Discovery of Trade Secrets: A Procedural Quagmire

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I. INTRODUCTION

> *Trade secrets should receive greater protection from discovery, because they derive economic value from being generally unknown and not readily ascertainable by the public.*
>
> — Air Philippines Corporation v. Pennswell, Inc.[1]

Trade secrets are the lifeblood of many companies. Companies with trade secrets are tested time and again, but never faulter due to the success of their products and services, along with their success in keeping these secrets confidential. In an increasingly globalized economic landscape, trade secrets are widely becoming important for companies to keep their competitive edge.[2] For example, Coca-Cola's syrup, formulated way back in the 19th century and dubbed as "Merchandise 7X,"[3] is a closely-guarded secret, so much so that the company pulled out its business in India in 1977 when the government required it to reveal its formula.[4] The original recipes for

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1. Air Philippines Corporation v. Pennswell, Inc., 540 SCRA 215, 245 (2007) (citing 23 AM. JUR. 2D *Depositions and Discovery* § 42 (2002) (citing Ex parte Miltope Corp., 823 So. 2d 640 (Ala. 2001) (U.S.))).
2. *See generally* David S. Almeling, *Seven Reasons Why Trade Secrets Are Increasingly Important*, 27 BERKELEY TECH. L.J. 1091 (2012). *See also Air Philippines Corporation*, 540 SCRA at 238 ("Verily, the protection of industrial secrets is inextricably linked to the advancement of our economy and fosters healthy competition in trade.").
3. *See generally* Selina Tolosa, *The Real Thing: 7x Plus More*, 47 ATENEO L.J. 915 (2003).
4. PAT WATTERS, COCA-COLA: AN ILLUSTRATED HISTORY 193 (1978). Coca-Cola would later return to India in 1992. August W. Giebelhaus, *The Pause that*

making the chicken of Kentucky Fried Chicken, the doughnuts of Krispy Kreme, the chocolate chip cookies of Mrs. Fields, and the ketchup of Heinz are, to this day, trade secrets[5] inviting much imitation and speculation which, in turn, translate to unsolicited, yet good, publicity and a great marketing strategy.[6] Much similar to the real world, plots of numerous works of fiction likewise involve trade secrets, with these secrets generating mystery around character figures and, at times, being the causes of havoc and conflict among characters.[7]

Refreshed the World: The Evolution of Coca-Cola's Global Marketing Strategy, *in* ADDING VALUE (RLE MARKETING): BRANDS AND MARKETING IN FOOD AND DRINK 209 (Geoffrey G. Jones & Nicholas J. Morgan eds., 2015).

5. Kaylee Beauchamp, *The Failures of Federalizing Trade Secrets: Why the Defend Trade Secrets Act of 2016 Should Preempt State Law*, 86 MISS. L.J. 1031, 1032 (2017) & David Hannah, et al., *It's A Secret: Marketing Value and the Denial of Availability*, 57 BUS. HORIZONS 49, 52 (2014).

6. *See* Hannah, et al., *supra* note 5, at 52.

7. Examples of trade secrets presented in fiction include the Krabby Patty formula in the show SpongeBob SquarePants, which the show's villain attempts to steal; the Blue Sky formula in the series Breaking Bad, providing "Heisenberg" a lucrative business; the Empire's Death Star plans in Star Wars, later stolen by the rebel spies; and the non-fictional McDonald's Szechuan Sauce recipe, which was featured in the series Rick and Morty and caused public uproar in real life. *SpongeBob SquarePants: Plankton!* (United Plankton Pictures & Nickelodeon Animation Studios television broadcast July 31, 1999) (The villain of the show, Sheldon J. Plankton, warned Eugene H. Krabs regarding his Krabby Patty formula — "Hear me, Krabs. When I discover your formula for Krabby Patties, [I will] run you out of business."); *Breaking Bad: Pilot* (USA television broadcast Jan. 1, 2008) (Walter H. White, Sr. assures Jesse B. Pinkman that they will create a great product, "You and I will not make garbage. We will produce a chemically pure and stable product that performs as advertised. No adulterants. No baby formula. No chili powder."); *Rick and Morty: The Rickshank Rickdemption* (USA television broadcast Apr. 1, 2017) (Rick Sanchez told Morty Smith, "I want that Mulan McNugget sauce Morty. That's my series arc, Morty. If it takes nine seasons, I want my McNugget dipping sauce, Szechuan sauce, Morty.") & STAR WARS — EPISODE IV: A NEW HOPE (Lucasfilm Ltd. 1977) (After the Death Star plans were stolen, Darth Vader, aboard the starship Tantive IV, orders his commander in this wise — "Commander, tear this ship apart until you [have] found those plans and bring me the passengers. I want them alive!"). *See also* ROGUE ONE: A STAR WARS STORY (Lucasfilm Ltd. 2016) (This is a film featuring the events leading to the rebels stealing the plans for the Death Star.).

Trade secrets are not confined to information, recipes, plans, and designs.[8] More intangible examples include Google's search algorithm and the New York Times' best-seller list ranking system.[9] Another even more intangible example is the style and manner by which Starwood Hotels manages its "W brand," which led to the hotel company suing Hilton Hotels for allegedly stealing these trade secrets in 2009.[10] There are even those so-called "negative trade secrets," i.e., valuable information on what *not* to do

8. Established and recognized classifications of trade secrets include formulas, technical information and know-how, software or computer programs, customer lists, internal business information, external business information, combination trade secrets, and negative trade secrets, among others. David S. Almeling, et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 304-05 (2009-2010). *See generally* Tait Graves & Alexander Macgillivray, *Combination Trade Secrets and the Logic of Intellectual Property*, 20 SANTA CLARA HIGH TECH. L.J. 261 (2004) (on the concept of combination trade secrets) & Nathan Hamler, *The Impending Merger of the Inevitable Disclosure Doctrine and Negative Trade Secrets: Is Trade Secrets Law Headed in the Right Direction*, 25 J. CORP. L. 383 (2000) (on the concept of negative trade secrets). *See also* Order Re Jury Instruction on Damages Based Only on Acquisition, Jan. 18, 2018, at 3 (on file with the US District Court, Northern District of California), *in* Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA (N.D. Cal. 2018) (involving an argument about a negative trade secret). In addition, Roger M. Milgrim, a recognized authority in trade secret protection who authored a multi-volume law treatise on the subject, provides for examples of trade secrets such as: processes for manufacturing chemicals, plastics, and food stuffs; methods and techniques for manufacturing automotive, aerospace, and electronic equipment; formulas for manufacturing medicines, cosmetics, and food stuff; complex products that may not be readily reverse engineered; business information such as customer lists including special customer requirements and characteristics, sources of supply, market research, new product plans, and geophysical information including mineral finds; and, plans, designs, and patterns for aerospace equipment. Roger M. Milgrim, *Get the Most Out of Your Trade Secrets*, HARV. BUS. REV., Nov.-Dec. 1974, at 109.

9. Beauchamp, *supra* note 5, at 1032. *See also* KIRK KAZANJIAN & AMY JOYNER, MAKING DOUGH: THE 12 SECRET INGREDIENTS OF KRISPY KREME'S SWEET SUCCESS (2004) & EDWIN DIAMOND, BEHIND THE TIMES: INSIDE THE NEW NEW YORK TIMES 365 (1995).

10. Daphne A. Jameson, *The Rhetoric of Industrial Espionage: The Case of Starwood V. Hilton*, 74 BUS. COMMUNICATION Q. 289, 289-92 (2011). The case ended with a settlement in 2010 with Hilton Hotels paying Starwood Hotels a reported US$150 million, though Hilton Hotels did not admit its guilt. *Id.* at 292.

or what does *not* work, paving the way for pioneering innovations of the future.[11]

Given these examples, the nature of trade secrets itself seems puzzling, yet amusing. On the legal plane, while litigation involving trade secrets has yet to be commonplace in the Philippines, courts in the United States (US) had grappled with trade secrets, such as those relating to the designs for the Triple Seven cockpit windows of Boeing aircraft, [12] product-specific information of Apple and Samsung,[13] and manufacturing specifications for Firestone tires.[14]

Trade secrets seem incomparable to any of the other forms of intellectual property (IP), as

> [t]rade secrets are inherently fragile. Other forms of [IP] can survive infringement; the owner of a copyright, patent, or trademark may sue the infringer, bring a halt to the infringement, recover damages, and continue owning the right. Once a trade secret has been disclosed, however, it is no longer secret.[15]

Undeniably, trade secrets are treated differently from other creatures of IP. This indicates that trade secrets are a formidable and challenging species which courts inescapably have to wrestle with. Part II of this Article aims to tackle the nature of trade secrets and how they are treated in this jurisdiction.

Trade secrets, in the course of litigation, may, by their very nature, unavoidably come into the fray and potentially hinder the search for the truth, especially when such secrets become the subject of discovery requests in court. It has been said that "[t]he trial must emphasize the 'quest for the

11. *See* Amir H. Khoury, *The Case Against the Protection of Negative Trade Secrets: Sisyphus' Entrepreneurship*, 54 INTELL. PROP. L. REV. 431, 432 (2014).

12. *See generally* Boeing Company v. Sierracin Corporation, 108 Wn.2d 38 (Wash. 1987) (U.S.).

13. *See generally* Apple Inc. v. Samsung Electronics Co., 727 F.3d 1214 (Fed. Cir. 2013) (U.S.).

14. *See generally* Bridgestone/Firestone, Inc. v. The Superior Court of Alameda County, 7 Cal. App. 4th 1384 (Cal. Ct. App. 1992) (U.S.).

15. AARON SCHWABACH, INTERNET AND THE LAW: TECHNOLOGY, SOCIETY, AND COMPROMISES 282 (2005) (citing Religious Technology Center v. Lerma, 908 F.Supp. 1362 (E.D. Va. 1995) (U.S.)).

truth' rather than a 'sporting theory of justice.'"[16]As early as a century ago, the Supreme Court observed that

> litigation is not a game of technicalities in which one, more deeply schooled and skilled in the subtle art of movement and position, entraps and destroys the other. It is, rather, a contest in which each contending party fully and fairly lays before the court the facts in issue and then, brushing aside as wholly trivial and indecisive all imperfections of form and technicalities of procedure, asks that justice be done on the merits.[17]

In view of the policy of the courts that cases should be decided based on all the relevant facts in issue, various discovery devices were introduced and developed for uncovering facts and information necessary for the fair adjudication of a case.[18] Party litigants started utilizing discovery devices to access information essential to their trial preparation and to the prosecution of their claim and, in the process, it enabled them to have a better assessment of the controversy at hand. [19] These intricacies relating to discovery procedures are further elaborated in Part III of this Article.

