked the court to impose an obligation on Redmond not to disclose their trade secrets. The court granted the suit.[165]

Sheikh stated that employers need to keep a good relationship with their employees. This is important remembering there is a chance that competitors try to hijack excellent employees. Therefore, employers must ask employees to sign a non-disclosure and non-compete agreement.[166] However, Sheikh stated that there is no guarantee that those two agreements can prevent employees from sharing their former employers' trade secrets. Therefore, he promoted some ways to keep employees loyal by treating them appropriately both financial and non-financial. An example for the non-financial is by hearing employees' expression in regard to challenges in their works. Therefore, they know that their employers care about them. Moreover, Sheikh also stated that employers should observe their employees when they perform their jobs, especially when the activities are related to the trade secrets. Finally, it is important to conduct an interview when an employee will leave the job. During the interview the employer should address the fact that the employee must not take any trade secrets with him or her and he or she must not share the trade secrets with any party.[167]

[164]Ibid
[165]Ibid. Talhiya Sheikh refers to Gary E. Weiss, Inevitable Disclosure Impacts Employee Mobility-Industry Trend or Event
[166]Ibid
[167]Ibid, p 5

Irish stated that employees must participate in maintaining their employers' trade secrets. Even, if they do not sign any agreement not to disclose their employers' trade secrets, they still have to protect those trade secrets in regard with "duty of care" or "fiduciary duty". The obligation to maintain the trade secrets still continue after they left their former employers. [168]

Solitander wrote that the employees of the Formula 1 industry treat trade secrets differently. It is usual for employee to bring trade secrets from their former employees with them, to be applied in their new employees' company.[169] The main reason they do that could be because they are afraid that they cannot keep their jobs.[170] Nevertheless, there are two trade secrets cases which have been brought to the court. The first one is dispute between McLaren and Ferrari and the second one is dispute between McLaren and Renault.[171] Solitander stated that protecting technology inventions or innovations with trade secrets are not effective in the industry therefore she promoted to protect them with patents.[172]

Based on the discussion above, there are two points can be highlighted regarding trade secrets protection in business. The first point is that the migration of employees cannot be avoided. Therefore, employers must be very careful in maintaining the secrecy of their trade secrets. Steps to maintain trade secrets can be taken by asking new employees to sign confidentiality and non- compete agreement before they start to work. When they leave the company, employers should remind them not to share the trade secrets with another party and to give back secret documents. The second point, trade secrets may not

[168]Vivien Irish, 'What an Employee Needs to Know About Trade Secrets' no date, <http://www.wipo.int/sme/en/documents/employees_confidentiality.htm> (2 November, 2013)
[169]Maria Solitander, 'The Sharing, Protection and Thievery of Intellectual Assets: The Case of the Formula 1 Industry' 2010 <www.emeraldinsight.com/0025-1747.htm> (31 January, 2013), p 48
[170]Ibid, p 50
[171]Ibid, p 45
[172]Ibid, p 52

be an effective IP protection. This happened with the F1 business. Therefore, patent protection may be more suitable to protect technology inventions or innovations.

The importance of keeping the secret information safe from disclosure by former employees is in particularly significant when enterprises plan to benefit from trade secrets by using them as collateral. Smith stated that creditors should exercise caution when giving a loan to debtors who use trade secrets as collateral. According to Smith, there are five steps which should be taken by employers to maintain their trade secrets. Most of them are related to employees. Employers must be very careful in giving access to their trade secrets to their employees and these employees must sign confidentiality agreement. The employers should ask their employees who have responsibility for inventions and innovations to make reports during their employment.[173] The detail about this matter will be discussed in Chapter 3.

Employees are assets of corporations therefore; employers must maintain good relations with them. Nevertheless, employers must be firm when necessary to protect the assets of enterprises, for example, trade secrets. Furthermore, employers must remember that employee's migration cannot be avoided nowadays and take appropriate steps.

### 3. Insurance for trade secrets

Insurance is a familiar term. There are many insurance policies which are provided by insurance companies. There is life insurance, car insurance, travel insurance, home insurance and so on.[174] The development regarding the importance of IP in business has led to scholars and practitioners and government urging insurance companies to provide insurance for IP.

The IP Australia disseminates the need to have IP Insurance. This insurance will provide funds when IP owners or IP right holders face cases regarding to their IP. There are a

[173]Lars S. Smith, above n 17, p 579-580
[174]Allianz, 'Allianz Insurance' 2013 <http://www.allianz.com.au/> (13 November, 2013)

number of aspects to insurance for IPRs. First, the policy will only extend to specific IP as stated in the policy. Cover should also be sought for expenses—that is, to provide the funds necessary to cover legal action with the respect to the IP. This may be limited to a certain amount.[175]

Trade secrets have a unique nature[176] which makes them fragile. When the secret information disclosed to the public, the value will disappear. Therefore, is it possible to establish policy insurance for trade secrets? How insurance companies can be convinced that a party has trade secret and needs to be protected with insurance.

In 2004, Falcon wrote that IPRs can be protected with insurance. The concept of insurance is that a party pays a company for certain of amount for a certain time. Both parties are tied to an agreement. That agreement is a mutual one, where the party who received the payment will cover the loss of the party who paid. The first aforementioned party is called insurer and the second is called insured. According to Black's Law Dictionary Insurance is:

> A contract by which one party (the insurer) undertakes to indemnify another party (the insured) against risk of loss, damage, or liability arising from the occurrence of some specified contingency, and usu. to defend the insured or to pay for a defense regardless of whether the insured is ultimately found liable.[177]

It is possible to protect IPRs with insurance even though there are not many insurance companies who offer this protection. Those insurance companies which give insurance protection for IPRs came with clear scheme. The scheme which has been developed will cover the loss of IPRs when there is infringement. Matters which will be covered are: cost defending the rights plus the cost of any verdict which is given by court up a set amount.[178] There are three kinds of the insurance protection, they are:[179]

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[175]Australian Government IP Australia, 'IP Insurance' 2012 < http://www.ipaustralia.gov.au/ip-infringement/enforcing-your-ip/ip-insurance/> (2 November, 2013)
[176] Karl F. Jorda, above n 43, p 1046
[177]Bryan A. Garner (ed), above n 4, p 870
[178]Ibid, p 263
[179]Robert Fletcher, Current and Future Trends in Technology Insurance Coverage Litigation 350 (Intellectual Property Management for Corporate Counsel, Conference Reports 1999) Taken from: Ibid

> First, a defense and indemnity policy provides liability coverage, including damages, in the event of an infringement suit. Secondly, a company can apply for insurance coverage under a solitary defense policy, referred to as "defense cost reimbursement insurance." … Finally, some countries feel it is necessary to buy insurance designed to reimburse the insured for legal expenses associated with pursuing an infringement party…[180]

Unfortunately, in Falcon's work, the IPR's considered were only patents, copyright and trademarks. However, in 2011, Selvin wrote about a policy which covered trade secrets. He wrote after analysing some schemes used by companies to get indemnity from their insurance companies. He also gave some insight into what schemes could be used to cover trade secrets when a company was sued by another company regarding their trade secrets. There are three (3) schemes which he analysed. These schemes were analysed in regards that courts have made decision based on the schemes. They are: (1) Commercial General Liability (CGL), (2) Directors' and Officers' (D & O) and (3) Crime or employee theft policies. The results of his analyses are:

a. Through CGL scheme:

   Selvin stated that it is hard for cases regarding trade secrets to satisfy this scheme. There are two battles which a company would face to obtain cover by insurance companies according to the wording of a CGL insurance contract. The first is that companies must satisfy one of these violations: whether there is a public oral or written expression which is not true; there is a privacy which is disturbed through oral or written public expression; using other company's advertising ideas or the way it does its business; or using other company's copyright, title or slogan. After that, the second obstacle would be establishing that the case which the company faced is included to one of the aforementioned violations; whether the claim is filed due to the

[180]Ibid

company's advertising[181]; is there any relation between the loss which the plaintiff suffer with the company's advertisement.

Despite these obstacles, Selvin provided an example of case which the court found that a company is eligible to get insurance for case related to trade secrets. It is a case between The Merchants Company v. American Motorists Insurance Company, 794 F. Supp. 611 (S.D. Miss. 1992). However, the decision was criticized by the later judges in these cases: RGP Dental, Inc. v. Charter Oak Fire Ins. Co., 2005 US Dist. LEXIS 28199 (D.R.I. Nov. 8, 2005), Capital Specialty Ins. Corp. v. Indus. Elecs, LLC, 2009 US Dist. LEXIS 95830 (W.D.Ky. Oct 14, 2009) and Precesion Automation, Inc. v. West Am. Ins. Co., 1999 US App. LEXIS 31378 (9th Cir. Or. Nov. 24, 1999 Circuits).

b. Through D & O scheme

This scheme is based on "Wrongful Act". Selvin stated that

> a "Wrongful Act" is sufficiently broad to cover "a wide range of alleged or actual wrongdoing, whether negligent, reckless or even intentional[.]"[182]

According Selvin, this scheme gives companies an easy way to get the insurance cover when there is a case filed against their director or their officer. The examples of cases which the court decided that their insurance companies should pay the insurance for their trade secrets are: Acacia Research Corp. v. National Union Fire Ins. Co. of Pittsburgh, Pa., 2008 WL 4179206 (C.D. Cal. 2008) and MedAssets, Inc. v. Federal Ins. Co., 705 F. Supp. 2nd 1368 (ND Ga. 2010).

[181]It means advertisement which mentions another company's trade secrets.
[182] Peter S. Selvin, 'Is IP Theft or Trade Secret Infringment Covered by Insurance?' 2011 <http://www.peterselvin.com/Articles/Is-IP-Theft-or-Trade-Secret-Infringement-Covered-by-Insurance.shtml> (24 October, 2013)

c. Through Crime and employee theft policies

This scheme is different to the other two, being aimed at covering the loss of companies when their trade secrets are stolen by their former employee and provided to another party. There is case law which suggests that such a contract will not cover trade secrets. The case is between Avery Dennison Corp. v. Allendale Mutual Insurance Company, 310 F. 3d1114 (9th Cir. 2(02). It is because the court stated that this scheme only gives insurance protection for tangible property and trade secrets are not.

Therefore, based on Selvin analyses, the scheme which can cover trade secrets is through D & O. However, this scheme only covers indemnity for another party where it is a director or officer from a company that has violated their trade secrets.

In 2013, Ostroff wrote that it is important for companies to really understand what the coverage of their insurance policy is. He stated that companies should learn a lesson from the case of *Liberty Corp. Capital Ltd. v. Security Safe Outlet, Inc.*, 2013 WL 1311231 (E.D. Ky. March 27, 2013).[183] The story of the case is that Security Safe Outlet was sued by a company, named Budsgunshop.com, LLC ("BGS").[184] Furthermore, Ostroff stated that the reason why Security Safe Outlet, Inc. sued is because this particular company has misappropriated BGS' trade secrets (customer list). Regarding this particular case, the Security Safe Outlet, Inc. filed Liberty Corp. Capital Ltd to cover the suit. However, the Kentucky Court found that the insurance which the Security Safe Outlet, Inc. had through a general liability policy did not cover its trade secrets (that is, customer list). The scheme only covered tangible property and only applied if there was a breach of contract against that tangible property.

[183] Eric Ostroff, 'Kentucky Court Finds No Insurance Coverage for Trade Secrets Claim' 2013 <http://tradesecretslaw.wordpress.com/2013/05/16kentucky-court-finds-no-insurance-coverage-for-trade-secrets-claim/> (24 October, 2013)

[184] Leagle.com, 'Liberty Corporate Capital Limited v. Security Safe Outlet, Inc.' 2013 <http://www.leagle.com/decision/In%20FDCO%2020130328C60> (27 October, 2013)

From Selvin's analyses, it is found that if Security Safe Outlet used the D & O scheme it is likely that a court would decide that Liberty Corp. Capital Ltd should cover the cost of the case between Security Safe Outlet and BGS. The reason is because BGS accused Security Safe Outlet and its employee (Matthew Denninghoff) of misappropriating BGS' trade secrets. Dennighoff is a former employee of BGS.

In 2013, Keegan stated that actually there is an insurance scheme which is aimed at intellectual property on a stand-alone basis.[185] The emphasis of this scheme is for cases regarding patents and trade secrets ('patent infringement and theft of trade secrets').[186]

Keegan stated insurance which covers trade secrets actually emerged in the mid 1990's.[187]

As many assets of companies are in forms of IPRs, and there is substantial cost to defend their rights over those IPRs when there is a dispute, therefore having their IPRs protected by insurance is one of ways to keep their companies secured.[188]

The operation of this scheme is to give companies indemnity in the activities of defending their trade secrets. Some policies not only give indemnity for aforementioned matter, they also will cover the damages. Unfortunately, the number of insurance companies who give this kind of policy is few.[189]

It can be noted that based on what Keegan wrote, actually there is a policy which gives indemnity for companies to defend their trade secrets when they found out that there is another party that has misappropriated their trade secrets. However, the number of such insurance company is not many.

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[185]Christopher Keegan, 'IV. Intellectual Property Policies' 2013 <http://international.westlaw.com/result/default.wl?cfid=1&mt=109&origin=Search&query=insurance+for+trade+secrets&db=AFINS%2cIP-JV%2cUS-RULES%2cEUROPEAN&rlt=CLID_QRYRLT37932234162510&method=WIN&service=Search&eq=search&rp=%2fsearch%2fdefault.wl&sp=UCanberra-03&srch=TRUE&vr=2.0&action=Search&rltdb=CLID_DB781134162510&sv=Split&fmqv=s&fn=_top&rs=WLIN13.10> (24 October, 2013)

[186] Ibid

[187] Ibid

[188]Ibid

[189]Ibid

In 2013, O'Connor wrote that insurance companies have started to be more interested in giving insurance for IP, as about 60% of a company's assets are intangible assets. This is a ripe area for insurance companies. Even so, there is still not many of insurance companies which are willing to give insurance for IP. The challenges also happen at companies which have IP, because there is not many companies which protect their IP with IP insurance. Many companies only rely on Commercial General Liability (CGL) policies. Unfortunately, there are many insurance companies which actually exclude IP from this type of policy. Therefore, there needs to be more dissemination regarding the knowledge that IP owners or right holders can secure their IP with an IP insurance policy. On the other hand, the dissemination also needs to be addressed to insurance companies so that they might change their perspective in giving insurance for IP, because companies' assets, nowadays, are mostly in intangible forms. Because of this, the number of cases regarding these particular assets is getting higher and higher. [190]

To sum up, IP owners or holders should be smart in managing their IP. One way to manage their IP is to get it covered by insurance. Even though there are not many insurance companies which have given policy for IP nowadays, with the fact that the number of companies' assets are about 60% in intangible forms, the situation could change in the near future. Nevertheless, there are more efforts which should be carried out to disseminate this particular issue.

Up until now, most IP insurance is aimed at patents; however there is an insurance which is aimed at trade secrets also. In addition, companies should be prudent when they face cases regarding their trade secrets. They must be very careful to decide which scheme that they should use as a reason to get indemnity from their insurance companies. Based on the above exposures, it is found that companies should have a D & O policy for their

[190] Amy O'Connor, CEOs, 'Insurers Finally Ready to Embrace Intellectual Property Insurance?' 2013 < http://www.insurancejournal.com/magazines/features/2013/09/09/303859.htm >(3 November, 2013)

insurance. This will provide protection in case a former employee is found misappropriating their trade secrets.

With the emergence of the consideration of the use of trade secrets as collateral, it is an important issue which need to be addressed by scholars and practitioners to provide an insurance policy for trade secrets which are used as collateral. The insurance policy could be either to provide insurance for creditor or debtor; or could be for both of them when an enterprise uses its trade secrets for collateral. It will allow both creditors and debtors to feel a sense of security when they are bound in security agreements.

It stated before that O'Connor argued that about 60% of companies' assets are in intangible forms. Smith stated that most of enterprises assets are in forms of patents, copyright, trade secrets and trademarks.[191] Therefore, it seems the chance to use these forms of assets as collateral is quite high. Therefore, the writer suggests insurance companies to use this opportunity by providing policy for IP used as collateral, including trade secrets.

## 4. Green trade secrets

The global warming has made human beings realize that we have to take care of the earth. Along with the belief, which has emerged, that the earth has been tormented by humans, therefore humans should go green. Green has been interpreted as something which is aimed to do something to protect the earth, so that there will be no more damages done by human being. Furthermore, green is also aimed to do something to make less fortunate people have a better life.[192] Therefore, there is green economy, green advertising, green constitution or many other which use green label. One of those other greens is green IP.

[191]Lars S. Smith, above n 17, p 550

[192]Itaru Nitta, 'Green Intellectual Property: A Tool for Greening a Society' 2005 <http://www.greenip.org/progf05.html> (27 October, 2013)

In 2005, Nitta wrote that it is important to bring awareness about green IP. In his writing, IP is referred to as patents, trademarks, designs, copyrights and geographic indications.[193] The reason for expressing the need for green IP is because IP actually gives advantages for rich innovators or enterprises where IP protection has made the gap between rich and poor societies larger and larger. Therefore, with the green IP program, the gap can be decreased. He put forward a grand design regarding the impact of IP on society, the concept of green IP, and what elements are needed and what green IP can do for society.[194]

In general, the concept of the green IP is that IP should bring a positive impact to the earth and the unfortunate societies. This can be achieved by reducing pollution and reducing the act of using unrenewable natural resources. The positive impact for unfortunate or poor societies is that by establishing funds which are collected from innovators who apply for patent applications, the funds can be used to pay for patents which are needed by the less fortune people. One example would be HIV medicine. The medicine can be distributed to the poor people who need it. The payment can be taken from the aforementioned funds. Therefore, the elements which are needed for this scheme to apply are: green intellectual creations, green policies and green social models. [195] However, Nitta's reference to IP was to what he called traditional IP: patents, trademarks, designs, copyrights and geographical indications.[196]

In 2006, Nitta continued his idea regarding the awareness of green IP. In this particular writing, he expressed his scheme regarding Green Intellectual Property (GIP). It is worth

[193]Ibid, p 1
[194]Ibid
[195]Ibid, p 1-3
[196]Ibid, p 1

to be noted that in this particular work he only referred to patents. He outlined a scheme of GIP with the following characteristics:[197]

1. The GIP Reserve, it is a reservation funding which is collected from owners or inventors who apply for patent rights. This special funding is collected by the IP Office.
2. The GIP Premium, it is a particular fund which is collected from patent applicants when IP Office approves the application. This fund is allocated to ensure that the patent right's holder will still get benefit from the patent right in the future.
3. The GIP Tax, it is a tax which is collected from products that are protected through patents and derive a large income. Such fund will be used to preserve the patent rights which have paid the green tax.
4. The GIP Insurance, it is insurance provided from the GIP System for patentee who is in need of funds when they face legal action to defend their patent's right. Thus, in return that patentee should transfer his technology which is patented without any cost.
5. The GIP Aid, it is an aid which is provided through the GIP System. The aid will be distributed by a party appointed with the authority to determine that another party is in need and will benefit from a patent product.

In 2010, Pan wrote that companies should consider protecting their green technology inventions or innovations with combination of patents and trade secrets. She concerned that because of the economic downturn, companies would protect their green technology inventions or innovations with trade secrets because to be protected with trade secrets is relatively inexpensive. Furthermore, she explained that companies can choose to protect their green technology inventions or innovations with trade secrets or patents because the procedure of applying patent protection can make this possible. The procedure is that,

[197]Itaru Nitta, 'Green Intellectual Property Scheme: A Blueprint for the Eco-/Socio-Friendly Patent Framework' 2006 <http://www.who.int/phi/public_hearings/second/contributions_section2/Section2_NittaItaru-GreenIntellectualPropertyProject.pdf> (28 October, 2013), p 2

when a party applies for patent protection, for the first eighteen months of the process the invention or innovation is undisclosed to the public. Thus, before 18 months, that party has time to decide whether to protect the green innovation or invention with trade secret or with patent. A party can request the Patent Office to keep the patent application secret from the public until the patent protection is granted. This scheme gives the applicant longer time to consider whether the inventions or innovations will be protected with a trade secret or patent. The other scheme lets applicants combine the protection of patents and trade secrets. She gave an example of a company which used this combination protection, which is Coskata. Coskata protects its ethanol product with combination of patent and trade secret. The process of producing the product is protected with patent, while the substance of materials is protected with trade secret.[198]

In 2012, Kroub stated that the issue of being green is also relevant in the field of intellectual property. He stated that many large and small scale companies are aware of this. He believes that companies should be careful with their IP regarding this green era. Companies should consider green IP issues in developing a strategy to protect their technology inventions or innovations through patents. They should be prudent in choosing which country to get patent protection, choosing one which is the most suitable for their inventions or innovations. Regarding this matter, he gave the alternative of protecting such innovation through trade secrets.[199] According Kroub, a trade secret is seen as an alternative strategy to protect new inventions or innovations, which have not been protected by patent yet.

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[198]Susan Perng Pan, 'Hybrid Use of Trade Secret and Patent Protection in Green Technology' 2010 <http://www.sughrue.com/files/Publication/5938daff-5f61-4d5e-ad02-0258c0022a00/Presentation/PublicationAttachment/690cd5d7-c9bc-40c4-b1ee-a790f8648b68/%235986070,%20v1%20_DCDOC1_%20-%20Article%20SPP%20Bloomberg%20Hybrid%20Use%20of%20Trade%20Secret%20in%20Green%5B.pdf> (4 November, 2013)

[199]Gaston Kroub, 'Intellectual Property Issues Relevant to the "Green" Economy' 2012 <http://www.lockelord.com/files/Publication/f249f8b3-2e2d-48ee-921a-725259cf2d91/Presentation/PublicationAttachment/6a5067f8-a3d2-4f3f-bdcf-75166e193585/KroubCorpCFall12.pdf> (27 October, 2012)

From all the exposures above can be noted that there are scholars and institutions that have been supporting green IP. Nevertheless, all the above writers have different perspectives regarding protecting green IP. Nitta referred to a scheme of IP protection which was limited to traditional IP, excluding trade secrets. Pan stated that it is important to make companies aware that by combining patents and trade secrets to protect green technology they can gain maximum protection. Kroub wrote that trade secrets protection is an alternative to protect green technology if the invention or innovation is difficult to be reverse engineered.

The writer believes that all IPRs should be included in the green IPRs campaign, including trade secrets. Trade secrets should also be included because trade secrets can protect technology innovation or invention also. Furthermore, the writer believes that even invention or innovations which do not give bad impact to ecosystem can give contribution both to the earth and society.

All forms of IPRs, including trade secrets, can use the scheme which has been delivered by Nitta above.[200] As trade secrets do not need to be registered to gain rights, the fund for the GIP System should be collected when a transfer or licence is registered.

The campaign of green IP has been continued up until today. IP Offices such as USPTO[201] (US Patent and Trademark Office), IP Office of United Kingdom[202] and IP Office of Australia[203] support application for green patents. The support is manifested through exclusive process of the green patent applications, that is the registration process is prioritized over other patent applications which are not considered as green patents.

[200]Itaru Nitta, above n 192
[201]USPTO, 'Press Release' 2009 <http://www.uspto.gov/news/pr/2009/09_33.jsp> (28 October, 2013)
[202]Intellectual Property Office, 'Green Channel Patent Application' no date <http://www.ipo.gov.uk/types/patent/p-os/p-gcp.htm> (28 October, 2013)
[203]IP Australia, 'Fast Tracking Patents for Green Technologies' 2012< http://www.ipaustralia.gov.au/get-the-right-ip/patents/patent-application-process/expedited-and-modified-examination-for-standard-patents/green-patents/> (27 October, 2013)

Nevertheless, it is important for IP Office to include trade secrets and the other types of IP on the green IP campaign.

Therefore, it is important to make innovators or inventors aware of some of the policy issues regarding green inventions or innovations. In regards with trade secrets, the inventions or innovations should bring good impact both to the earth and to the society.

Trade secrets are included as one of IPRs forms which can be used as collateral. In regards to that, the green trade secrets campaign can be used as a way to encourage innovators and inventors to innovate and invent items which are friendly both for nature and society. In addition, the work of the design of green trade secrets related to the fact that trade secrets can be used as collateral is that it might a good idea to establish a policy which provide green trade secrets' owners a bigger chance to be given loans from banks when they use green trade secrets as collateral.

## 5. Conclusions

Trade secrets have their own nature and characters when they are compared to the other forms of IPRs. Based on the discussion above, it is found that because of the uniqueness of trade secrets, companies could face difficulties in preserving their trade secrets as assets and in deriving benefits from commercialising them, including using them as collateral.. Those problems need to be solved or to be addressed by employers, scholars, practitioners and government.

In regards to the migration of employees, employers should be very careful when they hire employees. Those employees must sign confidentiality and non-compete agreements. When the employees leave the companies, the employers must remind them not to disclose trade secrets and they must not take secret documents with them. Employers could find it difficult to prevent their employees wanting to migrate to other companies; this is one of reasons why employers must deal with their trade secrets appropriately

during the time they work for the companies. Furthermore, if enterprises have a vision to use their trade secrets as collateral, the need to maintain the secrecy is even bigger. It is because before creditors give loan to debtors who use their trade secrets as collateral, creditors must be confident that the debtors maintain the secret properly. There are five ways in maintaining trade secrets and most of them are related to employees, as discussed above.[204]

In regards with insurance, compared with patents, the numbers of insurance companies that provide an insurance policy for trade secrets are limited. The policy scheme is also limited. Selvin suggested that companies should have D&O insurance policy. This policy will provide a fund for companies which face a claim from other party who believes that his/her trade secrets are misappropriated by a director or officer of the company. The major percentage of assets of companies is in the forms of IPRs nowadays. Therefore, it is a promising area for insurance companies to provide insurance for these assets. Since more assets are IPRs, including trade secrets, many companies will be wanting to use their trade secrets as collateral when they borrow money from the banks. It cannot be denied that many banks are still reluctant to accept trade secrets as collateral; therefore, if there is an insurance policy which covers trade secrets as collateral, the feeling of insecurity at both sides (debtors and creditors) can be minimized.

Issue regarding green IP has emerged for some years. Unfortunately, the understanding of trade secrets has not received the same level of consideration as other forms of green IP. There are different perspectives at to whether trade secrets can be included or not in this issue. Innovators and inventors who invent green technology are able to protect it through trade secrets, which can be called green trade secrets. An invention or innovation which can be protected through trade secrets is not only in technology. The protection through trade secrets is broader therefore, it is important that trade secrets should be included in

[204]Lars S. Smith, above n 17

this campaign. The scheme of Green IP, which suggested by Nitta, could be adapted to apply to trade secrets also. Thus, green trade secrets can also give something to the earth and societies.

In addition to that, this research suggests that the recognition of green trade secrets also includes the implementation of the use of trade secrets as collateral. The recommendation is that trade secrets are recognised to encourage innovation and invention of green IP which can be protected through. This then will provide access to an asset which green trade secrets owners/holders are able to utilise to get their loans approved by banks.

**Part One: Analysis of Trade Secrets and Matters Related to Trade Secrets Regarding their Use as Collateral**

# Chapter 3

# COLLATERALIZATION OF TRADE SECRETS AND RELATED MATTERS

## 1. Introduction

Eventhough, trade secrets have been considered as the most important assets of many companies there is one aspect that is still arguable and it is regarding the status of trade secrets, whether they are property or not.

With emerging businesses nowadays in which IPRs play increasingly important roles, their value is likely to increase as they are assets of most companies. Therefore the benefit which can be gained from IPRs has expanded now. IPRs are also used as collateral in secured transactions. There are times when companies need more capital in order to enlarge their business or even starting companies need financial help to run their business. Smith[205] stated that since banks are institutions which are conservative, therefore they need debtors to provide collateral when they are given loans. Most of the time, the collateral which is used is all the assets which companies have. These assets of companies are not just tangible assets but also intangible assets including IPRs—which are in forms of "patents, copyrights, trademarks and trade secrets".[206]

The availability of trade secrets used as collateral, has also been discussed although there are a few scholars and practitioners who still argue[207] about this and doubt that it can be

[205]Lars S. Smith, above n 17, p 549
[206]Ibid
[207]Ibid

implemented and well accepted by lenders (banks). Smith[208] concedes that trade secrets are 'often ignored or dealt with superficially' compared to the other IPRs : patents, trademarks and copyrights.

As nowadays scholars, businessmen and practitioners have noted that IPRs can be used as collateral, the methods of implementation in using them as collateral are important as well. However, compared to patents, copyrights and trademarks, which are given much attention regarding using them as collateral—attention to trade secrets is less.[209]

Lebson[210] gives a perspective on the role of trade secrets in the global economy era by suggesting thats:

> In today's rapidly changing global economy, intellectual property has been cast in a new and dynamic role in commercial lending transactions. Trade secrets represent valuable intangible rights that are not only capable of enhancing a company's bottom line, but also function in a new capacity as a source of collateral and revenue. [211]

Dunn and Seiler[212] indicate that trade secrets become very valuable as intangible economic assets of a company and theoretically can be used as collateral if a country has such a legal construction and protects them. [213]

Nguyen[214] states, related to protection regarding the transaction of patents, trademarks and trade secrets based on the approach given by courts:

> The courts, however, have fashioned a mixed approach. Perfection of security interest in patents, trademarks and trade secrets is achieved by the filing of the financing statement with the state filing office where the debtor is deemed to be located…[215]

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[208]Ibid
[209]Ibid, pp 549-550
[210] Scott J. Lebson, above n 60
[211]Scott J. Lebson, above n 60
[212] Jeffrey D Dunn & Paul F. Seiler, 'Trade Secrets and Non-Traditional Categories of Intellectual Property as Collateral' 2007 <Trade%20Secrets%20and%20Non-Tradisional%20Categories%20of%20Intellectual%20Property%20as%20Collateral.DOC%20%20(Seiler%20&%20Dunn%20Article%20Jan.%202007).pdf> (2 June, 2008)
[213]Ibid
[214] Xuan-Thao Nguyen, 'Outline Collateralizing Intellectual Property' 2005 <http:www.aals.org/2005midyear/commercial/Xuan_ThaoNguyenOutline.pdf> (8 June, 2008), p 47
[214] Appendix B. *Vickery v. Welch* written by: R.M. halligan & R.F. Weyard, *Trade Secret Asset Management*, Aspatore Books, Boston, 2007, pp 181-186. Taken from: Kenan Jarboe, 'Athena Alliance' 2010 <www.eda.gov/PDF/203_Athena%20Allince.pdfa> 2010 (6 January, 2011)
[215]Ibid, p 47

The first use of trade secrets as collateral was found in United States: "The first trade secrets case in the United States involved the debt on a bond secured in part by a secret chocolate-making process in 1837".[216] Nowadays, trade secrets as collateral in the USA are covered under the Article 9 UCC[217].

Bramson[218] in the 1980s wrote about a case which trade secrets were used as collateral in US:

> As collateral for a loan, State Bank of Annawan obtained liens on several patents and trade secrets of Pace Corporation, which was then driven out of business by Rendispos Corporation, and as a result was adjudicated a bankrupt. The patents and trade secrets were assigned to the bank, which then brought suit against Rendispos for patent infringement and misappropriation of trade secrets and won, obtaining repayment of the loan. [219]

Later in this work, Bramson stated that, as with patents, trademarks and copyrights,—trade secrets rights are personal property and can be used as collateral under the category of general intangibles, according to Comment of Uniform Commercial Code (UCC) Article 9-106.[220]

However, scholars' and practitioners' acceptance regarding using trade secrets as collateral in secured transactions is that they are not as good as patents, copyrights, trademarks, industrial designs and integrated circuit layouts. Looking at the nature of trade secrets when used as collateral, trade secrets puts creditors at a great risk. But, there are various types of trade secrets and some of them can be convenient for creditors to accept as collateral. Regarding this Smith stated:

> If the trade secret is instead embodied in a written form, such as the Cola-Cola formula or a company's customer list, identifying and valuing it is considerably easier. [221]

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[216] Appendix B. *Vickery v. Welch* written by: R.M. halligan & R.F. Weyard, *Trade Secret Asset Management*, Aspatore Books, Boston, 2007, pp 181-186. Taken from: Kenan Jarboe, 'Athena Alliance' 2010 <www.eda.gov/PDF/203_Athena%20Allince.pdfa> 2010 (6 January, 2011)
[217] Lars S. Smith, above n 17
[218] Robert S. Bramson, 'Intellectual Property as Collateral—Patents, Trade Secrets, Trademarks and Copyrights' 1980-1981 <http://heinonline.org/HOL/Page?handle=hein.journals/busl36&div=90&g_sent=1&collection=journals> (15 August, 2010
[219] Ibid, p 1569
[220] Ibid, p 1578
[221] Ibid.

Regarding the nature of trade secrets which are thought to give great risks to creditors when they accept trade secrets as collateral, Church[222] wrote that trade secrets have enormous value and most of the time are used as legal protection of enterprises' IP: therefore it is only the matter of how to protect the secret information in the best way which is the most important thing to do. His writing is used as a reference by The Scott Valley Bank.[223] Church has given his perspectives regarding the use of patents, trademarks, copyrights and trade secrets. He has argued that whether it is a patent, trademark, copyright or trade secret—each of them has their own shortcoming when they are used as collateral. Those shortcomings for each of the IPRs are:[224]

1. Patents: creditors should be aware if patents which are used as collateral are licensed and joint owned.
2. Trademarks: according to Church trademarks actually are not good collateral because trademarks have little value without their original service or goods. Take for example, MacDonalds without its burger or Starbucks without its coffee.
3. Copyright: according to Church, copyrights are good IPRs to be used as collateral. However, the parties must be careful about the requirements in this process. Copyrights which are used as collateral must be registered at the U.S. Copyright Office and perfection also has to be registered at the same office.
4. Trade secrets: Church stated that trade secrets have enormous value. Nevertheless, the value of trade secrets lies in their secrecy: therefore the creditors have to be sure the debtors put their best efforts in protecting the secrecy of their trade secrets to be used as collateral.

[222]Terry Church, 'Know What You're Getting—Five Handy Tips on Using IP Assets as Collateral' no date <https://www.scottvalleybank.com/ViewArticle.asp?BI=119&NL=3&AI=15&U=WJBjzHMJvZbkggDVgKxzDBKVkzWbZWvHGKPgDGjpgMGXbxzGMXPKXjV53> (3 June 2013)
[223]Scott Valley Bank, 'Home' no date <https://www.scottvalleybank.com/> (3 June, 2013)
[224]Terry Church, Above n 213

It tends to be the case that whichever IPR is used as collateral, either the debtor or creditor must be very careful in dealing with them, in order to get the maximum benefit and minimize the risk.

Proper valuation is considered as difficult thing to do regarding intangible property. The Thailand Department of Intellectual Property (DIP) is drafting a guide for doing this. There are four steps: definition of IP, types and qualifications of IP, method of assessing IP and guidelines for credit officers.[225]

When a debtor borrows money, the debtor will try his/her best to pay the loan. However, there are times when the debtor could not meet such expectations, so the debtor has to face the hard situation where he/her may be in a bankruptcy state. What happens if the debtor has used trade secret as collateral? It is important to remember that a trade secret has to be kept secret in order to keep its value.

To sum up, this chapter will discuss matters regarding some aspects of trade secrets, which are: first, their definition and character according to international dimensions and according to the selected countries; second, are trade secrets property?; third, collateralization of trade secrets, which also brings attention to how to valuate trade secrets and what happens to trade secrets when the debtor who uses trade secrets as collateral cannot pay the debt because he/she is bankrupt.

## 2. Are Trade Secrets Property?

What is property? This is an issue that should be settled before presenting the sub-topic, whether trade secrets are property or not. It turns out that it is not an easy task to get an answer to such a question.[226]

[225]Michael Doyle, above n 70

[226]Laura S. Underkuffler, 'On Property: An Essay' 1990 <http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1098&context=faculty_scholarship> (11 April, 2010), p 128; Joycey Tooher & Bryan Dwyer, *Introduction to Property Law*, LexisNexis Butterworths, NSW, 2008, p 1.

If we look at the history of the concept of property, before the era of capitalism property referred to communal property.[227] However, the concept of property is continuing to develop along with the emerging of society.[228]

In Australia, the concept of property more likely refers to private property: however the concept of ownership is slightly different, as Tooher and Dwyer stated below:

> Anglo-Australian law has developed within the capitalist tradition prevalent in Western civilisations. Right of property in Anglo-Australian law therefore tends to be synonymous with rights of 'private property' rather than group or communal property. Rather than sanctioning individual ownership, communal property generally implies equal access to property subject to various standards or accepted norms. However, it is arguable that these social rules or conventions still rely on concepts of ownership. The internal nature of ownership interests may differ considerably from private property systems because individuals may have no entitlements independently of others, but the concept of ownership necessarily exists. [229]

Furthermore, there is a communal property system which has been applied in Australia. It is based on the system in the land which is the understanding used by the indigenous people of Australia. Tooher and Dwyer put it below:

> The concept of communal property is still practiced amongst the North American Indian tribes and also forms an integral part of the law in Papua New Guinea. It is a way of life for many indigenous people of Australia and was recognised by the High Court of Australia in *Mabo v State of Queensland* (No 2)(1992) 175 CLR 1: '[t]he term 'native title' conveniently describes the interests and rights of indigenous inhabitants in land, whether communal, group or individual, possessed under the traditional laws acknowledged by and the traditional customs observed by the indigenous inhabitants' (per Brennan J, (1992) 175 CLR 1 at 57); [230]

Underkuffler[231] has investigated some approaches in order to get a better understanding of what property is, and she comes to the conclusion that property cannot be fully dominated individually:

> The comprehensive approach stresses that property, in the historical understanding, served a mediating function between individual rights and

[227] Joycey Tooher and Bryan Dwyer, above n 217, p 2
[228] Ibid, p 1
[229] Ibid, p 2
[230] Ibid, p 2
[231] Laura S. Underkuffler, above n 217

> governmental power. It neither contained nor encouraged absolute individual protection over collective goals. [232]

Regarding the concept of private property, there are some theories which justify the concept. They are:[233]

a. The first occupation theory. This theory gives a first possessor of a thing a claim that it is theirs, to exclude others over that thing. However, this theory cannot be applied in social development nowadays. As Tooher and Dwyer stated that:

> The theory may well be renewed significance in competing claims for 'ownerless' galactic territories or when allocating resources and investment opportunities in outer space where provisions of treaties such as the Outer Space Treaty are inconclusive or incomplete. [234]

b. The labour theory. This theory gives acknowledgement to one's effort in achieving or getting something.

c. The idealist 'personality' theory. This theory sees property as a mean to achieve a better condition for anyone.

d. The economic efficiency theory. This theory provides a perspective which sees property as things which can be used to achieve more benefit.