Despite discovery being expansive in scope, not all matters may be the subject of discovery. As will be shown in Part IV, trade secrets possess a privileged character, and courts generally deny discovery requests involving trade secrets. This is not an absolute or inflexible rule as courts are empowered to allow the disclosure of privileged information when dictated by the demands of justice. And if the court decides to grant a lawfully-ordered discovery request for trade secrets, trade secret owners are faced with

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16. WAYNE R. LAFAVE, ET AL., CRIMINAL PROCEDURE 346 (2007) (citing William J. Brennan Jr., *The Criminal Prosecution: Sporting Event or Quest for Truth?*, 1963 WASH. U. L. Q. 279 (1963)). The phrase "sporting theory of justice" was coined by Harvard Dean Roscoe Pound who criticized the same. *See* Jay Tidmarsh, *Pound's Century, and Ours*, 81 NOTRE DAME L. REV. 513, 525-30 (2006) & Roscoe Pound, *The Causes of Popular Dissatisfaction with the Administration of Justice*, 14 AM. LAW 445 (1906).

17. Alonso v. Villamor, 16 Phil. 315, 321-22 (1910).

18. *See generally* 1 WILLARD B. RIANO, CIVIL PROCEDURE: THE BAR LECTURES SERIES, at 437-57 (2016 ed.).

19. Many scholarly works have investigated and narrated the historical roots of discovery procedures. *See, e.g.*, Fleming James, Jr., *Discovery*, 38 YALE L.J. 746, 746-47 (1929); GEORGE RAGLAND, JR., DISCOVERY BEFORE TRIAL 1 (1932); Edson R. Sunderland, *Scope and Method of Discovery Before Trial: Inadequacy of the Pleadings as a Basis for Trial*, 42 YALE L.J. 863, 863-65 (1933); & *Production and Inspection of Documents, Papers, and Tangible Things in Missouri: A Comparison to the Federal Rules*, 1955 WASH. U. L.Q. 413, 413 (1955).

few alternatives, as enumerated and described in Part V. Among these alternatives is the issuance of protective orders, which are generally made available to the owners of trade secrets to prevent the plaintiff from revealing and divulging the trade secrets to individuals who are not parties to the pending case.

While there are numerous challenging issues peculiar to the discovery process of trade secrets,[20] this Article limits itself to a specific scenario, as properly dealt with in Part VI. This scenario contemplates a court-issued protective order preventing disclosure of a trade secret that actually poses a public hazard. Here lies the crux of the problem in the sense that a party, in the course of the discovery, may unearth facts tending to establish that the trade secret owner's secret processes or formulas are hazardous to public health or detrimental to public safety. Unfortunately, in this case, the party who discovered the hazardous trade secret is prevented from revealing the same to the public because of the presence of protective orders. Thereafter, recommendations in relation to dealing with the described scenario are discussed. Part VII concludes this Article and highlights the complexities of trade secret litigation, as may be gleaned from the foregoing Parts.

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20. Notably, trade secret litigation "receives less scholarly attention than other major forms of [intellectual property (IP)] such as patents, copyrights[,] and trademarks." Almeling, et al., *supra* note 8, at 293. *See also* P. Andrew Riley & Jonathan R.K. Stroud, *A Survey of Trade Secret Investigations at the International Trade Commission: A Model for Future Litigants*, 15 COLUM. SCI. & TECH. L. REV. 41 (2013). Despite this, the issues involving trade secret litigation have considerably been subject to legal analysis and discourse in the United States (US) over the years. *See generally* James Pooley, *The Top Ten Issues in Trade Secret Law*, 70 TEMP. L. REV. 1181 (1997). In cases involving trade secrets, there is an issue relating to timing, i.e., as to when in the litigation process does a trade secret owner disclose trade secrets, recognizing that some stages and documents are open to the public; another issue involves specificity, or the extent of the disclosure of the trade secrets and the possibility that trade secret owners can choose to obscure or limit disclosure as a tactical strategy. *See generally* Kevin R. Casey, *Identification of Trade Secrets during Discovery: Timing and Specificity*, 24 AM. INTELL. PROP. L. ASSOC. Q. J. 191, 195 (1996) & Charles Tait Graves & Brian D. Range, *Identification of Trade Secret Claims in Litigation: Solutions for a Ubiquitous Dispute*, 5 NW. J. TECH. & INTELL. PROP. 68 (2006). There is also the so-called "inevitable disclosure doctrine" that arises in cases where trade secret owner-employers enjoin their employees who, upon gaining knowledge and crafts of the trade — including trade secrets — from their employers, apply for another job in another company. Suellen Lowry, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519 (1988).

II. TRADE SECRETS

A. Legal Protection

In the sphere of international law, the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS),[21] commonly known as the TRIPS Agreement, took effect in 1995, calling on its member-States to "protect undisclosed information" — which necessarily includes trade secrets.[22] Though no definition of "undisclosed information" is provided under the TRIPS Agreement, Article 39 (2) of the same "specifies the conditions that the information needs to meet in order to be deemed 'undisclosed' and protectable,"[23] to wit —

> 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: (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.[24]

Under the TRIPS Agreement, "'undisclosed information' (i.e.[,] trade secrets)" was, "[for] the first time[,] ... expressly brought under the purview of an international agreement on intellectual property rights [(IPR).]"[25] The Philippine Senate ratified the Uruguay Round of the General Agreement on Tariffs and Trade in 1995, thereby binding Philippines to the TRIPS

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21. Agreement on Trade-Related Aspects of Intellectual Property Rights, *signed* Apr. 15, 1994, 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

22. Surinder Kaur Verma, *Protection of Trade Secrets under the TRIPS Agreement, and Developing Countries*, 1 J. WORLD INTELL. PROP. 723, 723 (2005) (citing TRIPS Agreement, *supra* note 21, art. 39 (1)).

23. Abhinav Kumar, et al., *Legal Protection of Trade Secrets: Towards a Codified Regime*, 11 J. INTELL. PROP. RTS. 397, 399 (2006). *See also* François Dessemontet, *Protection of Trade Secrets and Confidential Information*, *in* INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE: THE TRIPS AGREEMENT 279-80 (Carlos M. Correa & Abdulqawi A. Yusuf eds., 2008).

24. Kumar, et al., *supra* note 23, at 399 (citing TRIPS Agreement, *supra* note 21, art. 39 (2)).

25. Verma, *supra* note 22, at 723. *See also* Kumar, et al., *supra* note 23, at 398.

Agreement.[26] Thereafter, the Philippines took various steps to make sure that the country complied with its obligations therein.[27] These included the enactment of Republic Act No. 8293, otherwise known as the Intellectual Property Code (IP Code),[28] in 1997,[29] extensively overhauling the country's existing IP regime at that time.[30] Trade secrets, though not expressly mentioned and defined by the IP Code, are nevertheless protected by Section 4.1 (g) thereof, which states that the "[p]rotection of [u]ndisclosed [i]nformation" forms part of IPR.[31]

B. Jurisprudential Definition

To date, the Philippines does not have a statutory definition for the term "trade secret," though many laws make mention and even afford protection to the same.[32] However, the term has been etched in Philippine jurisprudence in *Air Philippines Corporation v. Pennswell, Inc.*[33] where the

26. Zuraida Mae D. Cabilo, *Philippine Intellectual Property Rights under the World Trade Organization, 1995-2005: Implementing the Flexibilities under a TRIPs-Plus Commitment*, 24 PHIL. J. THIRD WORLD STUD. 61, 69 (2009).

27. *Id.*

28. An Act Prescribing the Intellectual Property Code and Establishing the Intellectual Property Office, Providing for Its Powers and Functions, and for Other Purposes [INTELL. PROP. CODE], Republic Act No. 8293, § 4.1 (g) (1997) (as amended).

29. Cabilo, *supra* note 26, at 69.

30. *Id.* at 68-74.

31. INTELL. PROP. CODE, § 4.1 (g). *See also* Verma, *supra* note 22, at 723.

32. *See Air Philippines Corporation*, 540 SCRA at 235-37 (citing Reorganization of the Securities and Exchange Commission with Additional Powers and Placing the Said Agency Under the Administrative Supervision of the Office of the President [SEC Reorganization Act], Presidential Decree No. 902-A (1976); INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION, A.M. No. 00-8-10-SC, rule 3, § 4 (Nov. 21, 2000); Securities Regulation Code [SECURITIES REG. CODE], Republic Act No. 8799, §§ 66 & 66.2 (2000); An Act Revising the Penal Code and Other Penal Laws [REVISED PENAL CODE], Act No. 3815, arts. 291-292 (1932); The National Internal Revenue Code of 1997 [NAT'L INTERNAL REVENUE CODE], Republic Act No. 8424, § 278 (1997); & An Act to Control Toxic Substances and Hazardous and Nuclear Wastes, Providing Penalties for Violations Thereof, and for Other Purposes [Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990], Republic Act No. 6969, § 12 (1990)).

33. Air Philippines Corporation v. Pennswell, Inc., 540 SCRA 215 (2007).

Court extensively discussed a trade secret in the context of this jurisdiction's legal system as well as its economic underpinnings.

The case of *Air Philippines Corporation* involved a purchase by Air Philippines Corporation (Air Philippines), a domestic airline, of sundry goods from Pennswell, Inc. (Pennswell), a chemical manufacturing company.[34] Pennswell demanded payment from Air Philippines for the purchase through a collection suit.[35] The latter refused to pay, contending that Pennswell defrauded it by selling items which Pennswell "misrepresented ... as belonging to a new line, but were in truth and in fact, identical with the products [Air Philippines] had previously purchased from [Pennswell]."[36] In order to prove such allegation, Air Philippines sought to compel Pennswell through a discovery device to "give a detailed list of the ingredients and chemical components of the [new and old] products" so that Air Philippines could "conduct a comparison of [Pennswell's] goods."[37]

Air Philippines, relying on Section 1 of Rule 27 under the 1997 Rules of Court (Rules) governing a mode of discovery involving the production or inspection of documents or things, contended that its discovery request was "not done in bad faith or in any manner as to annoy, embarrass, or oppress [Pennswell]."[38] The airline also "argue[d] that the use of modes of discovery operates with desirable flexibility under the discretionary control of the trial court."[39]

The Supreme Court settled the sole issue of whether the Court of Appeals ruled in consonance with Philippine laws and jurisprudence when it upheld the trial court's conclusion that Pennswell's products are trade secrets not subject to compulsory disclosure, i.e., through the availment of discovery procedures.[40] Stated otherwise, the issue was whether Air Philippines "ha[d] a right to obtain the chemical composition and ingredients of [Pennswell's] products to conduct a comparative analysis of its products," and the Court ruled in the negative.[41]

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34. *Air Philippines Corporation*, 540 SCRA at 222–24.