As this thesis investigates the use of trade secrets used as collateral, therefore the writer will link with the aforementioned discussion in answering the question whether trade secrets can be included as property or not.

Regarding that matter, the perspective of Epstein[235] is that the importance in deciding whether trade secrets are property or not, in the first place, is in order to understand how strong the position of the owner or the holder of a trade secret is, against other party. He stated his perspective, as below:

> The first question requires us to decide whether trade secrets should be treated as property at all. The question is of no little importance because if trade secrets are treated as mere contract rights, then they are good only against the promisor. But

[232] Ibid, p 142
[233] Joycey Tooher & Bryan Dwyer, above n 217, pp 3-4
[234] Ibid, p 3
[235] Richard A. Epstein, 'Trade Secrets as Private Property: Their Constitution Protection' 2003 <http://www.law.uchicago.edu/Lawecon/index.html> (15 September 2011>

> if they are treated as property rights, then in a stronger sense they provide exclusive rights that bind the world. [236]

According to Epstein the reason why the status of trade secrets regarding property is still questioned is because there is a possibility the information which is kept undisclosed can be reverse engineered by another party and such action is lawful. Therefore, there is no assurance that a trade secret is safe as property because it could be gone, even with anaction which is not breaking any law.[237]

As the recognition for trade secrets internationally first time came from TRIPs, this agreement does not ask trade secrets to be categorized as property. Otten and Wager stated that: [238]

> The TRIPS Agreement contains a section that, for the first time in international public law, explicitly requires undisclosed information (trade secrets or know-how) to benefit from protection. The protection must apply to information that is secret, that has commercial value because it is secret, and that has been subject to reasonable steps to keep it secrets. The Agreement does not require undisclosed information to be treated as a form of property, but it does require that a person lawfully in control of such information have the ability to prevent it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices.

One of the ways to have a strong justification to get recognition in owning things is recognition from a court. Some points which are considered are:[239] "a subject of property, an object of property and various rights and entitlements that attach to the object for the benefit of the subject."

The perspective from Epstein can be used in explaining the above premise to justify that trade secrets should be seen as property:

> There is no obvious reason why a single person cannot develop and keep a trade secret for himself. The fact that the information is not shared with a single soul does not strip it of legal protection. Rather the contrary seems to be true. It is precisely the right of an individual to keep that secret to himself that allows him to disclose it to other individuals under a condition of confidentiality. It would be odd to enforce any contract to keep the information confidential if the original holder or creator of the trade secret had no property rights in it at all. After all, we do not say that someone becomes the owner of property because he has

[236]Ibid, p 3
[237]Ibid
[238]Adrian Otten and Hannu Wager, Compliance with TRIPS: The Emerging World View
[239]Joycey Tooher & Bryan Dwyer, above n 217, p 7

> leased it; rather the reverse is true: because he is the owner, he is normally in a position to lease the property. [240]

Based on the above exposures, it can be concluded that trade secrets are property, because there is the subject of a trade secret, which is the holder or the creator of the trade secret; there is the object, which is the secret information, and there are various rights and entitlements that attach to the object for the benefit of the subject, which is that a trade secret can be leased to another party and the holder or the creator has the right to get benefits from such an agreement.

In *Bacchus Marsh Concentrated Milk Co Ltd (In Liq) v Joseph Nathan & Co Ltd* (1919) 26 CLR 410 categorised trade secrets as property and they are given protection by law as property. However, Davison, Monoti and Wiseman[241] stated that based on some newer cases in Australian courts, trade secrets still could not be categorized as property—therefore, the standpoint of Australia in this matter is that trade secrets are not acknowledged as property. The cases are: *Federal Commisioner of Taxation v United Aircraft Corp* (1943) 68 CLR 525, 534; *Breen v Williams* (1996) 186 CLR 71,81,90, 111, 128; *Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd* (2001) 208 CLR 199, 271. *Smith Kline & French Laboratories (Australia) Ltd v Secretary, Department of Community Services and Health* (1990) 22 FCR 73, 592-4. *Cf Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25, 34[242] and *TS & B Retail Systems Pty Ltd (No 3* (2007) 158 FCR 444; 239 ALR 117; [2007] FCA 151; BC200703291.

Friedman, Landes and Posner[243] stated that a trade secret is a special property. A trade secret is special because another party can possess it and exploit it without breaking the law, as they stated below:

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[240]Richard A. Epstein, above n 225, pp 5-6
[241] Mark J. Davison et al, *Australian Intellectual Property Law*, Cambridge University Press, Cambridge, 2012
[242]Ibid, p 1
[243] David D. Friedman et al, 'Some Economics of Trade Secret Law' no date <http://www.daviddfriedman.com/Academic/Trade_Secrets/Trade_Secrets.html> (16 July,2010)

> A trade secret is not property in the usual sense—the sense it bears in the law of real and personal property or even in such areas of intellectual property law as copyright—because it is not something that the possessor has the exclusive right to use or enjoy. If through accident the secret leaks out, or if a competitor unmasks it by reverse engineering, the law gives no remedy. The law does give a remedy if the secret is lost through a breach of contract—say by a former employee who had promised not to disclose what he learned on the job—or through a tort, such as trespass. But the violation is not of a property right to the secret but of a common law right defined without regard to trade secrets or to information in general. [244]

Whether trade secret is property or not, actually the important point regarding trade secrets is to develop a system which allows parties protecting and exploiting trade secrets to have the same understanding, as Epstein[245] stated below:

> The point here is important not because it tells us whether to treat trade secrets as property or strictly as confidential arrangements. Rather, it is important because of the light that it sheds on the need to tailor standard legal principles to take into account the easy reproducibility of trade secret information. [246]

### 3. Collateralization of Trade Secrets

Imagine that a person has an innovation that he or she can use to build his or her own business but does not have capital/enough capital to do it. One of the options to run this business is to get a loan from a money institution (bank). All this person has is the innovation. The law protects the innovation through the intellectual property rights (IPRs) regime. The IPRs are often called as intangible assets.

Another illustration is that when one has run his/her business and he/she wants to expand the business but to make it possible he/she has to get financial help. As the business has already been progressing for such a time, therefore he/she has quite a lot of assets. Among them are IPRs.

The above illustration is what this section will discuss. In order to gain capital there are two ordinary ways entrepreneurs usually seek this, as Smith[247] stated:

[244] Ibid
[245] Richard A. Epstein, above n 225
[246] Ibid, p 6
[247] Lars S. Smith, above n 17

> The two most general methods of raising capital are equity and debt financing—either selling an interest in the business to investors, such as through a stock sale, or borrowing from a lender. [248]

Eventhough the discussion on using IPRs as collateral has become more active nowadays, the idea of using them as collateral in secured transactions looks as if it is an odd idea. However, because of the emerging importance and existence of IPRs, it is worth it to take this trend into account.

Menell[249] has explained the emerging role played by intellectual property in the global economy nowadays:

> Over the past several decades, intellectual property has taken on an increasingly larger role in the global economy. Today, much of the value of the world's leading companies resides in their portfolios of intangible assets—ranging from the better defined forms of intellectual property (such as patents and copyrights) to the least tangible of the intangibles (trade secrets (know-how) and trademarks (the goodwill associated with a brand)). According to one source, the ratio of the value of hard assets relative to intangible assets among the major industrial companies of the world went from 62%/38% in 1982 to 38%/62% a decade later. In 2000, intangible assets and intellectual property values are clearly the most important assets of most industrial companies given the increased intensity of competition, increased rapidity of technological growth and innovation, increased reliance on legal protection of rights in intellectual property and increased enforcement of ownership rights, and increasingly sharp liability standards for infringement and misappropriation. [250]

Furthermore, regarding the importance of IP and their use of them as collateral in secured transactions, Jiranek[251], one of the USA's practitioners, stated that:

> The information age has transformed the value and types of corporate property. Much of corporate wealth is now tied up in intellectual property ("IP"). Intellectual property increasingly constitutes a larger percentage of the overall value of U.S. businesses. As a result, the American legal system, and its practitioners supporting debt financing, must account for this asset class. [252]

As many nations grow and realize that intangible assets have greater value and play a more important role in businesses, developed countries which have already been

[248] Ibid, p 3
[249]Peter S. Menell, 'Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis' 2007 <http://www.btlj.org/data/articles/22_02_02.pdf> (17 September, 2010)
[250]Ibid
[251] Andrew L. Jiranek, 'Intellectual Property Secures Debt Financing' 2008 <http://international.westlaw.com/result/default.wl?cfid=1&mt=109&origin=Search&query=Andrew+L.+Jiranek%2c+Intellectual+Property+Secures+Debt+Financing&db=MDBJ&rlt=CLID_QRYRLT231241521179 10&method=WIN&service=Search&eq=search&rp=%2fsearch%2fdefault.wl&sp=UCanberra-03&srch=TRUE&vr=2.0&action=Search&rltdb=CLID_DB69455271717910&sv=Split&fmqv=s&fn=_top&rs=WLIN13.07> (12 November, 2011)
[252] Ibid, p. 1

technology based nations, and developing countries, which have realized the importance of how the IPRs can be used maximally, now provide a law regime that allows the nation to gather more benefit from intangible assets.

The discussions on the use of IPRs as collateral have been going on for some decades and the implementations have been continuous until today. Some countries have been implementing this matter and have regulations on it and some others are still discussing the possibility and figuring out how to regulate and implement it. Regarding the use of IPRs as collateral, Tosato[253] pointed out that:

> The employment of IP rights as collateral in secured transactions is hardly novel. In some countries, precedents can be traced back to the second half of the nineteenth century. Nonetheless, the practice has had limited success and has remained fairly uncommon. The advent of the information age has revived interest in this topic, as the relevance of such assets in national and international trade has increased significantly; in particular, various initiatives have been promoted to address the economic and juridical difficulties hindering these transactions, in the hope of rendering them more palatable to potential lenders and borrowers. [254]

Eventhough the idea of using IPRs as collateral in secured transactions has been received by more and more scholars and practitioners, Mesrobian and Schaefer[255] have emphasised that matters that should be considered and addressed regarding the use of IP as collateral:

> In any financing transaction involving intellectual property, both the lender and borrower must address the legal and practical issues connected with the use of such assets as collateral, as well as the complex interplay between intellectual property law and the commercial law underlying such secured transactions.[256]

Moreover, regarding the use of IP as collateral, John L. Mesrobian and Kenneth R. Schaefer stated that there are points that have to be considered:[257]

1. How the rights of IP are recognized
2. Rights of the licensee when the licensor requests to be acknowledged in a bankruptcy state.

[253] Andrea Tosato, 'The UNCITRAL Annex on Security Rights in IP: A Work in Progress' 2009 <http://jiplp.oxfordjournals.org/content/4/10/743.full.pdf> (15 July 2010)
[254] Ibid, p 2
[255] John L. Mestobian and Kenneth R. Schaefer, 'Secured Transactions Based on Intellectual Property' 1990 <http://heinonline.org/HOL/Page?handle=hein.journals/jpatos72&div=103&g_sent=1&collection=journals#853> (10 September, 2010)
[256] Ibid, p 828
[257] Ibid

3. When intellectual property assets are protected with different protections, for example, an invention which is first protected as a trade secret and then the owner registers it to be protected through a patent.

As for the countries which are still to make regulations on this issue, there is good news from the United Nations Commission On International Trade Law (UNCITRAL). UNCITRAL has issued the UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property. The Legislative Guide was approved at the 57th plenary meeting on 6 December 2010.

The objective of the UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property which is in line with the objectives[258] of the UNCITRAL Legislative Guide on Secured Transactions, are:

> (a) Intended to make credit more available and at a lower cost to intellectual property owners and other intellectual property rights holders; thus
> (b) Enhancing the value of intellectual property rights as security for credit.[259]

Jiranek[260] in his work clearly stated that IPs that are used as collateral are patents, copyrights, trademarks and trade secrets. Unfortunately, many countries seem to be more open hand to discuss and receive on the use of patents, copyrights and trademarks as collateral. There are many opinions and objections regarding the use of trade secrets as collateral. Yet, when a company is bankrupted, its trade secrets will also be among the assets that they have to surrender. It is an "unfair demand", when these assets cannot be used optimally to play a role in giving more advantages to the business but they have to be given up also. It could be that the trade secrets are the most important assets that actually win in the competition with competitors.

[258]'The overall objective of the UNCITRAL *Legislative Guide on Secured Transactions* (the Guide) is to promote low-cost credit by enhancing the availability of secured credit.' United Nations Commission on International Trade and Law, above n 32, p 1
[259]Ibid
[260]Andrew L. Jiranek, above n 251

Some countries have been accommodating trade secrets used as collateral by governing rules related to this practice. One of them is the United States of America. The first use of trade secrets as collateral was found in the United States: "The first trade secrets case in the United States involved the debt on a bond secured in part by a secret chocolate-making process in 1837."[261] Nowadays, trade secret have become collateral in the USA this is applied under the Article 9 of UCC[262].

In Thailand, based on the Procedures for the Loan Application Using Intellectual Property as collateral, trade secrets can be used as collateral after they have notificatified by the Department of IP (DIP).[263] The notification on trade secrets has been established since 2005.[264] As the Department of IP's website clearly stated, trade secrets which have been stated can be used as collateral.[265] Below is table which shows statistics regarding numbers of trade secrets which have been notified by the Department of IP.[266]

[261]Appendix B. *Vickery v. Welch* In R.M. halligan and R.F. Weyard, *Trade Secret Asset Management*, Aspatore Books, Boston, 2007, 181-186. Taken from: Kenan Jarboe, above n 208
[262]Lars S. Smith, above n 17
[263]IP Thailand, above n 91
[264]Department of Intellectual Property, can be retrieved from: 'Documents' n.d <http://www.ipthailand.go.th/ipthailand/index.php?option=com_docman&task=cat_view&gid=219&Itemid=81> (2 December, 2012)
[265]Department of Intellectual Property, 'Trade Secrets' n. d <http://www.ipthailand.go.th/ipthailand/index.php?option=com_content&task=section&id=23&Itemid=200&lang=en> (2 December, 2013)
[266]Department of Intellectual Property, above n 245

| ปี / Year | รวมทั้งสิ้น / Grand Total | ด้านอุตสาหกรรม / Industrial | | | ด้านพาณิชยกรรม / Commercial | | |
|---|---|---|---|---|---|---|---|
| | | รวม / Total | กรุงเทพ / Bangkok | ต่างจังหวัด / Provincial | รวม / Total | กรุงเทพ / Bangkok | ต่างจังหวัด / Provincial |
| 2555/ 2012 | **273** | **273** | 58 | 215 | **0** | 0 | 0 |
| 2554/ 2011 | **247** | **247** | 45 | 202 | **0** | 0 | 0 |
| 2553/ 2010 | **254** | **251** | 47 | 204 | **3** | 3 | 0 |
| 2552/ 2009 | **110** | **96** | 51 | 45 | **14** | 3 | 11 |
| 2551 / 2008 | **236** | **222** | 110 | 112 | **14** | 6 | 8 |
| 2550 / 2007 | **483** | **380** | 66 | 314 | **103** | 30 | 73 |
| 2549 / 2006 | **508** | **458** | 91 | 367 | **50** | 11 | 39 |
| 2548 / 2005 | **1,801** | **1,590** | 287 | 1,303 | **211** | 10 | 201 |
| รวม / Total | **3,912** | **3,517** | **755** | **2,762** | **395** | **63** | **332** |

Table 3: Statistics of numbers of trade secrets which have been notified by the DIP

It can be seen that the DIP has been notified trade secrets since 2005 and there are quite many of trade secrets which have been notified.

The current attention to the issue on the use of IPRs, which came from UNCITRAL, clearly stated trade secrets as one of the IPRs which could be used as collateral. In the Supplement the term of *Intellectual Property* refers to "copyrights, trademarks, patents, service marks, trade secrets and designs and any other asset considered to be intellectual property under the domestic law of the enacting State or under an international agreement to which the enacting State is a party."[267]

Indeed, with the nature of trade secrets, which must remain secret, this creates a major risk for creditors. But there are various types of trade secrets and some of them can be convenient for creditors to accept as collateral. Regarding this, Smith[268] stated that:

> If trade secret is instead embodied in a written form, such as the Coca-Cola formula or a company's customer list, identifying and valuing it is considerably easier. [269]

[267]United Nations Commission on International Trade and Law, above n 32, p 7
[268] Lars S. Smith, above n 17
[269]Ibid

Mesrobian and Schaefer[270] have indicated some points that lenders must make sure of, before giving loans with trade secrets as collateral, which are:[271]

1. There must be a confidentiality agreement to secure the secret information. The agreement must be signed by parties who have access to the secret information, such as employees, vendors and consultants.
2. Appropriate steps must be implemented to keep the trade secrets safe from disclosure. As Mesrobian and Schaefer stated below:

> Restrictions, legends and company policy on access to trade secret information, records and documents. [272]

3. The applicant for the loan should have procedure to avoid unlawful use by another party.

With the trend and emergence of using trade secrets as collateral, there are some points that are valuable to be reviewed in this section, which are:1) why trade secrets can be used as collateral; 2) what the advantages and disadvantages are of using trade secrets as collateral 3) the implementation of secured transactions which use trade secrets as collateral. Below, each of those points will be analysed:

3.1.Why trade secrets can be used as collateral

Trade secrets are often seen as a step-child of IPRs regime in secured transactions. As Smith stated:

> While much has been written about the issues surrounding security interest in patents, trademarks and copyrights; trade secrets are often ignored or dealt with superficially. [273]

Perrit, Jr[274] has found that there are some challenges when trade secrets are used as collateral in secured transactions. The challenges are:[275]

[270] John L. Mestobian and Kenneth R. Schaefer, above n 255
[271]Ibid
[272]Ibid
[273]Ibid.
[274] Henry H. Perrit, Jr, *Trade Secrets: A Practitioner's Guide*, Practicing Law Institute, New York, 2011
[275]Ibid, p 9-26 – 9-32.

a. The information on trade secrets should be kept undisclosed. The problem which arises according to this matter is that collateral should be registered. However, Perrit, Jr stated that, as trade secrets are classified as general intangibles under the Article 9 of UCC, the description of the collateral is needed, but it is not rigid. Therefore, the trade secrets which are used as collateral are allowed not to be described in detail. He gave examples on this matter by pointing to three cases: “under the authority of United States v. Antenna Systems”, in re Dillard Ford and in re Boogie Enterprises, Inc.

b. Usually, when a debtor fails to pay the loan, based on the Article 9 of UCC, there is not any problem that will arise. However, as for the case which uses trade secrets as collateral Perrit, Jr realizes that there are two problems, which are: “how to sell a trade secret without disclosing the secret” and “how to prevent the original debtor and secured party from using or disclosing the trade secrets”

   The Article 9 of UCC regulated personal properties which are used as collateral in general, therefore this is the shortage of this regulation when the personal property which is used as collateral is trade secrets. However, Perrit, Jr gave his insight regarding the issue:

   (a) Sale of trade secrets

   According to Perrit, Jr there are two ways to keep trade secrets undisclosed in the course of selling them. Either selling them with the bidders signing a confidential agreement, or the interested party who is willing to buy the trade secrets should buy them without having any access to them before buying them.

   Perrit, Jr has explained his above suggestions as below:

> Thus, the only feasible ways for the bank to sell the trade secret without abandoning the secret are to require the execution of nondisclosure agreements or to disallow any inspection of the formula. The latter opinion may be favorable to

> the bank for two reasons. First, this method guarantees secrecy, while the first method creates some risks of disclosure. Second, inspection of trade secrets may well be irrelevant to buyers. [276]

(b) Prevention of misappropriation of trade secrets

Potential problems that could be faced by a third party who buys the trade secret used as collateral after the borrower defaults are: the primary holder/owner (the debtor) or the lender "extinguishing the trade secret or using the trade secret for profit". Two aspects related to this issue are duty and enforcement.

Perrit, Jr has identified the problems faced when using trade secrets in secured transactions: however he also stated that the problems should not keep lenders from accepting trade secrets as collateral. As he stated:

> The dangers articulated here should not prevent the taking of trade secrets as security under Article 9. The hypothetical situation discussed merely points out the precarious position that a secured party could occupy should the entire value of the collateral depend on the resale value of a stand-alone trade secret. [277]

Perrit, Jr also stated that the Article 9 of UCC, in order to accommodate trade secrets which are used as collateral, needs to be modified, as stated:

> Possibly of more interest is the observation that Article 9 needs to be modified to account for the peculiarities of intellectual property collateral. In the context of the hypothetical transaction, the provisions governing repossession and sale of collateral do not protect adequately the third-party purchaser of trade secrets.

Lipton[278], has also found that using trade secrets as collateral will create problems, as she stated that: "a significant problem arises in transacting with trade secrets,

[276] Ibid.
[277] Ibid.
[278] Jacqueline Lipton, 'Intellectual Property in the Information Age and Secured Finance Practice' 2002 <http://international.westlaw.com/result/default.wl?mt=109&origin=Search&query=intellectual+property+in+the+information+age+and+secured+finance+practice&db=EIPR&rlt=CLID_QRYRLT885039710310&method=WIN&service=Search&eq=search&rp=%2fsearch%2fdefault.wl&sp=UCanberra-03&srch=TRUE&vr=2.0&action=Search&rltdb=CLID_DB5630954610310&sv=Split&fmqv=s&fn=_top&rs=WLIN13.07> (12 January, 2011)

specifically in the loan collateral context."[279] Lipton has identified some of these problems, as[280]

1. Regarding the nature of trade secrets which are secret information. Lipton stated that:

> In all trade secret law, statutory and otherwise, it is the secrecy of the information that gives it its value. Thus, the more attempts that are made to deal with the information between commercial parties, the more risk there is that the information will lose its quality of secrecy and therefore its value.

2. Even though technically it is possible to use trade secrets as collateral and still manage the secrecy, it is difficult in terms of its enforcement and costly to make the confidential agreements.
3. There will be more risk in using trade secrets as collateral, such as the difficulty in selling them if the borrower could not pay the loan. The problem is in relation to access to the secret information[281] and also probably the secret information is only valuable for the owners/holders but not for another party.

However, despite the problems stated above regarding the use of trade secrets as collateral, Lipton believes that trade secrets are very important, because trade secrets are cheaper and easier to get protected, compared to patents.[282]

Even though the idea of using trade secrets as collateral is still not so well received by many parties and there are challenges in using them as collateral, reasons why trade secrets can be used as collateral in secured transactions can be found:

a. There is a recommendation from UNCITRAL through the UNCITRAL Legislative Guide On Secured Transactions. And if a state would like to establish a specific law regarding the use of IPRs (including trade secrets) as collateral, the state could

[279]Ibid, p 6
[280] Ibid.
[281]Lipton stated that: "A financier would take the additional risks that it could not find the information to "sell" on default to an interested third party owing to lack of access rights to it (if not properly negotiated up front), or actual destruction of the information by the security provider. The financier also takes the obvious risk of the information entering the public domain during the course of the loan and losing its value." Taken from: Ibid.
[282]Ibid, p 7

follow the UNCITRAL Legislative Guide On Secured Transactions Supplement On Security Rights in Intellectual Property.[283]

b. The importance of trade secrets has become more significant nowadays.[284] Neufeld stated that trade secrets have become more important because of the development of technology and information.[285] Jorda[286] also stated that: "trade secrets are the crown jewels of corporations".[287] One of the countries which takes trade secrets very seriously is the U.S. The protection of trade secrets is given through UTSA and EEA. Furthermore, as protecting trade secrets is very important for the U.S. Administration, they have established a strategy which involves Departments of the U.S. Government.[288]

c. The theory of Jeremy Bentham[289] which is maximizing the use of something.[290] Since trade secrets do exist and when a debtor is bankrupted his/her trade secrets are also used as items to pay the debt, it will be fair if trade secrets also can be used as collateral.

d. Trade secrets are cheaper and easier to get protected compared to patents.[291]

e. Scholars and practitioners keep trying to find better methods in using trade secrets as collateral in secured transactions.[292]

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[283]United Nations Commission on International Trade and Law, above n 32
[284]Andrew L. Jiranek, Intellectual Property Secures Debt Financing, 2008, Westlaw (12 November, 2011)
[285]Robert T. Neufeld, 'Mission Impossible: New York Cannot Face the Future without A Trade Secret Act' 1997 <http://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=1139&context=iplj&sei-redir=1&referer=http%3A%2F%2Fwww.google.com.au%2Fsearch%3Frlz%3D1C1SKPH_enAU408%26sourceid%3Dchrome%26ie%3DUTF-8%26q%3DRobert%2BT.%2BNeufeld%252C%2BMission%2BImpossible%253A%2BNew%2BYork%2BCannot%2BFace%2Bthe%2BFuture%2Bwithout%2BA%2BTrade%2BSecret%2BAct#search=%22Robert%20T.%20Neufeld%2C%20Mission%20Impossible%3A%20New%20York%20Cannot%20Face%20Future%20without%20Trade%20Secret%20Act%22> (at 17 July, 2013)
[286] Karl F. Jorda, above n 43
[287]Ibid, p 1046
[288]Executive Office of the President of the United States, above n 72, p 2
[289] Jeremy Bentam, 'An Introduction to the Principles of Morals and Legislation' 1779 <heinonline.org.ezproxy1.canberra.edu.au/HOL/Page?handle=hein.beal/inprmo0001&id=1&collection=beal> (3 September, 2013)
[290]According to Bentham's principle of utility is that one or community can use property to produce something which bring benefit. Ibid, p 2
[291]Jacqueline Lipton, above n 256, p 7
[292]John L. Mesrobian & Kenneth R. Schaefer, above n 238,pp 855-858

f. Trade secrets are sold as one of a company's assets to pay a loan when the debtor has gone bankrupt[293]. Therefore, instead of just being sold when the rights holder is bankrupt, it will benefit the rights holder if trade secrets also can be used as collateral to raise the amount of the loan, which then could provide more capital to run the business.

3.2. What are the advantages and disadvantages of using trade secrets as collateral?

Remembering the controversy on trade secrets itself which gives impact to the use of trade secrets as collateral in secured transactions, the writer has identified that there are some advantages and a disadvantages in using trade secrets in secured transactions.

a. The advantages are:

- Protection through a trade secret is not costly and time consuming, like the other forms of IPRs.
- Trade secrets are more effective and efficient compared to the other forms of IPRs, such patents, copyrights or trademarks. Collateralization of trade secrets will not be as sophisticated as those IPRs, in terms of corresponding with IPRs offices throughout the world,[294] as long as there is agreement between the debtors and creditors regarding keeping the secret undisclosed.
- Trade secrets have an unlimited time of protection, unlike the other form of IPRs.

b. However, there are some disadvantages in using trade secrets as collateral in secured transactions. That is, when the information on the substance of trade secrets is disclosed to the public or to competitors, and if the value of trade secrets

[293]Eileen P. Kelly & G. Scott Erickson, 'Legal and Privacy Issues Surrounding Customer Databases and E-merchant Bankruptcies: Reflections on Toysmart.com, Industrial Management & Data Systems' 2004 <http://www.emeraldinsight.com/journals.htm?issn=0263-5577&volume=104&issue=3&articleid=850189&show=html> (14 June, 2013)

[294]See: Onecle, 'Security Agreement – Caldera Systems Inc. and The Canopy Group Inc. – Sample Co' no date, <http://contracts.onecle.com/sco/canopy.sec.1998.09.01.shtml> (14 October, 2013), p 4

disappears because another party finds the same information through reverse engineering[295].

3.3.The implementation of secured transactions which use trade secrets as collateral

Raymond[296] stated that there are two ways on using IPRs as collateral, First, the IPRs which are used as collateral are related to other assets of a company, and second, the IPRs are used as the main collateral.[297]

As for trade secrets, the example in the first case is when trade secret is kept in a personal computer, so the secret information is still stored in the PC. According to UCC Article 9 (44) the trade secrets will be classified as "Goods" which refers to (v) manufactured homes. The definition of "Goods" is "all things that are movable when a security interest attaches". Moreover, the term "manufactured homes" is:

> The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consist solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction. [298]

According to Smith[299] the processes of using trade secrets as collateral in secured transactions under the Article 9-102 UCC[300] are:1) classification; 2) attachment; 3) description and 4) perfection. Each of these aspects will be discussed:[301]

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[295] Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 9 U.S.P.Q.2d (BNA) 1847(1989). Taken from: Lars S. Smith, above n 17, p 561

[296] Anjanette Raymond, 'Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches; 2009 <http://international.westlaw.com/result/default.wl?cfid=1&mt=109&origin=Search&query=intellectual+property+as+collateral+in+secured+transactions%3a+collision+of+divergent+approaches&db=BUSLINTL&rlt=CLID_QRYRLT337284202013310&method=WIN&service=Search&eq=search&rp=%2fsearch%2fdefault.wl&sp=UCanberra-03&srch=TRUE&vr=2.0&action=Search&rltdb=CLID_DB755812919201310&sv=Split&fmqv=s&fn=_top&rs=WLIN13.10> (11 November, 2011)

[297]Ibid

[298]Legal Information Institute, 'U.C.C Article 9' 2002 <http://www.law.cornell.edu/ucc/9/article9.htm> (15 July 2012) , p 4-5

[299] Lars S. Smith, above n 17

[300]Ibid, p 556-566

[301] Ibid.

1) classification

It is a very important to be careful in doing the classification. Failing to do so will have a huge impact if a debtor happens to be bankrupt one day. As Smith[302] stated:

> ..., the types of personal property that may be used as collateral to secure a loan are divided into separate, mutually exclusive categories under Article 9 of the UCC. The effect of this distinction is that if the asset is not included in the description of goods covered by the security interest, the lender does not have a priority interest in the asset. Instead, the asset remains part of the bankruptcy estate, free of any lien, and may be sold to pay off any general creditors. Thus, the importance of properly classifying the asset is key in a bankruptcy case. [303]

However, Smith stated that sometimes it is not easy to decide whether an important piece of information used in business is a trade secret or not.[304] The importance of classifying carefully was shown in the case of *United States v. Antenna Systems, Inc.* In this case, the bank which gave a loan to Antenna Systems, Inc. did not put general intangibles in the list, therefore the U.S. District Court of New Hampshire had to decide whether the trade secrets of this company should be categorised as general intangibles or goods—the trade secret was written on paper.[305]

2) Attachment

Attachment is an effort which gives lenders or third parties the rights on collateral. Trade secrets can be attached based on section 203 Article 9 of the UCC.[306] The aforementioned article stated that attachment is a stage in a secured transaction in which the rights against the collateral become enforceable. However, the right could be postponed if there is a written agreement that states the right will not be enforced immediately. For attachment to occur, there are certain conditions which must be met, namely: 1) the collateral has to be given value; 2) the debtor has to

[302] Ibid
[303] Ibid, p 556
[304] Ibid.
[305] Ibid.
[306] Ibid, p 559

have rights against the collateral to benefit him/ herself or to assign to a third party, and 3) the creditor has to be given the right to the collateral either through possession or authenticated in writing.

3) Description

Smith stated that, remembering that trade secrets should be kept undisclosed, it is important to keep the information on trade secrets as minimal as possible. There is no example case where it was stated how much information on trade secrets should be given in the description stage. Regarding this, Smith has stated that: "... the UCC permits listing the assets by "Code-defined type (e.g. equipment, inventory, accounts, chattel paper, general intangibles, consumer goods, farm products, etc.)".[307]

4) Perfection

Perfection is a step which is conducted in order to secure a party's priority of collateral.[308] Smith[309] analysed the importance of perfection based on the Official Comment on Section 9-301. Perfection is carried out by the creditor if the debtor is unable to perform to satisfy the loan, and becomes insolvent. It secures the creditors' rights in relation to the collateral. The method of conducting perfection is by filing a financing statement. [310]

Trade secrets could not be perfected, as § 9-305 of UCC does not mandate general intangible, which trade secrets are qualified under general intangibles as collateral, as one of collateral that can be perfected. Smith[311] stated:

> Given that trade secrets are intangible assets, it would be conceptually difficult for a creditor to take possession of them. Presumably, to avoid arguments about who has possession of a general intangible, and whether such possession is sufficient possession to perfect the security interest, the UCC does not include

[307] Ibid, p 562
[308] Ibid, p 563
[309] Ibid
[310] Ibid, p 564
[311] Ibid

> general intangibles in the type of collateral in which a creditor may perfect its security interest by possession (i.e. without filing).[312]

Therefore, after the debtor attached trade secrets—the debtor should bring the security agreement to apply a financing statement with agency which has authority.[313]

Even though some trade secrets can put creditors at risk, there are some ways that creditors do to find solutions. Creditors should ensure the points below in considerations on taking one company's trade secrets as collateral. These points are: [314]

1. The creditor should check if the borrower has already taken the steps needed to keep its trade secret safe.
2. The borrower should be asked to make a policy for keeping its trade secret, to make sure the protection of the trade secret is safe. And the most important matter is, this is well implemented and known to all stakeholders including staff.
3. The borrower's staff members who have access to the trade secret should sign a confidentiality agreement.
4. It is important for the creditor to make sure that all the borrower's staff give reports to the borrower during their employment.
5. The creditor should always maintain the steps to keep the trade secret confidential.

It is not only the borrower who must be sure to take appropriate steps in keeping the trade secrets confidential, as the lender has consequences as well. The lender should minimize the number of employees who have contact with the trade secrets.[315]

What type of security interest is played by trade secrets? It depends on the agreement between the debtors and creditors. If the creditor is given the right to sell the trade secrets which are used as collateral, then the type of security interest will be called a "pledge".

[312] Ibid, p 565
[313] Ibid.
[314] Ibid.
[315] Ibid.

When the creditor is not given such a right, then it is under what is called "lien". A lien gives a right to the creditor to hold the trade secrets as collateral as long as the debtor has not fulfilled his/her obligation.[316]

A trade secret is secret information which gives benefit to the rights holder by using it in business and the rights holder maintain the secrecy by taking appropriate steps. The area of this information is very wide, because the information could be a formula, a recipe or customer data and so on. It should be noted that when a debtor uses customer data which is protected by trade secret protection as collateral, this is a type of lien.

Customer data is one of most valuable of a company's assets. However, when a client is asked about their data, most of the time there is a statement that the company will not give away the data to another party without consent. Therefore, when that company uses the customer data as collateral, this matter should be considered. Agin[317] stated that:

> Attachment and enforcement of a lien against the customer data itself, or the proceeds from its sale, is relatively straigtforward and well understood. However, where the data is held and used as subject to rights of customers, whether contractual or pursuant to Federal or state law, those rights might limit the lender's ability to attach and enforce a lien against the customer data.[318]

This Thesis found that the method on the use of trade secrets as collateral still need to be more improved to accommodate some challenges regarding the nature of trade secrets. Nevertheless, Jacobs stated that it is likely in the USA IP (including trade secrets) will be used as collateral more often in the future. It is because the USA has become a nation which depends on intellectual based businesses, as it no longer as industrialization based nation.[319]

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[316] Jacqueline Lipton, above n 256, p 2

[317] Warren E. Agin, 'The New Regime for Treatment of Customer Data in Bankruptcy Cases' 2001, Journal of Bankruptcy Law and Practice, Vol. 10

[318] Ibid, p 371

[319] Brian W. Jacobs, 'Using Intellectual Property to Secure Financing after the Worst Financial Crisis Since the Great Depression' 2011 <http://scholarship.law.marquette.edu/cgi/viewcontent.cgi?article=1178&context=iplr> (24 October, 2013)

Based on what Jacobs[320] stated, this thesis found that sooner or later the regime of the use of trade secrets as collateral will be steady and will be well received by many communities. It will become steady because many scholars and practitioners who have give their effort to give thoughts regarding this matter. It will be well received because with the increasing numbers of enterprises which have trade secrets and use those trade secrets as collateral with the better scheme which make the financial institutions become more and more comfortable in taking trade secrets as collateral.

## 4. Valuation of Trade Secrets

One topic that has arisen regarding the use of IPRs (including trade secrets) and other intangible assets as collateral is valuation. In order to be used as collateral, trade secrets need to be valued first. Valuation is measuring trade secrets as money.

There are several valuation standards for IPRs and intangible assets. The methods of valuing trade secrets given by Hagelin[321], Flignor and Orozco[322] and Halligan and Weyand[323] will be discussed.

Hagelin stated that the urgency of putting intangible assets into monetary terms is because of the number of companies' assets that lie in those intangible assets rather than physical assets.[324]

Hagelin[325] in 2002 proposed that method of valuing IPs including technical trade secrets[326] is the Competitive Advantage Valuation (CAV) method.[327] Even so, he stated that the method needs to be refined in order to make it more sufficient.[328]

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[320] Ibid
[321] Ted Hagelin, 'Valuation of Intellectual Property Assets: An Overview' 2002, <http://heinonline.org/HOL/Page?handle=hein.journals/syrlr52&div=47&collection=journals&set_as_cursor=33&men_tab=srchresults&terms=valuation|on|trade|secrets&type=matchall> (17 October, 2011), see also: Ted Hagelin, 'A New Method To Value Intellectual Property, AIPLA Quarterly Journal' 2002 <http://heinonline.org/HOL/Page?handle=hein.journals/aiplaqj30&div=17&collection=journals&set_as_cursor=80&men_tab=srchresults&terms=valuation|on|trade|secrets&type=matchall#361> (14 February, 2012)
[322] Paul Flignor & David Orozco, above n 35
[323] R. Mark Halligan & Richard F. Weyand, above n 35
[324] Ted Hagelin, above n 321
[325] Ibid
[326] Ibid, p 1138
[327] Ibid, pp 1137-1139

In their work, Halligan and Weyand[329] proposed a valuation method which they believed is the most suitable to value trade secrets—that is The Net Present Value of Future Cash Flows Method. Nevertheless, before discussing the aforementioned method, they discussed some methods and explained why those methods do not work for valuing trade secrets. Those methods are:

1. Depreciated cost. They stated that the problem with this method is that it is hard to capture what the cost of an IP is. This is because sometimes inventions or innovations are invented or innovated by coincidence, therefore it is hard to figure out how much money and time has been spent in innovating or inventing an IP.
2. Replacement cost. Actually, the same problem with the first valuation method is encountered by this particular method.
3. Fair market value. Regarding this method, their argument is that there is no market for trade secrets because trade secrets are unique.

In regards the Net Present Value of Future Cash Flows Method, they articulated that the principle in valuing trade secrets is to count how much money will benefit their owners or right holders. The formula for this method is by multiplying these factors:[330]

1. The total amount of future cash flow,
2. The discounted basis of that future cash flow as a present value, and
3. The probability of the future cash flow occurring.

However, Halligan and Weyand stated that the value of trade secrets can only be calculated when the rights holder demands his/her right to the trade secret over another party in a court.[331]

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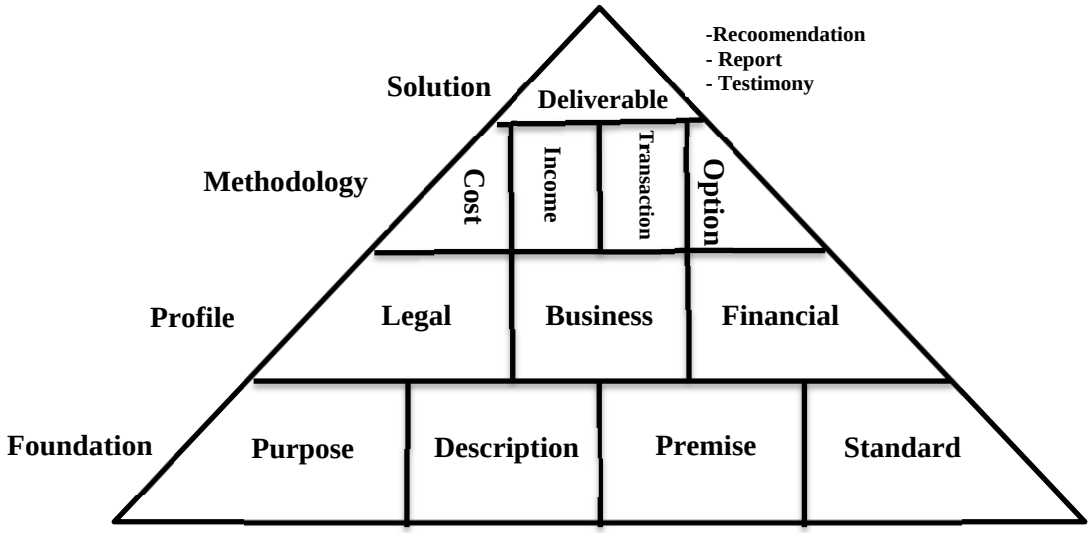
[328] Ibid, p 1140
[329] R. Mark Halligan & Richard F. Weyand, above n 35
[330] Ibid, p 19
[331] R. Mark Halligan & Richard F. Weyand, above n 35, p 20

The last work to be discussed is the work of Flignor and Orozco.[332] Compared to the first two, their work is the most suitable for this study, because they discuss valuation regarding IPs which are used as collateral, and they refer to IPs including trade secrets. They argue that IPs and Intangible Assets (IA) must be valued in monetary terms in order to make IPs well-received. Therefore they have suggested methods for valuing those assets.[333] It is worth noting that the IP which they acknowledged can be valued include trade secrets.[334]

They believe that there are some points or steps which must be established first before those assets are put into money. Those points or steps are drawn into what is called "The Valuation Pyramid" as shown below:[335]




Taken from Figure 1. the Valuation Pyramid[336]



The Valuation pyramid shows us that there are four levels that should be taken into account and every level has some aspects which must be pointed out.

The first level is the Foundation, which consists of:[337]

[332]Ibid.
[333]Ibid, p 1
[334]Ibid, p 3
[335]Paul Flignor & David Orozco, above n 35, p 2
[336]Ibid, p 2
[337]Ibid, pp 2-4

1. Purpose[338]: Flignor and Orozco[339] stated that it must be clear what the purpose of valuing IP and IA is—to know who the audiences are and what standard should be used. In general there are six purposes in doing valuation of IPs, which are:
    1) Transaction strategy: the purpose of valuation is either to sell, buy or license an IP. The audiences for this purpose are management and investors. The standard used is company specific.
    2) Financial reporting: the audiences for this purpose are investors and the Securities and Exchange Commission (SEC). The standards which can be used are either Generally Accepted Accounting Principles (GAAP) or Financial Accounting Standards Board (FASB).
    3) Litigation: the audience for this purpose is a trial court and the standards which can be used are "Georgia Pacific", "Panduit" Factors or Statute/case law.
    4) Bankruptcy: the audiences are the bankruptcy judge and creditors, while the standards which can be used are statute/case law, or those based on the bank's requirements.
    5) Financing/securitization: Flignor and Orozco stated that using IPs for this purpose is increasing nowadays. The audiences for this purpose are creditors and investors, while the standards which can be used are statute/case law.
    6) Tax: for this purpose the U.S. Government has established the Tax Code; therefore the standard which must be used for this is Per Tax Code (§§ 367; 482; 350; 197; 170), while the audiences are the Internal Revenue Service (IRS) and Foreign Tax Authority.
2. Valuation Description: this will provide information regarding the characteristics of those assets in general.

[338]Ibid, pp 2-3
[339] Paul Flignor & David Orozco, above n 35

3. Valuation Premise: this refers to projecting the use of the IP in question in the future. Flignor and Orozco stated that there is a premise which is usually used, that is, the 'best use' concept[340]. It means that the IP is valued at its highest value.
4. Valuation Standard: this refer to two valuation standards which are usually used, which are 'fair market value' and 'fair value'.

Level Two is the Profile. This consists of some aspects which describe the conditions of an IP regarding its legal, business and financial aspects. The conditions of an IP regarding those aspects will influence the value of the IP. The explanation of those aspects is as stated below:[341]

1. Legal Profile: trade secrets seen from this aspect will be screened as below:

| Trade Secrets Legal Attribute | Valuation Impact |
|---|---|
| Lasts as long as it remains secret | Value may change over time (e.g. Coca Cola formula |
| Reasonable efforts to maintain secrecy | Necessary for protection |
| Protection contracts | Presence secures trade secret status |
| Reverse engineering & Independent derivation | Allowed; What are probabilities of occurring? |
| Complexity | Limits probability of independent derivation |

Taken from Side Bar 1: IP Characteristics & Valuation[342]

Table 4 the Screening of Trade Secrets

2. Business Profile: this point is referring to the conditions of an IP in giving benefit to its rights owner/holder's business. Flignor and Orozco[343] recommended Michael Porter's 'Five Forces Analysis' in starting the analysis of this point. Nevertheless, they stated that for this point there is an important element that must be considered, that is the *economic characterization*. There are four ways in doing the assessment to work out the *economic characterization* of an IP, whether the IP is found through discovery, development, manufacture, or in the market. If the IP is found through discovery, then the IP has intense capacity, which is valued the highest (100%) and it will be given the status in its *economic characterization* of Entrepreneurial. In contrast, if the IP was

[340]Ibid, p 4
[341]Ibid, pp 4,5,9
[342]Ibid, p 7
[343] Paul Flignor & David Orozco, above n 35

found in manufacture, then the intensity of that IP is the lowest (25%) and it will be given the status in its *economic characterization* of Routine.

3. Financial Profile: this point allows the valuer to go through some questions in order to develop a financial profile of an IP. Those questions include but are not limited to: "projected revenues, costs and capital requirements associated with commercializing the intangible; estimated time to commercialize the asset; estimated cost of non-infringing alternatives; time value of money (cost of capital) associated with the intangible; impact of the commercialization on working capital (accounts receivable and accounts payable)."[344]

Level Three points out some methodologies which can be chosen, based on the answers to the points in Level One and Two. Flignor and Orozco recommend these four valuation methods:[345]

1. Transactional or 'market approach' is a valuation method which monetize IPs according to the same price as similar IPs in the same state of affairs. However, they believe that this method is hard to apply in valuing IPs which have the strongest economic characteristics (which has been discussed above—in Business Profile) because these IPs are unique and therefore the chance of finding another similar IPis very limited.
2. Cost (Replacement Cost Method). The idea in this particular method is counting the value based on the cost which was expended when an IP was being invented. In addition, Flignor and Orozco stated that there are some practitioners who differentiate the Replacement Cost Method and the Reproduction Cost Method. The Replacement Cost Method is used when the valuer counts the value based on how much cost will be expended when one innovates or invents the same innovation or invention, but

[344]Ibid, p 9
[345]Ibid, pp 9-16

protected with a different form of IP. However, the Reproduction Cost Method is valuing an IP based on the cost which will be expended when one reproduces the same innovation or invention, which will be protected under the same form of IP. Fignor and Orozco stated that the Reproduction Cost Method is probably most suitable for valuing trade secrets, but patents, trademarks and trademarks are not suitable for this method of valuation.

3. The Income Method consists of these components: "projected cash flows, the economic life of the IP and the discount rate"[346]. However, Flignor and Orozco pointed out that this method is subjective.
4. Binomial/Options: Options refers to a new IP valuation methods family, for examples, real options, binomial models, and Monte Carlo simulations.

Level Four which is Solution, provides three components, which are planning recommendation, compliance and dispute resolution.

Flignor and Orozco[347] have stated that valuation methods on IPs continue to be developed. Nevertheless, they argue that the most important phases which should be assessed by a valuer when valuing IPs are the first two levels of the pyramid, which are the Foundation and the Profile.

In conclusion, valuation is one of the most important matters that should be considered when trade secrets are used as collateral and it is very difficult. However, based on Flignor and Orozco's arguments, to help valuing IP and an IA, a valuer should establish the foundation and profile as guidance, to decide what method is the most suitable to value the IP in question. It is also important for an IP valuer to update his/her knowledge regarding

[346] Ibid, p 11
[347] Paul Flignor & David Orozco, above n 35

methods in valuing IPs because Hagelin[348] and Flignor and Orozco[349] noted that such methods are continuing to be developed.

Regarding the best method in giving value to trade secrets, this thesis considered that the method which is given by Flignor and Orozco is the most appropriate. It is because such method includes trade secrets which aim trade secrets used as collateral. Furthermore, the method covers aspects which need to be addressed in valuing IP, including trade secrets.

## 5. Trade Secrets in Bankruptcy

This section will be divided into two parts. The first will discuss bankruptcy proceedings regarding trade secrets. The second part will be a discussion about one bankruptcy case. It is the case of Toysmart.com. What happened with this case was that in order to get the highest benefit from selling its assets, the company (Toysmart.com) tried to sell its customer data separately. The problem was that the customers did not agree that their personal data should be sold to another party, as Toysmart.com had stated that they would never give the data to another party. Furthermore, if Toysmart.com sold the customer data separately, there would be a chance of selling it to an irresponsible buyer. The studies which will be discussed for this section are from: Smith[350],Menel[351], Sandeen[352] and Kelly and Erickson[353].

### 1. Bankruptcy proceedings regarding trade secrets

In 2000, Smith[354] examined bankruptcy proceedings which involved trade secrets. He stated that bankruptcy is actually a process given to an entrepreneur to overcome a critical situation so that he/she can pay debts by selling assets of the company.[355]

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[348] Ted Hagelin, above n 321
[349] Paul Flignor & David Orozco, above n 35
[350]Lars S. Smith, above n 17
[351]Peter S. Menel, above n 35
[352]Sharon K. Sandeed, 'Identifying and Keeping the Genie in the Bottle: The Practical and Legal Realities of Trade Secrets in Bankruptcy Proceedings' 2008 <https://journals.gonzaga.edu/index.php/gulawreview/article/view/110/87> (16 August, 2012)
[353]Eileen P. Kelly & G. Scott Erickson, above n 268
[354] Lars S. Smith, above n 17
[355]Ibid, p 566

Bankruptcy cases in U.S.A. belong to the jurisdiction of the Bankruptcy Courts. According to the U.S Bankruptcy Act, all debtors' assets are qualified as "estate".[356] Trade secrets are classified as intellectual property as stated in § 101 (35A).[357] In this process, trade secrets should be disclosed to the trustee.[358]

There was a case where a debtor did not include trade secrets in the estate when he filed for bankruptcy and later on he faced a challenge by his creditors. The case was *In re McGee*.[359]

Some years later, in 2007, Menel[360] proposed that the US Authority should carry out law reform regarding their Bankruptcy Act. This was because he believes that the perspectives of Intellectual Property Law and the Bankruptcy Act are different, as the Intellectual Property Law is based on The Ex Ante Perspective, while the Bankruptcy Act based on an Ex Post-Debtor Perspective.[361]

In 2008, Sandeen also stated that the US Bankruptcy Act should be reformed, based on the understanding that the Act fails to regulate specific treatment for trade secrets and that trade secrets should be given a kind of treatment which will keep them undisclosed in bankruptcy cases.[362]

To sum up, trade secrets are unique therefore they need a particular treatment in bankruptcy proceedings. The uniqueness of trade secrets is that the value lies in their secrecy. Therefore, the law must ensure that trade secrets are treated correctly to maintain their value and this must be implemented also when a company is in the state of bankruptcy and has to sell its trade secrets in the effort to pay its debts.

[356] Ibid, p 570
[357] Ibid.
[358] Ibid.
[359] Ibid.
[360] Peter S. Menel, above n 35
[361] Ibid
[362] Sharon K. Sandeen, above 310, pp 81-122

2. Toysmart.com case

In the digital era, where online businesses grow like mushrooms in the rainy season, transactions happen through the internet. Therefore, personal data of customers will be held in the company's databases. These personal data are valuable. When the companies file for bankruptcy these data are included as assets which are sold as an effort to pay creditors. The consumer data can be protected as trade secrets when it is undisclosed to a third party.

In 2000, there was a case which involved many people in U.S.A. An online business which sold baby apparel was bankrupt and they wanted to sell their assets—including consumer data which they kept confidential.

Kelly and Erickson[363] discussed the case from various perspectives. Those perspectives are:[364] 1) consent decree and settlement; 2) consumer privacy rights versus creditor recovery rights; 3) property rights arguments; and 4) contract law arguments. Below are further explanations for each of these perspectives:

1) Consent decree and settlement

The Federal Trade Commission (FTC) stood on the consumers' side. As the consumers did not want their data disclosed to another party, the Federal Trade Commission (FTC) filed the case to the U.S. District Court of Massachusetts. Later, the FTC gave a recommendation that Toysmart.com was allowed to sell the consumer data as long as it was not sold together with the other assets. Toysmart.com agreed and stated that it would sell it to a company with a similar business—which is providing family apparels (for example). The court agreed[365]

[363] Eileen P. Kelly & G. Scott Erickson, above n 268
[364] Ibid, p 2-4
[365] There was a dissenting opinion which came from Commissioner Orson Swindle. He argued that as Toysmart.com has promised to the consumers that they will not open the consumer data to third party, then they are not supposed to sell it at any time. Eileen P. Kelly & G. Scott Erickson, Ibid, pp 2-3

but the settlement would be applied as long as the Bankruptcy Court agrees. Nevertheless, the Bankruptcy Court declined the settlement.

2) Consumer privacy rights versus creditor recovery rights

   There is a conflict between the needs of consumers to keep their data confidential from another party and the needs of creditors to sell assets of the debtor for the highest price, so that there is enough liquidity to pay the debtor's debt.

3) Property rights argument

   Based on the Bankruptcy Code, consumer databases are the property of their companies.

4) Contract law argument

   Many online businesses give their promise—on their website—to their consumers that they will not open their consumers' data to a third party. Regarding this matter, it is important that the consumers really read the policy regarding that promise and then give their agreement to it and the online business gets confirmation regarding this. As for the Toysmart.com, the consumers did not complete those steps.

Kelly and Erickson[366] suggested that the Bankruptcy Code should be reformed in order to protect consumer data. From the Toysmart.com case, it can be seen that the most problematic situation with customer data is when a company has given its promise to customers that they will not give the data to another party—and the customers give their data based on that promise. Therefore, it is important for governments to pay attention to this matter and make regulations regarding the matter in question.

All in all, it is essential to provide proceedings in Bankruptcy which maintain the value of trade secrets—which means requiring undisclosed protection of the business information. Nevertheless, the case of The Toysmart.com, where the clients did not allow their

[366] Eileen P. Kelly & G. Scott Erickson, above n 268

personal data to be given away to another party, as Toysmart.com stated that their personal data would be sold to another party, is a reminder that it is important for companies to think more deeply before giving such a promise to their customers. It will have an effect when they have to sell their assets, including their customer data, in order to gain liquidity in the effort to pay their debts to creditors.

## 6. Conclusions

One of problems which is often discussed regarding trade secrets is whether trade secrets are property. The question arises because many scholars and practitioners take the view that the establishment of this matter will lead to an appropriate treatment for trade secrets. However, Epstein stated that it does not matter whether trade secrets are property or not, because the most important thing to be settled is to build a better method in dealing with trade secrets.[367]

In the discussion on whether trade secrets can be used as collateral, the key points which arise are: UNCITRAL has given its recommendation regarding this matter; trade secrets have become more important in this digital era; based on Jeremy Bentham's theory, the process of having protection through trade secrets is the simplest compared to the other IPRs; betters methods to deal with trade secrets are being found, and trade secrets are included as assets to be sold when debtors go bankrupt.

Even so, there are disadvantages in using trade secrets as collateral. Those disadvantages relate to the event when the secret information is disclosed to the public and the company's competitors and when a party could find the information through reverse engineering.

It is not an easy thing to calculate the monetary value of trade secrets. However, Hagelin, Flignor and Orozco and Halligan and Weyand have proposed methods that they believe can be used to value trade secrets.

[367]Richard A. Epstein, above n 235

One more thing that is highlighted in this chapter is about trade secrets in bankruptcy. The Bankruptcy Code of the US is criticized by Menel and Sandeen as they argue that the Code should be reformed to give better treatment to trade secrets in bankruptcy cases. Although trade secrets are sold together with the other assets of a company which files for bankruptcy, the company should take much care in selling their customer's data.

**Part One: Analysis of Trade Secrets and Matters Related to Trade Secrets Regarding their Use as Collateral**

# CHAPTER 4

# TRADE SECRETS AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDONESIA

## 1. Introduction

The previous chapter discussed trade secrets and some of their aspects which are implemented in certain countries. It can be seen that all those countries accept and implement the mandate from TRIPS[368] regarding trade secrets. Even though the level of acceptance and the implementation of trade secrets are not the same, nevertheless those countries satisfy the requirements of TRIPS[369].

This chapter will explore trade secrets in Indonesia. Moreover, because the topic of this thesis relates to trade secrets and MSMEs, those types of enterprises will also be discussed. Furthermore, their relevancy will be considered in order to help the developing economy of the people of Indonesia.

Indonesia is a country that lies in East Asia with a population of more than two hundred million people (237.556.363 people)[370] and a total area of 1.910.931 km2.[371] It has five large islands, however the distribution of the population is concentrated in Java, one of its large islands.[372]

[368]The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[369]The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[370]The data was in 2010. Central Bureau of Statistics, 'The results of the 2010 Population Census Data by Province Aggregate' 2010 <http://www.bps.go.id/download_file/SP2010_agregat_data_perProvinsi.pdf> (1 September 2013), p 6 (Original in Bahasa Indonesia)
[371] Ibid.
[372] Ibid.

Chapter 1 stated that Indonesia is one of the signatories of TRIPS[373]; therefore Indonesia must apply the mandates given by TRIPS[374]. As Indonesia is a developing country, consequently they had to provide legal protection on IPRs by the year 2000. Indonesia indeed satisfied this obligation to TRIPS[375]. By the year 2000, Indonesia was equipped the required with IPR laws. One of the laws is *Undang-Undang Nomor 30 tentang Rahasia Dagang (*the Law Number 30 Year 2000 regarding Trade Secret). Compared to the others IPR laws, trade secrets law is the simplest. It only consists of 19 Articles. However, those articles cover important points, which are: definition of trade secrets; scope of trade secrets; rights of owners; transfer of rights and licences; dispute resolution; infringement of trade secrets; investigation; criminal provisions and court proceedings. In order to maintain the trade secret as undisclosed to the public, the process of the court can be undisclosed to the public when the parties ask to the judge for this).

Even though Indonesia is one of the signatories of the TRIPS[376] and has implemented some IPRs laws, there are some scholars who question the benefit of those laws for the Indonesian people. Sardjono has stated that the value of the IPRs regime actually is different to the value which is held by the Indonesian people. IPRs are seen as a system of capitalistic-individualism.[377] While Indonesian people hold communalist values, as discussed in chapter I. Furthermore, he stated that there has not been any significance for the existence of IPR laws in Indonesia.[378] He believes that at the moment the benefit for Indonesia in having such laws is that Indonesia is not isolated from other countries, because in the future, with free trade, Indonesia needs other countries.[379]

[373] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[374] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[375] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[376] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[377] Agus Sardjono, t*he Development of Indonesian Intellectual Property Law*, CV. Nuansa Aulia, Bandung, 2009, p 17.
[378] Ibid.
[379] Ibid, 18

Those views may still be true if the people of Indonesia do not exercise the benefit of IPR protection, which is to be more creative. This creativity will lead to new inventions and innovations. These inventions and innovations will need to be protected by an IPR regime. The Government of Indonesia encourages creativity from its people since the policy to develop creative industries has been established since 2008.[380] Therefore, the regime of IPRs is becoming very important.

Another scholar who has questioned the benefit of one of the IPR laws, the trade secrets law, is Juwana. He has stated that legal policy is very important because by knowing the legal policy of the establishment will provide comprehension regarding reasons and what the contents of the law in question are going to be.[381] The reasons why a law is established could be divided into two, which are basic policy and enactment policy. In relation to enactment policy, however, he has questioned whether the people of Indonesia really need trade secrets law. Furthermore, he has also questioned which people in Indonesia need such law.[382]

These questions by Juwana make sense. Even in the U.S.A. where the Government of U.S.A takes trade secrets very seriously, as discussed in chapter 2, there are challenges from scholars regarding the need for trade secrets law, as also discussed in chapter 2. Even though the reasons for questioning the importance of the existence of trade secrets law are similar, the backgrounds are not the same. Juwana is concerned whether the law will be effective, since it is not clear which people in of Indonesia need this law.

Risch stated that one of the reasons that trade secrets law is justified is a populist justification, that because there were many enterprises who demanded that the legislative

[380] Indonesian Working Group Design Power-Ministry of Commerce of the Republic of Indonesia , above n 77
[381] Hikmahanto Juwana, 'Politics of Law on Indonesia's Economic Laws' 2005 <http://repository.usu.ac.id/bitstream/123456789/15356/1/huk-2005-%20(4).pdf> (23 June, 2013), p 24
[382] Ibid, pp 28-29

authorities establish trade secrets law. The aim of such action was in order to protect their trade secrets.[383]

Based on Risch's view, trade secrets law has an important role in Indonesia because there are enterprises in Indonesia which have trade secrets. Up until now, there are more enterprises which become aware with the important of keeping vital information—which has not commonly known—undisclosed to public. Therefore, they do need trade secrets law to protect their trade secrets. As an example, as has been stated in chapter 1, there is an enterprise which has trade secrets, which is UM Wedding Card. Beside the aforementioned enterprises, more examples of enterprises which have trade secrets are: PT General Food Industries (Ceres)[384]; PT Datapati[385]; and Priapantja stated that there are numerous enterprises which run business in pharmacy which have trade secrets[386].

The Law Number 30 Year 2000 regarding Trade Secrets not only gives protection to trade secrets, but also has some provisions which give important characteristics of trade secrets which benefit the owner or the rights holder. Some examples are: trade secrets can be transferred and licensed.

Sardjono wrote that the implementation of an IPRs regime will only give benefit to Indonesia if Indonesia can be economically independent.[387] This thesis argues that one way to become economically independent is by empowering MSMEs and making them aware of the importance of IPRs, so that protecting their IPRs as soon as possible will give benefit to them. There are two reasons: 1) the Article 33 (4) of the Constitution of the Republic of Indonesia stated that the foundation of the Indonesian economy is economic

[383] Michael Risch, above n 27, p 36
[384]Pikiran Rakyat Online, 'Ceres Factory Sued 110 Billion Rupiahs by Its Former Employees' 2011, <http://www.pikiran-rakyat.com/node/155942> (21 October, 2013) (Original in Bahasa Indonesia)
[385]Hukumonline.com, 'Sending Quotation, an Employee Charged withViolating Trade Secrets' 2010 <http://www.hukumonline.com/berita/baca/lt4bbb5d604c50d/kirim-iquotationi-karyawan-didakwa-langgar-rahasia-dagang> (21 October, 2013) (Original in Bahasa Indonesia)
[386]Cita Citrawinda Priapantja, *Culture of Indonesia's Law Facing Globalization on Trade Secret Protection in the Pharmaceutical Sector*, 3rd ed, Chandra Pratama, Jakarta, 1999, p 260 (Original in Bahasa Indonesia).
[387]Agus Sardjono, above n 331, p 19

democracy, which means it requires as many people as possible to participate in economic activities; and 2) it is because the number of MSMEs in Indonesia is more than 90%.[388]

The Government of Indonesia has established a particular regulation regarding MSMEs. It is *Undang-Undang Nomor 20 Tahun 2008 tentang Usaha Mikro, Kecil dan Menengah (*The Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises). This law was established in accordance with Article 33 of the Constitution. The article states that the economy of Indonesia is an economy which requires participation from all Indonesian people.

According to Vandenberg, MSMEs are very important for their products and provide job availability. More than 90% of enterprises around the globe are characterized as MSMEs.[389] The case is the same with Indonesia as more than 90% of enterprises are MSMEs.[390]

This study shows that there are some relevancies for trade secrets with MSMEs. Those relevancies are: 1) regarding the policy to develop creative industries; 2) enterprises which have trade secrets need their employees' loyalty to keep their trade secrets undisclosed and based on research, employees of smaller companies are more loyal than in big companies; 3) many MSMEs choose trade secrets; 4) in franchising—where MSMEs franchise their businesses including their trade secrets; and 5) learning from other countries that trade secrets can be used as collateral, so it is suggested that trade secrets should be used as collateral by MSMEs.

[388]Ministry of Cooperative and SMEs, above n 62
[389]Paul Vandenberg, 'Sustainable Enterprise Programme Micro, Small and Medium Enterprises and the Global Economic Crisis Impacts and Policy Responses' 2009 <http://www.ilo.org/029D0A57-677A-4D51-A3B3-F4D600A715AB/FinalDownload/DownloadId-A9A2F9EF7CD62332436E26101BA7FC54/029D0A57-677A-4D51-A3B3-F4D600A715AB/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_108413.pdf> (22 June, 2013), p 7
[390] Ministry of Cooperative and SMEs, above n 62

## 2. The Nature, Characters and the Importance of Trade Secrets

Priapantja states that the Government of Indonesia has put its efforts into establishing appropriate regulations in IPRs since the year 1986. The Government established a body which was named "*Tim Keppres 34"* (Presidential Decision Team 34), which was dissolved in 1998. The team later succeeded in establishing some IPR regulations, which are: the amendment of the Law of Copyrights; Patent Law; Trademark Law.[391] The establishment of trade secrets law has been discussed above.

It is worth mentioning that before the Government of Indonesia established the Law Number 30 Year 2000 regarding Trade Secrets, trade secrets were protected based on some articles in the Civil Law and in *Undang-Undang Nomor 5 Tahun 1999 tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak sehat* (the Law Number 5 Year 1999 regarding Prohibition of Monopolistic Practices and Unfair Business Competition) as mentioned in the Background in Chapter I. Purba stated that trade secrets have been acknowledged by the law in Indonesia in regulations left by the Dutch. That is in *Kitab Undang-Undang Hukum Pidana* (the Criminal Code) and *Kitab Undang-Undang Hukum Perdata* (the Civil Code).[392] It shows that trade secrets are actually not a new thing in Indonesia. However, a particular law regarding trade secrets has been established as Indonesia fulfilled her obligation as one of the TRIPS'[393] signatores. In this chapter, points regarding trade secrets based on regulations are based on *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secrets).

In Chapter 2, the nature of trade secrets in several countries was described. The recognition of trade secrets varies and could be different in each country, it because

[391] Cita Citrawinda Priapantja, above n 340

[392] Achmad Zen Umar Purba, *Intellectual Property Rights after TRIPs,* 2005, PT. Alumni, Bandung, p 158 (Original in Bahasa Indonesia)

[393] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.

TRIPS[394] only mandates that the assignees give minimum protection as stated in TRIPS[395]. Therefore, when a country has a need to interpret more than has been stated in TRIPS[396], this is allowed. Below, trade secrets according Indonesia are explained, and the extent of the importance of trade secrets in Indonesia is reviewed.

2.1.Trade secrets according to Indonesia

In this particular part, the writer will discuss about some aspects of trade secrets in Indonesia. The aspects in question are: the definition and character of trade secret;, the infringement of trade secrets and a case on trade secrets.

2.1.1. The definition and character

The Government of Indonesia gives a definition of trade secrets as stated in Article 1 (1):

> *Rahasia Dagang adalah informasi yang tidak diketahui oleh umum di bidang teknologi dan/atau bisnis, mempunyai nilai ekonomi karena berguna dalam kegiatan usaha, dan dijaga kerahasiaannya oleh Pemilik Rahasia Dagang."*
> (Trade Secrets are technology and/or business information which are not known by the public, have economic value because they are useful for the business and are kept undisclosed by their owners.)

Based on that definition, the Government of Indonesia clearly stated that information in business and/or technology which has yet not been known by the public can be protected through trade secrets law. It means that when a person invents a technology invention and does not want to protect it through the patent law or it happens that he/she has not money or time to file registration to the authority, the invention will be protected by trade secrets law right away. The important thing is that he/she keeps it undisclosed from the public.

Article 2 explains the scope of the information meant by Article 1. Article 2 stated that:

[394] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[395] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[396] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.

> *Lingkup perlindungan Rahasia Dagang meliputi metode produksi, metode pengolahan, metode penjualan, atau informasi lain di bidang teknologi dan/atau bisnis yang memiliki nilai ekonomi dan tidak diketahui masyarakat umum."*
> (Scope of protection on Trade Secrets includes production methods, processing methods, selling methods, or any other information in technology and/or business which has economic value and is not known by the public.)

The Scope is very broad, however there is a limitation, that the information must bring economic value to the business and be unknown to the public. The elaboration of the scope is quite simple. Taking into account what happens in other countries which also have particular regulations regarding trade secrets, it would probably be a good idea to define the scope of trade secrets in more detail, as, for example, in the Economic Espionage Act of the USA. The USA has actually has defined trade secrets in some regulations, which are: The Restatement of Torts in 1929, Uniform of Trade Secrets Act (UTSA) in 1985, Restatement (Third) of Unfair Competition in 1985 and the latest through the Economic Espionage Act (EEA) in 1996, as mentioned in Chapter 2. In the EEA, trade secrets are elaborated as:

> The term trade secret means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes...

Based on that elaboration, it could be a good idea if the law makers in Indonesia also gave such exposure to the scope of trade secrets in the Trade Secrets Law, or at least in the Explanation of the Law. This will give more insight to the people of Indonesia, more over because trade secrets are not familiar in Indonesia.

However, this definition and the scope are sufficient for what has been mandated by Article 39 of the TRIPS[397]. That article stated that a party has the right to protect any of his/her valuable information as long as it is kept undisclosed to the public and it has commercial value.

[397] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.

Article 4 stated that there are two ways an owner of trade secrets can use his/her rights on trade secrets. These are: a) by using the trade secret for the owner himself/herself; b) by licensing it or prohibiting another party from using or disclosing the trade secret for commercial purposes.

Furthermore, trade secrets also can be transferred like other types of IPRs, such as patents or copyrights, as stated in chapter 1). This point is stated in Article 5, that trade secrets can be transferred through: inheritance, bequest, testament, written agreement, or another cause which is justified by law. When an owner transfers his/her trade secret right, he/she must give it together with a document which is issued by the Directorate General of IPRS Office (Article 5 (2)). In addition, the transfer of the right must be recorded in the IPRS Office to make it effective for another party (Article 5 (4)).

Moreover, Article 15 (1) is likely in accordance with Article 39 Paragraph 3 of TRIPS[398] which allows interference with trade secrets which is considered to be for public safety.

To sum up, the Government of Indonesia has interpreted the definition and the characteristics of trade secrets to the full extent that the TRIPS[399] has mandated.

2.1.2. Infringement and the court process

The law of trade secrets qualifies infringement, which actions shall be considered an infringement of a trade secret owner's right and which actions are not. They are stated in Articles 13–15. The treatment of trade secrets is different, compared to patents, trademarks, copyrights or designs, as trade secrets cases are processed in general courts as stated in Article 11 and the verdict of the judge could be imprisonment and/or a fine, as stated in Article 17. While in the case of Patents, it

[398] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.
[399] The Agreement on Trade related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994.

is clearly stated in Article 120 of the Law Number 14 Year 2001 regarding Patents that cases in patents are processed by the Commercial Court (*Pengadilan Niaga*). However, for trade secrets, Article 12 stated that there are other ways to resolve the problem through arbitrage or other alternatives such as negotiation or mediation, as stated in the Explanation of Article 12 of the Trade Secrets Law. The process in court can be closed to the public if the parties ask to do so (Article 18).

2.1.3. Example case on trade secrets

There is an interesting case, of which the first episode is that PT. General Food Industry Bandung (GFIB) sued Rachmat Hendarto and Andreas Tan Giok San (former employees). They were two staff members of PT. Bumi Tangerang Mesindotama and were accused of undisclosing trade secrets of PT. General Food Industry Bandung (GFIB), which is subject to Article 13 jo. Article 17 Trade Secret Law jo. Article 55 section (1) point 1 of the Criminal Code. They were entangled with Article 13 of the Trade Secrets Law because it was considered that they infringed and disaffirmed a written agreement letter and disclosed trade secrets of GFIB. The scenario of this case according to GFIB is that the two staff members used to be staff of GFIB, Rachmat Hendarto held a position as a process engineer or process superintendent, while Andreas Tan Giok San held a position as roaster engineer or roaster supervisor. When they were still contracted to work in GFIB, they left the company and worked for PT. Bumi Tangerang Mesindotama, which was running the same business as GFIB. The two companies are running businesses manufacturing cacao beans to produce procssed food. In their effort to deceive GFIB, they sent work applications with different names.[400]

[400]Merdeka.Com, 'Looking for Prosperity, Two Employees Indicted leaked Trade Secrets' 2007 <http://www.merdeka.com/hukum-kriminal/cari-kesejahteraan-dua-karyawan-didakwa-bocorkan-rahasia-dagang-61yed09.html > (21 June, 2013) (Original in Bahasa Indonesia)

Later, in 2011, the two ex-employees sued their former employer (GFIB) after *Mahkamah Agung (*the Supreme Court) through *Putusan Kasasi MA No. 3220/Pan.Pid.Sus/2085 K/PID.SUS/2008* decided that they were not guilty. Later they sued GFIB because GFIB had harmed them both materially and immaterially. Their lawyer stated that the decision of the Supreme Court is not just a triumph for his clients but also for all employees. This is because this particular decision creates a standard that no employee can be sued because they move from their former workplace to another workplace which requires the same skills, by accusing them of disclosing trade secrets of the former workplace. [401]

From the above case, it can be seen that, according to GFIB, its trade secret is very important. GFIB was very afraid that its former employees would disclose its trade secrets to their current employer and that would mean that GFIB was left behind in business competition. Their worry could be considered to be normal, as Seikh stated that employees are the key to the success or the failure of an enterprise regarding protection of IP.[402] Therefore, he articulated that it is important for employers to maintain their trade secrets as well as to maintain their employees' loyalty.[403]

Seikh emphasized that there are some ways of maintaining the loyalty of employees, through contracts, emotion, proportional salary, monitoring employee activities appropriately and conducting interviews before employees leave the enterprise.[404]

In relation to the aforementioned case, the two former employees left GFIB because they believed that they did not received an appropriate salary. Therefore,

[401] A-113/A-88, 'Ceres factory Rp 110 Billion Sued by Former Employees' 2011 <http://www.pikiran-rakyat.com/node/155942> (21 June, 2013) (Original in Bahasa Indonesia)
[402] Talhiya Deikh, above n 40
[403] Ibid, pp 4-5
[404] Ibid.

it can be concluded GFIB has failed to maintain its employees' loyalty to the company. However, when employees leave their former workplace for a new one, it does not mean that they will disclose the former workplace's trade secret. This matter needs careful investigation.