35. *Id.* at 223

36 *Id.*

37. *Id.* at 224.

38. *Id.* at 228.

39. *Id.*

40. *Air Philippines Corporation*, 540 SCRA at 228.

41. *Id.*

Interpreting Section 1 of Rule 27, the Court reiterated that the very words of the provision required that the requested document or thing to be inspected or produced, which is in the "party's possession, custody[,] or control[,]" should not be privileged and should "constitute or contain evidence *material* to any matter involved in the action[.]"[42]

In settling the issue, the Court extensively defined the term "trade secret" for the first time, as follows —

> A trade secret is defined as a plan or process, tool, mechanism[,] or compound known only to its owner and those of his [or her] employees to whom it is necessary to confide it. The definition also extends to a secret formula or process not patented, but known only to certain individuals using it in compounding some article of trade having a commercial value. A trade secret may consist of any formula, pattern, device, or compilation of information that: (1) is used in one's business; and (2) gives the employer an opportunity to obtain an advantage over competitors who do not possess the information. Generally, a trade secret is a process or device intended for continuous use in the operation of the business, for example, a machine or formula, but can be a price list or catalogue or specialized customer list.[43]

In defining a trade secret, the Court likewise adopted American jurisprudence outlining several factors to determine what is considered a trade secret:

(1) the extent to which the information is known outside of the employer's business;

(2) the extent to which the information is known by employees and others involved in the business;

(3) the extent of measures taken by the employer to guard the secrecy of the information;

(4) the value of the information to the employer and to competitors;

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42. *Id.* at 233 (emphasis supplied).

43. *Id.* at 228-29 (citing BLACK'S LAW DICTIONARY 687 (10th ed. 1991)). In defining the term "trade secret," the Court, taking its cue from American Jurisprudence, an authoritative legal encyclopedia in the US, clarified "that trade secrets need not be technical in nature. Market-related information[,] such as information on current and future projects, as well as potential future opportunities for a firm, may constitute a trade secret." *Air Philippines Corporation*, 540 SCRA at 229 (citing 27 AM. JUR. 2D *Employment Relationship* § 178 (2004) (citing Air Products and Chemicals, Inc. v. Johnson, 442 A.2d 1114 (1982) (U.S.)).

(5) the amount of effort or money expended by the company in developing the information; and

(6) the extent to which the information could be easily or readily obtained through an independent source.[44]

The Court, in *Air Philippines Corporation*, cited the earlier case of *Cocoland Development Corp. v. NLRC*[45] to briefly conclude that the "parameters in the determination of trade secrets were set to be such *substantial factual basis that can withstand judicial scrutiny*."[46]

In *Air Philippines Corporation*, the Court found that there was substantial factual basis supporting the claim of Pennswell that the pieces of information sought by Air Philippines (i.e., the chemical formulation, ingredients, and composition of its products) were trade secrets of Pennswell.[47] In reaching this conclusion, the Court ratiocinated that Pennswell was established to be engaged in the business of selling industrial chemicals, among others, which are manufactured and produced based on "a formulation of a secret list of ingredients."[48] Notably, the Court said that "[w]hat [Pennswell] had achieved by virtue of its investments may not be wrested from [it] on the mere pretext that it is necessary for [Air Philippine's] defense against a collection for a sum of money."[49] Furthermore, in justifying that these were trade secrets, the Court discussed the business and economic implications had it allowed such disclosure under these circumstances, to wit —

> By and large, the value of the information to [Pennswell] is crystal clear. The ingredients constitute the very fabric of [Pennswell's] production and business. No doubt, the information is also valuable to [Pennswell's] competitors. To compel its disclosure is to cripple [Pennswell's] business, and to place it at an undue disadvantage. If the chemical composition of [Pennswell's] lubricants [is] opened to public scrutiny, it will stand to lose the backbone on which its business is founded. This would result in nothing less than the probable demise of [Pennswell's] business. [Pennswell's] proprietary interest over the ingredients which it had developed and expended money and effort on is incontrovertible. Our conclusion is that the detailed ingredients sought to be revealed have a

44. *Air Philippines Corporation*, 540 SCRA at 230.

45. Cocoland Development Corp. v. NLRC, 259 SCRA 251 (1996).

46. *Air Philippines Corporation*, 540 SCRA at 231 (citing *Cocoland Development Corp.*, 259 SCRA at 60).

47. *See Air Philippines Corporation*, 540 SCRA at 242 & 244-45.

48. *Air Philippines Corporation*, 540 SCRA at 231.

49. *Id.*

> commercial value to [Pennswell]. Not only [does the Court] acknowledge the fact that the information grants it a competitive advantage; [the Court] also find[s] that there is clearly a glaring intent on the part of [Pennswell] to keep the information confidential and not available to the prying public.[50]

While the Court enumerated at length the various laws illustrating that trade secrets are regarded as privileged information and widely given protection in this jurisdiction,[51] it nonetheless stated that "[t]he privilege is not absolute [as] the trial court may compel disclosure where it is indispensable for doing justice."[52] However, the Court held that Air Philippines "was not able to show a compelling reason ... to lift the veil of confidentiality which shields [ ] trade secrets" as "[t]he revelation of [Pennswell's] trade secrets serve[ ] no better purpose to the disposition of the main case pending with the [lower court], which is on the collection of a sum of money[,]" and that "there are defenses under the laws of contracts and sales available to the petitioner."[53] In closing, the Court, while weighing the interests of both parties, said that

> the greater interest of justice ought to favor [Pennswell] as the holder of trade secrets. If [the Court] were to weigh the conflicting interests between the parties, [the Court] rule[s] in favor of the greater interest of [Pennswell]. *Trade secrets should receive greater protection from discovery, because they derive economic value from being generally unknown and not readily ascertainable by the public.*[54]

III. DISCOVERY

A. An Overview of Discovery

1. Background

In the Philippines, discovery procedures are primarily governed by the Rules promulgated by the Supreme Court on 1 July 1997.[55] Discovery in trial

50. *Id.* at 231-32.

51. *Id.* at 235-39.

52. *Id.* at 244 (citing RICARDO J. FRANCISCO, EVIDENCE 171-73 (1996 ed.)).

53. *Id.* at 244- 45.

54. *Air Philippines Corporation*, 540 SCRA at 244-45 (citing 23 AM. JUR. 2D *Depositions and Discovery* § 42 (2002) (citing *Ex parte Miltope Corp.*, 823 So. 2d)).

55. 1997 RULES OF CIVIL PROCEDURE, rules 23-29. Aside from the Rules of Civil Procedure, the Supreme Court has also promulgated Rules of Procedure for Intellectual Property Rights Cases; however, as can be gleaned from several provisions therein, these rules apply principally to violations of the Intellectual

practice is broadly defined as "the disclosure of facts resting in the knowledge of the defendant, or as the production of deeds, writings, or things in his [or her] possession or power, in order to maintain the right or title of the party asking it, in a suit or proceeding."[56] However, strictly speaking, such definition is not accurate, as the Rules provide that discovery may be made by both party litigants, not merely the defendant.[57] Discovery is essentially reflected and illustrated in the concept of a deposition, one of the modes of discovery sanctioned by the Rules, which is

> the written testimony of a witness given in the course of a judicial proceeding, in advance of the trial or hearing upon oral examination or in response to written interrogatories[,] and where an opportunity is given for cross-examination. A deposition may be taken at any time after the institution of any action, whenever necessary or convenient.[58]

A deposition is "the taking of the testimony of *any person*, whether he or she be a party or not, but at the instance of a party to the action."[59] Under modern discovery rules, "[c]ourts are given great latitude in enabling the parties to inform themselves of all relevant facts, including those known only to their adversaries. For this reason, the rules on discovery are accorded broad and liberal interpretation."[60] Likewise, if a matter is otherwise proper for discovery, or if the trial would thereby be simplified, the mere fact that the information is obtainable elsewhere is no reason for denying the application.[61]

Property Code of the Philippines (IP Code), which does not have an express penal provision involving trade secrets. *See* RULES OF PROCEDURE FOR INTELLECTUAL PROPERTY RIGHTS CASES, A.M. No. 10-3-10-SC, rule 1, §§ 1-3; rule 2, § 1; & rule 10, § 1 (Oct. 18, 2011). *See also* Rule on Search and Seizure in Civil Actions for Infringement of Intellectual Property Rights, A.M. No. 02-1-06-SC (Feb. 15, 2002).

56. Insurance Life Assurance Co. v. CA, 238 SCRA 88, 92 (1994) (citing 1 JOHN BOUVIER, BOUVIER'S LAW DICTIONARY AND CONCISE ENCYCLOPEDIA, at 882 (8th ed. 1914)).

57. *See* RULES OF CIVIL PROCEDURE, rule 23, § 1.

58. Republic v. Sandiganbayan, 358 SCRA 284, 292 (2001).

59. 1 RIANO, *supra* note 18, at 511 (emphases supplied). *See also* RULES OF CIVIL PROCEDURE, rule 23, § 1. The testimony is obtained "out of court." *Id.*

60. Security Bank Corporation v. Court of Appeals, 323 SCRA 330, 333 (2000). *See also* Ayala Land, Inc. v. Tagle, 466 SCRA 521, 532 (2005).

61. *See* Hyatt Industrial Manufacturing Corp. v. Ley Construction and Development Corp., 484 SCRA 286, 300-07 (2008).

2. Purpose

The Court explained that "the deposition-discovery procedure was designed to remedy the conceded inadequacy and cumbersomeness of the pre-trial functions of notice-giving, issue-formulation[,] and fact revelation theretofore performed primarily by the pleadings."[62] The main purpose of discovery is to enable the parties to determine the exact nature and extent of the right being asserted or the claim being prosecuted.[63]

In the 1991 case of *Republic v. Sandiganbayan*,[64] the Court extensively discussed the various modes of discovery and explained the purpose of discovery procedures, to wit —

> The various modes or instruments of discovery are meant to serve (1) as a device, along with the pre-trial hearing ... to narrow and clarify the basic issues between the parties, and (2) as a device for ascertaining the facts relative to those issues. The evident purpose is, to repeat, to enable the parties, consistent with recognized privileges, to obtain the fullest possible knowledge of the issues and facts before civil trials and thus prevent that said trials are carried on in the dark.[65]

Three years later, the case of *Fortune Corporation v. Court of Appeals*,[66] enumerated the benefits stemming from liberal[67] discovery procedures encouraged by the Court:

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62. Fortune Corporation v. Court of Appeals 229 SCRA 355, 365 (1994).

63. *See Fortune Corporation*, 229 SCRA at 362-63. *See also* 23 AM. JUR. 2D *Depositions and Discovery* § 1 (2018) (citing Hickman v. Taylor, 329 U.S. 495 (1947); Maddox v. Grauman, 265 S.W.2d 939 (Ky. 1954) (U.S.); & State ex rel. Daggett v. Gessaman, 34 Ohio St. 2d 55 (1973) (U.S.)).

64. Republic v. Sandiganbayan, 204 SCRA 212 (1991).

65. *Id.* at 223.

66. Fortune Corporation v. Court of Appeals, 229 SCRA 355 (1994).

67. Solidbank Corporation v. Gateway Electronics Corporation, 553 SCRA 256 (2008) (citing Rosseau v. Langley, 7 F.R.D. 170 (1945)). The Court stated that "[t]he modes of discovery are accorded a broad and liberal treatment." *Id. See also* 23 AM. JUR. 2D *Depositions and Discovery* § 3 (2018) (citing Herbert v. Lando, 441 U.S. 153 (1979); State ex rel. Pack v. West Tennessee Distributing Co., 430 S.W.2d 355 (Tenn. App. Ct. 1968) (U.S.); & Southeastern Fleet Leasing, Inc. v. Gentry, 416 S.W.2d 773 (Tenn. App. Ct. 1966) (U.S.)). Chief Justice Reynato S. Puno explains — "The liberalization of discovery and deposition rules in civil litigation highly satisfied the objective of enhancing the truthseeking process of litigation as all relevant evidence are immediately brought up front in the courts." People v. Webb, 312 SCRA 573, 597-98

(1) It is of great assistance in ascertaining the truth and in checking and preventing perjury. The reasons for this are [as follows]:

   (a) The witness (including a party) is examined while his [or her] memory is fresh;

   (b) The witness (including a party) is generally not coached in preparation for a pre-trial oral examination with the result that his [or her] testimony is likely to be more spontaneous. Where the examination is upon written interrogatories, however, it appears that some lawyers furnish the witness with copies of the interrogatories and thereby enable him [or her] to prepare his [or her] answers in advance[;]

   (c) A party or witness whose deposition has been taken at an early stage in the litigation cannot, at a later date, readily manufacture testimony in contradiction to his [or her] deposition; [and]

   (d) Testimony is preserved, so that if a witness unexpectedly dies or becomes unavailable at the trial, his [or her] deposition is available.

(2) It is an effective means of detecting and exposing false, fraudulent, and sham claims and defenses[;]

(3) It makes available in a simple, convenient, and often inexpensive way facts which otherwise could not have been proved, except with great difficulty and sometimes not at all[;]

(4) It educates the parties in advance of trial as to the real value of their claims and defenses, thereby encouraging settlements out of court[;]

(5) It expedites the disposal of litigation, saves the time of the courts, and clears the docket of many cases by settlements and dismissals which otherwise would have to be tried[;]

(1999) (J. Puno, concurring opinion). *See generally* Stephen N. Subrin, *Fishing Expeditons Allowed: The Historical Background of the 1938 Federal Discovery Rules*, 39 B.C. L. REV. 691 (1998) (explaining the American history of the discovery rules which served as the basis for the Philippine version).

(6) It safeguards against surprise at the trial, prevents delays, and narrows and simplifies the issues to be tried, thereby expediting the trial[; and]

(7) It facilitates both the preparation and trial of the cases.[68]

These underlying reasons for, and benefits of, discovery procedures have been reiterated in subsequent Supreme Court cases.[69] Likewise, legal scholars[70] and cases[71] in various jurisdictions have also held similar views as regards the *raison d'être* of discovery procedures.[72]

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68. *Fortune Corporation*, 229 SCRA at 366-67 (citing JAMES WM. MOORE, ET AL., 4 MOORE'S FEDERAL PRACTICE § 26.02 (2) (2d ed. 1961)).

69. *See, e.g.*, *Webb*, 312 SCRA at 585-86; Ayala Land, Inc. v. Tagle, 466 SCRA 521, 529 (2005); Jonathan Landoil International Co., Inc. v. Mangudadatu, 436 SCRA 559, 573-74 (2004); & Commissioner of Internal Revenue v. San Miguel Corporation, 815 SCRA 563, 584-85 (2017). *See also* Koh v. Intermediate Appellate Court, 144 SCRA 259, 265-66 (1986) ("This mutual discovery enables a party to discover the evidence of the adverse party and thus facilitates an amicable settlement or expedites the trial of the case. All the parties are required to lay their cards on the table so that justice can be rendered on the merits of the case.") & Ong v. Mazo, 431 SCRA 56 (2004) (citing *Koh*, 144 SCRA at 265-66).

70. David W. Louisell, Geoffrey C. Hazard, and Colin C. Tait observed that the primary justification of discovery

> is to enable the parties to obtain a more informed picture of the facts of the case than they could by reliance on their own unaided initiative. The premise is that fuller disclosure, which ultimately entails enforced disclosure, will permit each party to present at the trial the fullest and most favorable case that can be made on his [or her] behalf and will minimize the possibility that ignorance of relevant facts or the opponent's sudden presentation at trial of unanticipated evidence will obscure the true state of affairs out of which the controversy arose.

DAVID W. LOUISELL, ET AL., CASES AND MATERIALS ON PLEADING AND PROCEDURE: STATE AND FEDERAL 818 (1983).

71. As stated in the US case of *Puget Sound Nav. Co. v. Associated Oil Co.*, "in the interest of economy of time and expedition of the work of the greatly congested calendar of the [ ] courts, inspection should be encouraged before trial to the end that no delay for examination at the trial will be occasioned." Puget Sound Nav. Co. v. Associated Oil Co., 56 F.2d 605, 606 (W.D. Wash. 1932) (U.S.) (citing Massey v. United States, 46 F.2d 78, 79 (W.D. Wash. 1930) (U.S.)).

72. The Court, in *Republic v. Sandiganbayan*, citing the former Chief Justice Manuel V. Moran, stated that

Due to the nature and function of discovery devices, it has become an indispensable tool in pre-trial preparations.[73] Aside from providing the parties with a manner of gathering evidence, discovery procedures notably aid in the expeditious conduct of the trial, thus preventing protracted and expensive litigation, by limiting and defining the issues prior to the actual trial.[74] Pieces of information obtained from discovery procedures also provide courts with easily accessible pieces of evidence that thus enable them to arrive at a fair adjudication of the case based on a complete disclosure of pertinent facts.[75] The modes of discovery aid in achieving the primary aim of procedural law, which is "to facilitate the application of justice to the rival

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> [t]he experience in other jurisdictions has been that ample discovery before trial, under proper regulation, accomplished one of the most necessary ends of [modern] procedure[—] it not only eliminates unessential issues from trials[,] thereby shortening them considerably, but also requires parties to play the game with the cards on the table so that the possibility of fair settlement before trial is measurably increased.

Republic, 204 SCRA at 223 (1991) (citing 2 MANUEL V. MORAN, COMMENTS ON THE RULES OF COURT, at 5-6 (1979)).

73. The pre-trial briefs filed by the parties include, among others, "[a] manifestation of [the parties] having availed or their intention to avail themselves of discovery procedures[.]" RULES OF CIVIL PROCEDURE, rule 18, § 6. *See also Koh*, 144 SCRA at 266.

74. *See Republic*, 204 SCRA at 223 (citing 2 MORAN, *supra* note 72, at 5-6). *See also* 23 AM. JUR. 2D *Depositions and Discovery* § 1 (2018) (citing Southern Mill Creek Products Co. v. Delta Chemical Co., 203 So.2d 53 (Fla. Dist. Ct. App. 1967) (U.S.); Lakewood Trust Co. of Lakewood v. Fidelity & Deposit Co. of Md., 81 N.J. Super. 329 (N.J. Super. App. Div. 1963) (U.S.); Rios v. Donovan, 21 A.D.2d 409 (N.Y. App. Div. 1964) (U.S.); & Greyhound Corp. v. Superior Court, 56 Cal.2d 355 (Cal. 1961) (U.S.)).

75. The Rules of Court (Rules) sanctions the use of "any part[,] or all[,] of a deposition" during the "trial or upon the hearing of a motion of an interlocutory proceeding[,]" subject to certain conditions and qualifications. RULES OF CIVIL PROCEDURE, rule 23, § 4. Notably, depositions under the Rules may be availed of in a multitude of scenarios in various phases of litigation, e.g., in the report of the commissioner (Rule 32, Section 9), in summary judgments (Rule 35), in new trials conducted in the appellate courts (Rule 53, Section 2), and in support pending litigation (Rule 61). RULES OF CIVIL PROCEDURE, rule 32, § 9; rule 53, § 2; & rules 35 & 61. In one case, the Court even opined that "[a]ctions could very well be ended by summary judgments[,] [as governed by Rule 34,] on the basis of the results of discovery." *Republic*, 204 SCRA at 220-21 (citing 2 MORAN, *supra* note 72, at 5-6).

claims of contending parties [ ]"[76] as the judiciary, guided by the Rules, "[secures] a just, speedy[,] and inexpensive disposition of every action and proceeding."[77] Discovery devices "take the 'game' element out of trial preparation" while retaining its adversarial nature, thereby eliminating "the sporting theory of litigation [—] namely, surprise at the trial."[78] With discovery procedures as a viable option, trials no longer have to be conducted blindly.[79]

3. Modes of Discovery

The right of the parties[80] to avail of the modes of discovery "is founded in the justice of compelling one party to furnish to the other information in his [or her] possession which the other needs in sustaining his [or her] own case[.]"[81] Notably, "[t]his right can only be secured and fully respected by obtaining the exact and full truth touching all matters in issue in the action. If truth be hidden, injustice will be done."[82] In the Philippines, the right to

76. Samala v. Court of Appeals, 363 SCRA 535, 540 (2001) (citing Maunlad Savings and Loan Association v. Court of Appeals, 346 SCRA 35 (2000)). *See generally* Bergonia v. Court of Appeals (4th Division), 664 SCRA 322 (2012).

77. RULES OF CIVIL PROCEDURE, rule 1, § 6.

78. *Greyhound Corp.*, 56 Cal.2d at 376 (citing Chronicle Pub. Co. v. Superior Court, 54 Cal.2d 548, 561 (Cal. 1960) (U.S.)). *See also* 23 AM. JUR. 2D *Depositions and Discovery* § 1 (2018) (citing Doe v. Young, 664 F.3d 727 (8th Cir. 2011) (U.S.)).