2.2. Why trade secrets are important

People often compare patents and trade secrets. When Jorda discussed patents and trade secrets, he stated that trade secrets can be used together with patents. This means that the secret information, which is know-how, is protected through a trade secret and the new technology invention is protected through a patent[405]. When one uses them together through such a method, this will give more benefit to the rights owner/holder.[406] However, not all know-how can be qualified as trade secrets. [407]

Regarding the importance of trade secrets, Jorda has explored this matter.[408] He stated that trade secrets are important assets for enterprises and the number of enterprises which use this type of IPR is increasing. Moreover, the injunction for cases in trade secrets misappropriation is very large. As examples, Jorda stated that in the cases of two business men versus Walt Disney Company regarding the Walt Disney Sport Complex, which was won by the two business men, they received an injunction of as much as $ 240 million.[409]

Jorda also considered the opinions of Mark Halligan, James Pooley and Henry Perritt and concluded that their opinion supports the idea that trade secrets are more important than patents. This is because patents have a limitation. Examples of the limitations are "early publication, invent-around feasibility, and strict patentability

[405] Know-how is an ability to perform a certain job. Karl F. Jorda, above n 43, p 1045
[406] Ibid, p 1043
[407] Ibid, p 1045
[408] Ibid, Chapter 11, p 1046
[409] All Pro Sports Camp v. Walt Disney Co., 727 So. 2d 363 (Fla. 5th DCA 1999). Taken from: Ibid, p 1046

requirements"[410]. Moreover, Jorda stated that, based on a survey on strategic IP management, which was sponsored by the Intellectual Property Owners Association (IPO), conducted in 2003, most of the respondents stated that the most important intellectual assets of enterprises are skills and knowledge. Those two are actually covered by trade secrets instead of patents.[411] When a technology is transferred, according to Bob Sherwood it is actually trade secrets which are used the most to protect the technology to keep the benefit of the owner/holder of the transferred technology.[412] And Jorda also stated that the excellence of trade secrets is due to the nature of trade secrets. They are effective and efficient. It means that the protection is effective immediately and there is no need to register.[413]

Based on Jorda's statements,[414] trade secrets actually are very important as they can give benefit to enterprises. Trade secrets can protect broader matters of the results of the human mind compared to the other forms of IPRs and are more effective and efficient, compared to the other IPRs (for instance, patents). However, as has been discussed in chapter 2, regarding injunction, the amount of injunction in Indonesia according to *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secrets) is not as great as for the other IPR forms. Nevertheless, this thesis urges the Government of Indonesia to disseminates trade secrets and their importance more active and properly.

However, this section examines to what extent trade secrets are important for Indonesia and what scholars of Indonesia think about this matter. Below are the opinions from Indonesians scholars.

[410]All Pro Sports Camp v. Walt Disney Co., 727 So. 2d 363 (Fla. 5th DCA 1999). Taken from: Ibid.
[411]Ibid.
[412]Ibid
[413]Ibid
[414]Ibid, p 1046

Priapantja[415] stated that the IPR regime's original purpose is actually to protect an enterprise from its competitors, to claim that this enterprise's innovation or creation as the competitor's.[416] Furthermore, she said that the protection through this regime can be as effective as an "embargo or tariff which is determined by a country."[417] This research supports this opinion. Therefore, if the enterpreneurs in Indonesia understand what a trade secret is and use it to protect their IPRs, it will give great benefits to them and also the Indonesian economy. As has been discussed in chapter 2, The United States of America takes trade secrets very seriously. Not only do they have UTSA (United States Trade Secrets Act), they also have EEA (Economic Espionage Act), because they believe that information in business is very valuable. It can be a federal crime to steal a trade secret. Furthermore, they are worried that another party could steal valuable secret business information and sell this to another country, which could cause them a very great loss.

In 1997-1998 (before the Government of Indonesia established the Law Number 30 Year 2000 regarding Trade Secret), Priapantja conducted research regarding pharmacy enterpreneurs, who ran their business traditionally in Indonesia and found that actually those enterpreneurs have protected their innovations as an effort to protect their "competitive advantages".[418] Therefore, at that time Priapanjta recommended that the need for Indonesia to establish a particular law on trade secrets was based on these reasons:[419]

1. Indonesia is one of the assignees of TRIPs-WTO;
2. To accommodate the need of the people of Indonesia in order to develop their economy;

[415]Cita Citrawinda Priapantja, *Intellectual Property Rights Challenges of the Future*, 2003, Jakarta, Publishing Board of the Faculty of Law, University of Indonesia (Original in Bahasa Indonesia).
[416]Ibid, p 3
[417]Ibid.
[418]Cita Citrawinda Priapantja, n 340, pp 361-362
[419]Ibid, p 364

3. As a commitment which is needed when Indonesia takes part in international trading;
4. To attract foreign investors to do their businesses in Indonesia and to provide one way for Indonesian products to be received and sold in other countries; and
5. The regulations which have already existed were considered not able to accommodate the progress of the society.

Those reasons were later on accommodated and stated in the Consideration part of the Law Number 30 Year 2000 regarding Trade Secrets.

Liman stated that when there is protection on trade secrets in a country, then investors will feel relieved and be more interested in investing in that country. Therefore, when there is protection of trade secrets in Indonesia, hopefully many investors will be more interested and come to Indonesia to invest their funds. If many investors come and invest their funds in Indonesia, this means the economy in Indonesia will be better because many more employees will be employed and trading will be more dynamic,[420] because the people will have money to buy goods and services and there are many enterprises which sell those goods and services. The more dynamic the trading which occurs in a country, the more likely the economy of a country will be better. Indonesia, with more than 230 million people, is a big country for trading.

Liman has her own perspectives regarding the importance of trade secrets, as stated below:[421]

1. Protecting trade secrets can be interpreted as a protection of human rights. It shows that anyone who has given their best effort to create and innovate something will be granted rights to use and enjoy the benefit of it, as long as the creation and innovation does not harm anyone else.

[420]Padma D. Liman, '*The Principles in Protecting Trade Secrets*', (Doctorate Dissertation, University of Airlangga, 2009)(Original in Bahasa Indonesia)
[421]Ibid, p 16

2. A trade secret is a protection of IPRs which is effective right away (besides copyright).
3. Trade secrets play important roles in trading because when a trade secret is disclosed, it will cause a great loss for a company.

Adilman stated that trade secrets also play important roles regarding the growth of franchises in Indonesia. When one has a business which will be franchised, the existence of trade secret in his/her business will also be counted economically.[422] Trade secrets play an important role for franchises like restaurants. Sometimes there are franchisors who still keep their trade secrets, to make the franchisee remain attached to the franchisor.[423]

Based on the opinions of Priapantja, Liman and Adilman above, trade secrets do need to be protected and play an important role in contributing to the Indonesia economy. Therefore, living in a communalist way should not necessarily be interpreted to mean sharing all one's information. If the information is kept undisclosed, this may make others more creative and increase their efforts to develop innovations and inventions.

Moreover, Indonesia is a country in which the majority of the people are Islamic believers or moslems. As the majority are moslems, the values of Islam are carefully considered in undertaking many activities. Regarding IPRs—which includes trade secrets—*Majelis Ulama Indonesia* (The Indonesian Ulema Council) gave their support through *Keputusan Fatwa Majelis Ulama Indonesia Nomor: 1/MUNAS VII/MUI/5/2005 Tentang Perlindungan Hak Kekayaan Intelektual (HKI).*[424] This is an answer to what happens in society—that IPRS play a significant role in economy.

[422]Adesia Adilman, 'Legal protection of intellectual property rights in the Franchise Agreement' 2010 < http://eprints.undip.ac.id/80997B37-AD9A-4220-AD50-2F9DF212F198/FinalDownload/DownloadId-9DE2AB32174EA84302CCE255A0F5C133/80997B37-AD9A-4220-AD50-2F9DF212F198/24350/1/Adesia_Adilman.pdf> (12 August, 2011) (Original in Bahasa Indonesia)
[423]Ibid, p 85
[424]The Indonesian Ulema Council, 'Fatwa on the Intellectual Property Rights (IPRs)' 2009 <http://www.mui.or.id/index.php?option=com_content&view=article&id=79> (22 June, 2013)(Original in Bahasa Indonesia)

According to *Majelis Ulama Indonesia* (MUI), IPRS are protected as they are considered as *mal* (property) and IPRS can be used as *mu'awadhah* (in commercial), *tabarru'at* (non-commercial), *waqaf* (for charity) and inherited.[425]

It is worth to take into account that while the *Majelis Ulama Indonesia* (MUI) supports trade secrets as well as the other IPRs, the Directorate General of IPRs of Indonesia doesn not seem has the same position. As stated in INTRODUCTION that institution which deals with IPRs, including trade secrets, is Directorate General of IPRs. However, in its website there is no appropriate information regarding trade secrets. IPRs which are given appropriate information are: patents, copyrights, trademark and geographical indication.[426] The writer thinks that such website should give enough explaination to disseminate all forms of IPRs. Therefore, the Indonesian people will get knowledge regarding the benefit that they can get from each of the IPRs, including trade secrets. Although the way the writer understands that the Directorate General of IPRs does not have data regarding number of trade secrets which have been notified. It is different with the other forms of IPRs which has been aforementioned. As for patents, for instance, to this date there are nearly 80,000 patent applications.[427] According to *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secret) the owner or the holder of trade secrets has the obligation to do registration when they want to transfer[428] their rights or when they want to licence[429] their trade secrets.

Chapter 2 discussed the use of trade secrets as collateral. There are some scholars in Indonesia who have written their views regarding the use of IPR certificates as

[425]Ibid.
[426]The Directorate General IPRs, 'About Us' 2013 < http://www.dgip.go.id/ > (23 October, 2013) (Original in Bahasa Indonesia)
[427]The Directorate General of IPRs, 'Indonesia's Data of Patent' 2013 < http://paten-indonesia.dgip.go.id/> (23 October, 2013)
[428]As stated in the Article 5 (3)
[429]As stated in the Article 8

collateral. Sri Mulyani,[430] Junaidi and Joni[431] suggested that Certificates of IPRs could be used as collateral when an enterpreneur applies for financial aid. Trade secrets are a type of IPR which do not need to be registered to get protection. It appears that in *Peraturan Menteri Hukum Dan HAM RI Nomor M.HH-05.OT.01.01 Tahun 2010 tentang Organisasi dan Tata Kerja Kementerian Hukum dan HAM Republik Indonesia* (Regulation of Ministry of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 Regarding Organisation and Working Procedure on Ministry of Law and Human Rights), there is no procedure and division in the IPRs Office which is assigned to carry out the registration process for trade secrets. Therefore, there is no certificate which is issued for trade secrets. Nevertheless, they all recognize trade secrets as one of the IPRs and they do not state clearly whether there are IPRs which can be used as collateral or which IPR cannot. Regarding this matter, the position of those authorities above are not clear, as to whether they think that trade secrets also can be used as collateral or not. Because, if trade secrets can be used as collateral, then one of the problems which must be solved is that trade secrets should also be registered and certificates issued for them.

This researcher[432] has studied the possibility of using trade secrets as collateral, as discussed in Chapter 1. She found that actually the laws in Indonesia enable trade secrets to be used as collateral. However, the main problem is that there is no regulation for this matter in question. This is a major problem because Indonesia is using civil law.

To sum up from all the discussions above, it can be concluded that trade secrets play important roles in Indonesia, because the development in trading and also the changes

[430]Sri Mulyani, above n 61
[431]Akhmad Junaidi & Muhammad Joni, 'Utilization of IPRs' Certificate As Collateral' 2011 <http://www.smecda.com/kajian/files/Jurnal_6_2011/Jurnal%20ok.pdf > (15 September, 2012) (Original in Bahasa Indonesia)
[432]Irawaty, above n 46

in Indonesia mean that people need a type of system which is now called a trade secret. Despite trade secrets not being as well-known as patents, for example, scholars have identified the roles of trade secrets for Indonesia economy. Moreover, the writer thinks it is important that the Directorate General of IPRs to fully support the dissemination of trade secrets. One way to do it is by giving proper explanation about trade secrets in their website.

## 3. The Nature of Micro, Small and Medium Enterprises (MSMEs)

In the Part of Consideration a, b and c of *Undang-Undang Nomor 20 Tahun 2008 tentang Usaha Mikro, Kecil dan Menengah* (the Law Number 20 Year 2008 regarding Micro, Small and Medium Enterprises), it is stated that based on *Pancasila* (the Philosophy of the people of Indonesia) and the Republic of Indonesia's Constitution, the economy of Indonesia should be developed through economic democracy. Economic democracy can be implemented with the empowerment of the Micro, Small and Medium Enterprises.

Therefore, this part will explore the categorization of enterprises and the extent of the importance of MSMEs in Indonesia.

### 3.1. Definition of Enterprises according to the Law Number 20 Year 2008

Most countries agree that SMEs play a significant roles for their economies. However, the categorization of SMEs can be different amongst countries. To illustrate this, the categorizations in the countries selected are stated below:

- Australia

  In Australia, the categorization which is usually used is based on three aspects, which are: (1) annual turnover, (2) the number of employees, and (3) a combination of the two[433]. However, The Australian Bureau of Statistics (ABS) has categorized

[433]Australian Government: Department of Innovation Industry, Science and Research, 'Key Statistics Australian Small Business' 2011 <http://www.innovation.gov.au/SmallBusiness/KeyFacts/Documents/AustralianSmallBusinessKeyStatisticsAndAnalysis.pdf > (14 May, 2013), p 3

enterprises in order to identify their existence in Australia by seeing how many employees an enterprise has:[434]

| Scales of Enterprises | Number of Employees |
|---|---|
| Micro | 0 – 4 |
| Small | 0 – 19 |
| Medium | 20 – 199 |
| Large | More than 200 |

Table 5 Scales of Enterprises in Australia

- United States of America (USA)

The definition of SMEs in the USA is based on "the number of employees and annual firm revenue"[435] which is different for each of these sectors: (a) manufacturing, (b) agriculture, and (c) service.[436] It is quite challenging in explaining the definitions of SMEs as some institutions of the US Government have also established their own definitions. Those institutions are: "U.S. Department of Commerce, the U.S. Small Business Administration (SBA), and the U.S. Department of Agriculture (USDA)"[437]. However, the table below is the summarized definitions from all of those institutions which are taken from Table 1.1 of the USITC Report :[438]

| | **Manufacturing and non-exporting service firms[a]** | **Exporting services firms[b]** | | **Farms** |
|---|---|---|---|---|
| | | **Most** | **High value[c]** | |
| **Number of employees** | < 500 | < 500 | < 500 | < 500[d] |
| **Revenue** | Not applicable | ≤ $ 7 milion | ≤ 25 milion | < $ 250,000 |
| **Defining institutions** | SBA Advocacy[e] | SBA/ SBA Advocacy[f] | SBA/ SBA advocacy[f] | USDA |
| **Data source** | U.S. Census | ORBIS | ORBIS | USDA |

Table 6 Scales of Enterprises in USA

[a] Includes exporting and nonexporting manufacturing firms and nonexporting services firms.
[b] Selected on the basis of size and export potential, and includes wholesale trade services; professional, scientific, and technical services; and finance and insurance services.
[c] Computer services was the only sector in this category

[434] Ibid.
[435] Alexander Hammer, 'Small and Medium-Sized Enterprise: Overview of Participation in U.S. Exports' 2010 <http://www.usitc.gov/publications/332/pub4125.pdf> (15 March, 2013), pp 1-2 – 1-3
[436] Ibid.
[437] Ibid, pp 1-3
[438] Ibid.

[d] This threshold was imposed by Commission staff to partially harmonize definitions across sectors; it was not imposed by the defining institution.
[e]SBA Advocacy from Census data.
[f]Revenue parameters established by SBA; employee number established by SBA Advocacy for research purposes.
*Source:* Compiled by USITC Staff.

- Thailand

The definition of SMEs in Thailand is established by the Ministry of Industry.[439] The definition is based on: "the number of employees and the value of total fixed assets (excluding land)"[440]. Moreover, those criteria are different for each of these sectors: (a) manufacturing, (b) service, (c) wholesale, and (d) retail, as drawn in table below:[441]

| **Sectors** | **Number of Employees** | | **The Value of Total Fixed Assets (excluding land)** | |
|---|---|---|---|---|
| | **Small** | **Medium** | **Small** | **Medium** |
| Manufacturing | < 50 | 51 – 200 | <THB50 mil | 50< THB mil <200 |
| Service | < 50 | 51 – 200 | <THB50 mil | 50< THB mil <200 |
| Wholesale | < 25 | 26 – 50 | <THB50 mil | 50< THB mil <100 |
| Retail | < 15 | 16 – 30 | <THB30 mil | 30< THB mil <60 |

Table 7 Scales of Enterprises in Thailand

- Indonesia

The Law Number 20 Year 2008 is the law regarding Micro, Small and Medium Enterprises. Businesses in Indonesia include micro, small, medium and large enterprises which conduct their economic activities and are domiciled in Indonesia (Article 1 (5)). This law gives definitions and requirements for each category of enterprise. These are drawn in the table below:

[439]Chaipat Poonpatpibul & Watsaya Limthammahisorn, 'Financial Access of SMEs in Thailand: What Are the Roles of the Central Bank?' 2005 <http://www.bot.or.th/Thai/EconomicConditions/Publication/DiscusPaper/doclip_discussion/dp052005chaipat_thai.pdf> (14 August 2013), p 2
[440]Ibid.
[441]Ibid.

| Scales of Enterprises | Definitions | Requirements |
|---|---|---|
| Micro | Article 1 (1):<br>"Productive enterprises owned by individuals and/or the individual entities that meet the criteria Micro stipulated by this Law" | Article 6 (1):<br>a.has net assets not more than fifty million rupiahs, the land and the building of the business place are excluded; or<br>b.has annual sales revenue maximum three hundred million rupiahs. |
| Small | Article 1 (2):<br>"Productive economic activities that stand alone, which are done by an individual or entity business which is not a subsidiary or not a branch of a company which is owned, controlled or part, directly or indirectly of a medium or large company and meet the criteria as small enterprise as stipulated by this law." | Article 6 (2):<br>a.has net assets more than fifty million to five hundred million rupiahs, the land and the building of the business place are excluded; or<br>b. has annual sales revenue more than three hundred million rupiahs and maximum two and half trillion rupiahs. |
| Medium | Article 1 (3):<br>"Productive economic activities which stand alone, are conducted by an individual or business entity that is not a subsidiary or a branch of a company, which is owned, controlled or part either directly or indirectly with a small or large enterprise with total net assets or annual sales revenue as stipulated in this law. " | Article 6 (3):<br>a.has net assets more than five hundred million rupiahs to maximum ten trillion rupiahs, the land and the building of the business place are excluded; or<br>b. has annual sales revenue more than two and half billion rupiahs and maximum fifty billion rupiahs. |
| Large | Article 1 (4):<br>"Productive economic activities that are conducted by business entities with total net assets or with annual sales more than Medium Enterprises, which could be national state-owned enterprises or private, joint ventures, and foreign businesses that are doing economic activities in Indonesia. | |

Table 8 Scales of Enterprises in Indonesia

To sum up all of the definitions above, the common way to define MSMEs in Australia is by the number of employees—in addition, Australia differentiates the categories into: Micro, Small and Medium and Large Enterprises; while the USA defines SMEs through the number of employees (as Australia does). However it does not only do that, because the annual revenue of SMEs is counted also and in addition the USA divides SMEs into three sectors, with each sector given a different standard.

Thailand also has quite complicated ways of defining SMEs—that is by counting the number of employees (like Australia) and by counting the value of total fixed assets which excludes land Furthermore, just like the USA, Thailand also divides SMEs into sectors with different standards for each of them. The last, Indonesia, defines MSMEs by identifying an enterprises'assets (excluding the land as Thailand does) and the buildings where the business takes place, or how much annual revenue an enterprise gets. Therefore, it can be understood that every country could have its own definition of MSMEs. In addition to that, Indonesia divides enterprises in the same way as Australia, as Micro, Small and Medium Enterprises.

Even though, the writer approves that every country could have different approach and categorization in deciding which enterprise that can be included as micro, small or medium enterprise however the writer finds the approaches and indications which are used by the USA and Thailand are more suitable. It is because they differentiate sectors of business which enterprises run. The writer finds it more appropriate because every sector has its own nature, therefore it can happen that in one sector does not need many employees however it can get high revenue. For instance: business in programming software or games.

In relation to the categorization, the writer finds that it is important to categorize enterprises with Micro, Small and Medium. With these categories, the range of indicators (such as revenue or number of employees) is not too numerous. Therefore, it will give more detail regarding the indicators of those enterprises. The data will give proper insight when government or financial institutions lend money, they will have

proportional amount of money. The World Bank is an international institution which categories such enterprises into micro, small and medium enterprises.[442]

3.2. The Importance of MSMEs in Indonesia

Based on the important roles, the number of jobs provided, Product Domestic Bruto (PDB), the number of enterprises and their income from export which have been carried on by MSMEs in Indonesia, *Bank Indonesia* (the central bank of Indonesia) stated that one of the ways to overcome the economic problems in Indonesia is by empowering MSMEs. These types of businesses have proved that they can survive an economic crisis.[443]

The latest data which The Ministry of Cooperative and Small Medium Enterprises released on the development of Micro, Small, Medium and Large Enterprises in 2011-2012 shows that most enterprises are qualified as micro enterprises (98.82%), while small enterprises are 1.09%, medium enterprises are 0.08% and large enterprises are 0.01%.[444]

The economy of Indonesia depends on enterprises which do their businesses in districts all over the country. Those enterprises are MSMEs.[445] In many countries, the number of MSMEs is more than 90%.[446]

The growth of PDB of MSMEs in Indonesia among 2005-2008 were significant and better compared to the growth of large companies. The roles of MSMEs are very important for Indonesia, as they provide many job opportunities which lead to the

[442]The World Bank, 'Micro, Small, and Medium Enterprise (MSME) Finance Expanding Opportunities and Creating Jobs' 2013 <http://www.worldbank.org/en/results/2013/04/05/msme-finance-expanding-opportunities-and-creating-jobs> (21 October, 2013)
[443]Bank of Indonesia, 'Box 2: Role of Micro, Small and Medium Enterprises in Poverty Alleviation in Lampung Province' no date <http://www.bi.go.id/NR/rdonlyres/D15253E3-0DE4-4EDC-AC6E-312E08834F71/10207/Boks2.pdf> (22 June, 2013) (Original in Bahasa Indonesia)
[444]Ministry of Cooperative and Small, Medium Enterprises, above n 62
[445]Edy Suandi Hamid, above n 85, p 1
[446]International Labour Organization, 'Sustainable Enterprise Programme Micro, Small and Medium-sized Enterprises and the Global Economic Crisis Impacts and Policy Responses' 2009 <http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_108413.pdf> (22 June, 2013), p 7

welfare of the people who live in the regions and make the gap between the haves and the have-nots decrease.[447]

Hamid[448] stated that MSMEs suit the situation of Indonesia in which every region is given the authority to develop its region.[449] Eventhough the number of MSMEs always grows from year to year, Hamid found that there are some problems which are facing. Those problems are:[450]

a. Internally: MSMEs often lack capital or funds and management skills and also lack human resources.
b. Externally: they lack help from other stakeholders, for example, government.

Therefore, Hamid urged that the government should take steps and intervene to some extent, by giving sufficient infrastructure; establishing efficient and effective bureucracy regarding permission to establish an enterprise; giving solutions and help regarding MSMEs' capital; giving certain standards for products that come from other countries and creating more opportunities for Indonesia's local products to have larger markets in Indonesia.[451]

Regarding the need of the Government of Indonesia to give attention to the fact that SMEs need help with their capital problems, the Central Bank of Indonesia—that is Bank of Indonesia—has information about credits which are given to SMEs.[452]

Since January 2011, there is a program which is called *Kredit Usaha Mikro, Kecil dan Menengah* (Credit for Micro, Small and Medium Enterprises). The identification of Micro, Small and Medium Enterprises is based on the Law Number 20 Year 2008

[447]Abdullah Abidin, 'Development of Micro Small and Medium Enterprises (SMEs) as a Strategic Strength In Accelerating Regional Development' no date <http://webcache.googleusercontent.com/search?q=cache:vaTHkQkbvNsJ:www.bimakab.go.id/files/USAHA%2520MICRO%2520KECIL%2520DAN%2520MENENGAH%2520(jurnal).doc+makalah+usaha+mikro+kecil+dan+menengah&cd=7&hl=en&ct=clnk&gl=au> (22 June, 2013) (Original in Bahasa Indonesia)
[448]Edy Suandi Hamid, above n 85
[449]Ibid, p 2
[450]Ibid
[451]Ibid, p 4
[452]Bank of Indonesia, 'Metadata' no data <http://www.bi.go.id/NR/rdonlyres/B35C206F-64A7-45B7-BD74-9C36E05FE801/28206/4KreditUMKM.pdf > (12 May, 2013) (Original in Bahasa Indonesia)

regarding the Small and Medium Enterprises (as has been explained in the section above). There are two ways of giving credit, which are:[453]

- Through a guarantee body: the guarantee body will pay the obligations of the Micro/Small/Medium enterprise. However, the Micro/Small/Medium Enterprise which requests financial help should have collateral. In this scenario, all parties are bound by *Surat Edaran No. 13/6/DPNP tanggal 18 Februari 2011 perihal Pedoman Perhitungan Aset Tertimbang Menurut Risiko untuk Risiko Kredit dengan Menggunakan Pendekatan Standar* (the Circulation Letter Number 13/6/DPNP dated 18 February 2011 regarding Guidelines on Risk-Weighted Assets for Credit Risks which Uses the Standard Approach).
- Through *Kredit Usaha Rakyat* (Credit of Citizen's Business). This is for enterprises which are considered as non-bankable enterprises.

Indonesia has a ministry which provides services for MSMEs. It is *Kementerian Koperasi dan UKM* (the Ministry of Cooperatives and SMEs). Banks often consider that SMEs do not have valuable collateral. The Ministry empowers cooperatives to help SMEs to get loans from banks. The cooperatives will use their reputation as collateral. The loans which the cooperatives get from banks are lent to SMEs.[454]

Based on the above data, MSMEs play a very important role in the economy of Indonesia because—it can be said—the Indonesian economy is still running today because of the existence of those MSMEs. Furthermore, the Government of Indonesia has established a particular way to help settle financial problems which are faced by most of SMEs.

[453]Ibid , p 1-2
[454]Consultation with Agung Cahyono (Office of Head of Division on Assurance Program of deputy Assistant of Assurance and Credit Financing in Financing Division of Ministry of Cooperative and SMEs, 29 August 2012).

## 4. The Relevancy of Trade Secrets and MSMEs

At almost two decades ago, when Thomas was the CEO of Xerox Corporation, he had a great belief that it was important to take good care of the company's intellectual property. At that time, what Thomas did was uncommon. It can be said that intellectual property was only a term which was left to the legal division to take care of, so most of CEOs of many companies were not interested.[455] Xerox Corporation has been a large company and it remains large because of their ability in managing their IP.

While Xerox Corporation maintains their success and also takes good care of their intellectual property since they became a big enterprise, Kentucky Fried Chicken (KFC) has a different story. One interesting fact of KFC is that KFC has also been a very big enterprise and it became one because the owner maintained its secret recipe undisclosed since the beginning of his business. He only had one cook and that was the owner of KFC—Colonel Harlan Sanders.[456]

From the above scenarios, managing IPRs is one of the ways to maintain or create success. This is because IPRS can give identity to enterprises and make them unique. Therefore, if every enterprise manages their IPRS in the very best as they can—like their tangible assets—they are managing very important assets.

Among the forms of IPRS, there is one IPRS which is believed to be the most valuable asset to enterprises—it is trade secrets.[457] Because of this, it is important for every enterprise to manage their trade secrets. When MSMEs can be empowered, together with trade secrets, the roles of those two elements to help the growth of the Indonesian economy can be greater. This study has identified that there are some relevancies between

[455]Kevin G. Rivette & David Kline, 'Discovering New Value in Intellectual Property' 2000 <http://www.pctcapital.com/pdfs/Harvard.pdf> (23 June, 2013), p 2
[456]KFC.com, 'About KFC' no date < http://www.kfc.com/about/> (23 June, 2013)
[457]Karl F. Jorda, above n 141

trade secrets and MSMEs in Indonesia. Thus, in this particular part, these relevancies will be discussed, trade secrets need to be promoted to MSMEs because of these points:

4.1. Policy regarding creative industry

The Government of Indonesia through the Ministry of Trade has developed a policy called the creative economy since 2008. The heart of the creative economy is what is called creative industry.[458] The definition of creative industry according Indonesia is:

> *"Industry yang berasal dari pemanfaatan kreativitas, ketrampilan serta bakat individu untuk menciptakan kesejahteraan serta lapangan pekerjaan melalui penciptaan dan pemanfaatan daya kreasi dan daya cipta individu tersebut."*
> (Industry which uses creativities, skills and talents of an individual to create prosperity and job opportunities through creation and utilization of the creativity and innovation of that individual.) [459]

Why should the creative industry be developed in Indonesia? the Ministry of Trading provides 6 (six) reasons, which are:[460]

- Creative industry makes contributions to the Indonesian economy. Those contributions are from Domestic Bruto Income, and creative industry provides many available jobs and income from exports (as creative industry products are one of the products which are exported).
- The business climate, which is more focused on satisfying tastes rather than just fulfilling needs, makes the creative industry become stronger; therefore there are many opportunities for people who are in creative industries to show their ability and establish their own business.
- Regarding the Image and the Identity of Indonesia. Through creative industry The Ministry of Trading argues that entrepreneurs who run such businesses will also draw on the cultures of Indonesia as one of the resources for their creation.

[458] Indonesian Working Group Design Power-Ministry of Commerce of the Republic of Indonesia, above n 77
[459] Ibid, p 4
[460] Ibid, pp 23-36

- As the bases of creative industry are knowledge and creativity, which always develop and change, the Ministry of Trading calls these renewable resources. The Ministry believes that such an industry is very important because it will make the people of Indonesia not only rely on their natural resources. Natural resources cannot be renewable and will vanish one day. And also, through creative industry, the Ministry hopes that the people of Indonesia become a green community. For instance, if the people of Indonesia give their creativity and innovation to the wood which has been cut from the forest, there will be a longer circulation of production, which will lead to many more jobs and make more money, compared to the the wood being exported directly after it is cut.
- The Ministry of Trading finds that creative industry is a good medium to campaign on the importance of innovation and creativity. Innovation and creativity are the results of human minds. Now, with the protection of the results of human minds with the IPRs regime, the Ministry argues that this can be one way to make Indonesians build their own well-known products.
- This industry will bring good social effects to Indonesia society, because the people of Indonesia will be given opportunities to become more creative and show their creative products to the people outside Indonesia. Moreover, that creativity will meant that the people of Indonesia have more income, which hopefully will make them live more prosperous lives. One more effect is that creative and innovative people have more tolerance to others.

Based on those reasons, creative industry ideas, concepts and blue-prints are important and valuable assets for business. These can be protected by trade secrets. Learning from the success of KFC which has been mentioned above,

MSMEs should maintain such information as trade secrets from the beginning of their businesses.

4.2. The loyalty of employees

Seikh stated that based on research regarding American workplaces which was conducted in 2000, it was found that loyalty of employees who work in SMEs was higher compared to employees who work in large companies.[461]

What Seikh said appears to make sense, since, in a business where people know each other, they have emotions that can bind them together. This will make them have a sense of belonging to the enterprise. Based on the above statement, the writer thinks that it could be relevant when MSMEs in Indonesia use trade secrets as part of their IPRs protection. Nevertheless, it is important that the enterprises still make efforts to maintain the loyalty of employees and take appropriate steps in keeping their trade secrets safe.

4.3. Many MSMEs choose trade secrets protection

Based on the research that has been done in the South East of England John Kitching and Robert Blackburn[462] claimed that most SMEs prefer to protect their intellectual property in the form of non-registration, which is as a trade secret. This consideration is related to money and time. It is noted that the participants in this research were SMEs in four sectors: computer services, design, electronics and mechanical engineering.[463]

As has been mentioned above on the "The Importance of Trade Secrets, the number of enterprises which use trade secrets as IPRS protection is increasing. To get protection through trade secrets is easier compared to another IPRS. Trade

[461] Talhiya Seikh, above n 40, p 3
[462] John Kitching and Robert Blackburn, 'Intellectual Property Management in the Small and Medium Enterprise (SME)' 1998 <http://www.emeraldinsight.com/journals.htm?articleid=873616> (6 October, 2010)
[463] Ibid.

secrets do not need to be registered; therefore MSMEs do not have to spend money and time to get protection.

4.4.Franchise

*Tahu Kalasam Sarah* (Sarah Kalasam Tofu) is one of the MSMEs which franchising its business. One of their elements of business which adds value to *Tahu Kalasam Sarah* is their secret recipe.[464] This business is a business which sells fried tofu with a secret recipe in carts on the footpaths of streets.

Adilman stated that in franchises[465] trademarks and trade secrets are two IPRS which will be used together between franchisors[466] and franchisees[467].[468] It has been found that through franchising the synergy of trade secrets and MSMEs can provide business opportunities both for franchisors and franchisees.

4.5.Trade secrets used to get financial help

In chapter 2 it has been discussed that trade secrets can be used as collateral. One of the problems faced by MSMEs is financial aid, because they are often considered as nonbank-able businesses, as discussed above. It is important to make MSMEs aware of the need to manage their assets, in particular their IPRS assets.

By using their trade secrets as collateral there are some benefits which the owners can get. They are: 1) getting liquidity to expand their businesses; 2) getting more protection for their trade secrets. An important point here is that, besides trade secrets getting protection, since the owner keeps the secret information

[464]Matkiding, 'Jakarta Street Food 271 Kalasam Fried Tofu Tahu Kalasam Sarah' 2013 <http://www.youtube.com/watch?v=wxwyMOL39rw&feature=youtu.be&a> (31 May, 2013) (Original in Bahasa Indonesia)
[465]Franchise is "a licence to trade using a brand name and paying royalty for it". Taken from: P.H. Collin, *Dictionary of Law*, Bloomsbury, London, 2004, p 128
[466]Franchisor means "somebody who licenses a franchise". Taken from: Ibid.
[467]Franchisee means "somebody who runs a franchise". Taken from: Ibid.
[468]Adesia Adilman, above n 376

undisclosed to the public, the authorities and the bank (creditor) will acknowlege that the trade secret in question belongs to the owner or the rights holder.

## 5. Conclusions

It has been stated that there are some concerns among Indonesian scholars regarding the existence of the IPRs regime. The first is Sardjono, who is concerned that the IPRS regime in Indonesia will not bring benefits to the people of Indonesia until they can have an independent economy. The second concern is stated by Juwana, whether trade secrets law will become a productive law since it is not clear whether the people of Indonesia need such a law, and moreover, which people of Indonesia this law devoted to. However, this study has addressed those important concerns and found that trade secrets and MSMEs have relevancies which can give important inputs for the economy of Indonesia. Nevertheless, the roles of Government is urgently needed, because trade secrets are still only known by a small number of people in Indonesia. Trade secrets and MSMEs have some relevancies. Those relevancies should be encouraged in order to provide the people of Indonesia with more jobs when MSMEs can better manage their existence.

One of the problems faced by MSMEs is that they are often in need of financial help. MSMEs should be aware of their intangible assets, in particular, their trade secrets, as trade secrets can be used as collateral in other countries. This should be applied in Indonesia also. Therefore, the the next chapter will discuss the possibility of implementing trade secrets as collateral by MSMEs, by analysing the Indonesia's current law.

**Part Two: Analysis of the Use of Trade Secrets as Collateral for MSMEs in Indonesia**

# CHAPTER 5

# THE POSSIBILITY OF USING TRADE SECRETS AS COLLATERAL IN INDONESIA

## 1. Introduction

Since Indonesia has signed the TRIPS, this country has been trying to obey the agreement that by the year 2000—because Indonesia is included as one of the developing countries[469]—Indonesia has to have regulations to govern IPRS as stated in the TRIPS.

The modern era of international IPRS administration happened after the TRIPS.[470] Indonesia ratified TRIPS with the Law Number 7 Year 1994 regarding Ratification of Agreement Establishing the World Trade Organization.[471] The consequence of this is that the Government of Indonesia should establish regulations regarding IPRS by 2000. Until today, Indonesia has had seven regulations regarding IPRs which are mandated by TRIPS.[472]

The importance of IPRs for Indonesia's business is always acknowledged in every IPRs law including Law Number 30 Year 2000 regarding Trade Secrets as stated in its Consideration (a):

> *bahwa untuk memajukan industri yang mampu bersaing dalam lingkup perdagangan nasional dan internasional perlu diciptakan iklim yang mendorong kreasi dan inovasi masyarakat dengan memberikan perlindungan hukum*

[469]TRIPS treats developed countries, developing countries and least developing countries differently in terms of implementing this agreement in those countries. See: WTO, 'Intellectual Property (TRIPS) agreement text – transition arrangement' no date <http://www.wto.org/english/tratop_e/trips_e/t_agm7_e.htm > (13 January, 2012)
[470]WTO, 'Intellectual Property (TRIPS) – agreement text – preamble' no date <http://www.wto.org/english/tratop_e/trips_e/t_agm1_e.htm> (13 January, 2012)
[471]HukumOnline.com, 'Data Centre: The Law Number 7 Year 1994' no date <http://www.hukumonline.com/pusatdata/detail/105/node/11/uu-no-7-tahun-1994-pengesahan-agreement-establishing-the-world-trade-organization-(persetujuan-pembentukan-organisasi-perdagangan-dunia> (12 February, 2012)
[472]It has been discussed in Chapter 1.

> *terhadap Rahasia Dagang sebagai bagian dari sistem Hak Kekayaan Intelektual*;"
> (In order to promote the industry which is competitive both in national and international trading area, therefore it is important to create a climate that encourages creativity and innovations of the communities by providing legal protection for trade secrets as part of the system of Intellectual Property Rights;) [473]

In doing business, enterprises need to have capital and to have their own wealth. Nowadays, with the fast development in information and technology many of the USA enterprises' capital and wealth are in the forms of intellectual property. Jiranek put this situation as stated below:

> The information age has transformed the value and types of corporate property. Much of corporate wealth is now tied up in intellectual property ("IP"). [474]

Because of such progress, furthermore, he argues that the Government of the USA should provide regulations to accommodate using IP in secured transactions and the legal practitioners should be ready for this.[475]

It has been mentioned in Chapter 1 that the Government of Indonesia has worked on the issue of the use of IPR Certificates as collateral for SMEs. It was found that the IPRs which are clearly stated are patents, trademarks, copyrights, industrial designs and integrated circuits only.[476] However, there is another form of IPR which has been using as collateral in another countries. That is, trade secrets. Chapter 2 has discussed that trade secrets have been accepted as collateral.

After UNCITRAL issued its Legislative Guide on Secured Transactions, UNCITRAL issued a supplement to that guide. That is the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property. There is no obligation for countries to establish such a regulation because it is intended as guidance

[473] District Court of Semarang City, 'The Law Number 30 Year 2000 regarding Trade Secrets' no date <http://www.pn-semarangkota.go.id/images/stories/file/UU-no30-2000-rahasia-dagang.pdf> (14 February, 2013)
[474] Andrew L. Jiranek, above n 261, p 1
[475] Ibid.
[476] Article, 'IPRs' Certificate Can Be Used As Collateral' 2010 <http://www.depkop.go.id/index.php?option=com_content&view=article&id=410:sertifikat-haki-bisa-jadi-jaminan-utang&catid=50:bind-berita&Itemid=97> (11 October, 2010)

for countries which would like to reform their law regarding the use of IPRs as collateral. If IPRs are used as collateral, it could improve the value of IPRs.[477] In that Guide, nevertheless, trade secrets are stated as one of the IPRs which can be used as collateral.

This study is interested in why trade secrets have been left out of the discussions. Trade secrets should be considered very important for MSMEs. Because of the nature of trade secrets, which do not require to be registered first to get legal protection, MSMEs can save time, money and energy on the registration processes (as has been discussed in Chapter 1). However, since trade secrets do not have to be registered—like patents or trademarks—therefore trade secrets' owners or rights holders do not have certificates as proof that they have the right to particular secret information. Since the issue regarding the use of IPRs as collateral is actually the certificates of IPRs which could be used as collateral, it appears that this is the reason why trade secrets were excluded from the plan.

Regarding this problem, one of the countries which was chosen for this study is Thailand, which has a procedure regarding the use of IPRs as collateral—including trade secrets. Thailand includes trade secrets as one of the IPRs which can be used as collateral after the trade secrets have been notified to its IPRs Office.[478]

As trade secrets are considered as part of an enterprise's wealth, therefore, when an enterprise is in an insolvency state, its trade secrets will be used to pay the debts, together with its other wealth. Remembering that trade secrets have capacity and value for enterprises, trade secrets should be considered as a form of IPR which can be used as collateral in secured transactions for MSMEs in Indonesia.

One more important thing to consider is that UNCITRAL's Legislative Guide on Secured Transactions issued in 2011,[479] came with a supplement which focuses on IPRS.[480] In this

[477]United Nations Commission on International Trade and Law, above 32, p 3
[478]Docstoc.com, 'Procedures for the Loan Application using Intellectual Property as the Collateral' no date <www.docstoc.com/docs/18539318/Procedures_for_the_loan_Application_using_Intellectual_Property_as_the_Collateral> (5 October, 2010)
[479]United Nations Commission on International Trade and Law, above n 31

particular publication, UNCITRAL defined IPRs which can be used as collateral quite extensively and trade secrets are included.[481] The particular form of IPRs that this study discusses, trade secrets, is one of the IPR forms that should be taken into account to be used as collateral.

In Indonesia itself, the legal constructions which govern trade secrets allow trade secrets to be used as collateral.[482] In addition, from the perspective of practitioners, staff in one of the major banks in Indonesia delivered a supportive opinion that trade secrets can be used as additional collateral, together with the other forms of IPRs.[483]

It has been mentioned in chapter 1 that, according to legislation in Indonesia, it is possible to use trade secrets as collateral. Regulations which have been analysed are: Article 1131 *Kitab Undang-Undang Hukum Perdata* (Civil Code); Article 499 *Kitab Undang-Undang Hukum Perdata* (Civil Code); Article 570 *Kitab Undang-Undang Hukum Perdata* (Civil Code); Article 5 (1) – 5 (5) *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (Law Number 30 Year 2000 regarding Trade Secrets); Article 1 (1), (2) and (3) *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters); Article 1 (2) *Undang-Undang Nomor 10 Tahun 1998 tentang Perbankan* ( Law Number 10 Year 1998 regarding Banking); and *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment). In addition to that, based on the researcher's interviews with staffs at Bank Mandiri, they will accept trade secrets as collateral when there is regulation regarding to this matter.

As discussed in chapter 3, MSMEs have important roles for the economy of Indonesia. The number of MSMEs is much higher than large businesses—more that 90%. It was

[480]United Nations Commission on International Trade and Law, above n 32
[481]Ibid, p 7
[482]Irawaty, above n 46
[483]Ibid, p 54

found that there are some relevancies for MSMEs with trade secrets. Those relevancies are: 1) the government policy regarding the platform economy of Indonesia, which is a creative economy—where the heart of such a kind of economy lies in creative industry; 2) research shows that smaller businesses gain more loyalty from their employees—which makes trade secrets safer in smaller enterprises; 3) based on research which was conducted by Kitching and Blackburn in South East England, SMEs prefer to protect their IP through trade secrets; 4) there are many MSMEs which are franchising their businesses. IPRs which take part in franchises are trademarks and trade secrets; 5) many MSMEs could not get financial help from banks when they are developing their businesses or when they need to expand their businesses, because they are considered as non-bankable businesses. Considering the aforementioned four points and that trade secrets have been accepted as collateral in other countries, this study argues that it will be a positive step if trade secrets can be used as collateral when MSMEs need financial help from banks.

Nevertheless, there are some aspects which are taken into account when banks receive applications from parties who apply for loan. Those aspects are Character, Capacity, Capital, Collateral and the Condition of Economy. Character refers to character of the party, whether that party has good personality in daily life and in doing his business. Capacity refers to his ability in running and managing the business. Capital refers to condition of his financial state. Collateral refers to his property which will be used as guarantee of the loan. The condition of economy refers to the condition of economy of that partywhether the party has already had many debts to other parties.[484] Therefore,

[484]Pandi Apandi, '5C Implementation Analysis For Determining The Bank BPR Feasibility Of Customers Credit (Case Study On BPR And PT BPR Kridaharta Salatiga Salatiga)' 2013 <http://jurnal.stieama.ac.id/index.php/ama/article/download/17/15> at 20 November 2013 (Original in Bahasa Indonesia)

collateral is not the only aspect which is considered when bank accept loan application from a party.

Based on the analysis above, this study would like to further explore the possibility of using trade secrets as collateral for MSMEs in Indonesia. Therefore, the regulations which have been mentioned above and position which the authorities take regarding this matter will now be analysed.

## 2. The Current Law

In this part two matters will be covered, the background to the Indonesian law systems and the regulations which are being implemented relating to trade secrets and collateralization. The background of the law systems will be explored to illustrate why it is important to establish regulations regarding trade secrets as collateral first, before the matter in question can be implemented. In addition an analysis of the existence of regulations is made to establish that the idea of using trade secrets as collateral is actually allowed, by interpreting the regulations. No statement against the use of trade secrets as collateral has been found in any regulations.

### 2.1. Indonesian Law Systems

Indonesia is a country which uses several law systems. They are: civil law, Islamic law and customary law. The civil law system is applied because Indonesia was one of the Dutch colonies.[485] During that time the Dutch applied their law system, which is the civil law system, in Indonesia. After her independece, Indonesia still applied this particular law system. According to the Constitution of Indonesia in Article 1 of the Section Transition, every regulation which has existed is still effective until it is

[485]Langgeng Sulistyo Budi, 'The Struggle to Realize Homeland In The Revolution' no date <http://www.anri.go.id/data/artikel_data/c5e5a5518c61d51e4d7b264751cc8987.pdf> (17 July, 2013) (Original in Bahasa Indonesia)

changed.[486] There are some regulations from the Dutch period which are still effective until today, for example *Kitab Undang-Undang Hukum Perdata* (the Civil Code).

Based on Black's Law Dictionary, civil law is: "In contemporary terms, the Western European system of codified laws, in contradistinction to the evolutionary body of precedents associated with the common law tradition."[487]

Based on the above definition, the civil law system has a different system compared to common law. In the common law system, the law came from judges' verdicts on previous cases, while the civil law system requests judges to make verdicts based on laws which have been established. Therefore, there will be no case if there is no law which is violated. In this law system, the legal system requires the Government to provide laws which are needed by society to make sure the society can live well and in order.

The other law system which is applied in Indonesia is the Islamic law. Islam is one of the religions which in most of Indonesians believe. One of the significant implementations of such a law system happens when a family divides their property for inheritance. Islam has its own rule for this matter. Indonesia has one particular court which manages matters based on Islam, which called *Pengadilan Agama* (Religious Court).[488] This court administers matters on divorces and inheritance problems, based on Islamic Law. One of Indonesia's provinces holds the Islamic law system as its core law system, beside the civil law system. It is the Nanggroe Aceh Darussalam province.[489]

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[486]DPR-RI, 'Constitution 1945' no date <http://www.dpr.go.id/id/uu-dan-ruu/uud45> (18 August, 2013) (Original in Bahasa Indonesia)
[487]Bryan A. Garner (ed), above n 4, p 196
[488]Indonesian Religious Court, 'Religious Courts' no date <http://www.pengadilanagama.com/> (14 July, 2012) (Original in Bahasa Indonesia)
[489]Syamsul Bahri, 'Implementation of Shari'a in Aceh region as part of the Republic of Indonesia' 2012 <http://fh.unsoed.ac.id/sites/default/files/fileku/dokumen/14.%20Syamsul%20Bahri.pdf> (19 July, 2013) (Original in Bahasa Indonesia)

The last law system is the customary law. Based on the Constitution of the Republic of Indonesia, the Government of Indonesia will do their best to promote cultures which exist in Indonesia and this depends on the local people to support their local values.[490] One of the interesting things which often happens with customary law is that it relates to land. Indonesia has more than three hundred tribes. Each tribe has its own customary law. Many of these tribes still hold their rules regarding the land. Article 17 (2) (e) of the Presidential Regulation of Indonesia Number 71 Year 2012 regarding the Implementation of Land Acquisition for the Construction of the Public Interest, stated that indigenous people are one of the parties that hold rights to land.[491]

Even though, there are three law systems which are applied in Indonesia, the main core law system is the civil law system which unites all the people of Indonesia. It will be not effective if the *syari'ah* law system is applied to all Indonesians, since not all of them are Muslims. Problems will arise if the customary law is applied, since every tribe has its own customary law. Which customary law should be applied to all Indonesians? The Government of Indonesia needs a law system which can unite all of the nation together. Therefore, the civil law system is seen as a law system which can accommodate the needs of all the people of the Republic of Indonesia.

As already mentioned above, the civil system uses codified law. This system is different from the common law system, which uses two main sources of laws, legislation and judge made law. This means that judges in this law system can reach a verdict based on their predecessors' verdicts, while the judges in civil law countries should reach a verdict in their cases, based on legislation. In civil law system countries, every aspect of life is based on legislation. This is what happens in Indonesia also. In Indonesia, before a policy can be implemented there should be a

[490]The Article 32 (1) of the Constitution of the Republic of Indonesia 1945, taken from: DPR-RI, above n 440
[491]Setkab, 'President Regulation Number 71 Year 2010' no date <http://sipuu.setkab.go.id/PUUdoc/17622/Perpres%200712012.pdf> (16 August, 2013) (Original in Bahasa Indonesia)

particular law which regulates it. Article 7 (1) Law Number 12 Year 2011, regarding The Establishment of Regulations, governs those regulations in Indonesia which are divided into different levels.[492] The highest level of the legislation will be established first and will be followed by lower levels, which will regulate technical matters. Therefore, the lower regulations should not contradict the higher regulation.

When the discussions and implementations of using trade secrets as collateral arose in other countries, the researcher became aware that this form of IPR should be taken into account, to be exploited as collateral as well. However, it will be hard to implement this form of IPR as collateral as long as there is no regulation which governs that trade secrets can be used as collateral. In addition to that, the condition is that the people of Indonesia are not aware and do not understand this.

It is important to understand why, in the issue of the use of IPRs as collateral, trade secrets were exluded (as mentioned in chapter 1). In order to understand this, some authorities were consulted and the results of the consultations will be discussed below.

2.2. The Existence of Regulations Regarding the Matter in Question

In chapter 2, the opinions of some scholars and practitioners on the idea of using IPRs—with a focus on trade secrets—as collateral were explored. They believe that since the IPRs have great value as companies' assets, therefore they should also be counted as assets which can be used as collateral.

In chapter 3 the importance of trade secrets for Indonesia was explained. Moreover, some relevancies between trade secrets and MSMEs were identified. Therefore, this study argues that trade secrets should be exploited more, in order to give maximum benefit to MSMEs, which will also bring good results for Indonesia's economy. This is because, accepting trade secrets as collateral for MSMEs will help those enterprises,

[492] KKP, 'Law Number 12 Year 2011 regarding the Establishment of Regulations' no date <www.djpp.kemenkumham.go.id> (12 August, 2013)

which are often struggling with financial issues, to strengthen their companies to run their enterprises, or to expand their companies.

In chapter 1, after analysing some regulations in Indonesia, the researcher[493] found out that it is possible to use trade secrets as collateral. She concluded that, based on some articles in those regulations, three reasons can be established why trade secrets can be used as collateral. Those reasons are: (1) trade secrets are objects; (2) trade secrets can be transferred; and (3) there is no particular time limitation regarding protection of trade secrets. Further explanation regarding those points is stated below:[494]

(1) Trade secrets are objects

For this particular point, this study considered some legal articles. The first one is Article 5 (1) of the Law Number 30 Year 2000 regarding trade secrets. In that article, it is stated that trade secrets are proprietary and so can be transferred. Furthermore, based on Article 499*Kitab Undang-Undang Perdata* (Book of Civil Law); Article 570 *Kitab Undang-Undang Perdata* (Book of Civil Law) and 1131*Kitab Undang-Undang Perdata* (Book of Civil Law) it was found that trade secrets are objects which can be used for whatsoever purposes of the owners, as long as these do not contradict the law. As trade secrets are proprietary, they can be used to pay loans when their owners cannot satisfy creditors.

In addition, Article 1 (2) *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (The Law Number 42 Year 1999 regarding Fiduciary matter) recognizes that intangible objects can be used as collateral. It was also identified that in in Article 1 (6) of *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (the Law Number 37 Year

[493]Irawaty, above n 46
[494]Ibid.

2004, regarding Bankruptcy and Suspension of Payment), that when a debtor is in an insolvency state, all of his/her property should be used as payment for the debt, as stated below:

> *Utang adalah kewajiban yang dinyatakan atau dapat dinyatakan dalam jumlah uang baik dalam mata uang Indonesia maupun mata uang asing, baik secara langsung maupun yang akan timbul di kemudian hari atau kontinjen, yang timbul karena perjanjian atau undang-undang dan yang wajib dipenuhi oleh Debitor dan bila tidak dipenuhi memberi hak kepada Kreditor untuk mendapat pemenuhannya dari harta kekayaan Debitor.*
>
> (Debt is an obligation expressed or can be expressed in a good amount of money in the currency of Indonesia and foreign currency, either directly or which may arise in the future or contingent, arising from treaties or laws and that must be fulfilled by the debtor and, if not met entitle creditors to obtain compliance from property of the Debtor.) [495]

(2) Trade secrets can be transferred. One of the key points of objects which can be used as collateral is that they can be sold if a debtor cannot pay a loan to a creditor. Therefore, since trade secrets can be transferred, it means that trade secrets can be sold. This conclusion is reached after analysing Article 5 *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secrets).

(3) There is no time limitation. Compared to the other forms of IPRs, for instance: patents and trademarks, trade secrets can be owned forever unless the secret information is disclosed to the public. When the owner or the rights holder has taken appropriate steps in keeping this secret information safe (the creditor has to be sure about this matter) then the creditor does not need to worry regarding the possibility that the debtor cannot pay the loan. When the bank has to sell the collateral, one item of the collateral may not have economic value any more, because it already belongs to common knowledge.

[495] Vivanews, 'the Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment' no date <http://media.vivanews.com/documents/2009/10/13/416_UU%20Kepailitan%20dan%20Penundaan%20Kewajiban%20Pembayaran%20Utang.pdf> (17 July, 2013)

An additional point to those above is that, since trade secrets are also debtor's property that will be sold when the debtor cannot pay the loan, therefore it will be an appropriate step to also give trade secrets a part in the activity of seeking higher financial help—as one of collateral because the fact is that trade secrets have value.

The reasearcher also analysed Article 1 (2) *Undang-Undang Nomor 10 Tahun 1998 tentang Perbankan* (the Law Number 10 Year 1998 regarding Banking), that banks should help people to improve their lives by giving credit. Therefore, if banks accept trade secrets as collateral, they will fulfil their objective which is as agents of development.

### 3. The Standpoint of Authorities

In the above part, it has been discussed that, based on the existence of laws, it is possible to use trade secrets as collateral. In this part, a more practical side on the probability of using trade secrets as collateral will be considered. This is based on information from consultations with the Indonesian authorities, in order to seek answers for the first research question.

It has been mentioned in chapter 1 that in 2010 there was good news for a new era of secured transactions in Indonesia. The Ministry of Cooperatives and SMEs of Indonesia followed up the issue which was raised by the Director of the IPRs Office of Indonesia regarding the possibility of using certificates of IPRs as collateral for SMEs.[496] However, that article only stated that the IPRs which were discussed were only patents, copyrights, trademarks, industrial designs and lay-out of integrated circuits. As trade secrets have been recognised as one of the IPR forms which can be used as collateral and trade secrets are suitable protection for innovations or inventions of MSMEs, this study argues that this particular IPR should be included in the plan for IPRs to be accepted as collateral.

[496] Article, above n 430

One key point of an object which can be used as collateral is that the object is transferrable. In relation to this, the researcher found that, as well as those IPR forms aforementioned, which the laws governed that they can be transferred, trade secrets also are governed that way as well. Below is the article of each law which stated that they can be transferred through the same causes:

| No | Forms of IPRS: | Laws | Articles: |
|---|---|---|---|
| 1. | Patents | Law Number 14 Year 2001 | Article 66 (1) |
| 2. | Copyrights | Law Number 19 Year 2002 | Article 3 (2) |
| 3. | Trade Marks | Law Number 15 Year 2001 | Article 40 (1) |
| 4. | Integrated Circuits | Law Number 32 Year 2000 | Article 23 (1) |
| 5. | Industrial Designs | Law Number 31 Year 2000 | Article 31 (1) |
| 6. | Trade Secrets | Law Number 30 Year 2000 | Article 5 (1) |

Table 9 the Articles which Show IPRs can be transferred in Indonesia

There is one more IPR form which has been protected by a particular regulation in Indonesia. It is Geographical Indication (GI) which is regulated under Government Regulation Number 51 Year 2007. However, this form of IPR cannot be used as collateral because it cannot be transferred, since the nature of GI cannot be possessed individually. Therefore, the regulation which governs GI does not mention the transfer of GI. Based on those reasons, it can be understood why GI was not included in the discussion.

As has been discussed in Chapter 1 and Chapter 2, trade secrets can be used as collateral. The reasons why the researcher believes that trade secrets should be used as collateral for SMEs in Indonesia, together with the other forms of IPRs, are: firstly, many scholars have discussed this matter and have opinions that theoretically it can be implemented; secondly, some transactions have used trade secrets as collateral together with the other forms of IPRS and other assets of the enterprises; thirdly, after the above discussion, it is clear that, based on the regulations which have existed in Indonesia, it is possible to use trade secrets as collateral.

It has been mentioned that there is no single statement in any regulation which clearly and firmly stated that trade secrets can be used as collateral in secured transactions in Indonesia as yet. It has been discussed above that, after analysing the existing regulations,

there is a possibility that trade secrets can be used as collateral. Because of this, it is important to bring up the conditions in Indonesia, as it seems that trade secrets are not in the plan for the use of IPRs as collateral for SMEs (as has been mentioned above).

It has been stated in chapter 1 that in order to seek answers for the first research question, the researcher needed to have consultations with Indonesian authorities. They are the authorities of the Ministry of Cooperatives and SMEs and of the Directorate General of the IPRs Office.

Therefore, in this part the result of the consultations with the authorities in Indonesia will be discussed, in order to look for an answer to the following research question of this thesis, which is: "Why did the Ministry of Cooperative and SMEs of Indonesia exclude trade secrets from the plan of using certificate of IPRS as collateral?"

3.1. Why were trade secrets excluded from the issue?

To seek information on why trade secrets were not included in the discussion which was stated in the news, the researcher consulted the authority himself, whose statement was quoted in that news, Choirul Djamhari.[497] He explained that trade secrets were not stated in the news because it was an oversight. He stated that he supports the implementation of IPRs used as additional collateral, including trade secrets. In addition to this, as an authority he hopes that the matter in question can be implemented.

He believes that there are five points to consider if an object is to be used as collateral. They are: (1) there is an agreement of both parties (creditor and debtor) to use a particular object as collateral; (2) such object will benefit both parties; (3) be mutually reinforcing; (4) complement each other; and (5) it has economic value. Therefore, to implement objects as collateral, it will be more useful to consider this idea case by

[497] Consultation with Choirul Djamhari, The Deputy Minister of Restructuring and Development of the Ministry of Cooperative and SMEs of the Republic of Indonesia, Office of the Ministry of Cooperative and SMEs, 31 October 2012

case. This means that not in all secured transactions can all forms of IPRs be used as collateral. He explained that, as for instance, not all parties will take copyright as a valueable object. When we value a copyright of a film, most people will only see the tangible object of the film which is a film roll. They will count the value of the film roll and disvalue the intangible asset in it, which has much more value than its copyright. Djamhari also stated that a creditor (bank) has the power (privilege) to decide the value of an object which will be used as collateral.

Furthermore, he added that there was encouragement from the IPRs users or holders which made the authorities hold the discussion on the possibility of using IPRs as collateral for SMEs.

Regarding the use IPRs as collateral, by carefully considering them case by case, the researcher has discussed in chapter 2 that both parties (creditor and debtor) must give attention to whether the debtor has given a promise not to reveal customer data to a third party or not. This is because, if the debtor did so, then it will be more difficult—if it is not impossible—to sell the customer data.

Related to the use of trade secrets as additional collateral, Henry H. Perritt, Jr[498] wrote that hypothetically trade secrets probably can be used as the primary and the only collateral when the trade secret has become popular and is making a lot of money for the business of its inventor.[499] He gave a brief illustration about Devlin, who liked to make inventions. One invention which brought her huge benefit, is a soft drink product called Okla-Cola. She has kept the formula of Okla-Cola undisclosed. As the demand for the Okla-Cola is continuously increasing, therefore she should expand her business to accommodate the demand. However, in doing so she needed help financially. After she contacted the National Bank of Tulsa, the lending officer

[498]Henry H. Perritt, Jr, above n 253, pp.9-26 – 9-27
[499]Ibid.

believed that Okla-Cola will make a lot of money. It is identified that Devlin has two forms of IPRs with this particular business. First is the secret formula of the Okla-Cola and the second one is the trademark, Okla-Cola. However, the lending officer thought that the secret formula of Okla-Cola will have more value compared to the trademarks at that stage. Therefore, the lending officer took into account that the secret formula would be more appropriate to be used as collateral in a secured transaction that Devlin tried to apply for.

The other authority which the researcher consulted was Agung Damarsasongko.[500] He stated that the use of IPRs as collateral will be useful because Indonesia had started an era of a creative economy, as discussed in chapter 3. Nevertheless, regarding the reason why trade secrets were excluded from the plan, the reason could be because the authorities have not developed ideas regarding the value of trade secrets. He gave an example, which was trademarks. People will accept trademarks because they believe well-known trademarks have high value. It is not the case with trade secrets because it is not apparent what trade secrets which can be used as collateral. However, as has been discussed in chapter 3, Church[501] stated that trademarks are not good collateral because trademarks are well-known because of their original service or product. When a party buys a well-known trademark without the original service or product, the chance that the trademark will be accepted by consumers is little. Nevertheless, he stated that it should be fine if trade secrets become collateral as long as the secrecy of such information is carefully protected. Regarding this matter, as has been mentioned in chapter 2, Smith[502] stated that creditors must be sure that a person who applies for a loan and uses trade secrets as collateral must have been taking appropriate steps to

[500]Consultation with Agung Damarsasongko, Head of litigation and Legal Considerations of Directorate General of IPRs Office, Office of Directorate General of IPRs, 10 August 2012
[501]Terry Church, above n 213
[502]Lars S. Smith, above n 17

keep the trade secrets undisclosed. Moreover, Perritt, Jr[503] stated that, for anyone who is afraid to use his/her trade secrets as collateral as the trade secrets will be endangered, the solution is that the trade secrets will not be written in detail in the loan documents.

3.2. What should the government do to qualify trade secrets as collateral?

Both Choirul Djamhari and Agung Damarsasongko stated that it is possible to use trade secrets as collateral. While Djamhari highlighted that the most important point to make it possible to use trade secrets (and other IPRs) as collateral is the Bank of Indonesia to have what is called *Aset Tertimbang Menurut Risiko*/ATMR (Risk-Weighted Assets), regarding Risk-Weighted Assets, Djamhari also explained that the Risk-Weighted Assets are an effort to protect banks. He also highlighted the importance of defining a standard method in valuing trade secrets as collateral. Furthermore, he stated that it is important to harmonize regulations which are related to the matter in question. The regulations are: the banking law, consumer protection law, and the law regarding information transparency to the public. Nevertheless, it is more important to establish jurisprudence because jurisprudence can provide more explanations, compared to the existing regulations or existing regulatory framework. The next point is that the idea should be disseminated, courts should be aware of this and banks should note the missing links or points in transactions which use trade secrets as collateral.

Djamhari also stated that it is important to disseminate the idea to the people of Indonesia. This is essential, since the culture is open, therefore they do not protect their inventions or innovations. He gave examples of some cases in which owners of SMEs disclosed their innovations to another country. The first one is an SME owner

[503] Henry H. Perritt, Jr, above n 253

who was asked to teach how to process water hyacinth, and for that exchange, he was given some facilities when he was invited to that country. The second one is an SME owner who disclosed his ability in using broom sticks to decorate gates and memorial inscriptions to a foreigner.

The writer found that Risk-Weighted Asset is a concept which is defined by the Global Banking supervisors in order to help banks have less risk when they lend money. The concern is that banks must survive when there are debtors who cannot pay their debts. There is a certain method in determining the Risk-Weighted Asset for each asset. The full explanation regarding Risk-Weigthed Assets is stated below:

> Global banking supervisors based in Basel Switzerland use the concept of risk-weighted assets to determine a bank's minimum capital needs. Risk-weighted assets are computed by adjusting each asset class for risk in order to determine a bank's real world exposure to potential losses. Regulators then use the risk weighted total to calculate how much loss-absorbing capital a bank needs to sustain it through difficult markets. Under the Basel III rules, banks must have top quality capital equivalent to at least 7 per cent of their risk-weighted assets or they could face restrictions on their ability to pay bonuses and dividends. The risk weighting varies accord to each asset's inherent potential for default and what the likely losses would be in case of default - so a loan secured by property is less risky and given a lower multiplier than one that is unsecured. Under the Basel II banking accord, which still governs most risk-weighting decisions, government bonds with ratings above AA- have a weight of 0 percent, corporate loans rated above AA- are weighted 20 per cent, etc. The rules also attempt to classify assets by their credit risk, operational risk and market risk. [504]

Vanessa Le Leslé and Sofiya Avramova[505] wrote about the importance of Risk-Weighted Assets, stating that:

> Risk-weighted assets have at least three important functions. RWAs are an important part of both the micro- and macro-prudential toolkit, and can (i) provide a common measure for a bank's risks; (ii) ensure that capital allocated to assets is commensurate with the risks; and (iii) potentially highlight where destabilizing asset class bubbles are arising. [506]

Regarding Risk-Weighted Assets in Indonesia, Bank of Indonesia released its Circulating Letter Number 13/6/DPNP at 18 February 2011 regarding the Risk-

[504]Guillaume Hingel, Research Editor, The Banker and Brooke Masters, Chief Regulation Correspondent. Taken from: Financial Times Lexicon, 'Risk-Weighted Assets' no date <http://lexicon.ft.com/Term?term=risk_weighted-assets> (14 January, 2013)
[505] Vanessa Le Leslé & Sofiya Avramova, above n 95
[506]Vanessa Le Leslé & Sofiya Avramova, above n 95

Weighted Assets Standard for Credit Risks which Used the Standard Approach.[507] This Circulating Letter is addressed to all banks in Indonesia which provide conventional transactions[508].

The Formula of Risk-Weighted Assets is *tagihan bersih* (nett claim) multiplied by risk weight. In order to count the *tagihan bersih* (nett claim), there are four aspects which are counted, which are:[509]

a. Assets in the balance sheet exposures
b. Exposure sheet transactions
c. Counterparty credit exposures that pose risk
d. Especially for exposures that pose settlement risk.

While risk weight is settled by counting:[510]

a. Ranking of debtor or counterpart (counter-party), by portfolio categorization, or
b. Certain percentage for a specific type of bill

The Central Bank of Malaysia (Bank Negara Malaysia) through the Capital Adequacy Framework for Islamic Banks(Risk-Weighted Assets) draws policy that states "Any other assets not specified shall receive a standard risk weight of 100%".[511] The researcher has not found whether IPRs are included in that "any other assets not specified"; however, the base of the computation that Bank of Malaysia presented gives an insight that there is a possibility the Risk-Weighted Assets of IPRs can be computed that way. It might be that in the future there will be computation for Risk-

[507]Bank of Indonesia, 'Circulation Letter, Subject: Guidelines for Calculation of Risk Weighted Assets for Credit Risk by Using the Standard Approach'2011 <http://m.bi.go.id/NR/rdonlyres/F7E0AA4C-CE9A-4DB5-9A98-5298DB3AE237/22388/se_130612.pdf > (11 January, 2012) (Original in Bahasa Indonesia)
[508]There are two types of banks in Indonesia in terms of the principles of their operational. First are conventional banks and second are syariah banks.
[509]Bank of Indonesia, 'above n 460
[510]Ibid.
[511]Central Bank of Malaysia, 'Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)' 2012 <http://www.bnm.gov.my/guidelines/01_banking/01_capital_adequacy/02_gl_capital_adequacy_framework_islamic.pdf> (15 January, 2013)

Weighted Assets on IPRs, including trade secrets, that the Bank of Indonesia will adopt.

As Indonesia is a civil law country and this study shows that Risk-Weighted Assets for IPRS is a more detailed technical procedure, therefore it is important to establish the regulation(s) umbrella for the use of trade secrets as collateral in secured transactions for SMEs in Indonesia. The Government of Indonesia shouldundertake law reform on this particular matter.

Damarsasongko believes that there should be a Standard Operational Procedure for this matter first, (to be discussed in chapter 5 and chapter 6) and a standard established to value trade secrets. Valuation of trade secrets has been explored in chapter 2.

Based on the results of the consultations above, it can be understood that the idea to use IPRs as collateral in Indonesia itself has been seen as a plan which will face some challenges, because it is unlike conventional collateral, which is tangible and seen as property which is easy to value and monetize. While IPRs, in this case patents, copyrights, trademarks, industrial design and integrated lay-out circuits, are seen as intangible property, they are more realistic to be used as collateral because they have certificates given by the Directorate of the IPRs Office of Indonesia. These are certificates which will be held by the financial institutions as collateral in secured transactions. And those forms of IPRs aforementioned are also seen as IPRs which are easier to value and monetize which is not the case with trade secrets. Below are some challenges which will be faced in using trade secrets as collateral:[512]

1. The lack of information regarding trade secrets. Business people hardly know what a trade secret is and what the benefit of trade secrets is for their businesses.
2. The lack of information that trade secrets can be valued and monetized.

[512]Based of consultations which the writer conducted with Choirul Djamhari (above n 451) and Agung Damarsasongko (above n 454)

3. Since the Directorate General of IPRs of Indonesia is not mandated by law to give certificates to trade secrets, therefore there is a major question about what will be held by financial institutions when trade secrets are used as collateral.

In conclusion, as stated above, Indonesia is a civil law country and the researcher considers that Risk-Weighted Assets for IPRs is a more detailed technical procedure; therefore, it is important to establish the regulatory umbrella for the use of trade secrets as collateral in secured transactions for SMEs in Indonesia. The Government of Indonesia should undertake a law reform on this particular matter.

## 4. Conclusions

According to regulations which have been established, trade secrets are possible to use as collateral. As the researcher[513] has found, there are three reasons why trade secrets can be used as collateral. Those reasons are: (1) based on Fiduciary law, trade secrets can be used as collateral as they can be identified as intangible assets; (2) trade secrets law stated that trade secrets can be transferred and one way of making the transfer is that trade secrets can be sold. This character has to be possessed by any object which is used as collateral, as, when a debtor cannot satisfy his/her debt, the collateral will be sold; and, (3) since there is no fixed period of protection for trade secrets, creditors do not need to worry about losing the value of this particular collateral when they need to sell trade secrets. This point differentiates trade secrets from the other forms of IPRs.

An additional point is that, since trade secrets can be sold when a debtor who has trade secrets cannot pay the debt, therefore, rather than those trade secrets just being kept aside and then sold, it will better if this particular asset can provide an opportunity to help owners or rights holders to get higher loans, because the trade secrets have economic value.

[513] Irawaty, above n 46

The results of the consultations in this study gave insight into the reason why trade secrets were left out of the plan regarding the use of IPRs as collateral. According to Djamhari[514], this is because it was just an oversight which meant that the media did not mention trade secrets in the news.[515] However Damarsasongko[516] stated that the possible reason was because the authorities might have not understood the value that trade secrets have. Nevertheless, both Djamhari and Damarsasongko stated that there is a possibility of using trade secrets as collateral. Furthermore, Djamhari stated that trade secrets should be used as additional collateral.

In order to make it possible for trade secrets to be used as collateral, Djamhari pointed to some actions which should be taken by the government, which are: establishing Risk-Weighted Assets for trade secrets; establishing a standard method in valuing trade secrets; harmonizing regulations regarding the matter in question; establishing jurisprudence regarding the use of trade secrets as collateral; disseminating this particular idea to courts; and encouraging banks to learn more about this matter. He also believed that there should be dissemination about this idea to the people of Indonesia. Damarsasongko also believes that there should be regulations regarding this matter, including technical procedure and a standard valuation method established for trade secrets.

In response to points which were stated by Djamhari and Damarsasongko about the need to harmonize regulations and to establish regulations regarding the use of trade secrets as collateral, those matters will be discussed in the next chapters.

[514]Consultation with Choirul Djamhari, above n 451
[515]Article, above n 430
[516]Consultation with Agung Damarsasongko, above n 454

**Part Two: Analysis of the Use of Trade Secrets as Collateral for MSMEs in Indonesia**

# CHAPTER 6

# ANALYSIS ON HOW TO CLASSIFY TRADE SECRETS AS COLLATERAL

## 1. Introduction

In the previous chapter, the writer has delivered the standpoints of authorities in Indonesia regarding why trade secrets were excluded from the discourse of using IPR certificates as collateral. They said that there is a possibility to use trade secrets as collateral—with notes that there are some tasks that should be carried out. One of the tasks which should be established by the Government is to provide regulations regarding the matter in question.

The INTRODUCTION stated that this research will examine regulations in Australia (Personal Property Security Act 2009), the U.S.A (Uniform Commercial Code (UCC)), Thailand (Procedures for the Loan Application using Intellectual Property as the Collateral) and the PRC (Property Rights Law) and also the Guidance from UNCITRAL regarding the use of IPRs as collateral (The Guide on Legislative Secured Transactions the Supplement on Security Rights in Intellectual Property). The aim of examining those regulations and guidance is to learn what types of regulations and what the essence of those regulations should be in governing the matter in question. It is necessary to develop insight regarding what types of regulations the Government of Indonesia should amend or establish, and what the substance of each of those regulations should be.

These topics will be discussed in chapters 5 and 6. This chapter will discuss matters related to the second research question of this thesis. The research question is: “How should the Government of Indonesia change the law to classify trade secrets as collateral

to be used by MSMEs as well as the other IPRS?" The aim of this question is to analyse how the government of Indonesia should change the law to classify trade secrets as collateral to be used by MSMEs.

To answer this research question, there are three parts which will be discussed. The first step is analysing the *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations). This particular law is used as guidance in establishing and amending regulations. Therefore, this particular law will be used in analysing the procedures in establishing and amending regulations. The second step is analysing types of regulations which regulate trade secrets as collateral in Australia, USA, Thailand, and PRC and based on suggestions from UNCITRAL. The last step is identifying what regulations need to be established and amended.

## 2. The Procedures for Establishment or Amendment of Regulations

The first important thing to understand about regulations in Indonesia is that all regulations in Indonesia are established based on the values of Pancasila. Pancasila is the ideology of the people of Indonesia. In Article 2 of the Law Number 12 Year 2011 regarding the Establishment of Regulations, it is stated that Pancasila is fundamental to all the laws in Indonesia:

> *Pancasila merupakan sumber segala sumber hukum negara*.
> (Pancasila is the souce of all the sources of the law of the country).

Furthermore, the Explanation of Article 2 explains what Pancasila is. Pancasila contains of five points which should exist and implemented by all Indonesians:

> *Penempatan Pancasila sebagai sumber dari segala sumber hukum negara adalah sesuai dengan Pembukaan Undang-Undang Dasar Negara Republik Indonesia Tahun 1945 alinea keempat yaitu Ketuhanan Yang Maha Esa, Kemanusiaan yang adil dan beradab, Persatuan Indonesia, Kerakyatan yang dipimpin oleh hikmat kebijaksanaan dalam Permusyawaratan/Perwakilan, dan Keadilan sosial bagi seluruh rakyat Indonesia.*
> *Menempatkan Pancasila sebagai dasar dan ideologi negara serta sekaligus dasar filosofis negara sehingga setiap materi muatan Peraturan Perundang-*

> *undangan tidak boleh bertentangan dengan nilai-nilai yang terkandung dalam Pancasila*.
> (The Placement of Pancasila as the source of all sources of the law of the state is in accordance with the Preamble of the Constitution of The Republic of Indonesia Year 1945 of the fourth paragraph, which are Belief in one God, Just and civilized humanity, Indonesian unity, Democracy under the wise guidance of representative consultations, and social justice for all the peoples of Indonesia. Placing Pancasila as the foundation and also as the philosophical basis of the State therefore every substance of all Regulations must not conflict with values contained in Pancasila.)