79. *Fortune Corporation*, 229 SCRA at 363. The Court held that "[s]tated otherwise, the rules seek to make trial less a game of blind [person]'s buff and more a fair contest with the basic issues and facts disclosed to the fullest practicable extent." *Id.*

80. Any party, "whether a natural person or a corporation, has a right to demand therein the administration of exact justice." Hardenbergh v. Both, 247 Iowa 153, 161 (1955) (U.S.) (citing Hampton Clinic v. District Court, 231 Iowa 65, 65-71 (Iowa 1941) (U.S.) (citing Schroeder v. Chicago R.I. & Pac. R.R. Co., 47 Iowa 375, 379 (Iowa 1878) (U.S.))). *See also* RULES OF CIVIL PROCEDURE, rules 24-29.

81. *Hardenbergh*, 247 Iowa at 162 (citing Loft, Inc. v. Guth, 2 A2d. 225 (Del. Ch. 1938) (U.S.)).

82. *Hardenbergh*, 247 Iowa at 161 (citing *Hampton Clinic*, 231 Iowa at 65-71 (citing *Schroeder*, 47 Iowa at 379)).

discovery is primarily governed by Rules 24 to 29.[83] Under the Rules, the different modes of discovery[84] are as follows:

(1) Depositions under Rules 23 and 24[85] which "enable a party to obtain knowledge of material facts within the knowledge of the adverse party or of third parties through depositions;"[86]

(2) Written interrogatories to parties under Rule 25[87] "to obtain knowledge of material facts or admissions from the adverse party[;]"[88]

(3) Requests for admission by the adverse party under Rule 26[89] which "contemplate[ ] of interrogatories that would clarify and tend to shed light on the truth or falsity of the allegations in a pleading"[90] and which seek "to obtain admissions from the adverse party regarding the genuineness of relevant documents or relevant matters of fact[;]"[91]

(4) Production or inspection of documents or things under Rule 27[92] in order "to inspect relevant documents or objects and

83. *See* RULES OF CIVIL PROCEDURE, rules 24-29. *See also* Zepeda v. China Banking Corporation, 504 SCRA 126, 135 (2006) (citing *Ong*, 431 SCRA at 63) ("This Court has long encouraged the [ ] availment of the various modes or instruments of discovery as embodied in Rules 24 to 29 of the [Rules].").

84. *See generally* George S.D. Aquino & Katrina Monica C. Gaw, *Discovering Litigation Practice: A Reintroduction to the Modes of Discovery*, 61 ATENEO L.J. 454 (2016) & 1 RIANO, *supra* note 18, at 437-57. Parenthetically, as emphasized in *Republic*, the modes of discovery may be availed of "without leave of court, and generally, without court intervention." *Republic*, 204 SCRA at 225.

85. *See* RULES OF CIVIL PROCEDURE, rules 23 & 24.

86. *Koh*, 144 SCRA at 265.

87. *See* RULES OF CIVIL PROCEDURE, rule 25.

88. *Koh*, 144 SCRA at 265.

89. *See* RULES OF CIVIL PROCEDURE, rule 26. *See, e.g.*, Allied Agri-Business Development Co., Inc. v. Court of Appeals, 299 SCRA 680 (1998) (on admissions by adverse party).

90. Concrete Aggregates Corp v. CA, 266 SCRA 88, 92 (1997) ("Rule 26 does not refer to a mere reiteration of what has already been alleged in the pleadings.").

91. *Koh*, 144 SCRA at 265.

92. *See* RULES OF CIVIL PROCEDURE, rule 27.

lands or other property in the possession or control of the adverse party;"[93] and

(5) Physical and mental examination of persons under Rule 28[94] "to determine the physical or mental condition of a party when such is in controversy."[95]

The Court clarified that these modes of discovery are cumulative, rather than alternative or mutually exclusive.[96]

B. Sanctions Relating to Discovery

1. Upon the Failure to Avail of Discovery Procedures

Discovery is so crucial in trial preparations and in facilitating the speedy and fair disposition of cases that parties have been repeatedly encouraged by courts to take advantage of the various modes of discovery.[97] Though discovery is not mandatory,[98] the Rules nonetheless provide for sanctions

93. *Koh*, 144 SCRA at 265.

94. *See* RULES OF CIVIL PROCEDURE, rule 28.

95. *Koh*, 144 SCRA at 265.

96. *Fortune Corporation*, 229 SCRA at 373 (citing Richlin v. Sigma Design West, Ltd., 88 F.R.D. 634 (E.D. Cal. 1980) (U.S.)).

97. *See, e.g.*, *Hyatt Industrial Manufacturing Corp.*, 484 SCRA at 301 (citing A.M. No. 03-1-09-SC, ¶¶ I.A.1.2 & I.A.1.2 (e)). The Court observed that, "[i]ndeed, the importance of discovery procedures is well recognized by the Court. It approved A.M. No. 03-1-09-SC on [13 July 2004] which provided for the guidelines to be observed by trial court judges and clerks of court in the conduct of pre-trial and use of deposition-discovery measures." *Hyatt Industrial Manufacturing Corp.*, 484 SCRA at 301 & *Zepeda*, 504 SCRA at 135 (citing *Hyatt Industrial Manufacturing Corp.*, 484 SCRA at 301-02). *See* RE: PROPOSED RULE ON GUIDELINES TO BE OBSERVED BY TRIAL COURT JUDGES AND CLERKS OF COURT IN THE CONDUCT OF PRE-TRIAL AND USE OF DEPOSITION-DISCOVERY MEASURES, A.M. No. 03-1-09-SC, at para. 1 (July 13, 2004) ("The use of pre-trial and the deposition-discovery measures are undeniably important and vital components of case management in trial courts."). *See also* A.M. No. 03-1-09-SC, ¶ I.A.1.2.

98. The Court has held that "recourse to discovery procedures is not mandatory. If the parties do not choose to resort to such procedures, the pre-trial conference should be set pursuant to the mandatory [provision] of Section 1 of Rule 20 [of the 1964 Rules of Court,]" which has since been amended and renumbered to Section 2 of Rule 18 of the Rules governing at present. *Koh*, 144 SCRA at 266.

against a party who fails to avail of particular discovery procedures.[99] In particular, the Rules provide for consequences even up to the trial stage stemming from a party's failure to serve written interrogatories under Rule 25 as well as for his or her failure to file and serve requests for admission under Rule 26,[100] to wit —

> [Rule 25,] Section 6. Effect of failure to serve written interrogatories. — Unless thereafter allowed by the court for good cause shown and to prevent a failure of justice, a party not served with written interrogatories may not be compelled by the adverse party to give testimony in open court, or to give a deposition pending appeal.
>
> ...
>
> [Rule 26,] Section 5. Effect of failure to file and serve request for admission. — Unless otherwise allowed by the court for good cause shown and to prevent a failure of justice, a party who fails to file and serve a request for admission on the adverse party of material and relevant facts at issue which are, or ought to be, within the personal knowledge of the latter, shall not be permitted to present evidence on such facts.[101]

See RULES OF CIVIL PROCEDURE, rule 18, § 2. *Cf.* 1964 RULES OF CIVIL PROCEDURE, rule 20, § 1 (superseded 1997).

99. *See* 1 FLORENZ D. REGALADO, REMEDIAL LAW COMPENDIUM, at 367 (8th ed.). Pertinently, the Guidelines to be Observed by Trial Court Judges and Clerks of Court in the Conduct of Pre-Trial and Use of Deposition-Discovery Measures, also known as A.M. No. 03-1-09-SC, mandates that

> [w]ithin one day from receipt of the complaint[,]
>
> ...
>
> [t]he court shall issue an order requiring the parties to avail of interrogatories to parties under Rule 25 and request for admission by adverse party under Rule 26 or[,] at their discretion[,] make use of depositions under Rule 23 or other measures under Rules 27 and 28 within five days from the filing of the answer. A copy of the order shall be served upon the defendant together with the summons and upon the plaintiff.

A.M. No. 03-1-09-SC, ¶ I.A.1.2.

100. *Id.*

101. RULES OF CIVIL PROCEDURE, rule 25, § 6 & rule 26, § 5. *See, e.g.*, Sps. Vicente Afulugencia v. Metropolitan Bank & Trust Co., 715 SCRA 399 (2014) (explaining the purposes of Section 6, Rule 25 on written interrogatories). With regard to the two aforementioned provisions, former Supreme Court Associate Justice Florenz D. Regalado has clarified that "[t]he sanction adopted by the Rules is not one of compulsion in the sense that the party is being directly

2. Upon the Refusal to Comply with Discovery Procedures

On the other hand, with regard to a recalcitrant individual or party who refuses to comply with legitimate discovery procedures duly availed of by the opposing party, Rule 29 authorizes courts, based on their sound discretion,[102] to impose a wide array of sanctions, as outlined hereafter:

(1) For the refusal of a deponent[103] "to answer any question upon oral examination ... [or] any interrogatory submitted under Rule[s] 23 or 25[,]" the court, upon proper application by the proponent, may issue an order directing the said deponent to answer the pertinent question or interrogatory. [104] If the deponent still refuses, he or she may be cited in contempt "by the court of the place in which the deposition is being taken[.]"[105]

(2) For the refusal of a deponent to be sworn, he or she may also be cited in contempt of court. [106]

(3) For the refusal of an individual to "to obey an order [ ] under [Rule 29, Section 1] requiring him [or her] to answer designated questions, or an order under Rule 27 to produce [ ] document[s] or other thing[s] ...[,] or an order [ ] under Rule 28 requiring him [or her] to submit to a physical or mental examination," the court is authorized to "make such orders in regard to the refusal as are just[.]"[107]

In relation to the court being authorized to "make such orders in regard to the refusal as are just,"[108] these orders include, but are not limited to,[109] the following:

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compelled to avail of the discovery mechanics, but one of negation by depriving him [or her] of evidentiary sources which would otherwise have been accessible to him [or her]." 1 REGALADO, *supra* note 99, at 368.

102. *See generally* RULES OF CIVIL PROCEDURE, rule 29.

103. The deponent may be the opposing party or any person. RULES OF CIVIL PROCEDURE, rule 23, § 1; rule 24, § 1; & rule 29, § 1.

104. *Id.* rule 29, § 1.

105. *Id.* rule 29, § 2.

106. *Id.*

107. *Id.* rule 29, § 3.