Therefore, all the regulations in Indonesia must be consistent with values given by God to bring justice and civilisation for the people, which can make all the people unite under the principle of wisdom, to make all the people live in prosperity.

As the Preamble of the Constitution of Indonesia has been mentioned, it is worth noting the Constitution of Indonesia. Indonesia has a written constitution which is called *Undang-Undang Dasar Negara Republik Indonesia 1945* (The Constitution of the Republic of Indonesia 1945). 1945 refers to the year of the independence of the country. This constitution has been amended four times. The amendments were aimed to accommodate the needs of the people of Indonesia which were affected by the development of civilization, whether in Indonesia itself or outside Indonesia. Article 3 (1) of the Law Number 12 Year 2011 stated that:

> *Undang-Undang Dasar Negara Republik Indonesia Tahun 1945 merupakan hukum dasar dalam Peraturan Perundang-undangan*.
> (The Constitution of the Republic of Indonesia is the legal basis for Regulations).

The meaning of the legal basis of regulations is explained in the Article 3 (1) the Explanation of the Law as stated below:

> *Yang dimaksud dengan "hukum dasar" adalah norma dasar bagi Pembentukan Peraturan Perundang-undangan yang merupakan sumber hukum bagi Pembentukan Peraturan Perundang-undangan di bawah Undang-Undang Dasar Negara Republik Indonesia Tahun 1945.*
> (The term "basis law" means ground norm used in establishing Regulations which is the legal source in establishing Regulations under the Constitution of the Republic of Indonesia Year 1945.)

The values which are consistent with Pancasila are outlined in the Constitution. This outline will be used as guidance in establishing regulations in Indonesia. Therefore, all

regulations in Indonesia must not contradict the Constitution because this would then contradict the philosophy of the people of Indonesia—that is, Pancasila.

In order to understand how to amend and establish regulations in Indonesia, this study will analyse *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding The Establishment of Regulations). This Law was established to replace *Undang-Undang Nomor 10 Tahun 2004 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 10 Year 2004 regarding the Establishment of Regulations). The reason why the previous law was replaced was because there were shortcomings in matters needed by society, which should be accommodated, but were not satisfied by the Law Number 10 Year 2004. *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations) is the foundation in analysing the matter in question, therefore all articles which will be discussed below are articles stated in this particular law, unless stated otherwise.

It is important to identify the meaning of "regulations" first. The term *Peraturan Perundang-undangan* (Regulations) means, as stated in Article 1 (2) below:

> *Peraturan Perundang-undangan adalah peraturan tertulis yang memuat norma hukum yang mengikat secara umum dan dibentuk atau ditetapkan oleh lembaga negara atau pejabat yang berwenang melalui prosedur yang ditetapkan dalam Peraturan Perundang-undangan.*
> (Laws or regulations are written rules that contain binding legal norms in general and are created or established by a state agency or official authorized through the procedures set out in the Legislation)

From the definition of Regulations above it can be understood that there are certain institutions which are given mandate and certain procedures which must be conducted in establishing regulations. There are some types of regulations which exist based on Article 7 (1) of the aforementioned law. These regulations, as stated below, are written based on a hierarchy. This means that the content of a regulation stated after another regulation must not contradict the previous regulation.

*Jenis dan hierarkhi Peraturan Perundang-undangan terdiri atas:*
*a. Undang-Undang Dasar Negara Republik Indonesia Tahun 1945;*
*b. Ketetapan Majelis Permusyawaratan Rakyat;*
*c. Undang-Undang/Peraturan Pemerintah Pengganti Undang-Undang;*
*d. Peraturan Pemerintah;*
*e. Peraturan Presiden;*
*f. Peraturan Daerah Provinsi; dan*
*g. Peraturan Daerah Kabupaten/Kota.*
(Types and the hierarchy of the Regulations consist of:
a. The Constitution of the Republic of Indonesia Year 1945;
b. Provisions of the Consultative Assembly of the People;
c. The Law/Regulations in Lieu of Law;
d. Government Regulations;
e. Presidential Regulations;
f. Provincial Regulations;
g. Regulations of District/City.)

Furthermore, Article 8 (1) stated that there are some other types of regulations which are established as has been mandated by this Law in Indonesia, which are:

> *Jenis Peraturan Perundang-undangan selain sebagaimana dimaksud dalam Pasal 7 ayat (1) mencakup peraturan yang ditetapkan oleh Majelis Permusyawaratan Rakyat, Dewan Perwakilan Rakyat, Dewan Perwakilan Daerah, Mahkamah Agung, Mahkamah Konstitusi, Badan Pemeriksa Keuangan, Komisi Yudisial, Bank Indonesia, Menteri, badan, lembaga, atau komisi yang setingkat yang dibentuk dengan Undang-Undang atau Pemerintah atas perintah Undang-Undang, Dewan Perwakilan Rakyat Daerah Provinsi, Gubernur, Dewan Perwakilan Rakyat Daerah Kabupaten/Kota, Bupati/Walikota, Kepala Desa atau yang setingkat.*
> (Types of Regulations other than which have been defined in Article 7 paragraph (1) include the rules set by the People's Consultative Assembly, House of Representatives, Regional Representatives Council, Supreme Court, Constitutional Court, the Supreme Audit, the Judicial Commission, Bank of Indonesia, the Minister, body, board, or a single commission formed with the Government law or on the order of law, Provincial House of Representatives, Governor, House of Representatives District, District/City, Regent/Mayor, the village chief or which have the same level.)

Therefore, based on Article 7 and 8, the institutions which have authority in establishing regulations start from the President and Legislature to chiefs of villages.

2.1.The Establishment and Amendment of Laws

Article 1 (1) states that there are stages in establishing regulations, they are: *perencanaan* (planning), *penyusunan* (drafting), *pembahasan* (discussion), *pengesahan atau penetapan* (endorsement or stipulation), and *pengundangan* (enactment). All those stages are implemented in establishing regulations.

Furthermore, there are some principles which must be contained in establishing good regulations. The principles are stated in Article 5: *kejelasan tujuan* (the purpose of the

regulation must be clear)*; kelembagaan atau pejabat pembentuk yang tepat* (the institution or official who establishes the regulation must have authority in doing so)*; kesesuaian antara jenis, hierarki, dan materi muatan* (there is compatibility among type, hierarchy and material content)*; dapat dilaksanakan* (the regulation can be implemented)*; kedayagunaan dan kehasilgunaan* (the regulation which will be established should be useful and can bring good results)*;kejelasan rumusan* (clarity of the formulation of regulations)*; dan keterbukaan* (transparency). All these matters will be applied in formulating suggestions regarding the reform of regulations to classify trade secrets used as collateral for MSMEs in Indonesia.

Regarding the amendment, there are some articles which regulate how to revise regulations. Articles 230, 231 and 237 of Chapter II (D) regarding *Perubahan Peraturan Perundang- undangan* govern how to revise laws regarding the materials of the laws, which are*:*

> *230. Perubahan Peraturan Perundang-undangan dilakukan dengan* (Changes in legislation are carried out by)*:*
> *a. menyisip atau menambah materi ke dalam Peraturan Perundang- undangan, atau* (inserting or adding material to the legislation, or)
> *b. menghapus atau mengganti sebagian materi Peraturan Perundang-undangan* (removing or replacing some of the materials of the legislation).

Article 230 gives insight into conducting amendments regarding the technique of incorporating new provisions. The new provisions can be inserted into the old regulation. The other way to amend regulation is by removing a particular part of a regulation or else by replacing the particular part with new content.

> *231. Perubahan Peraturan Perundang-undangan dapat dilakukan terhadap* (Changes in legislation can be made to)*:*
> *a. seluruh atau sebagian buku, bab, bagian, paragraph, pasal, dan/atau ayat; atau* (all or part of the book, chapters, parts, paragraphs, articles, and/or sections; or)
> *b. kata, frasa, istilah, kalimat, angka, dan/atau tanda baca* (words, phrases, terms, sentences, numbers, and/or punctuation).

The guidance from Article 231 is very detailed. This article states that amendments can be conducted from punctuation to all or part of the book of a regulation.

*237. Jika suatu perubahan Peraturan Perundang-undangan mengakibatkan* (When a change in legislation resulted in)*:*

*a. sistematika Peraturan Perundang-undangan berubah* (systematic legislation change)*;*

*b. materi Peraturan perundang-undangan berubah lebih dari 50% (lima puluh persen) atau* (material changing the legislation more than 50% or);

*c. esensinya berubah,*(the change in essence),

*Peraturan Perundang-undangan yang diubah tersebut lebih baik dicabut dan disusun kembali dalam Peraturan Perundang-undangan yang baru mengenai masalah tersebut* (The Legislation which has been changed should be revoked and re-established in a new Legislation).

Article 273 emphasises that when there are systematic amendment changes or more than 50% of a regulation or the essence is changed then the regulation must not be amended but the authority should establish a new regulation.

2.1.1. The Establishment of Laws

Article 7 (1) states that the highest order of legislation is *Undang-Undang Dasar Republik Indonesia Tahun 1945* (the Constitution of the Republic of Indonesia Year 1945). The Constitution states those institutions which have authority in establishing laws. Those institutions are: *Presiden* (President) and *Dewan Perwakilan Rakyat* (Parliament). This matter is stated in Article 5 (1) and Article 20 (1) of the Constitution:

*Presiden berhak mengajukan rancangan undang-undang kepada Dewan Perwakilan Rakyat.*
(The President has the right to propose a draft of law to the Parliament.)
Furthermore in Article 20 (1) stated:
*Dewan Perwakilan Rakyat memegang kekuasaan membentuk undang-undang.*
(The Parliament has the authority to establish law.)

From those two articles, the institution which has authority in making laws in Indonesia is the *Dewan Perwakilan Rakyat* (Parliament); however, the President has the right to initiate a draft law to the Parliament. And each member of Parliament also has the right to initiate a draft law, as the President does.[517]

[517]Article 21 the Constitution of Republic of Indonesia 1945

Parliament is an institution which is elected by the people of Indonesia through an election[518] and its functions are: legislation, budgeting and controlling[519]. The first function of the DPR is 'legislation' therefore the DPR is an institution which is mandated by the Constitution of the Republic of Indonesia 1945 to establish laws in Indonesia.

Furthermore, the procedure for establishing laws is stated in Article 22A of the Constitution:

> *Ketentuan lebih lanjut tentang tata cara pembentukan undang-undang diatur dengan undang-undang.*
> (Further provision on the establishment of law will be provided in law.)

The Government of Indonesia later established a law according to what is meant by the Constitution. That is *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations). This law replaced the former law which is *Undang-Undang Nomor 10 Tahun 2004 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 10 Year 2004 regarding the Establishment of Regulations). The contents of the current law are:

| No. | The Contents |
|---|---|
| 1 | *Menimbang* (Considerations) |
| 2 | *Mengingat (*Remembering) |
| 3 | *Memutuskan* (Determination) |
| 4 | Chapter 1. *Ketentuan Umum* (General Stipulations) |
| 5 | Chapter 2. *Asas Pembentukan Peraturan Perundang-Undangan* (the Principle of the Formation of Legislations) |
| 6 | Chapter 3. *Jenis, Hierarkhi, Dan Materi Muatan Peraturan Perundang-Undangan* ( Types, Hierarchy and Substance of Legislation) |
| 7 | Chapter 4. *Perencanaan Peraturan Perundang-Undangan* (the Planning of Legislation) |
| 8 | Chapter 5. *Penyusunan Peraturan Perundang-Undangan* (the Arrangement of Legislation) |
| 9 | Chapter 6. *Teknik Penyusunan Peraturan Perundang-Undangan* (the techniques of drafting legislation) |
| 10 | Chapter 7. *Pembahasan dan Pengesahan Rancangan Undang-Undang* (Discussion and Ratification of Draft) |

[518]Article 19 (1) the Constitution of Republic of Indonesia 1945
[519]Article 20A (1) the Constitution of Republic of Indonesia 1945

| | |
|---|---|
| 11 | Chapter 8. *Pembahasan dan Penetapan Rancangan Peraturan Daerah Provinsi dan Peraturan Daerah Kabupaten/Kota*<br>(Discussion and Determination of Draft of Provincial Regulations and Regulations of District/City) |
| 12 | Chapter 9. *Pengundangan*<br>(Enactment) |
| 13 | Chapter 10. *Penyebarluasan*<br>(Dissemination) |
| 14 | Chapter 11. *Partisipasi Masyarakat*<br>(Community Participation) |
| 15 | Chapter 12. *Ketentuan Lain-lain*<br>(Other Provisions) |
| 16 | Chapter 13. *Ketentuan Penutup*<br>(Closing Provision) |
| 17 | *Penjelasan Undang-Undang* (the Explanation of the Law) |
| 18 | *Lampiran I. Teknik Penyusunan Naskah Akademik Rancangan Undang-Undang, Rancangan Peraturan Daerah Provinsi, dan Rancangan Peraturan Daerah Kabupaten/Kota*<br>(Appendix I. Tehnical Arrangement of Academic Papers of Legal Draft, Provincial Regulatory Draft, and the Draft of Regulation of Regency/City) |
| 19 | *Lampiran II. Teknik Penyusunan Peraturan Perundang-Undangan*<br>(Appendix II. Technical Arrangement of the Regulations) |

Table 10 the Contents of the Law Number 12 Year 2011 regarding the Establishment of Regulations

Article 1 (1) stated that the establishment of regulations involves various stages, as mentioned earlier. Those stages are: *perencanaan* (planning), p*enyusunan* (drafting), *pembahasan* (discussion), *pengesahan atau penetapan* (Endorsement or stipulation), and *pengundangan* (enactment).

In Article 16, it is stated that the stage of planning is done in *Program legislasi nasional* (National Legislation Program). The National Legislation Program is the stage of making a priority of regulations, as to which one will be established first. The decisions are taken by Parliament and the Government (Article 20 (1)). Provisions regarding this matter are articulated in Articles 16-23.

At the drafting stage, the Bill can be from Parliament, the President or DPD (local councils) according to Article 43 (1) and (2). The Bill should be given together with *Naskah Akademik* (Academic Text) as stated inArticle 43 (3)). The Academic Text as stated in Article 1 (11) is:

*Naskah Akademik adalah naskah hasil penelitian atau pengkajian hukum dan hasil penelitian lainnya terhadap suatu masalah tertentu yang dapat dipertanggungjawabkan secara ilmiah mengenai pengaturan masalah tersebut dalam suatu Rancangan Undang-Undang, Rancangan Peraturan Daerah Provinsi, atau Rancangan Peraturan Daerah Kabupaten/Kota sebagai solusi terhadap permasalahan dan kebutuhan hukum masyarakat.*

(Academic texts are manuscripts of research or law study and other research on a specific problem that is scientifically about setting the issue in a Bill, draft Provincial Regulation, or Draft Regulation regencies / cities as a solution to the problems and legal needs of the community.)

The provisions regarding the drafting stage—which is the second stage—are regulated under Articles 43-51.

However, there are provisions regarding technical arrangement which are stated in Articles 64 (1) – 64 (3). They refer to what is regulated in Appendix II of the Law Number 12 Year 2011 regarding the Establishment of Regulations.

The discussion process will involve the Parliament, President or the Ministry who is assigned by the President, and if the law is related to the area of local councils then the local councils should be involved in the discussion as well. The discussion is regulated in Articles 65 – 71.

When the draft of law which has been established is agreed by the Parliament, the President and the Local Councils, according to whether they should be involved, based on the matter of law, then that draft law will be endorsed. The provisions of the endorsement are stated in Articles 72 (1), 72 (2), 73 (1) – (4), 74.

The final stage is Enactment, which is regulated in Articles 81-87. Article 82 states that after a law has been enacted then that law will be put in *Lembaran Negara Republik Indonesia* (the Gazette of the Republic of Indonesia).

Then, to let the people of Indonesia know about this matter, there will be dissemination as stated in Articles 88 – 91.

The last stage is the participation of the people of Indonesia, as stated in Articles 96 (1) – 96 (4).

| No | The Mechanism: | Based on Article: |
|---|---|---|
| 1 | Planning | 16 – 23 |
| 2 | The Law Making:<br>the discussion | 43 (1) |
| 3 | the endorsement | 43 (3) |
| 4 | The discussion | 65 – 71 |
| 5 | The endorsement | 72 (1), 72 (2), 73 (1) – 73 (4), 74 |
| 6 | Enactment | 72-77 |
| 7 | The Dissemination | 88 – 91 |
| 8 | Community participation | 96 1) - 96 (4) |

Table 11 Mechanisms of Establishing Law

2.1.2. The Amendment of Laws

The Explanation and the Appendix of the Law Number 12 Year 2011 provides provisions on how to revise a law, which is stated in the Chapter II (D) regarding *Perubahan Peraturan Perundang-Undangan* (the Changes of Regulations) and Chapter IV (D) regarding *Bentuk Rancangan Undang-Undang Perubahan Undang-Undang* (Form of Bill) as stated in the Appendix II. Actually the procedures in amending laws are the same as establishing a new law, only the procedure is implemented for revising laws which already exist.

The procedures are as follows: the laws in question should be included in the *Program Legislasi Nasional* (National Legislation Program). For the law making process, the draft of a law to be revised could be from the DPR or the President or the Local Councils. The draft should be accompanied by an Academic Paper. Relating to the technical arrangements, it will be referred to what has been regulated in Appendix II of the Law Number 12 Year 2011 regarding the Establishment of Regulations, as stated in Articles 64 (1) – 64 (3). The discussion process will involve the DPR, the President or the Ministry who is assigned by the President, and if the law is related to an area of the local

councils, then the local councils should be involved in the discussion as well. The discussion is as regulated in Articles 65 – 71. When the law which has been revised is agreed to by the DPR, the President and the DPD (when they are or should be involved, based on the matter of law), the revised law will be endorsed. The provisions of the endorsement are stated in Articles 72 (1), 72 (2), 73 (1) – (4), 74. Then, to let the people of Indonesia know about this matter, there will be dissemination as stated in Articles 88 – 91. The last stage is that the participation of the people of Indonesia can be as stated in Article 96 (1) – 96 (4).

2. 2. The Establishment and Amendment of Technical Regulations

2.2.1. The Establishment of Technical Regulations

According to Article 8 (1), there are types of regulations which are established by various institutions and those regulations must be established to satisfy higher regulations or established based on their authority (Article 8 (2)).

Based on Articles 97 and 98, the establishment of types of regulations, which are stated in Article 8, are the same as the procedures for establishing regulations which are stated in Article 7. The difference is in the institutions that can establish the regulations, which can be a Ministry or the Governor of the Bank of Indonesia or other institutions which are stated in Article 8 (1).

2.2.2. The Amendment of Technical Regulations Established by Ministers

In the event that there is a Regulation of the Minister that should be revised, the amendment will be conducted based on Article 97. Article 97 states that the technical establishment of Ministry Decision is *mutatis mutandis* with the technical establishment which has been settled in the Law Number 12 Year 2011 regarding the Establishment of Regulations, as stated below:

> *Teknik penyusunan dan/atau bentuk yang diatur dalam Undang-Undang ini berlaku secara mutatis mutandis bagi teknik penyusunan dan/atau bentuk Keputusan Presiden, Keputusan Pimpinan Majelis Permusyawaratan Rakyat, Keputusan Pimpinan DPR, Keputusan Pimpinan DPD, Keputusan Ketua Mahkamah Agung, Keputusan Ketua Mahkamah Konstitusi, Keputusan ketua Komisi Yudisial, Keputusan Kepala Badan Pemeriksa Keuangan, Keputusan Gubernur Bank Indonesia, Keputusan Menteri, Keputusan Kepala Badan, Keputusan Kepala Lembaga, atau Keputusan Ketua Komisi yang setingkat, Keputusan Pimpinan DPRD Provinsi, Keputusan Gubernur, Keputusan Pimpinan DPRD Kabupaten/Kota, Keputusan Bupati/Walikota, Keputusan Kepala Desa atau yang setingkat.*
> (The preparation techniques and / or form set out in this Act shall apply mutatis mutandis to the preparation techniques and / or form a Presidential Decree, Decree of the People's Consultative Assembly leadership, the House Leadership Decisions, Decisions of the head of Council, the Chairman of the Supreme Court, the Chairman of the Constitutional Court , chairman of the Judicial Commission decision, decision of the Supreme Audit Agency, the Governor of Bank Indonesia, Minister, Head of decision, decision of the institution, or the Chairman of the Commission at the same level, decision Leadership Provincial Parliament, the Governor, decision Leaders District / City, Decree of the Regent / Mayor, Village Head Decree or the equivalent.)

## 3. Types of Regulations which have been used to Regulate Trade Secrets as Collateral

To support the point that the Government of Indonesia should reform the related laws on this issue, this study will outline regulations in Australia, the USA, Thailand, and the PRC as a fundamental basis for recognizing what types of regulations are used to regulate trade secrets as collateral in each country, and also highlight what the UNCITRAL Legislation Guide suggests. Moreover, the regulations which already exist in Indonesia that should be altered will also be analysed regarding the implementation trade secrets as collateral for MSMEs in Indonesia.

First, the points to be discussed are the types of regulations which have been used to regulate trade secrets as collateral in the countries below:

### 3.1. Australia

In 2009, the Parliament of Australia regulated secured transactions for personal property through the Personal Property Security Act 2009. The definition of personal property is stated in the Personal Property Security Act 2009 as:

> Personal property includes many different kinds of tangible and intangible property, other than real property. Examples include motor vehicles, household goods, business inventory, intellectual property and company shares. Personal

> property is known as collateral if it is (or is anticipated to be) the subject of a security interest.[520]

In the definition of personal property above, it is stated that personal property includes tangible and intangible property and the examples in the definition state intellectual property. Based on TRIPS, trade secrets are included as one form of intellectual property. However, in this particular act, trade secrets are not stated as one form of intellectual property, based on Section 10:[521]

> Intellectual property means any of the following rights (including the right to be a party to proceedings in relation to such a right):
> (a) The right to do any of the things mentioned in paragraph 10(1)(a) to (f) of the Designs Act 2003 in relation to a design that is registered under that Act;
> (b) The right to exploit or work an invention, or to authorise another person to exploit or work an invention, for which a patent is in effect under the Patents Act 1990;
> (c) The rights held by a person who is the registered owner of a trade mark that is registered under the Trade Mark Act 1995;
> (d) The right to do, or to license another person to do, an act referred to in section 11 of the Plant Breeder's Rights Act 1994 in relation to propagating material of a plant variety;
> (e) The right to do an act referred to in section 17 of the Circuit Layouts Act 1989 in relation to an eligible layout during the protection period of the layout;
> (f) The right under the Copyright Act 1968 to do an act comprised in the copying in a literary, dramatic, musical or artistic work or a published edition of such a work, or in a sound recording, cinematograph film, television broadcast or sound broadcast;
> (g) A right under or for the purposes of a law of a foreign country that corresponds to a right mentioned in any of paragraphs (a) to (f).

Thus, the term intellectual property in the Personal Property Security Act (2009)(Cth)(PPSA) only covers Designs, Patents, Trade Marks, Plant Breeder's Rights, Circuit Layouts and Copyrights. However, trade secrets are intangible and there is a particular explanation of the term "intangible property" in section 10. This explanation stated that

> intangible property means personal property (including a licence) that is not any of the following:
> (a) Financial property;
> (b) Goods;
> (c) An intermediated security.

[520]Paragraph 3 Section 3 of the Personal Property Security Act (PPSA)(Cth)(2009)
[521]Section 10 of the Personal Property Security Act (PPSA)(Cth)(2009)

Based on the aforementioned elaboration, it is concluded that trade secrets can be used as collateral under the qualification of intangible property.

Furthermore, with personal property, Section 10 stated that

> Personal property means property (including a licence) other than:
> (a) Land; or
> (b) A right, entitlement or authority that is:
> (i) Granted by or under a law of the Commonwealth, a State or a Territory; and
> (ii) Declared by that law not to be personal property for the purposes of this Act.

Regarding the explanation above, it can be seen that a licence can be categorised as personal property. It has been found that trade secrets can be licensed.[522] There is an interesting fact that trade secrets can actually be transferred, which was in a case between Ashlar, which sold its trade secrets to Interim.[523] Nevertheless, the writer could not find a case which showed trade secrets used as collateral.

On the analysis above of the statement on what personal property is, as stated in Section 10, based on (b) (ii), no law has been found which stated that trade secrets are not personal property.

From the above explanation, so far, it can be understood that: (1) trade secrets can be licensed; (2) trade secrets can be sold; and (6) there is no law which specifically stated that trade secrets rights are not a right under the Personal Property Security Act (2009)(Cth)(PPSA).

To sum up, there is a possibility that trade secrets can be used as collateral under the Personal Property Security Act (2009)(Cth)(PPSA) in the qualification of intangible property. Therefore, it was found that type of regulation which regulates trade secrets as collateral in Australia is “Act”.

[522]Painaway Australia Pty Ltd v JAKL Group Pty Ltd and Others [2011] NSWSC 205
[523]Ed. David Morrison, Solving the Issue of Insolvency (2007) Lawbook.Co, taken from Westlaw Australia at 10 July 2013, p 62

3.2.USA

Chapter 2 discussed the use of trad secrets as collateral in the USA. Perritt, Jr stated that collateralization of trade secrets is based on Article 9 of the Uniform Commercial Code (UCC). Furthermore, he stated that trade secrets are used as collateral as they are included under the qualification of general intangibles.[524] The definition of general intangible can be found in Article 9-102 (42):

> "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.[525]

UCC is a code which regulates almost every aspect of business in the USA. However, to make the UCC effective, every state should enact it as a statute. There are 50 states, the District of Columbia, and the Virgin Islands which have enacted the UCC with their own terms and conditions.[526]

As stated, this regulation on trade secrets as collateral in the USA is under a code called the UCC Article 9, categorized as general intangibles and this Code has been enacted first by each state, to make it effective. Therefore, the type of regulation in the USA which regulates trade secrets as collateral is under the type of regulation which is known as a "Code".

3.3.Thailand

In regulating IPRS used as collateral, Thailand already has a technical regulation which is called "the Loan Procedures on Intellectual Property used as Collateral"[527]. This particular procedure provides information regarding which banks accept IP as collateral; which forms of IP and the requirements so that they can be used as

[524]Henry H. Perritt, Jr, above n 253
[525]Legal Information Institute, 'Uniform Commercial Code' no date <http://www.law.cornell.edu/ucc/9/article9.htm> (17 July, 2013)
[526]Duke University School of Law, 'Uniform Commercial Code (UCC)' 2013 <http://law.duke.edu/lib/researchguides/ucc/> (17 July, 2013)
[527]IP Thailand, above n 91

collateral; step by step procedures for those who seek loans which use IP as collateral; and some matters which debtors should be aware of, after they receive financial help.

The procedure states that one of the banks which accepts IP as collateral is SME Bank of Thailand. Therefore, it can be understood that the Government of Thailand has been aware that SMEs should be supported regarding the extended use of their IP—that is, as collateral.

The forms of IP stated in the procedures are: (1) Trademarks, Service Marks, Certification Marks, Collective Marks, Patents for Inventions, Product design patents, petty patents, and layout-design of integrated circuits, which have been registered with the Department of Intellectual Property; (2) Copyright, trade secrets and traditional knowledge, which have been notified with the Department of Intellectual Property; (3) Geographical Indications that have been registered or notified with the Department of Intellectual Property.

From the above explanation, regarding the form of IP which can be used as collateral, it can be seen that trade secrets are clearly stated as IP which is accepted as collateral. Furthermore, trade secrets which are accepted as collateral are trade secrets which have been notified to the Department of Intellectual Property.

Therefore, this is one more type of regulation which has been used for trade secrets as collateral. It was found that it is a technical procedure.

3.4.PRC

Since 2007, the PRC has had the Property Law of the PRC.[528] This particular law is meant to regulate the connection between the people of the PRC and their properties, including intellectual property. Article 223 state that

> The following rights which an obligor or third party has the right to dispose of may be pledged:

[528]National People's Congress, 'Property Law of the People's Republic of China' 2007 <http://www.lawinfochina.com/display.aspx?lib=law&id=6642> (13 July, 2013)

(1) Money orders, checks, and cashier's checks;
(2) Securities and deposit receipts;
(3) Warehouse receipts and bills of lading;
(4) Transferable fund units and stock rights;
(5) Exclusive trademark rights, patent rights, copyrights or other property rights in intellectual property that can be transferred;
(6) Account receivables; and
(7) Other property rights that can be pledged according to any law or administrative regulation.[529]

Based on the article above, it can be understood that there is a possibility trade secrets can be used as collateral. The statement which refers to that is point number 5, as it stated the IPR forms. Unfortunately, trade secrets are not stated clearly in that point. Nevertheless, there is an important statement which can be tracked to find out whether trade secrets can be included as one of the IPR forms which can be used as collateral. That is to find out whether trade secrets can be transferred. Bai and Da have explained that trade secrets should be taken care of very seriously when they are transferred, in the event of licensing transactions and Joint Ventures (JV).[530] The most important issue regarding trade secrets is how to maintain the secrecy. The view of this thesis is that, if trade secrets can be licensed and used in JVs, therefore, it is likely that there is a possibility trade secrets can be transferred through other ways, for example, by selling them. This is because, by licensing trade secrets, the possibility of a threat to the secrecy of trade secrets is higher than when selling trade secrets.

It would seem that trade secrets can be one form of IPR which can be transferred in the PRC. Due to this, trade secrets might be used as collateral under the qualification of Article 223 (5) of the Property Law.

Based on the above discussion, the writer concludes that the PRC has Property Rights Law which regulates the use of IPs as collateral.

[529]Ibid.
[530]J. Benjamin Bai & Guoping Da, above n 153

### 3.5. UNCITRAL Legislation Guide

In 2010, UNCITRAL issued *UNCITRAL Legislative Guide on Secured Transactions.*[531] This legislative guide is aimed to assist countries which are willing to establish effective and efficient regulations on secured transactions. This particular guide stated that, as IP has become an important asset of enterprises, therefore it can be used as collateral. However, because this particular guide was not meant to be guidance for IPRs' secured transactions which required special treatment, therefore any country which implements this kind of transaction based on this guide should be careful.[532]

Later in 2011, the UNCITRAL issued a supplement to the legislative guide aforementioned. It is the *UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual* Property[533]. This supplement was established to give guidance to countries which are willing to implement the use of IP as collateral in secured transactions; therefore, there is no obligation for countries to apply this suggestion. The term IP, both in the *UNCITRAL Legislative Guide on Secured Transactions* and the *UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property* clearly stated that the term IP includes trade secrets. Intellectual Property, according to this supplement to the legislative guide, explained in Terminology section, (f) is:

> ..., the term "intellectual property" means copyrights, trademarks, patents, service marks, trade secrets and designs and any other asset considered to be intellectual property under the domestic law of the enacting State is a party (such as, for example, neighbouring, allied or related rights or plant varieties). [534]

[531] United Nations Commission on International Trade Law, above n 31
[532] Ibid, p 39-40
[533] United Nations Commission on International Trade Law, above n 32
[534] Ibid, p. 7

To sum up, the guide issued by UNCITRAL refers to legislation which can be interpreted as law. Therefore, it can be concluded that the type of regulation which can be chosen to regulate trade secrets used as collateral is law.

From the explanation above, the points to emphasise are:

1. Australia has the PPSA which regulates personal property rights to be used as collateral in secured transactions. Personal property, according to the PPSA, includes almost all personal property including IP. However, the term IP in this regulation excludes trade secrets. Trade secrets are covered under the category of intangible property.
2. The recognition of the availability of trade secrets as collateral in the USA is in UCC Article 9 under the category of general intangibles.
3. As a civil law country, Thailand has given clear regulation on using IPRs as collateral including trade secrets. Trade secrets which have been notified to the Department of Intellectual Property of Thailand can be used as collateral. The regulation is a technical one, which is called the "Procedures for the Loan Application using Intellectual Property as the Collateral".
4. PRC has Property Law which regulates IP used as collateral. However, the term IP in that Law only refers to patents, copyrights, and trademarks which are transferable.
5. UNCITRAL through the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property suggests that the type of regulation for countries which would like to regulate IPRs used in secured transactions is Law.

Overall, there are two types of regulation which need to exist to regulate IPRs including trade secrets used as collateral, which are:

1. Regulations which are recognized by all states in a country. The terms vary. They can

be named: ‘Act’; ‘Law’, or ‘Code’.

2. Technical regulations.

**4. Regulations to Classify Trade Secrets to become Collateral**

The conclusion of part 3 above stated that there are two types of regulations which have been using by Australia, the USA, Thailand and the PRC and a type of regulation which is recommended by UNCITRAL. The first type is a regulation which can be named ‘Act’; ‘Law’, or ‘Code’. The second type is a technical regulation.

Based on Article 7 and 8 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding The Establishment of Regulations), regulations in Indonesia have the same characteristic as the first type of regulation, which, as stated previously is *Undang-Undang* (Law). The second type, which is technical regulations, can be referred to as regulations which are established by institutions which have authority regarding matters to be regulated.

Chapter 4 examined some regulations in Indonesia which are identified as able to make trade secrets as collateral possible. Those regulations are: *Kitab Undang-Undang Hukum Perdata* (Civil Code), *Undang-Undang Nomor 42 Tahun 1999* (the Law Number 42 Year 1999 regarding Fiduciary matters), *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secrets), *Undang-Undang Nomor 10 Tahun 1998 tentang Perbankan* (the Law Number 10 Year 1998 regarding Banking).

There are two possibilities for regulating trade secrets to be used as collateral for MSMEs. They are:

1. Following Australia, the USA and the PRC, which regulate this matter in one regulation—together with other assets—therefore, the step which should be taken is amending *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (The Law Number

42 Year 1999 regarding Fiduciary matters). This particular law actually has similar provisions to the regulations in those countries aforementioned. Moreover, as with *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (The Law Number 42 Year 1999 regarding Fiduciary matters), those regulations do not clearly mention trade secrets, but only mention general intangible or intangible assets; or,

2. Following the guidance which was issued by UNCITRAL, which issued one particular guide for secured transactions using IP, it might be more effective if the Government of Indonesia established one particular law for this matter. Nevertheless, the Government has been examining the possibility of using patents, copyrights, trademarks, layout of integrated circuits and industrial design, as stated in the INTRODUCTION.[535]

In addition to those points above, Article 237, as previously mentioned, stated that when a regulation is amended which causes the system of the regulation to be changed, or the material is changed by more than 50% or the essence of the regulation is changed, then it is better that the regulation is revoked and a new regulation is established.

In relation to the findings in part 3 and chapter 4, the regulations which should be established or which should be amended will be analysed.

1. The Law

Australia, the USA and the PRC are all using regulations which apply to tangible and intangible property as collateral in one particular regulation. UNCITRAL, through its Legislative Guide, in this particular matter recommends that countries who want to apply IP used as collateral in secured transactions to incorporate special provisions for IP in order to accommodate the IP.[536] Furthermore, in that particular Legislative

[535]Ministry of Cooperatives and Small and Medium Enterprises, above n 66
[536]United Nations Commission on International Trade Law, above n 31, p 40

Guide, the UNCITRAL stated that in implementing IP as collateral in appropriate way, countries need to examine the secured transaction very carefully. It should be analysed case by case. The full recommendation regarding this matter is stated below:

> In considering whether any adjustments of secured transactions law rules as they apply to security rights in intellectual property are appropriate, a State should analyse each circumstance on an issue-by-issue basis and should have proper regard both to establishing an efficient secured transactions regime and to ensuring the protection and exercise of intellectual property rights in accordance with international conventions and national laws. Matters that should also be taken into account include whether intellectual property law addresses the taking of security in intellectual property and whether it provides for the registration of notices about security rights in intellectual property. All these details will be addressed in a forthcoming supplement to the *Guide*.[537]

Based on the above recommendation, UNCITRAL also stated that each country should establish a proper regime regarding the use of IPR's as collateral. Regarding to this matter, Indonesia actually has had a law which is used to regulate intangible assets in secured transactions. That is *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (The Law Number 42 Year 1999 regarding Fiduciary matters). However, this law does not have contents which are aimed at trade secrets and the other forms of IPRs. Therefore, the law needs to accommodate this particular issue to make implementation of this matter possible. There are some other laws which should be amended also. They are: (1) *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang (*The Law Number 30 Year 2000 regarding Trade Secrets). The reason why this law needs to be amended is because, even though Article 5 stated that trade secrets can be transferred, there is no clear statement which express that trade secrets can be used as collateral. Therefore the amendment would clearly qualify that trade secrets can be used as collateral. (2) *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (The Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment) needs to be amended because UNCITRAL in

[537] Ibid, p 40

its guidance stated that when establishing laws regarding secured transactions, there should be anticipation of insolvency law also.[538] As Sandeen found, the bankruptcy law of the US has not provided provisions for trade secrets when a debtor is in the state of bankruptcy. Trade secrets have a unique character which requires specific treatment—that is, treatment which assures the secrecy of information is safe. Therefore, this particular law needs to be amended as discussed in chapter 2.[539]

Based on the analysis of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations), in order to amend those laws the procedures which should be carried out are: (1) those laws should be put on the National Legislation Program; (2) the substance of the laws will be revised by Parliament and the President (since this matter does not include the authority of the local councils, therefore they are not included)[540]; (3) the draft of the amendment should be given with *Naskah Academik* (Academic Text) and the initiative could come from Parliament or the President; (4) those laws should be discussed; (5) when the revisions are agreed both by Parliament and the President, then the amended law will be endorsed; (6) the laws then will be enacted by putting into the gazette; (7) the laws will be disseminated to the people of Indonesia, and (8) finally the people can give their input regarding the laws, either in oral or written form.