108. *Id.*

(1) rendering the matters regarding the corresponding questions on the character or description of a thing, or the physical or mental condition of a party, "or any other designated facts" as established "for the purposes of the action in accordance with the claim of the party obtaining the [said] order;"[110]

(2) disallowing the disobedient party from "support[ing] or oppos[ing] designated claims or defenses[;]"[111]

(3) prohibiting the disobedient party "from introducing in evidence designated documents or things or items of testimony, or from introducing evidence of physical or mental condition;"[112]

(4) "striking out [the] pleadings or parts thereof[,]" to the prejudice of the disobedient party; [113]

(5) "staying further proceedings" until the disobedient party obeys the pertinent court order; [114]

(6) "*dismissing the action or proceeding or any part thereof*," to the prejudice of the disobedient party; [115]

(7) "*rendering a judgment by default* against the disobedient party;"[116]

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109. Capitol Hills Golf & Country Club v. Sanchez, 717 SCRA 294, 305-06 (2014) ("The enumeration of options given to the court under Section 3, Rule 29 of the Rules is not exclusive, as shown by the phrase 'among others.'").

110. RULES OF CIVIL PROCEDURE, rule 29, § 3 (a).

111. *Id.* § 3 (b).

112. *Id.*

113. *Id.* rule 29, § 3 (c).

114. *Id.*

115. *Id.* (emphasis supplied). *See, e.g.*, Arellano v. Court of First Instance of Sorsogon, Br. 1, 65 SCRA 46 (1975) (where the Court affirmed the dismissal of the case when the plaintiff failed to answer written interrogatories sent by the opposing party without any valid cause) & Jota v. Garcia, G.R. No. 185256 (Jan. 20, 2010) (citing Cason v. San Pedro, 9 SCRA 925, 932 (1963); *Arellano*, 65 SCRA at 64-66; Insular Life Assurance Co. Ltd. v. Court of Appeals, 238 SCRA 88, 92-93 (1994); Dela Torre v. Pepsi Cola Products Philippines, Inc., 298 SCRA 363, 375-76 (1998); & *Zepeda*, 504 SCRA at 134-35).

116. RULES OF CIVIL PROCEDURE, rule 29, § 3 (c) (emphasis supplied). It must be noted that "an application by the proponent to compel an answer" is a "requisite procedure" under Section 1 of Rule 29. Jaravata v. Karolus, 525 SCRA 239, 251 (2007). Furthermore,

(8) "*directing the arrest*" of the disobedient party, except as regards a party's refusal to obey "an order to submit to a physical or mental examination[; and]" [117]

(9) directing that the side of the disobedient party pay "reasonable expenses incurred by the other [party,]" which may include attorney's fees.[118]

In summary, if an individual refuses to submit to discovery despite a lawful court order, he or she runs the risk of not only being cited for contempt or of being arrested, but also of losing his or her case.[119] In view of these dire consequences for refusing to comply with the different modes of discovery, a party is practically left with no alternative other than to submit to the same despite the burden that these may impose.

While the Rules provide for consequences for a party's failure to utilize discovery procedures and for a person's refusal to comply therewith, the Rules, at the same time, penalize parties taking advantage of discovery in an abusive or unjust manner, as explained in the next Section.

C. Limitations on the Right of Discovery

The Rules have given courts wide discretion with regard to granting discovery procedures upon proper application as well as to imposing

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> [t]he [Court of Appeals] rightly held that the court a quo erred in rendering a judgment by default against the defendants for refusal or failure to answer written interrogatories, without first requiring an application by the proponent to compel an answer. This is the requisite procedure under Section 1 of Rule 29 of the 1997 Rules of Civil Procedure.

Id.

117. RULES OF CIVIL PROCEDURE, rule 29, § 3 (d) (emphasis supplied).

118. *Id.* rule 29, §§ 4 & 5. *See, e.g.*, *Zepeda*, 504 SCRA at 134. The Court said, "[c]learly[,] then, respondent bank should have filed a motion based on Section 5 and not Section 3 (c) of Rule 29" *Zepeda*, 504 SCRA at 134. The Rules, however, provide that no expenses or attorney's fees should be "imposed upon the Republic of the Philippines[.]" RULES OF CIVIL PROCEDURE, rule 29, § 6.

119. The Court in *Fortune Corporation*, through fomer Associate Justice Regalado, while enumerating these serious sanctions, further observed that "[i]t is true that to ensure that availment of the modes of discovery would be untrammeled and efficacious, Rule 29 imposes serious sanctions on the party who refuses to comply with or respond to the modes of discovery[.]" *Fortune Corporation*, 229 SCRA at 370.

sanctions upon uncooperative individuals.[120] This is further bolstered by the directive of the Court to use these discovery procedures liberally. However, though the expansive right to discovery involves the right to compel disclosure for the purpose of eliciting any relevant information, this right is not absolute. Limits exist precluding the court from indiscriminately and unjustly granting discovery requests.

Section 16 of Rule 23 prescribes several limitations *before* discovery by depositions on oral examination[121] is conducted and accordingly allows the issuance of "[o]rders for the protection of parties and deponents" —

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120. American Jurisprudence further discusses the discretionary nature of the power of courts in relation to discovery, to wit —

> Ordinarily, a discovery dispute is reviewed under an abuse-of-discretion standard. A trial court has broad discretion in handling pre[-]trial discovery, but it does not have the power to deny discovery into non[-]privileged, relevant matter. It may, however, control, limit, or prevent discovery that will not promote the administration of justice in the particular case. A federal judge should exercise appropriate control over the discovery process so as to further the just, speedy, and inexpensive determination of the action.
>
> An appellate court generally will not fault a trial court's judgment unless, in the totality of the circumstances, its rulings are seen to be a gross abuse of discretion resulting in fundamental unfairness in the trial of the case or affecting the substantial rights of the parties. On the other hand, appellate courts should not, in passing on orders granting or denying discovery, use the trial court's 'discretion' argument to defeat the liberal policies of the statute, and they should be careful to impose the burden of showing discretion or lack of it on the proper party.
>
> If a federal district court has properly interpreted the requirements of the statute governing the furnishing of depositions for use in a court of a foreign country, its decision whether or not to order discovery is reviewed only for abuse of discretion; thus, the appellate court must decide whether, as matter of law, the district court erred in its interpretation of the language of the statute and, if not, whether the district court's decision to grant discovery on the facts before it was in excess of its discretion. The trial court will be found to have abused its discretion only if there was no reasonable basis for its decision.

23 AM. JUR. 2D *Depositions and Discovery* § 5 (2018).

121. There are two classifications of depositions based on the manner these are conducted, namely, "depositions on oral examination and depositions upon written interrogatories[.]" 1 REGALADO, *supra* note 99, at 344. *See also* RULES

> Section 16. Orders for the protection of parties and deponents. [—] After notice is served for taking a deposition by oral examination, upon motion seasonably made by any party or by the person to be examined[,] and for good cause shown, the court in which the action is pending may make an order that the deposition shall not be taken, or that it may be taken only at some designated place other than that stated in the notice, or that it may be taken only on written interrogatories, or that certain matters shall not be inquired into, or that the scope of the examination shall be held with no one present except the parties to the action and their officers or counsel, or that after being sealed[,] the deposition shall be opened only by order of the court, or that *secret processes, developments, or research* need not be disclosed, or that the parties shall simultaneously file specified documents or information enclosed in sealed envelopes to be opened as directed by the court or the court may make any other order which justice requires to protect the party or witness from annoyance, embarrassment, or oppression.[122]

The Court has clarified that

> Section 16 of Rule 24 [of the 1964 Rules of Court (now belonging to Rule 23)] clearly states that it is only upon notice and for good cause shown that the court may order that the deposition shall not be taken. The matter of good cause is to be determined by the court in the exercise of judicial discretion. Good cause means a substantial reason — [ ] one that affords a legal excuse. Whether or not substantial reasons exist is for the court to determine[,] as there is no hard and fast rule for determining the question as to what is meant by the term 'for good cause shown.'[123]

Moreover, Section 16 grants courts the power to issue protective orders, subject to its discretion.[124] As elaborated by the Court,

> [this] provision includes a full range of protective orders, from designating the place of deposition, limiting those in attendance, to imposing that it be taken through written interrogatories. At the extreme end of this spectrum would be a court order that completely denies the right to take deposition.
>
> ...
>
> A plain reading of this provision shows that there are two [ ] requisites before a court may issue a protective order: (1) there must be notice; and (2) the order must be for good cause shown.[125]

OF CIVIL PROCEDURE, rule 23, § 1 ("[T]he testimony of any person ... may be taken ... by deposition upon oral examination or written interrogatories.").

122. RULES OF CIVIL PROCEDURE, rule 23, § 16 (emphasis supplied).

123. *Fortune Corporation*, 229 SCRA at 371.

124. Santamaria v. Cleary, 793 SCRA 459, 474-75 (2016).

Notably, a similarly-worded provision, Section 28 of Rule 23, governing depositions upon written interrogatories, making reference to Sections 15, 16, and 18 of the same rule, also authorizes the court to, among others, issue these protective orders prior to the taking of the deposition.[126]

The applicability of Section 16 of Rule 23 regarding depositions on oral examination extends to a similarly-worded provision, Section 28 of the same Rule, involving depositions upon written interrogatories as the latter likewise makes reference to the former.[127] Essentially, Sections 16 and 28 of Rule 23 allow the court to issue protective orders, among others, for both classes of depositions prior to the taking of such.[128] Accordingly, the determination of what kind of order to impose in accordance with this provision depends on the discretion of courts, which "must be exercised, not arbitrarily, capriciously[,] or oppressively, but in a reasonable manner and in consonance with the spirit of the law, to the end that its purpose may be attained."[129]

Similarly, to protect a party *during* the taking of the deposition, Section 18 of Rule 23 states that a court may, subject to its sound discretion and, for valid reasons, terminate or "limit the scope and manner of the taking of the deposition"[130] upon showing that an application for discovery is being

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125. *Id.* at 474 & 476.

126. RULES OF CIVIL PROCEDURE, rule 23, § 28. This provision states —

> Orders for the protection of parties and deponents. [—] After the service of the interrogatories and prior to the taking of the testimony of the deponent, the court in which the action is pending, on motion promptly made by a party or a deponent, and for good cause shown, may make any order specified in sections 15, 16[,] and 18 of this Rule[,] which is appropriate and just[,] or an order that the deposition shall not be taken before the officer designated in the notice[,] or that it shall not be taken except upon oral examination.

Id.

127. *See* RULES OF CIVIL PROCEDURE, rule 23, §§ 16 & 28.

128. *Id.*

129. *Santamaria*, 793 SCRA at 474-75 (citing *Fortune Corporation*, 229 SCRA at 368).