2. The Technical Procedure

Thailand is the only country (compared to Australia, the USA and the PRC) which has this type of regulation to regulate IP used as collateral (including trade secrets). Indonesia has not had this type of regulation to regulate IP as collateral. Furthermore, to take into account what happens in Thailand, they have a Loan Procedure on Using

[538]Ibid.
[539]Sharon K. Sandeen, above n 310, pp 81-122
[540]Article 22D of the Constitution of Republic of Indonesia

IPRs as Collateral, so it is suggested that the Indonesian authority also takes this step to establish integrative and comprehensive regulations on this matter. As it is a technical regulation, it can be written by the Bank of Indonesia, the Directorate of IPR of Indonesia, The Ministry of Cooperative and Small Medium Enterprises and the Fiduciary Registration Office. This technical regulation is not particularly for trade secrets only. Looking at the technical procedure which Thailand has, this technical procedure regulates trade secrets together with the other forms of IPRs. Therefore, this study will explore the possibility of what regulations need to be established and amended regarding this technical regulation.

a. Technical regulation that should be established.

Chapter 4 identified that Damarsasongko stated that to implement trade secrets as collateral, a standard operational procedure for this matter should be established. Based on *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations)[541], the Law regarding the Banking Law and *Undang-Undang Nomor 23 Tahun 1999 tentang Bank Indonesia* (the Law Number 23 Year 1999 regarding the Bank of Indonesia)[542], it was found that in order to implement trade secrets as collateral for SMEs in Indonesia, there are two regulations that the Bank of Indonesia should establish, which are:

1. The Memorandum of Understanding (MoU) among the Bank of Indonesia, Ministry of Cooperatives and SMEs, the Directorate General of the IPR Office

   This MoU is aimed to develop cooperation among the four institutions, as they have their own roles in the success of the implementation of trade secrets as collateral for MSMEs. The Bank of Indonesia as the central bank in Indonesia

[541]Article 8 (1) of the Law Number 12 Year 2011 regarding the Establishment of Regulations
[542]Bank of Indonesia, 'Regulation of Republic of Indonesia Number 23 Year 1999 regarding Bank of Indonesia' no date <http://www.bi.go.id/biweb/html/uu231999_id/index.html> (19 July, 2013) (Original in Bahasa Indonesia)

will have the role to order banks in Indonesia to accept trade secrets as collateral; the Ministry of Cooperatives and SMEs' role is to disseminate the practice of using trade secrets as collateral to MSMEs; and the Directorate General of the IPR Office will have the role of giving notification of trade secrets which will be *used* as collateral. In addition, the Directorate General of IP should assign *Kantor Pendaftaran Fiducia* (the Office of Fiduciary Registry) to support this MoU by accepting IPRs, including trade secrets, to be registered as collateral.

The power of the Bank of Indonesia in making MoUs with other institution is as stated below:

> *Menyadari pentingnya dukungan dari berbagai pihak bagi keberhasilan tugasnya, BI senantiasa bekerja sama dan berkoordinasi dengan berbagai lembaga negara dan unsur masyarakat lainnya. Beberapa kerjasama ini dituangkan dalam nota kesepahaman (MoU), keputusan bersama (SKB), serta perjanjian-perjanjian, yang ditujukan untuk menciptakan sinergi dan kejelasan pembagian tugas antar lembaga serta mendorong penegakan hukum yang lebih efektif.*
> (Recognizing the importance of support from various stakeholders for the success of its duties, BI always cooperates and coordinates with various state agencies and other community elements. Some cooperation is set out in a memorandum of understanding (MoU), a joint decision (LCS), as well as agreements, aimed at creating synergies and a clear division of labor among institutions and to encourage more effective law enforcement.) [543]

According to Article 5 Law Number 21 Year 2011 regarding Financial Services Authority, the function of OJK is to establish integrated system for financial sector. Therefore, in the near future, this financial authority will replace the Bank of Indonesia.

[543]Bank of Indonesia, The Position of Bank of Indonesia as one of State's Institutions' no date <http://www.bi.go.id/web/id/Tentang+BI/Hubungan+Kelembagaan/Lembaga+Negara/> (18 July, 2013) (Original in Bahasa Indonesia)

2. *Peraturan Bank Indonesia* (Regulations of the Bank of Indonesia)

   This type of regulation is aimed at binding all MSMEs, so that they can use their IPRs, including trade secrets, as collateral in secured transactions when they need financial help to run their businesses.

   This type of regulation should be established in order to create legal certainty for all natural persons and legal persons, who have concern with the implementation of trade secrets used as collateral.

   Article 1 (8) the Law Number 2 Year 2008 regarding The Second Revision of the Law Number 23 Year 1999 regarding Bank of Indonesia stated that:

   > *Peraturan Bank Indonesia adalah ketentuan hukum yang ditetapkan oleh Bank Indonesia dan mengikat setiap orang atau badan dan dimuat dalam Lembaran Negara Republik Indonesia;*
   > (Bank Indonesia Regulations are laws set by Bank of Indonesia and bind any person or entity and are published in the State Gazette of the Republic of Indonesia;)

3. *Surat Edaran Bank Indonesia* (Circulation Letter of Bank of Indonesia)

   This type of regulation is aimed at all banks in Indonesia, a way to give instruction that they should accept IPRS, including trade secrets in secured transactions as collateral for MSMEs in Indonesia. In addition, in this Circulation Letter, the Bank of Indonesia also should give guidance on the procedures and how the institution should get involved in this practice.

   This type of regulation aims to give orders to all banks in Indonesia to implement and accept trade secrets as collateral from MSMEs which need financial aid.

b. Technical regulations that should be amended

The Ministry of Law and Human Rights has established a regulation regarding the framework of its staff at the Directorate General of IPRs Office. That Regulation is Peraturan Menteri Hukum dan HAM R.I Nomor M.HH-05.OT.01.01 Tahun 2010

*tentang Organisasi dan Tata Kerja Kementerian Hukum dan HAM Republik Indonesia* (the Regulation of the Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Right of the Republic of Indonesia).[544]

In order to use trade secrets as collateral, trade secrets should be registered or notified (as in Thailand), so that this particular regulation should be amended. The amendment is needed in Part Four of this regulation. This regulation needs to be amended because Article 705 states that an agreement which can be registered regarding trade secrets is a licensing agreement only.

Notification of trade secrets is different to registration of other types of IPR's. The process of registration is more complex, including checking whether another party has registered the innovation or invention. The process of notification is to acknowledge the IP. There is no substantial checking involved. Therefore, the process should be faster and cheaper than, for example, registration of a patent. Nevertheless, there is advocacy support available in Indonesia for the protection of IPR's and this should be extended to support for the trade secret notification system.

The mechanism to amend *Peraturan Menteri Hukum dan HAM R.I Nomor M.HH-05.OT.01.01 Tahun 2010 tentang Organisasi dan Tata Kerja Kementerian Hukum dan HAM Republik Indonesia* (Regulation of Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Rights of the Republic of Indonesia) will be the same as the revision of the law above. The difference is the amendment will be

[544]Ministry of Law and Human Rights of the Republic of Indonesia, 'the Regulation of Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Right of the Republic of Indonesia' 2010 <http://www.kemenkumham.go.id/attachments/article/273/permen_no_m_hh-05-ot_01_01_tahun_2010.pdf> (15 July, 2010) (Original in Bahasa Indonesia)

conducted by the Ministry of Law and Human Rights itself. The mechanism will be: planning; the law making process which consists of two stages, the discussion and the endorsement; the technical arrangements; the discussion; the endorsement; the dissemination; and the community participation. However, the difference between the law and the Ministry Decision is that all the activities are done in the relevant ministry.

To sum up, in order to qualify trade secrets as collateral in Indonesia there are some laws which need to be amended. Regarding the technical procedures, there are technical procedures which should be established and there is a technical procedure which needs to be amended.

## 5. Conclusions

The second research question, which is "How should the Government of Indonesia change the law to classify trade secrets as collateral for MSMEs as well as the other IPRs?" is discussed based on provisions stated in *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations).

The establishment and revising/amending of regulations in Indonesia is conducted, based on the law aforementioned. This law replaced the former law, which is *Undang-Undang Nomor 10 Tahun 2004 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 10 Year 2004 regarding the Establishment of Regulations).

There are some stages in establishing and amending regulations. They are: *perencanaan* (planning), *penyusunan* (drafting), *pembahasan* (discussion), *pengesahan atau penetapan* (endorsement or stipulation), and *pengundangan* (enactment). The establishment or amendment of laws is conducted by the President with Parliament. The establishment or

amendment of regulations below the level of law will be conducted by institutions which have authority regarding matters which need to be regulated.

Based on the analysis of the types of regulations which have been used to regulate IP (including trade secrets) used as collateral in Australia, the USA, Thailand and the PRC and also recommendation from UNCITRAL there are two types of regulations which can be identified. Australia, the USA, and the PRC regulate this matter through regulations which in Indonesia are called *Undang-Undang* (Law). This is the same as recommended by UNCITRAL through the Legislative Guide on Secured Transactions and its Supplement. In addition, another input comes from Thailand, because Thailand has technical procedures in regulating IP used as collateral.

The issue has been divided into two classes, which are: the regulations which should be revised and new regulations which should be established. The regulations which should be revised are: the Trade Secrets Law, the Bankruptcy Law, the Fiduciary Law and the Decision of the Law and Human Rights Ministry. Furthermore, regarding the Fiduciary Law, it could be that this particular law does not need to be amended if a particular law is established to regulate trade secrets used as collateral for MSMEs together with the other forms of IPRs.

The regulations which should be established are: an MOU among the Bank of Indonesia, the Ministry of Cooperatives and SMEs and the Directorate General of the IPRS Office. The revision of those regulations should be based on the Law Number 12 Year 2011 regarding the Establishment of Legislation, while the establishment of the legal products of the Bank of Indonesia are based on the Law Number 12 Year 2011 regarding the Establishment of Legislations, the Banking Law and the Law of the Bank of Indonesia.

**Part Two: Analysis of the Use of Trade Secrets as Collateral for MSMEs in Indonesia**

# CHAPTER 7
# THE USE OF TRADE SECRETS AS COLLATERAL— OPTIONS FOR REFORM

## 1. Introduction

Chapter 5 has concluded that there are some regulations which need to be amended and established to implement trade secrets becoming collateral for MSMEs in Indonesia. The regulations which need to be amended are: *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (the Law Number 30 Year 2000 regarding Trade Secret), *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (The Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment), *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) and *Peraturan Menteri Hukum dan HAM R.I Nomor M.HH-05.OT.01.01 Tahun 2010 tentang Organisasi dan Tata Kerja Kementerian Hukum dan HAM Republik Indonesia* (the Regulation of the Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Rights of the Republic of Indonesia). The regulations which need to be established are: Memorandum of Understanding (MoU) between the Bank of Indonesia, Ministry of Cooperatives and SMEs and the Directorate General of the IPR Office, *Peraturan Bank Indonesia* (Regulation of Bank of Indonesia) and *Surat Edaran Bank Indonesia* (Circulation Letter of Bank of Indonesia). Nevertheless, regarding *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters), there are two possibilities. This particular law could be amended to accommodate the use of trade secrets as collateral for MSMEs or the other

way is to establish a new law to regulate trade secrets used as collateral for MSMEs together with the other forms of IPRs.

In order to decide whether the law aforementioned should be amended or the government needs to establish new regulations, an important matter which must be conducted is to analyse Article 273 *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations). As mentioned in chapter 5, when the amendment of a law is a systematic change, or the essence of the law changes or more than 50% of a regulation is changed, then the regulation must not be amended but the authority should establish new regulations. In order to know how much amendment will affect an established law, it is necessary to analyse what new contents are which will be added to that particular law.

Therefore, remembering the provision in Article 273 (as mentioned above), it is necessary to analyse what points should be addressed to regulate trade secrets as collateral. By doing so, it can be found how much the new contents will affect the Fiduciary Law. The government should establish a new law if the new contents are more than 50%; the essence of the law is changed or the system of the current law is changed.

This chapter will analyse points which need to be addressed in the regulations to use trade secrets as collateral, in order to answer the third research question of this work which is: "What do the new regulations contain for legislation reform in accommodating trade secrets to become collateral for MSMEs in Indonesia?"

The regulations from the other jurisdictions which will be examined are: the Personal Property Security Act 2009, the UCC, the Property Law of the PRC and a suggestion from the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property—which are used to broaden the perspective in regulating the matter in question. The other regulation which will be examined is the Procedure on

using IP as collateral for SMEs in Thailand—which will be used to broaden the perspective in addressing technical regulation regarding the matter in question.

Based on those points above, this chapter will discuss three points. They are: (1) suggested procedures in using trade secrets as collateral; (2) suggested institutions to deal with registration for security transactions which use trade secrets as collateral; and (3) suggested contents which need to be addressed in regulations to regulate trade secrets to become collateral for MSMEs.

## 2. Procedures on Using Trade Secrets as Collateral

Procedures which should be followed by parties in secured transactions according to the Personal Property Security Act 2009, UCC Article 9, and the Property Law and recommendations from UNCITRAL through the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, in principle, are the same. Those procedures are: the borrower and the creditor must establish a written agreement for the secured transaction and the property which is used as collateral in this transaction must be registered. Nevertheless, in "Procedures for the Loan Application using Intellectual Property as the Collateral", as it is a technical regulation therefore the procedures which are stated are more technical. In that particular procedure, it is stated that a party who wants to get a loan should apply to banks which participate in a program using IP as collateral; after that the documents are examined by the banks and a cross check is conducted with the IP Office. If all the requirements satisfy the banks, then the loan will be approved. The procedures which are stated in "Procedures for the Loan Application using Intellectual Property as the Collateral" need to be noted in establishing technical procedures. Below are the procedures which are regulated by those regulations:

| No | Countries/ Body | Name of Regulations | The Procedures |
|---|---|---|---|
| 1 | Australia | Personal Property Security Act (2009) (Cth)(PPSA) | 1. Borrower and lender make a security agreement (Section 12 (1));<br>2. Registration (Chapter 5); |
| 2 | USA | Uniform Commercial Code Article 9 | 1. Contract between parties;<br>2. Attachment;<br>3. Perfection (Filing) |
| 3 | Thailand | Procedures for the Loan Application using Intellectual Property as the Collateral | 1. Future borrowers apply loan application (with other requirements);<br>2. The examination;<br>3. The approval; |
| 4 | PRC | Property Rights Law | Article 227:<br>1. Written contract;<br>2. Registration |
| 5 | UNCITRAL | UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property | Page 37-38:<br>1. Agreement between parties in written document;<br>2. Register the agreement and register the IPRs |

Table 12 Procedures of Using Trade Secrets as Collateral

According to the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, as one of its objectives is to provide easier and cheaper procedures in secured transactions, the procedure is simply that both parties make written agreement.[545] Moreover, the collateral should be registered in a public registry to make the agreement effective for a third party.[546] However, in relation to making the collateralization effective for third parties, as has been discussed in chapter 2, Smith stated that in the U.S collateral should be attached through a process called attachment.[547] Moreover, attachment is a stage in which the debtor gives value to the collateral, ensures that the debtor has rights over the collateral and that the creditor also has their rights (as discussed in Chapter 2). Attachment will secure the creditors who have security interests in the trade secrets used as collateral, compared to other creditors who do not have security interests in the trade secrets. Furthermore, to give security to creditor when debtor

[545]United Nations Commission on International Trade Law, above n 32, p 35
[546]Ibid.
[547]Lars S. Smith, above n 17, p 559

becomes insolvent there is a stage which needs to be fulfilled. That is perfection. Perfection is often done by filing financing statements.[548]

*Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) has a definitive provision regarding the fiduciary procedures. Collateralization on fiduciary matters is an agreement which follows the primary agreement (Article 4). *Pembebanan* (attachment) is made by establishing a notary certificate (Article 5 (1)). Article 6 stated that matters which should be clearly stated in the certificate are: the identity of the giver (debtor) and acceptor (creditor); data of the primary agreement; description of the collateral; the guarantee value; and the value of the collateral. Furthermore, in Explanation Article 6 of *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters), it is stated that the description of the collateral is satisfied by identifying it. In addition to that, the proof of ownership has to be clearly stated. The obligation of registering the collateral is stated in Article 11 (1). According to Article 12 (1), the registration itself should be done at the *Kantor Pendaftaran Fidusia* (Fiduciary Registration Office).

To sum up, the procedures for using trade secrets as collateral have been accommodated appropriately by *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters).

### 3. Institutions which Deal with Registration

In Australia, the institution which has authority regarding registration of collateral is the Personal Property Securities Register as stated in Section 147 of the Personal Property Security Act 2009. The Personal Property Securities (PPS) Register provides a service online.[549] UCC Article 9-401 states that registration for general intangibles is conducted at

[548]Lars S. Smith, 'General Intangible or Commercial Tort' 2005 <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=918104> (3 September, 2013), p 99

[549]Personal Property Securities Register, 'Personal Property Securities (PPS) Register and Priorities' 2012 <http://www.ppsr.gov.au/ASKTHEREGISTRAR/INFORMATIONSHEETS/Pages/Personal_Property_Securities(PPS)Register_and_priorities.aspx> (20 July, 2013)

the Office of the Secretary of State.[550] In Thailand, institutions which deal with the registration are the banks and the Department of Intellectual Property Rights. However, in the PRC, according to Article 227 of the Property Law, the institution which has the authority is not definitely stated. It only states that it is a relevant, competent office which deals with registration. The UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property recommends that States establish a general security rights registry. Below is a table which shows the institutions which deal with registrations:

| No | Countries/ Body | The Institutions |
|---|---|---|
| 1 | Australia | Personal Property Security Register (Chapter 5) |
| 2 | USA | Office of the Secretary State (Section 9) |
| 3 | Thailand | Particular financial institutions and Department of Intellectual Property Rights. |
| 4 | PRC | Relevant Competent Authority (Article 227) |
| 5 | UNCITRAL | A general security rights registry (page 59) |

Table 13 Institutions which Deal with Registrations

*Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) has also stated that an official office needs to deal with this matter. Article 11 (1) states that collateral must be registered. Furthermore in Article 12 (1), it is stated that the registration is conducted at the Fiduciary Registration Office (as has been mentioned in Chapter 5 and in the section above). However, this study suggests that the Fiduciary Registration Office needs to have strong connections with the Directorate General of IPRs and Banks which accept trade secrets as collateral. The importance of this strong connection is in the event of checking and rechecking of the status of trade secrets.[551]

[550] Legal Information Institute, above n 478

[551] The suggestion is inspired by the step of the Examination of Information on the Intellectual Property. See: IP Thailand, above n 91.

## 4. Suggested Contents of the Regulations

In order to suggest what the contents of regulations needed to be established in Indonesia should be, it is important to identify what the contents are of the regulations on the matter in question in some other jurisdictions. In this matter, those jurisdictions are: Australia, the USA, Thailand, the PRC and recommendation from UNCITRAL.

### 4.1. Suggested contents of law

4.1.1. Law which regulates trade secrets used as collateral

The Personal Property Security Act 2009, in general, consists of nine (9) matters: Introduction, General Rules, Specific rules for certain security interests, Enforcement of security interests, Personal property securities register, Judicial proceedings, Operation of laws, Miscellaneous, and Transitional provisions. Those contents are important issues which must be stated in regulations regarding security transactions. These are issues which could be utilised regarding drawing up provisions for using trade secrets as collateral, from these contents, which are: the names of assets which can be used as collateral need to be addressed clearly (in the definition part of the Introduction); there needs to be a part for specific assets, for example, intellectual property (in Specific rules for certain security interests). To sum up, the lessons that can be taken from the Personal Property Security Act 2009 regarding matters which need to be stated also in law, to be used to regulate trade secrets used as collateral, are: first, trade secrets should be stated clearly as one of the types of assets which can be used as collateral; and, second, for example, as trade secrets can be licensed, therefore this issue can be included at the part on specific rules for certain security interests.

UCC Article 9 has complex and detailed provisions. However, there is not a single word which states intellectual property. Intellectual property is stated in the Official Comments of UCC as one of the types of property which are considered as 'general intangibles'[552]. Even though there are no further explanations of what intellectual property forms are referred by this comment, trade secrets are considered as one of the types of intellectual property which are qualified as 'general intangibles'.[553] The lesson which can be taken from the UCC is that it is not necessary to state trade secrets or other IP in the regulations because it is enough to give this qualification through the Official Comments, just by stating 'intellectual property'. Therefore, based on the UCC, it could be the case that the Fiduciary Law does not need to be amended to qualify trade secrets as collateral, because it is sufficient for the amendment to be included in the Explanation of the Fiduciary Law instead.

The Property Law of the PRC states that IPRs are one of moveable property that can be pledged (as stated in Article 223).[554] Furthermore, Article 227 regulates clearly the process of how to use IPRs as collateral; that is, it should be expressed in writing and the IPRs should be registered. In addition, this article also stated that if a borrower (pledger) gets an agreement from a creditor (pledgee) to transfer the IPRs which are used as the pledge, then the money should be used to pay his/her debt to the creditor or the money can be kept by the authority. The conclusion which can be taken from this, to qualify trade secrets as collateral in Indonesia, is by adding provisions like those provisions aforementioned. Those provisions are: (1) a statement which clearly says that IPRs (including trade secrets) are one of the types of moveable property which can used as collateral, and (2) a statement which clearly states the process on the use

[552]Law Cornell, 'UCC—Article 9 Official Comments' no date) <http://www.law.cornell.edu/ucc/9/comment9.1> (17 July, 2013)
[553]Scott J. Lebson, 'Trade Secrets as Collateral: a US Perspective' 2007 <http://intl-jiplp.oxfordjournals.org/content/2/11/726.full> (16 July, 2013)
[554]Law Info China, 'Property Law of the People's Republic of China' 2012 <http://www.lawinfochina.com/display.aspx?lib=law&id=6642> (16 June, 2013)

of IPRs as collateral, (3) a clearl statement of what institution has authority regarding registration, and (4) that the debtor is allowed to transfer the IPRs which are used as collateral if the creditor agrees and the money from the transaction of transfer can be used to pay the debt or can be kept by the authority.

In the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, there are some provisions which are suggested should be stated in regulations which are used to regulate IPRs including trade secrets as collateral. The issues that are suggested should be regulated are drawn in the table below:

| No | The Suggested Issues |
|---|---|
| 1 | Scope and application and party autonomy |
| 2 | Creation of security rights in intellectual property |
| 3 | Effectiveness of a security right in intellectual property against a third party |
| 4 | The registry system |
| 5 | Priority of a security right in intellectual property |
| 6 | Rights and obligations of the parties to a security agreement relating to intellectual property |
| 7 | Rights and obligations of third-party obligors in intellectual property financing transactions |
| 8 | Enforcement of a security right in intellectual property |
| 9 | Acquisition financing in the intellectual property context |
| 10 | Law applicable to a security right in intellectual property |
| 11 | Transition |
| 12 | The impact of insolvency of a licensor or licensee of intellectual property on a security right on that party's rights under a license agreement |

Table 14 Suggested Issues from UNCITRAL

From the contents above, it can be seen that the Guide from UNCITRAL is indeed focusing on secured transactions which use IP as collateral.

To sum up, from the Personal Property Security Act 2009 and the Property Law and Legislative Guide from UNCITRAL, there are some contents which need to be stated in *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding the Fiduciary Law). Those contents are:

1. A statement that IPRs can be used as collateral. Article 1 (2) of the current law actually has stated that properties which can be used as collateral are tangible and intangible movable properties. Therefore, the writer believes that the way to

classify trade secrets as collateral is by adding the words "*Hak Kekayaan Intelektual* (Intellectual Property Rights) in the properties which can be used as collateral. In addition, in the explanation of Article 1 (2) of the Law, it should be added what IPRs are covered. This statement needs to clearly state that trade secrets are one of the types of IPRs which can be used as collateral;

2. Since trade secrets can be licensed therefore the issue of the rights of the licensee should be addressed;
3. A statement regarding how to treat trade secrets since the value of trade secrets is in the secrecy of the information;
4. A statement which address the process of the use of IPRs as collateral, that the property which will be used as collateral should be expressed in writing and registered. These matters actually have been regulated in Article 5 (1) and 11 (1);
5. Regarding the need to address what institution has authority regarding registration, this matter has been stated in Article 12 (1) that the registration must proceed at the Office of Fiduciary Registration;
6. A statement that a debtor is allowed to transfer the IPRs which are used as collateral if the creditor agrees that the debtor can do so. Furthermore, it needs to be stated clearly that the money from the transaction of transfer can be used to pay the debt or can be kept by the authority, it needs to be clear what institution or authority has the capability in this matter). Article 23 (2) stated that the creditor (pledgor) can transfer, pledge or lease the collateral if the creditor (pledgee) agrees, which is expressed in writing.

   Therefore, should *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia (*the Law Number 42 Year 1999 regarding Fiduciary matters) be amended or is it necessary to establish new regulations? To take this into account, the legislation

which is suggested by UNCITRAL through the UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property states that:

> With only limited exceptions, the law recommended in the *Guide* applies to security rights in all types of moveable asset, including intellectual property (see the Guide, recommendations 2 and 4-7). [555]

The UNCITRAL Legislation Guide on Secured Transactions actually can be used as guidance in secured transactions which use IP also—even though there might be some issues which need to be addressed specifically for IP. For instance, since trade secrets can be licensed, it is important to address this matter.[556] Regarding this, it will be better for Indonesia to make laws which regulate the use of IPRs in secured transactions However to put in provisions for IPRs—including trade secrets—to be used in secured transactions will be more efficient, as the period of time taken to amend a law is not as long as to make a new law and the funds needed will be less compared to making a new law. Furthermore, by taking this step, Indonesia will place itself a step forward in relation to the use of IPRs—including trade secrets—in secured transactions, as collateral. Therefore, it seems that it is enough if the Government of Indonesia amends *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding the Fiduciary Law). However, this suggestion is quite premature. There are three issues which should be analysed in order to decide whether a regulation should be amended or a new one established. These are issues which are stated in Article 273 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations).

[555]United Nations Commission on International Trade and Law, above n 32, p 1
[556]Ibid, pp 102-103

After identifying issues which need to be addressed in *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding the Fiduciary Law), matters which need to be analysed are whether those matters can be added to the law or should a new law established. According to the Article 273 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations) if an amendment changes the system or more than 50% of a regulation or the essence of the regulation, then the regulation must not be amended but the authority should establish a new regulation. Below is the analysis of those points:

a. The law has 41 articles; therefore adding a word to the law and adding 5 statements will not be more than 50%.
b. The essence of the current law is to regulate collateralization of tangible and intangible movable properties. Therefore, adding those issues will not change the essence of this law, since IPRs are actually intangible property.
c. The system of the current law will change, because there are some issues which need to be addressed in a particular part. They are regarding licensing and how to treat trade secrets.

It is noted that the system of the current law will change, and according to Article 273 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations) if the system of an established regulation changes, then the authority should establish new regulations.

Nevertheless, based on laws which are used in the other jurisdictions above and from the UNCITRAL Guide, the following suggestions are made:

- An amendment should be made to *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters). The amendment is to insert the words *Hak Kekayaan Intelektual* (Intellectual Property Rights) into Article 1.
- In section III Article 4 point c. This provision states that there should be a description of property which is used as collateral. There should be an exception for trade secrets. Trade secrets which are used as collateral should not need to be described like other properties.
- An amendment should be made to *Penjelasan Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Explanation of the Law Number 42 Year 1999 regarding Fiduciary matters) which explains what IPRs can be used as collateral. Therefore, trade secrets should be stated clearly together with the other forms of IPRs.
- A new regulation should be established to accommodate some other points which have been stated. The new regulation is a *Peraturan Pemerintah* (Government Regulation). According Article 1 (5) of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations), a *Peraturan Pemenrintah* (Government Regulation) is:

  *Peraturan Pemerintah adalah peraturan perundang-undangan yang ditetapkan oleh Presiden untuk menjalankan Undang-Undang sebagaimana mestinya.*
  (Government regulations are regulations established by the President to carry out the Act as it should.)

The establishment of this type of regulation is based on considering Article 12 of the aforementioned law, which stated that this type of regulation is established to execute the law appropriately. Establishing a government regulation regarding the

matters in question will make *Undang-Undang Fidusia* (the Fiduciary Law) able to be implemented more clearly and appropriatly for IPRs.

The procedures for establishing a government regulation are regulated in Articles 54 (1)-(3) of the *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations). The institution which has authority to initiate this is a ministry or non-ministry institution (Article 54 (1)).

Therefore, this study suggests that the Government of Indonesia should establish a new regulation, that is, a *Peraturan Pemerintah* (Government Regulation) to regulate the use of trade secrets as collateral. Since UNCITRAL has issued the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, it will be better if the Government establishes the new regulation by following the guidance of this Guide, as trade secrets are stated as one of the IPRs which can be used as collateral.

The issues which are stated in the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property (which in general has been mentioned above) are comprehensive. For example: IPRs (including trade secrets) can be licensed and the licensor or licensee can both use those IPRs in security transactions.[557]

4.1.2. *Undang-Undang Nomor 30 Tahun 2000 tentang Rahasia Dagang* (The Law Number 30 Year 2000 regarding Trade Secrets)

Chapter 5 stated that this particular law is one of the laws which need to be amended in order to qualify trade secrets as collateral. This section will present a deeper analysis regarding what points need to be added and whether the suggested additions will satisfy Article 273 of *Undang-Undang Nomor 12*

[557]Ibid, pp 41-47

*Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations) or not.

In regard to this particular law, there are some points which need to be added. They are: (1) the meaning of 'collateral' needs to be added in Section I. This section explains the general provisions; therefore, adding a paragraph about the meaning of collateral to this section will set mindframe for the reader regarding collateralization of trade secrets; (2) paragraph needs to be added to Section III Article 4 which states clearly that trade secrets can be used as collateral; (3) a point needs to be added regarding the obligation of the licensee if the licensor who uses his/her trade secrets as collateral cannot satisfy the debt; then the licensee's obligation will shift to the new owner of that trade secret. This point should be added to Section IV. Section IV is about transfer of rights and licensing; (4) a point needs to be added to Section V Article 10, regarding the registration fee. The fee should be paid by trade secrets' owners/holders when they propose to get notification of their trade secrets. The importance of getting trade secrets notified is because trade secrets need to be notified by the Directorate General of the IPRs Office before they can be used as collateral.

Based on the analysis of Article 273 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations) in chapter 5, there are some matters which should be take into account regarding whether a law must be changed by establishing a new law or be amended. Those additional points will not change the system of the current law, change the essence of the law nor are the new points suggested more than 50%, as the Law Number 30

Year 2000 regarding Trade Secrets has 19 Articles. Adding 4 points only adds less than 25% of new provisions; therefore, this law needs just to be amended.

4.1.3. *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (The Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment)

As has been stated in chapter 5, this particular law should contain provisions to accommodate trade secrets used as collateral when MSMEs are in the state of bankruptcy. There are two interesting points which can be suggested, which are:

1. An alternative way in dealing with the state of a debtor who cannot pay debts is called 'reorganization'. This alternative way, other than selling property of the debtor to pay the debt, is formulated when the rise in an enterprises's assets are more in the form of intangible assets. Reorganization aims to save the business and the employees.[558] This study suggests that this method can be implemented for enterprises which can be saved and have the potential to run their business better after reorganization after the knowledge they gain in doing so.
2. If trade secrets must be sold, it needs to be addressed clearly that, in selling trade secrets, it is essential to keep them undisclosed to the public (as discussed in chapter 2).

Those two points, according to Article 273 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations) can be added to the *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (The Law Number 37 Year 2004 regarding

[558]United Nations Commission on International Trade and Law, above n 92, pp 27-30

Bankruptcy and Suspension of Payment). This means that the latest law can be just amended, since the two points which will be added are not more than 50%, because the law has 308 articles; the points will not change the substance, and the system of the law will not change. It is suggested that those two points be added as follows:

- The reorganization matters can be added to Article 1 regarding *Ketentuan Umum* (General Provisions) and Article 222.
- The need to protect the secrecy of trade secrets can be added to Article 69. Chapter 2 mentioned that Smith suggested that trade secrets should be disclosed to trustee[559]. This suggestion is appropriate, since the trustee in the *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (The Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment), known as *Kurator,* has the responsibility of taking care of the property of debtors in insolvency.

## 4.2. Suggested contents of technical regulations

Chapter 5 discussed that there are three technical regulations which need to be established and one technical regulation which needs to be amended. Below are suggested contents for each of them:

### 4.2.1. Technical regulations which need to be established

- The Memorandum of Understanding (MoU) among the Bank of Indonesia, Ministry of Cooperatives and SMEs, the Directorate General of the IPR Office and *Kantor Pendaftaran Fidusia* (the Office of Fiduciary Registration)

  In this MoU, it is suggested that the contents establish mutual cooperation among those institutions in implementing IPRS as collateral, including trade

[559] Lars S. Smith, above n 17, p 570

secrets. The Bank of Indonesia as the central bank in the country will give instruction to banks to accept IPRS in practice in secured transactions as collateral by MSMEs. The Ministry shall give active dissemination regarding the matter in question to all MSMEs in Indonesia. The Directorate General of the IPR Office will process the registration (or notification) for the IPRS which are used as collateral. The Article 11 (1) of *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) states that property which is used as collateral must be registered. Furthermore, Article 12 (1) stated that the registration must proceed at the Office of Fiduciary Registration.

- *Peraturan Bank Indonesia* (Regulation of Bank of Indonesia)

  Since this regulation is aimed at binding all MSMEs so that they can use their IPRS, including trade secrets, as collateral in secured transactions, the content of this regulation will state clearly that MSMEs can use their trade secrets as collateral.

- *Surat Edaran Bank Indonesia* (Circulation Letter of Bank of Indonesia)

  It has been stated in chapter 5 that the technical regulation which will be used to broaden the perspective regarding the use of trade secrets as collateral for MSMEs in Indonesia is the "Procedures for the Loan Application using Intellectual Property as the Collateral". There are eight points which are stated those that particular procedures, which are:[560]

  1. Loan Application

     Important things which are highlighted for this point are: who can apply, what intellectual property can be used, the meaning of

[560]IP Thailand, above n 91

collateral, what financial institutions accept intellectual property as collateral and how to apply.

- Parties who can apply for a loan to a financial institution using intellectual property are "natural persons or juridical persons having the ownership of registered or notified intellectual property".
- Intellectual properties which can be used as collateral are:

    1) Trademarks, Service Marks, Certificatication Marks, Collective Marks, Patents for Inventions, Product design patents, petty patents, and layout-design of integrated circuits, which have been registered with the Department of Intellectual Property.
    2) Copyright, trade secrets and traditional knowledge, which have been notified with the Department of Intellectual Property.
    3) Geographical Indications that have been registered or notified with the Department of Intellectual Property.[561]

- In this procedure, collateral is "the ownership in the intellectual property which has been submitted as collateral in the loan application."
- There are some particular financial institutions which accept this secured transaction, which are: SME Bank, Bangkok Bank, Government Savings Bank or other institutions participating in the IP capitalization program.
- Parties who apply for a loan using this scheme should hand in their application including their business plan and other documents which are required by those banks.

[561]It stated in footnote. See: Ibid.

2. Examination of Information on the Intellectual Property

   This step is taken by the banks after receiving an application. The aim is to verify the intellectual property which will be used as the collateral in the secured transaction. In this effort, the banks will contact the Department of Intellectual Property.

3. Approval of Loan

   After examining the accuracy of the intellectual property, the bank will consider three points. They are: the loan application, business plan and the value of the intellectual property that will be used as collateral.

4. Record Keeping and Loan Agreement

   This step is a 'must do step' for the applicant in order to liquidate the loan from the bank. After the bank approves the application and the applicant signs the loan agreement, the applicant should submit the application to the Department of Intellectual Property. This particular step is to record "the collateral information in the intellectual property registration, credentials, and in the Intellectual Property Database. The applicants can do so by submitting the Application Form Tor Por. 01, a copy of the Form Tor Por Tor. 01, a credential, and a copy of the collateral agreement."

5. Project Monitoring

   The bank will monitor the applicant's business by observing the running of the project directly at least once a year. This step is to see the progress of the business and whether the applicant needs more loans.

6. The Amendment of Intellectual Property Registration

   This point refers to steps that will be taken when the borrower would like to alter the intellectual property registration after the loan is approved by the lender (bank). Since the registration is at the Department of Intellectual Property, the borrower should ask for the alteration at this Department. However, the Department will wait until it gets approval from the lender. There are two possibilities:

   1. If the lender approves, then the Department will process the alteration; but
   2. If the lender does not approve, then the Department will ask both parties to have a consultation, which may lead to these two situations:
      a. Both parties will reach agreement through this method; or
      b. Both parties will proceed to the Arbitration Proceeding under the Department of Intellectual Property.

7. Loan Payment

   The borrower will have to pay the loan as scheduled by the lender. When the payment is settled, then the collateralization should be terminated. This process can be requested by the borrower or lender to the Department of Intellectual Property.

8. Breaching of Agreement

   This point is set out to overcome the situation if the borrower breaches the loan agreement. The scheme will be:

   a. The bank will warn the borrower through a warning letter;
   b. If the borrower still does not meet the expectations written in the

warning letter, then:

- The lender will undertake negotiations with the borrower; or
- The lender will ask the Department of Intellectual Property to mediate the dispute.

In the procedure, it is clearly stated that trade secrets are one of the forms of IPRs which can be used as collateral. The requirement is that those trade secrets must get notification from the Department of Intellectual Property. As a civil country, Thailand has given clear regulation on using IPRs as collateral including trade secrets. Trade secrets which have been notified by the Department of Intellectual Property of Thailand can be used as collateral. The regulation is a technical one called the "Procedures for the Loan Application using Intellectual Property as the Collateral". To sum up, Thailand is settled with a scheme of using IPRs as collateral—including trade secrets—through regulations that have been mentioned.

From this particular regulation, there are some points which can be adopted. They are:

1. A statement regarding banks which can accept trade secrets (and the other forms of IPRs) as collateral;
2. A statement which regulates that trade secrets which can be used as collateral are trade secrets which have been notified or registered at the Directorate General of IPRs Office;
3. A statement regarding parties who can apply for this loan;
4. A statement regarding procedures and documents in order to get approval for the loan;

5. A statement regarding valuation of trade secrets;
6. A statement regarding the active roles of banks which always monitor and update the situation and condition of the debtor's business;
7. Since there is a probability that trade secret protection could be altered to another form of IPRs, therefore this matter should be addressed (in relation with the registration office);
8. A statement regarding the schedule for debtors to pay the debt; and
9. Provisions regarding what actions will be taken when a debtor breaches an agreement.

4.2.2. Technical regulation which needs to be amended

*Peraturan Menteri Hukum dan HAM R.I Nomor M.HH-05.OT.01.01 Tahun 2010 tentang Organisasi dan Tata Kerja Kementerian Hukum dan HAM Republik Indonesia* (Regulation of Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Right of the Republic of Indonesia)

Chapter 5 stated that this particular regulation needs to be amended because Article 705 regarding trade secrets stated only one reason why trade secrets can be registered. That is a licensing agreement only. Therefore, it is suggested that a point that needs to be added to Article 705 is a statement which clearly states that trade secrets can be registered or notified.

## 5. Conclusions

The procedures which are stated in *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) are actually sufficient to be implemented for trade secrets. This is because, according to the Personal

Property Act 2009, UCC Article 9, Property Law and the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, the procedures which should be conducted to use IPRs including trade secrets as collateral are the same as what have been regulated in the *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters). The procedures in this Law are: there should be a written agreement and registration. In addition, the "Procedures for the Loan Application using Intellectual Property as the Collateral" gives insight regarding technical procedures.

The result of the analyses regarding issues which should be addressed in regulations to regulate trade secrets used as collateral is that: *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) needs to be amended by adding the word Intellectual Property Rights as one of the things which can be used as collateral; an amendment to the *Penjelasan Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Explanation of the Law Number 42 Year 1999 regarding Fiduciary matters) which clearly states what forms of IPRs which can be used as collateral, in which trade secrets should be stated clearly; and the Government of Indonesia should establish a new regulation which is a *Peraturan Pemerintah* (Government Regulation). The amendment needs to be conducted because the system of the current law will change if some provisions are added to *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters). The changes are made in order to cover issues which need to be addressed in a particular part. They are: licensing and the treatment of trade secrets. According to Article 273 of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations) if the system of an established regulation changes then the authority should

establish a new regulation. That is, a *Peraturan Pemerintah* (Government Regulation). UNCITRAL has issued the UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, therefore it will be better if the Government establishes the *Peraturan Pemerintah* (Government Regulation) by following the guidance as in the Guide, where trade secrets are stated as one of the IPRs which can be used as collateral. The contents of the Guide are comprehensive because it covers all issues which need to be regulated in the matter in question.

The contents of some technical procedures which need to be established are: (1) MoU among Bank of Indonesia, the Ministry of Cooperatives and SMEs, the IPRs Office and the Fiduciary Registration Office: the aforementioned institutions are establishing mutual cooperation regarding the implementation of the use the IPRs, including trade secrets, as collateral for MSMEs; (2) *Peraturan Bank Indonesia* (Regulation of the Bank of Indonesia) states clearly that MSMEs can use their IPRs, including trade secrets, as collateral; (3) *Surat Edaran Bank Indonesia* (Circulation Letter of Bank of Indonesia). The matters which need to be addressed in this particular regulation are: a statement regarding banks which can accept trade secrets (and the other forms of IPRs) as collateral; statement which regulate that trade secrets which can be used as collateral are trade secrets which have been notified or registered at the Directorate General of the IPRs Office; a statement regarding parties who can apply for this loan; a statement regarding procedures and documents in order to get approval for the loan; a statement regarding valuation of trade secrets, and a statement regarding the active roles of banks which always monitor and update the situation and condition of the debtor's business. Since there is a probability that trade secret protection could be altered to another form of IPRs, therefore this matter should be addressed (in relation with the registration office). A

statement regarding the schedule for a debtor to pay the debt and provisions regarding what actions will be taken when debtor breaches an agreement are also needed.

While the suggested content which needs to be added to the *Peraturan Menteri Hukum dan HAM R.I Nomor M.HH-05.OT.01.01 Tahun 2010 tentang Organisasi dan Tata Kerja Kementerian Hukum dan HAM Republik Indonesia* (Regulation of Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Rights of the Republic of Indonesia) is a clear statement that the IPRs Office accepts trade secrets to be registered or notified, the statement should be added to Article 705.

# CONCLUSIONS AND RECOMMENDATIONS

This thesis seeks the answers for why trade secrets were left out of the discussions which were held by the Government of Indonesia regarding the possibility of using certificates of IPRs as collateral for SMEs. Trade secrets, actually, have been acknowledged as one of the IPRs which can be used as collateral by some countries and by UNCITRAL. Moreover, the law in Indonesia does not prohibit trade secrets to be used as collateral. Nevertheless, as a civil law country, Indonesia must have a clear regulation which regulates that trade secrets can be used as collateral by MSMEs[562]. Therefore, this thesis also proposes what regulations should be provided and what the contents are, as one way to bring up trade secrets as one of the MSMEs' assets to be used as collateral in Indonesia.

To implement the collateralization of trade secrets and also the other forms of IPRs in Indonesia, as a civil law country, there should be a clear statement in Indonesia's legal constructions regarding this matter. Actually, this is the obstacle which often has been seen by Indonesia's legal experts and practitioners[563] when they have discussed or asked why trade secrets have not been implemented as collateral in Indonesia yet. The researcher also support this opinion, that there should be a clear regulation on trade secrets used as collateral, and has tried to develop a more detailed analysis, because to implement trade secrets as collateral cannot be implemented immediately, without any further action related to what laws should regulate for this matter.

Trade secret is a legal frame to protect undisclosed information which give commercial value and bring benefits to their owners and those owners take appropriate steps to keep the information secret unmask. Since trade secrets are the result of the human's mind and

[562]In the INTRODUCTION it has been stated that since the number of micro enterprises are more than the other types of enterprises, therefore micro enterprises should be included.

[563]Choirul Djamhari, above n 451,Agung Damar Sasongko, above n 454, Sri Mulyani, above n 61,
Staff in Bank of Mandiri (Face to face interview with Harwanto and Chairiyah Djohan, The Assistant Vice President Legal Group and The Senior Manager Legal Group of Mandiri Bank, Plaza Mandiri, 11 July 2008, interviewed by Irawaty taken from Irawaty, above n 40

creativity, they are included in Article 39 of TRIPS[564] as one form of IPRs under the name "Undisclosed information". Recognition to this particular right began when the England's courts recognize such right as trade secret. Not long after that the USA courts also identify them as what is called nowadays, by some countries, as trade secrets.[565]

Up until today, there are almost two hundred countries has sign TRIPS[566] but not all of them have a particular regulation in administering trade secrets. Australia and PRC are two of them. Australia gives protection to trade secrets through common law, breach of confidentiality agreement, Patent Law and passing off trade marks. While PRC protects trade secrets through the Law Against Unfair Competition of the People's Republic of China. Thailand and Indonesia are the examples of countries which have particular law in giving protection to trade secrets in their countries. Indonesia has had Law Number 30 Year 2000 regarding Trade Secret and Thailand has had Trade Secrets Act B.E. 2545 (2002).

In order to achieve the objectives of this research, the writer conducted consultations with Indonesian experts; analysed regulations in Indonesia which have relations with this matter; and analysed some regulations in other countries (Australia, USA, Thailand and PRC) and also a guide from UNCITRAL. Below are the conclusions and recommendations from all of the analyses.

## 1. Conclusions Responding to the Research Questions

The writer has compiled, discussed and analysed data in order to answer the research questions. Based on those attempts, the findings to the research questions which have arisen are as below:

[564]The Agreement on Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994
[565]Milton E. Babirak, 'The Virginia Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law' 2000, <http://www.vjolt.net/vol5/issue3/v5i3a15-Babirak.html> (17 July, 2013)
[566] The Agreement on Related Aspects of Intellectual Property Rights (TRIPS), Annex 1C, 1994

### 1.1. Why does the Ministry of Cooperation and Small and Medium Enterprises of Indonesia exclude trade secrets from the plan for using certificate of IPRs as collateral?

The implementation of using IPRs as collateral has been going on in some countries. Related to this, as stated in Chapter I, the Indonesian authority on IPRs raised the topic regarding the possibility of the use of IPRs as collateral in Indonesia in 2010.[567] The Ministry of Cooperatives and SMEs of Indonesia held discussions on the possibility on using IPRs as collateral for SMEs in Indonesia. However, although some countries have been open to including trade secrets as one of the IPRs which can be used as collateral, the discussion which has been held in 2010 in Indonesia put trade secrets aside.[568] Later, in April 2012, there was a discussion held, to discuss the same topic, which also did not mention trade secrets.[569]

This thesis has tried to seek an answer to the question why the Indonesian authority left trade secrets out of this discussion, and this research question has been discussed in Chapter 4. Based on the research design, to gain information regarding the reason(s) why trade secrets were left out of the discussion which was held by the Ministry of Small and Medium Enterprises (which was mentioned in chapter 1) experts in the Directorate of IPRs Office and the Ministry of Cooperativesand SMEs of The Republic of Indonesia were consulted.

Actually, there have been some Indonesian researchers[570] who have written opinions regarding the possibility of the use of IPRs as collateral in Indonesia. All of them agreed that Certificates of IPRs can be used as collateral. Furthermore, they

[567] IPR Media, above n 2
[568] The writer found that trade secrets were not mentioned as one of IPRs which discussed will be used as collateral. See: Artikel, above n 430
[569] BCCF BDG, 'IPRs Assets as Collateral and Ventura Capital' 2012 <http://www.bccf-bdg.com/v3/updates.html> (20 May, 2013) (Original in Bahasa Indonesia)
[570] Sri Mulyani, above n 61, Akhmad Junaidi & Muhammad Joni, above n 385, pp 124 – 141

acknowledged that trade secrets are one of the IPRs; however, they did not mention clearly that trade secrets are one of IPR forms which can be used as collateral. Based on Indonesia's legal construction, it is possible that IPRs can be used as collateral. This researcher has also discussed the possibility of trade secrets being used as collateral in Indonesia.[571] What is needed to implement trade secrets as collateral in Indonesia is a regulation which clearly states that trade secrets can be used as collateral when enterprises borrow from financial institutions, particularly banks. This can be understood because Indonesia is a civil law country.

An expert in the Directorate General of the IPRs Office of The Republic of Indonesia[572] said that it should be possible for trade secrets to be used as collateral. However, he explained that trade secrets are seen as an IPR that is hard to value. As the law is applied in Indonesia, trade secrets are IPRs and this right arises immediately after inventors invent something which is undisclosed to the public and brings benefit to their businesses. Therefore there are no certificates which can be used as guarantees (unlike patents and trademarks—for instance), therefore the authority has not considered that trade secrets can be used as collateral in Indonesia. In addition, he said that probably it is likely that banks in Indonesia have not been ready yet to accept trade secrets as collateral because Indonesia has not had regulations on this matter and it is seen that the human resources in Indonesia have also not been ready in terms of their knowledge in valuing trade secrets as money.

Discussion about SMEs' capital in the Ministry of Cooperatives and SMEs[573] gave insight that SMEs face difficulties in getting loans from banks because banks consider that they lack valuable collateral. However, SMEs need financial help to strengthen and widen their businesses. Therefore, this Ministry empowers cooperatives in

[571]Irawaty, above n 46
[572]Consultation with Agung Damarsasongko, above n 454
[573]Consultation with Agung Cahyono, above n 408

Indonesia to help SMEs regarding this financial help. The framework of this operation is that those cooperative seek loans from banks. The collateral which is used is the reputation of the cooperatives. After they get the loan, they will pass on the loan to SMEs who have applied for the loans to be used for their businesses. This matter has been discussed in Chapter 3.

The most important matter that the researcher consulted the Deputy[574] about is that he (Choirul Djamhari) was the authority whose statement was quoted by a journalist regarding the plan of the Government of Indonesia to implement IPR certificates as collateral[575]. However, in the article, some forms of IPRs were referred to, but trade secrets were not stated. When the researcher asked about this matter—why trade secrets were excluded because they were not stated in the article—the Deputy explained that it was just an oversight, because actually he said that generally he supports the implementation of IPRs as collateral, but, to be noted, as additional collateral, including trade secrets. Furthermore, he explained that the discussion was held more because of support from the public, particularly owners and users of IPRs, as discussed in Chapter 4.

He agreed that trade secrets will benefit the Indonesian people compared to patents in terms of cost and time. This is because patents should be registered before someone gets acknowlegment regarding his/her IPR, which is not the case with trade secrets. He also agrees that this matter should be disseminated. The SME owners tend to give their trade secrets freely to other countries because they do not know the value and the importance of the secret information that they have shared, as mentioned in Chapter 4.

Regarding the use of trade secrets as collateral, which is still uncommon up until now, he believes that jurisprudence regarding this matter will give more benefit, rather than

[574]Consultation with Choirul Djamhari above n 451
[575]Artikel, above n 430

the existing regulations. The authorities which have relevance for this matter should note the weaknesses or missing links or missing points from transactions which use trade secrets as collateral.

**1.2. How should the government of Indonesia change the law to classify trade secrets as collateral to be used by MSMEs as well as other IPRs?**

In order to find the answer to this question, the research was very carefully designed. Comparisons were made with some countries which have valuable points related to the use of IPRs, particularly trade secrets, as collateral. Australia, the USA, Thailand and the PRC were chosen as countries of comparison. It is important to look at those regulations in respect to the matter in question to broaden the study's perspective. Australia has the Personal Property Security Act 2009; USA has used UCC Article 9; Thailand has specific regulations in using IP as collateral, that is, the "Procedures for the Loan Application using Intellectual Property as the Collateral" and the PRC has Property Law. More reasons are stated in the INTRODUCTION. It is interesting that after the research was designed and those countries chosen, it was found that UNCITRAL has prepared an "*UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property*" which was released worldwide in 2011. In this legislative guide, UNCITRAL included trade secrets as one of the IPR forms that can be used as collateral.

After comparing laws and regulations related to the use of trade secrets as collateral in Australia, the USA, Thailand, the PRC and the Legislation Guide suggested by UNCITRAL, learning from the construction of Indonesian law, articles written by Indonesian scholars and consultations with experts in Indonesia, it has been concluded that Indonesia needs to reform its regulations (as discussed in Chapter 5). However,

the regulations do not need to be particular regulations for the collateralization of trade secrets only, but together with the other forms of IPRs.

Chapter 5 identified that the regulations which should be used to regulate trade secrets as collateral are a law and a technical regulation. Those particular regulations were identified, based on types of regulations which have been used in Australia, the USA, Thailand, the PRC and the Legislation Guide suggested by UNCITRAL.

How the Government of Indonesia should change the law to classify trade secrets as collateral has been analysed in detail in chapter 5. The process of amending and establishing regulations are regulated in *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations). This particular law replaces the previous *Undang-Undang Nomor 10 Tahun 2004 tentang Pembentukan Peraturan Perundang-Undangan* (The Law Number 10 Year 2004 regarding the Establishment of Regulations).

The establishment and amendment of a law should be conducted through various stages. The stages are: *perencanaan* (planning), *penyusunan* (drafting), *pembahasan* (discussion), *pengesahan atau penetapan* (endorsement or stipulation) and *pengundangan* (enactment). Those procedures are also implemented in establishing of a new technical regulation. However, the institutions which have authority are the institutions which are stated in Article 8 (1) of *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-undangan* (The Law Number 12 Year 2011 regarding the Establishment of Regulations). To amend a technical regulation, the process should be conducted as stated in Article 97 of the aforementioned law.

Furthermore, after analysing the provision of Article 273 (as in chapter 6), the government should establish a new law if the new contents are more than 50%; the essence of the law is changed; or the system of the current law is changed, it was found that the government should establish a new regulation. The reason is because accommodating the provisions which need to be added to the *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) will make a systematic change to this law.

**1.3. What should the new regulations contain for legislation reform in accommodating trade secrets to become collateral in Indonesia?**

As has been mentioned in point two above and discussed in chapters 5 and 6, in relation to implementing trade secrets as collateral, it is concluded that the Government of Indonesia should amend and establish some regulations.

A trade secret has a unique character compared to the other property rights. Even, compared to the other forms of IPRs, a trade secret has a principle differentiation—or probably the correct expression is an opposite character. While the other forms of IPRs can have legal protection by disclosing the information on the inventions to the public, a trade secret is given protection by the law when an innovation is undisclosed to the public.

That unique character makes quite a major impact when the Indonesian government constructs regulations on trade secrets to be used as collateral. The most important point is that the regulations should contain procedures which keep the trade secrets undisclosed to the public, and when there are parties who should know the detailed information in those trade secrets, they should sign an agreement not to disclose the trade secrets and/or use the trade secrets for their own advantage. Basically, matters that should be taken into account in such regulations are as mentioned below:

- In relation to the licensee and licensor: what the licensee and licensor should do when the licensor puts up trade secrets as collateral (as discussed in chapter 2).[576]
- In relation to bankruptcy: what the procedures should be for trade secrets when they are put up for auction (as discussed in Chapters 2 and 4).[577]
- The institutions which should have the authority regarding the implementation of the use of trade secrets as collateral (as discussed in Chapter 6).[578]
- In relation to valuation methods (as discussed in Chapter 2).[579]
- The procedures for using trade secrets as collateral (as discussed in Chapters 2[580] and 6).

## 2. Recommendations Regarding the Use of Trade Secrets to become Collateral for MSMEs in Indonesia

### 2.1. The importance of inclusion of trade secrets as collateral for MSMEs in Indonesia together with the other forms of IPRs

The world has become borderless because of many factors, however the most recognized factor is because of the internet—and it is called globalization. Humans are more aware that they can succeed in doing something when what they do is accepted by others. Not only that, they also wish that others will follow what they do. However, they often keep their useful information for achieving their maximum income to themselves. This conduct is becoming more familiar today. The particular useful information is what is called trade secrets.

The meaning of trade secrets for businesses and also for the economy is increasing, and this is also happening in Indonesia. Recognising the importance of trade secrets for the Indonesian economy, the government of Indonesia and its people should seriously take

[576]Sharon K. Sandeen, above n 310
[577]Ibid.
[578]Based on *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Kewajiban Pembayaran Utang* (Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment).
[579]Ted Hagelin, above n 289, Paul Flignor & David Orozco, above n 35, R. Mark Halligan & Richard F. Weyan, above n 35
[580]Lars S. Smith, above n 17

trade secrets into account by exploring and maximizing their usefulness, to gain more benefit from trade secrets.

According to Choirul Djamhari[581], there are some matters that should be highlighted when the use of IPRs (including trade secrets) as collateral is implemented. They are: the secured transactions should benefit both creditors and debtors; the collateral will be used as the debtors' acquittance if the debtor cannot pay the debts, therefore the collateral should have economic value. In relation to the last point, he also explained that, even though every property can be used as collateral, it should be carefully considered case by case.

Therefore, this study suggests that trade secrets should be included in the plan for the use of IPRs as collateral in Indonesia. It is suggested that the Government of Indonesia should include trade secrets in the plan for using IPRs as collateral together with patents, copyrights, trademarks and integrated circuits, because of the reasons stated in the INTRODUCTION:

- There are no laws which clearly state that trade secrets cannot be used as collateral in Indonesia. In fact, based on the laws which already exist in Indonesia—for example, the Civil Code, Law Number 30 Year 2000 regarding Trade Secret, Law Number 42 Year 1999 regarding Fiduciary Security and Law Number 10 Year 1998 regarding Banking, it is possible to implement trade secrets as collateral. This thesis proposes the regulations which could be used to establish regulations in implementing the use of trade secrets as collateral by SMEs in Indonesia. Also Chapters 1, 2, 4 and 5 have discussed that the USA (through UCC Article 9) and Thailand (through Procedures for the Loan Application Using Intellectual Property as

[581] Consultation with Choirul Djamhari, above n 451

Collateral) have regulations on the use of trade secrets as collateral. In addition, UNCITRAL also issued "The Guide on Legislative Secured Transactions The Supplement on Security Rights in Intellectual Property" in which trade secrets are included as one of the IPs which can be used as collateral.

- In the information era, trade secrets have received more attention: hopefully this research will give impact to the urgency of paying attention to trade secrets as well as to other IPRs. Trade secrets when related to the information era are very valuable, because the value of information (moreover secret information) is precious. Everyone wants to know information (especially secret information) because it can help them compete sucessfully in life and business.[582] One of the trade secrets which was stolen in 2006 is the formula for Coca Cola, to try to sell it to its competitor (Pepsi Co.) for a huge amount of money.[583] Therefore, if trade secrets can be used as collateral in Indonesia, hopefully Indonesian people will be more aware of the importance and the power of information. This means that hopefully there will not any unlawful activity of unfair competition related to trade secrets, because Indonesians will know and understand the value of trade secrets to run businesses and the effort in finding and maintaining them.
- In Indonesia, people's mentality matters: Indonesian people have always been told that Indonesia is a fertile land, so it is a rich country that they are living in. It has various natural resources. It has turned out that this has a bad impact on people. Most Indonesians do not think about how to maintain

[582]Talhiya Sheikh, above n 40
[583]BBC News, above n 76

and develop their natural resources, instead they just enjoy and even devastate them. Not many think about the importance of being creative in order to develop what they already have. Inventions and innovations are things that can be produced when there is creativity.[584] Thus, this research suggets that, if government of Indonesia wants ways to make its people motivated to be creative and innovative, one of the ways is through governing trade secrets as collateral. Then such a mentality can be reduced.

Another important perspective is the importance of being innovative, creative and more creative for the Indonesian people[585] and to develop respect for the results of the Indonesian people's minds as well. New invention is found when there is creativity and it is the result of the human mind.

- In economic matters: A country can be more prosperous when more people stand by themselves financially. One of the ways to do this is by running their own business.[586] Thus, it is important for the government to encourage this among its people.[587] On way to do this is to make regulations or laws on trade secrets as collateral, because one of the problems faced by many SMEs in Indonesia is that they lack capital.[588] Unlike other IPRs, trade secret have qualities that allow and embrace the situation of keeping all elements and parties in business doing their part, without preventing each other, because trade secret allow two or more parties to have the same trade secrets, as long as each of them has this without violating the law. This is an

[584]Indonesian Working Group Design Power-Ministry of Commerce of the Republic of Indonesia, above n 77, p 34
[585]Iswi Hariyani, above n 80
[586]The important contribution of SMEs for a country's economy has been acknowledged by: Edy Suandi Hamid, above n 85, Megan Clark et.al, above n 85, OECD Observer, above n 85
[587]Ibid.
[588]Edy Suandi Hamid, above n 85, Indonesian Working Group Design Power-Ministry of Commerce of the Republic of Indonesia, above n 77

advantage of trade secrets, particularly for the state of Indonesia as a developing country. This opinion, however, contradicts what is considered as one of the disadvantages of trade secrets. Some points that have been considered as disadvantages of protecting IPRs as trade secrets, especially the fear of reverse engineering[589].

The article 33 (4) of The Constitution of The Republic of Indonesia stated that the economy of Indonesia is based on a democratic economy. Thus, if trade secrets can be implemented as collateral, this can open wider doors for more people to build or run their own (bigger) business.

With the population of 237,641,326 in 2010 and still growing[590], Indonesia is a developing country which has a strong belief in the prosperity of its people[591]. With the great number of people, there should be greater numbers of jobs available. In order to make this become a reality, it is important to move people to work harder in trying to make better living conditions for themselves. As an illustration, there are 31,023,400 people or 13.33% of all Indonesians who live in cities and villages and are poor.[592]

Chapter 3 discussed that Indonesia is building its economy into what is called a creative economy. The soul of the creative economy is creative industry. IPRs, including trade secrets, should be recognized better in order for the actors of creative industry in Indonesia to establish their position in Indonesia as well as internationally outside Indonesia.

- In law reform matters: this research also attempted to find out what kind of regulation is the most adequate to govern trade secrets as collateral, to make

[589]Talhiya Sheikh, above n 40
[590]Central Bureau Centre of Statistics, above n 82
[591]It can be seen at the paragraph 2 and 4 of the *Preambule* of The Constitution of Republic of Indonesia.
[592]Bereau Centre of Statistics, above n 82

it possible to implemented this effectively. Later recommendations for reforming law regulations can be given.

- In political matters: as a developing country and a member of the WTO, it is important for Indonesia to make the best effort to strengthen its economy. It can then gain more political power in international relations with other countries.

The implementation of trade secrets as collateral will bring benefits to the Indonesian people. It can encourage Indonesian people to be more creative and not only count on their rich natural resources. It can boost the Indonesian economy, which can lead to political power in international relations with other countries. Therefore, the researcher strongly argues that trade secrets should be included as collateral. To achieve this, the use of trade secrets as collateral has to be regulated adequately and the regulation effectively implemented.

**2.2. How the government of Indonesia should change the law to classify trade secrets as collateral to be used by MSMEs as well as the other forms of IPRs**

Regarding the implementation of IPRs used as collateral in Indonesia, Choirul Djamhari[593] stated that the Banks need to have technical regulations to implement this matter. Therefore, the Deputy sees that the regulations which should be constructed are technical. The most important thing to be formulated firstly is Risk-Weighted Assets. This is a point of conflict because it is where the economy and political nuances meet.

A further consideration is that, if this is regulated, would the banks implement it as a mandatory obligation or just an option? If in the Banking Law there is no regulation regarding the use of IPRs as collateral, therefore the Law should be added. Djamhari pointed out that it is the creditors (in this case, the banks) who have the privillege of deciding the value of the collateral which is used.

[593] Consultation with Choirul Djamhari, above n 451

The expert in the Directorate General of the IPRs Office of Indonesia, Agung Damarsasongko[594], believes that actually trade secrets can be used as collateral in Indonesia. The problem regarding this matter that there is no guarantee on trade secrets if they are used as collateral, such as a certificate for the other forms of IPRs, and this should be solved by giving certificates to the owners of trade secrets. He realized the importance and the value of trade secrets for enterprises in business and for the Indonesia economy. That is why it is necessary to make sure that trade secrets are used to the maximum level, but still protect them. In order to protect them, the registration of trade secrets should only record the general information on the trade secrets. This method is the same as when an owner of a trade secret licenses his/her trade secret. Based on the Law Number 30 Year 2000 regarding Trade Secrets, the owner of a trade secret should register his/her trade secret with the Directorate General of IPRs when he/she licenses the trade secret.[595]

As Indonesia has had a law that is considered able to accommodate the regulation to implement IPRs—trade secrets are included—the regulation to implement trade secrets as collateral in Indonesia should be included in the Law Number 42 Year of 1999 regarding Fiduciary matters, because trade secrets, the same as the other forms of IPRs, are intangibles assets which will still be held by the owners when they are used as collateral.

Therefore, the Government of Indonesia, particularly the Indonesian Parliament—should add such clear statements to regulate the use of trade secrets as collateral in Indonesia in the Law Number 30 Year 2000 regarding Trade Secrets and The Law Number 42 Year 2000 regarding Fiduciary matters. There should also be guidance on the implementation (a clear technical regulation) of this in a particular formal procedure

[594]Consultation with Agung Damarsasongko, above n 454
[595]Registering trade secrets when they are licensed: Article 8 Law Number 30 Year 2000 Regarding Trade Secrets.

which should be constructed by the institutions which have authority related to this. These institutions, as the expert in Directorate General of IPRs in Indonesia suggested, are the Bank of Indonesia, The Directorate General of IPRs and The Ministry of Cooperatives and SMES of Indonesia. Such procedures can be developed from those that Thailand has already called the "Procedures for the Loan Application using Intellectual Property as the Collateral".

The Regulations suggested by the researcher should be: (1) Security law, (2) Technical procedure, and (3) reforming The Bankruptcy Law. As explained below:

(1) Indonesia has the fiduciary law which should be amended:

- as in the USA, by adding the explanation of the law
- as from UNCITRAL, by qualifying trade secrets together with the other forms of IP, or establishing a new security law which regulates IP used as collateral.

(2) For the technical procedure:

- as in Thailand, by amending the Regulation of the Minister of Law and Human Rights Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Administration of the Ministry of Law and Human Rights of the Republic of Indonesia
- taking into account the advice from the authorities and the relevant Laws, by establishing:
  1. A MoU among the Bank of Indonesia, Ministry of Cooperative and SMEs and the Directorate of the IPR Office
  2. A Regulation of the Bank of Indonesia
  3. A Circulation Letter of Bank of Indonesia

(3) In addition, from the work of Sandeen[596], when a debtor is bankrupt and trade secrets are sold to pay the debt, the Bankruptcy Law must accomodate the nature of trade secrets to maintain its secrecy, therefore The Government of Indonesia also needs to revise *Undang-Undang Nomor 37 Tahun 2004 tentang Kepailitan dan Penundaan Pembayaran* (the Law Number 37 Year 2004 regarding Bankruptcy and Suspension of Payment).

It is important that in establishing new regulations or amending those regulations above the Government of Indonesia should follow the procedures as stated in the *Undang-Undang Nomor 12 Tahun 2011 tentang Pembentukan Peraturan Perundang-Undangan* (the Law Number 12 Year 2011 regarding the Establishment of Regulations) which has been discussed in chapter 5.

**2.3.The contents of 'new' regulations for legislation reform in accommodating trade secret to become collateral in Indonesia**

After comparing the contents of regulations related to the use of trade secrets as collateral in Australia, the USA, Thailand and the PRC and also considering the UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property, the researcher recommends that the regulations should contain these points:

a. In Law Number 30 Year 2000 regarding Trade Secret:

- Section I, which explains about general provision, should have an additional paragraph about the meaning of collateral.
- Section III Article 4, in respect to the rights of trade secret owners, should have one more paragraph which states clearly that owners of trade secrets can use trade secrets as collateral when they borrow money from financial institutions.

[596]Sharon K. Sandeen, above n 310

- Section IV regarding transfer of rights and licensing should have one more article, in respect of licensors who put their trade secrets as collateral and then can not pay their debts, then the licensees' obligation shift to the new owner of those trade secrets.
- Section V Article 10 regarding the fee for registration, should require fees to get notification of a trade secret (because trade secrets which can be used as collateral should be trade secrets which have been notified by the Directorate General of IPRs). The notification does not need to describe the trade secrets in detail.

b. In Law Number 42 Year 1999 regarding Fiduciary matters:
   - there is an amendment which is to insert the words *Hak Kekayaan Intelektual* (Intellectual Property Rights) into Article 1.
   - Amendment of Section III Article 4 point c which states that trade secrets which are used as collateral should not need to be described like other properties.
   - The contents which should be added to *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters) are words which state IPRs as one of the properties which can be used as collateral. As mentioned in point number two above and discussed in Chapter 5, in relation to implementing trade secrets as collateral, it is concluded that the Government of Indonesia should amend *Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Law Number 42 Year 1999 regarding Fiduciary matters); *Penjelasan Undang-Undang Nomor 42 Tahun 1999 tentang Fidusia* (the Explanation of the Law Number 42 Year 1999

regarding Fiduciary matters) and establish a new regulation (*Peraturan Pemerintah* or Government Regulation) and construct a technical regulation.

c. In the Bankruptcy Act: provide an alternative way for a debtor in solving his/her debt by reorganising his/her enterprise and protecting the nature of trade secrets, which is that trade secrets must be kept undisclosed to the public. This should be accommodated in the technical procedure when a trade secret is being auctioned. The party who needs to know the trade secret in detail is the trustee.

d. In the Regulation of the Ministry of Law and Human Rights of Indonesia Number M.HH-05.OT.01.01 Year 2010 regarding Organization and Working Procedures of the Ministry of Law and Human Rights of Indonesia, in Section VIII regarding the Directorate General of IPRs Part Four, which explain the work of the Directorate of Copyrights, Industrial Designs, Integrated Circuits and Trade Secrets, it should be added that this Directorate has authority to give notification on trade secrets.

In some new regulations which should be constructed by Bank of Indonesia, the Directorate General of IPRs and Ministry of Cooperatives and SMEs. Since this regulation provides technical procedures in using IPRs as collateral, because the implementation of using IPRs as collateral will be 'something new' for banks, it is suggested that the government should be selective in allowing which banks can give loans with this type of collateral. Such banks should have human resources who have good knowledge in the area of collateralization of IPRs, and particularly trade secrets.

Through this thesis, it can be understood that trade secrets also have their important roles as one of the IPR forms. Therefore, it is important to acknowledge their existence and information about them should be disseminated as well as the other forms of IPRs. By allowing trade secrets to qualify as one of the IPRs which can be used as collateral by MSMEs in Indonesia, this will provide an opportunity for MSMEs which need financial help

to maximize the use of their trade secrets, related to that matter, and also it is one way for trade secrets to be more widely recognized.

It is likely that the Indonesians have shifted their perspective about IPRs regime. More and more business owners appreciate their inventions and innovation by protecting them through IPRs protection, including through trade secrets. This thesis has mentioned some MSMEs which have protected their innovations and inventions through trade secrets.

Regarding the banks, actually banks consider loan application case by case. However, there are some points which are used as general considerations. Those five points are Character, Capacity, Capital, Collateral and the Condition of Economy.[597] Collateral is not the only aspect which is considered when banks decide to give loan to a party.

[597]Pandi Apandi, '5C Implementation Analysis For Determining The Bank BPR Feasibility Of Customers Credit (Case Study On BPR And PT BPR Kridaharta Salatiga Salatiga)' 2013 <http://jurnal.stieama.ac.id/index.php/ama/article/download/17/15> at 20 November 2013 (Original in Bahasa Indonesia)

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# Appendix

## Guidance Questions

1. Pada bulan Januari 2010 Direktur Jenderal Hak Kekayaan Intelektual Indonesia (HKI) Kantor mengatakan bahwa dari berbagai fungsi sistem HKI hanya satu fungsi yang belum diterapkan di Indonesia yaitu menggunakan sertifikat hak kekayaan intelektual sebagai jaminan. Beberapa bulan setelah itu pada Agustus 2010, Pemerintah Indonesia melalui Departemen Koperasi dan Usaha Kecil dan Menengah menindaklanjuti isu tersebut melalui diskusi yang mengenai Pengembangan Model Sertifikat sebagai Jaminan untuk UKM Indonesia. Sertifikat dikeluarkan untuk Merek Dagang, Paten, Desain Industri, Hak Cipta dan Sirkuit Terpadu. Issue ini muncul karena pejabat yang berwenang melihat keberhasilan Amerika Serikat dan China yang telah menggunakan HKI sebagai jaminan. Di Indonesia ada HKI lain yang juga dilindungi oleh hukum yakni rahasia dagang. Mengapakah rahasia dagang tidak termasuk dalam program ini?

   (In January 2010 the Director General of the Indonesia Intellectual Property Rights (IPRs) Office suggested that from the various functions of IPRs system only one function that has not been implemented in Indonesia yet, it is the using intellectual property rights certificate as collateral. Few Months after that in August 2010, The Government of Indonesia through Ministry of Cooperation and Small and Medium Enterprises followed up the issue and held discussions on IPR Development Model Certificates as Collateral for Indonesian SMEs. Certification issued for the Trademarks, Patents, Industrial Designs, Copyrights and Integrated Circuits. This issue appeared because the authorized officers learned succeed of the United States of America and China which already used IPRs as collateral. As in Indonesia there are other IPRs protected by law which is trade secret, why trade secret was not included in the program?)

6. Fenomena penggunaan rahasia dagang sebagai benda jaminan kredit semakin meningkat selama beberapa dekade. Apakah menurut Bapak/Ibu seharusnya juga mengikuti trend ini? Mohon dijelaskan mengapa.
   (The phenomenon of using trade secrets as collateral is growing for decades. Do you think Indonesia should follow this trend as well? Why, please explain.)

7. Menurut Bapak/Ibu, apakah kita memiliki faktor-faktor pendukung untuk mengimplementasikan rahasia dagang sebagai benda jaminan kredit? Mohon penjelasannya.
   (Do you think we have supporting factors in implementing trade secrets as collateral? Please give explanation)

8. Menurut Bapak/Ibu apakah kita memiliki faktor-faktor penghambat untuk mengimplementasikan rahasia dagang sebagai benda jaminan kredit? Mohon penjelasannya.
   (Do you think we have inhibiting factors implementing trade secrets as collateral? Please give explanation.)
9. Menurut Bapak/Ibu bagaimanakah cara mengatasi hambatan tersebut?
   (How does overcome the inhibiting factors?)

10. Menurut Bapak/Ibu apakah perundang-undangan dan peraturan lainnya sudah mendukung pengimplementasian rahasia dagang sebagai benda jaminan kredit?
    (Do you think our legislations and/or regulations already supported to implement trade secrets as collateral? Please give explanation.)

11. Menurut Bapak/Ibu apakah keuntungan bagi Indonesia jika diimplementasikan rahasia dagang sebagai benda jaminan kredit?
    (What are benefits for Indonesia if trade secrets implemented as collateral?)

12. Menurut Bapak/Ibu mengapakah rahasia dagang tidak sepopuler hak paten, hak cipta atau hak merek di Indonesia?
    (Why are trade secrets not as popular as patent, copyright or trademark in Indonesia?)

13. Menurut Bapak/Ibu apakah Pemerintah Indonesia harus melakukan reformasi peraturan sehubungan dengan pengimplementasian rahasia dagang sebagai benda jaminan kredit?
    (Do you think the Government of Indonesia has to do legislation reform regarding implementation trade secrets as collateral?)

14. Jika Iya, apakah bentuk peraturan hukum yang paling sesuai? Apakah dengan mengubah atau menambahkan pasal-pasal di dalam Undang-Undang Rahasia Dagang dan/atau Undang-Undang Fidusia ataukah perlu dibentuk peraturan baru khusus, misalnya seperti Thailand yang memiliki peraturan khusus mengenai penggunaan hak kekayaan intelektual termasuk rahasia dagang sebagai benda jaminan kredit? Mohon penjelasannya.
    (If yes, what is the most suitable regulation type? Whether by changing or adding the articles in the Trade Secrets Act and / or the Law of Fiduciary or whether new regulations need to be formed specifically, such as Thailand that have specific regulations regarding the use of intellectual property rights including trade secret as loan collateral object?)

Additional question for Officer in Intellectual Property Office in Indonesia:

10. Berapakah jumlah rahasia dagang yang sudah dicatatkan di Direktorat Jenderal HKI?
    (How many trade secrets have been notified in Directorate General of Intellectual Property Rights?)