130. RULES OF CIVIL PROCEDURE, rule 23, § 18. *See also* Caguiat v. Torres, 30 SCRA 106, 110 (1969). In *Caguiat v. Torres*, the Court held —

> That the right of a party to take depositions as means of discovery is not exactly absolute is implicit in the provisions of the [Rules] cited by appellants themselves, [S]ections 16 and 18 of Rule 24 [of the 1964 Rules of Court (currently found in Rule 23 of the Rules)], which are

"conducted in bad faith or in such manner as unreasonably to annoy, embarrass, or oppress the deponent or party[.]"[131]

Section 2 of Rule 23, while acknowledging the authority of the court based on Sections 16 and 18 of the same Rule, adds that the examination of a deponent may be

> regarding any matter, *not privileged*, which is *relevant* to the subject of the pending action, whether relating to the claim or defense of any other party, including the existence, description, nature, custody, condition, and location of any books, documents, or other tangible things[,] and the identity and location of persons having knowledge of *relevant* facts.[132]

The Court expounds on this in *Republic*, observing that what is primarily involved is the

> discovery of every bit of information which may be useful in the preparation for trial, such as the identity and location of persons having knowledge of relevant facts; those relevant facts themselves; and the existence, description, nature, custody, condition, and location of any books, documents, or other tangible things.[133]

With regard to the other modes of discovery, the requirements of relevancy and non-privilege under Rule 23 relating to deposition in connection with various judicial pronouncements discussed heretofore remain highly applicable. This is due to the fact that these rules governing

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> precisely designed to protect parties and their witnesses, whenever in the opinion of the trial court, the move to take their depositions under the guise of discovery is actually intended to only annoy, embarrass[,] or oppress them.

Caguiat, 30 SCRA at 110.

131. RULES OF CIVIL PROCEDURE, rule 23, § 18. Commenting on a similarly-worded American provision, Stuart M. Israel observes that the rule implies that reasonably annoying, embarrassing, or oppressing an individual is acceptable in connection to discovery procedures as what is prohibited is conducting them unreasonably. He adds that "[t]his is probably recognition of the reality that[,] to some extent[,] every deposition is annoying, embarrassing, and oppressive." STUART M. ISRAEL, TAKING AND DEFENDING DEPOSITIONS 221 (2d ed. 2004). Similarly, the Court, in this jurisdiction, has held that "[i]nconvenience to the party whose deposition is to be taken is not a valid objection to the taking of his deposition." *Fortune Corporation*, 229 SCRA at 378 (citing Goldberg v. Raleigh, 28 F.Supp. 975 (D. Mass. 1939) (U.S.)).

132. RULES OF CIVIL PROCEDURE, rule 23, § 2 (emphasis supplied).

133. *Republic*, 204 SCRA at 224.

the other modes essentially embody similar limitations as those in Rule 23, albeit assimilated accordingly based on the nature of each mode of discovery.

For interrogatories to parties as a mode of discovery, Section 1 of Rule 25 states that facts to be elicited from adverse parties should be "material and relevant[,]"[134] under the "same conditions specified in [S]ection 1 of Rule 23[.]"[135] Furthermore, Section 5 of Rule 25 provides that "[i]nterrogatories may relate to any matters that can be inquired into under [S]ection 2 of Rule 23[,]" [136] which correspondingly provides that an examination may be regarding "any matter, not privileged[.]"[137] The party being served such written interrogatories may object to the same as provided for by Section 3 of Rule 25 when, for instance, the same involves an irrelevant or non-privileged matter.[138]

For admissions by an adverse party, another mode of discovery under Rule 26, a request for admission must contemplate "the genuineness of any *material* and *relevant* document described in and exhibited with the request or [ ] the truth of any *material* and *relevant* matter of fact set forth in the request," according to Section 1 of the said Rule.[139] Section 2 of this Rule also affords the requested party an opportunity to object to the request under valid grounds, e.g., pertaining to the limits of discovery.[140]

Meanwhile, for the production or inspection of documents or things as a mode of discovery, the sole section contained under Rule 27 also requires that the documents or things sought should be material and not privileged.[141]

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134. RULES OF CIVIL PROCEDURE, rule 25, § 1.

135. *Id.*

136. *Id.* rule 25, § 5.

137. *Id.* rule 25, § 2.

138. *Id.* rule 25, § 3.

139. *Id.* rule 25, § 1 (emphases supplied).

140. RULES OF CIVIL PROCEDURE, rule 26, § 2.

141. Section 1 of Rule 27 states —

> Section 1. Motion for production or inspection; order. [—] Upon motion of any party showing good cause therefor, the court in which an action is pending may (a) order any party to produce and permit the inspection and copying or photographing, by or on behalf of the moving party, of any designated documents, papers, books, accounts, letters, photographs, objects[,] or tangible things, *not privileged*, which constitute or contain evidence *material* to any matter involved in the action and which are in his [or her] possession, custody[,] or control; or (b) order any party or permit entry upon designated land or other

Through a cursory reading of this Rule, the Supreme Court has laid down the requirements, pursuant to Section 1 of Rule 27, for a party to avail of this mode of discovery, to wit:

(1) The party must file a motion for the production or inspection of documents or things, showing good cause therefor;

(2) Notice of the motion must be served to all other parties of the case;

(3) The motion must designate the documents, papers, books, accounts, letters, photographs, objects[,] or tangible things which the party wishes to be produced and inspected;

(4) Such documents, etc., are *not privileged*;

(5) Such documents, etc., constitute or contain evidence *material* to any matter involved in the action[;] and

(6) Such documents, etc., are in the possession, custody[,] or control of the other party.[142]

The order issued by the court following the motion of a party to avail of this mode of discovery under Rule 27 "shall specify the time, place[,] and manner of making the inspection and taking copies and photographs, and may prescribe such terms and conditions as are just."[143]

As for the physical and mental examination of persons, the relevancy requirement is implied in Section 1 of Rule 28.[144] Section 1 provides that this mode of discovery is only applicable for "an action in which the mental

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> property in his [or her] possession or control for the purpose of inspecting, measuring, surveying, or photographing the property or any designated *relevant* object or operation thereon. The order shall specify the time, place[,] and manner of making the inspection and taking copies and photographs, and may prescribe such terms and conditions as are just.
>
> *Id.* rule 27, § 1 (emphases supplied).

142. *Solidbank Corporation*, 553 SCRA at 267-68 (citing *Security Bank Corporation*, 323 SCRA at 341-42) (emphases supplied). Moreover, the Court has explained that this Rule "permits 'fishing' for evidence, the only limitation being that the documents, papers, etc., sought to be produced are not privileged, that they are in the possession of the party ordered to produce them[,] and that they are material to any matter involved in the action." *Solidbank Corporation*, 553 SCRA at 267 (citing 1 REGALADO, *supra* note 99, at 650).

143. RULES OF CIVIL PROCEDURE, rule 27, § 1.

144. *See* RULES OF CIVIL PROCEDURE, rule 28, § 1.

or physical condition of a party is in controversy,"[145] as obviously these are the only cases where such examinations are relevant. With regard to privilege, however, Section 4 of Rule 28 provides that the examined party "waives any privilege he [or she] may have in that action or any other involving the same controversy, regarding the testimony of every other person who has examined or may thereafter examine him [or her] in respect of the same mental or physical examination[,]" when he or she "request[s] and obtain[s] a report of the examination so ordered or [when he or she] take[s] the deposition of the examiner[.]"[146]

Through the years, the relevancy or materiality of the information as well as its non-privileged character are requirements repeatedly emphasized by the Court as it stressed that the expansive right to discovery may be limited or curtailed.[147] This is reaffirmed in *Republic* in relation to depositions and interrogatories —

> [T]he field of inquiry that may be covered by depositions or interrogatories is as broad as when the interrogated party is called as witness to testify orally at trial. The inquiry extends to all facts [that] are *relevant*, whether they be ultimate or evidentiary, excepting only those matters which are *privileged*. The objective is as much to give every party the fullest possible information of all the relevant facts before the trial as to obtain evidence for use upon said trial. The principle is reflected in Section 2, Rule 24 (governing depositions) which generally allows the examination of a deponent[.][148]

Meanwhile, as to Rule 27, on the production or inspection of things, it has been held that "[t]he test to be applied by the trial judge in determining the relevancy of documents and the sufficiency of their description is one of reasonableness and practicability."[149]

In sum, as the Court puts it, "the liberty of a party to make discovery is well nigh unrestricted if the matters inquired into are otherwise *relevant* and *not privileged*, and the inquiry is made in good faith and within the bounds of

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145. *Id.*

146. RULES OF CIVIL PROCEDURE, rule 28, § 4.

147. *Republic*, 204 SCRA at 224 (citing JOSÉ FERIA, CIVIL PROCEDURE 436 (1969 ed.)); *Jonathan Landoil*, 436 SCRA at 573-75; & San Luis v. Rojas, 547 SCRA 345, 364-65 (2008).

148. *Fortune Corporation*, 229 SCRA at 365 (citing *Republic*, 204 SCRA at 223-24).

149. Eagleridge Development v. Camercon 695 SCRA 714, 724 (2013) (citing Lime Corporation of the Philippines v. Moran, 59 Phil. 175, 180 (1933)).

the law."[150] Furthermore, *Fortune Corporation* expounds on these limitations —

> [T]here are concomitant limitations to discovery, even when permitted to be undertaken without leave of court and without judicial intervention. As indicated by the Rules, limitations inevitably arise when it can be shown that the examination is being conducted in bad faith or in such a manner as to annoy, embarrass, or oppress the person subject to the inquiry. Also, further limitations come into existence when the inquiry touches upon the *irrelevant* or encroaches upon the recognized domains of *privilege*.[151]

IV. DISCOVERY OF TRADE SECRETS

A. Nature of Trade Secrets

As discussed in the preceding Part, Section 16 of Rule 23, in relation to depositions by oral examination, explicitly recognizes the qualified privilege afforded to trade secrets — "the court in which the action is pending may make an order ... *that secret processes, developments, or research need not be disclosed*[.]"[152] In addition, as explained previously, other provisions of the Rules also require that the information sought to be subject to discovery procedures be of non-privileged character.

The privileged character of trade secrets has received express recognition in jurisprudence, most prominently in *Air Philippines Corporation*, which squarely tackled the concept of trade secrets.[153] The ruling in this particular case, consistent with the previous cases of *Garcia v. Board of Investments*[154] and *Chavez v. Presidential Commission on Good Government*,[155] held that there is no absolute privilege extended to trade secrets.[156] There is, on the contrary, a qualified evidentiary privilege afforded to the same.[157] As observed by John Henry Wigmore, an American jurist,

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150. *Republic*, 204 SCRA at 226 (emphasis supplied). *See also Fortune Corporation*, 229 SCRA at 371.

151. *Fortune Corporation*, 229 SCRA at 371 (emphases supplied).

152. RULES OF CIVIL PROCEDURE, rule 23, § 16 (emphases supplied).

153. *Air Philippines Corporation*, 540 SCRA.

154. Garcia v. Board of Investments, 177 SCRA 374 (1989).

155. Chavez v. Presidential Commission on Good Government, 299 SCRA 744 (1998).

156. *See Air Philippines Corporation*, 540 SCRA at 228-31 & 244.

157. *See generally Air Philippines Corporation*, 540 SCRA.

> there ought to be and there is, *in some degree*, a recognition of the privilege not to disclose that class of facts which, for lack of a better term, have come to be known as 'trade secrets' ... . Courts are apt not to require disclosure except in such cases and to such extent as may appear to be indispensable for the ascertainment of truth.[158]

The recognition of trade secrets as privileged also has practical economic underpinnings — to deny legal protection against unwarranted disclosure of trade secrets would result in the demoralization of the business community as the advantage afforded to them by trade secrets may be consequently lost due to their disclosure to the public or to business competitors.[159] Likewise, "[t]he public interest in competition has not been thought sufficient to override the accepted business ethic that certain types of information should be protected as confidential as against a user who has not independently arrived at the information."[160] In short, courts may still compel disclosure of trade secrets "where it is indispensable for doing justice[,]" as such consideration justifiably overrides the interest of keeping trade secrets confidential.[161]

In sum, the provisions of the Rules provide that discovery must involve information that is non-privileged in character; however, such is not an absolute rule as per *Air Philippines Corporation*. Given this qualified privilege accorded to trade secrets, courts are extremely cautious in allowing the discovery of such matters.[162]

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158. JOHN HENRY WIGMORE, A TREATIES ON THE SYSTEM OF EVIDENCE IN TRIALS AT COMMON LAW INCLUDING THE STATUTES AND JUDICIAL DECISIONS OF ALL JURISDICTIONS OF THE UNITED STATES 3001-02, § 2212 (1905) (emphasis supplied).

159. *See* WIGMORE, *supra* note 158, at 3001, § 2212. As stated by John Henry Wigmore —

> In a day of prolific industrial invention and active economic competition, it may be of extraordinary consequence to the master of an industry that his [or her] process be kept unknown from his [or her] competitors, and that the duty of a witness be not allowed to become by indirection the means of ruining an honest and profitable enterprise.

WIGMORE, *supra* note 158, at 3001, § 2212.

160. *Protection and Use of Trade Secrets*, 64 HARV. L. REV. 976, 976 (1951).

161. *Air Philippines Corporation*, 540 SCRA at 244 (citing FRANCISCO, *supra* note 52, at 171-73).

162. *See generally Air Philippines Corporation*, 540 SCRA.

B. The Primordial Conflict

Given the nature of trade secret litigation, the modes of discovery perceivably utilized by the parties would commonly be deposition testimony, interrogatory answers, and requests for production.[163] With regard to these modes, the Rules provide for an ample amount of factors subject to judicial discretion and determination, e.g., regulating the manner of conducting the procedure, limiting of the scope of such discovery request, and determining the materiality of the request. To allow discovery on matters that are properly considered as trade secrets can cause incalculable damage to a company that has arduously labored to keep its processes, formulas, and designs secret from its competitors.

Whenever there is an attempt to subject the trade secrets to discovery proceedings, Trade secret owners may resist attempts to subject their trade secrets to discovery proceedings by invoking the privileged nature of such information and, as such, their trade secrets are supposed to be excluded from the realm of discovery proceedings. The applicant of the discovery request, on the other hand, counters by invoking his or her right to avail of the different modes of discovery provided in the Rules to elicit all relevant information on the theory that he or she has a right to secure from the other party, and even compel said party to reveal, all relevant information that is indispensable to his or her case in the overriding interest of justice.

The inevitable outcome between the opposing contentions of the parties is a conflict between the right of a party litigant to access all information that might be necessary to his or her cause of action or defense and which may be within the exclusive knowledge of the adverse party, and the right of the adverse party to resist discovery when the subject of the same concerns matters that are privileged and confidential, such as the trade secrets of his or her business.

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163. *See, e.g.*, Casey, *supra* note 20, at 194; Laurie Kratky Dore, *Secrecy by Consent: The Use and Limits of Confidentiality in the Pursuit of Settlement*, 74 NOTRE DAME L. REV. 283, 325 (1999); Alan B. Morrison, *Protective Orders, Plaintiffs, Defendants and the Public Interest in Disclosure; Where Does the Balance Lie?*, 24 U. RICH. L. REV. 109, 109-12 (1989); & Benjamin K. Riley, *Three Pitfalls for Trade Secret Plaintiffs*, BUS. TORTS J., Volume No. 15, Issue No. 3, Spring/Summer 2008, at 15. *See also* William Hopwood, et al., *Fighting Discovery Abuse in Litigation*, 6 J. FORENSIC & INVESTIGATIVE ACCOUNTING 52, 57-67 (2014); William H. Speck, *The Use of Discovery in United States District Courts*, 60 YALE L.J. 1132, 1132-35 (1951); & Lisa M. Arent, et al., *Ediscovery: Preserving, Requesting & Producing Electronic Information*, 19 SANTA CLARA HIGH TECH. L.J. 131, 169 (2002).

On one hand, as can be gleaned from *Air Philippines Corporation*, courts generally deny discovery whenever it concerns trade secrets that have been held as privileged information on the ground that unwarranted or unnecessary disclosure of a party litigant's trade secrets may cause irreparable damage to the latter's business or commercial interest.[164] The denial of discovery, however, inevitably results in denying a party's access to a potentially abundant source of information that might be relevant, or even crucial, to his or her case. It may also have the effect of weakening his or her claim, as essential facts needed to bolster one's cause cannot be alleged with certainty due to lack of sufficient knowledge or information over the same. Neither can he or she assert with certainty that the other party has done him or her a wrong in the absence of concrete proof to that effect.

On the other hand, insofar as the party possessing or holding the trade secret is concerned, once the adverse party seeks to obtain information by resorting to the modes of discovery, the party with the trade secret must invoke that the same is privileged information and it is incumbent upon him or her to adequately show and convince the court that there exists "*substantial factual basis*" that can "*withstand judicial scrutiny*"[165] to prove that such information indeed is a trade secret. If the court rules otherwise — that the said information is not a trade secret[166] — and that it does not fall under any of the other recognized categories of privileged information, the court has no reason to deny a discovery request when the same meets the other requirements provided for by the Rules, as denying the same would undermine the judiciary's policy of promoting liberal discovery procedures.[167]

C. Role of Courts in Resolving the Conflict

Courts undeniably have an important duty in trade secret litigation as they "must weigh and balance the parties' rights, including constitutional property

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164. *See generally Air Philippines Corporation*, 540 SCRA.

165. *Air Philippines Corporation*, 540 SCRA at 230-31 (citing *Cocoland Development Corp.*, 259 SCRA at 60).

166. *See generally* Robert Unikel, *Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841 (1998).

167. Generally, for all modes of discovery, there are four requirements, namely: (a) the information sought is not privileged; (b) the information sought is material to the action; (c) it is made in good faith; and (d) it is not for the purpose of annoying, embarrassing, or harassing the other party. *See generally* RULES OF CIVIL PROCEDURE, rule 23.

rights of the trade secret holder, against the well-founded policy of full discovery."[168] Courts are in the best position to discern and weigh the parties' interests.[169] Wigmore concisely describes the court's role in resolving the conflicting interests of the parties in this wise —

> [W]here the nature of the discovery required is such that the giving of it may be prejudicial to the defendant, the [c]ourt takes into consideration the special circumstances of the case, and whilst, on one hand, it takes care that the plaintiff obtains all the discovery which can be of use to him [or her], on the other, it is bound to protect the defendant against undue inquisition into his [or her] affairs.[170]

Likewise, Melvin F. Jager, a recognized authority in the field of trade secret protection,[171] observed that the "trilogy of public policies" behind trade secret protection are: "(1) the maintenance of commercial morality; (2) the encouragement of invention and innovation; and (3) the protection of

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168. Peter F. Daniel, *Protecting Trade Secrets From Discovery*, 30 TORT & INS. L.J. 1033, 1042 (1995).

169. Westinghouse Elec. Corp. v. Newman & Holtzinger, 39 Cal.App.4th 1194, 1208 (Cal. Ct. App. 1995) (U.S.). In this case, an appellate court of California observed that

> there are important public policy reasons for placing decisions about information disclosure in the hands of the trial court rather than the parties, once litigation has commenced.
>
> [ ] The state has two substantial interests in regulating pre[-]trial discovery: one is to facilitate the search for truth and promote justice ...; the other is to protect the legitimate privacy interests of the litigants and third parties. ... The interest in truth and justice is promoted by allowing liberal discovery of information in the possession of the opposing party. ... The interest in privacy is promoted by restricting the procurement or dissemination of information from the opposing party upon a showing of 'good cause[.'] ... As [the court later elaborated in the case], '[t]he trial court is in the best position to weigh fairly the competing needs and interests of parties affected by discovery.'

Id. (citing *Hickman*, 329 U.S. at 507; Seattle Times Co. v. Rhinehart 467 U.S. 20, 34-36 (1984); Fed. Rules Civ. Proc. rule 26 (c); CODE CIV. PROC., § 2031 (e); & *Greyhound Corp.*, 56 Cal.2d at 377).

170. WIGMORE, *supra* note 158, at 3002, § 2212 (1905).

171. Harry Wingo, *Dumpster Diving and the Ethical Blindspot of Trade Secret Law*, 16 YALE L. & POL'Y REV. 195, 195 (1997) (citing RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39, at 438).

the fundamental right of privacy of the trade[ ]secret owner."[172] In view of the nature of factors determining the availability of the relief of discovery in cases where there is a danger of disclosure of the trade secrets, the granting or withholding of the relief is, to a certain degree, discretionary with the court passing upon the motion.[173] The discretion of the judge should not, however, be exercised arbitrarily, capriciously, or whimsically.[174]

When deciding whether a request comes within the discovery rules, courts should not solely bind themselves to the declared purposes for which a party seeks information, as courts should be vigilant of the possible motives for such request.[175] Thus, an application for discovery should be denied when a party's purpose in seeking discovery is actually to expose trade secrets, to the prejudice of the trade secret owner. In the first place, "[c]ourts should not become a vehicle for such questionable business practices."[176] Discovery should also be denied when the same is actually intended to

172. Wingo, *supra* note 171, at 195 (citing 1 MELVIN F. JAGER, TRADE SECRETS LAW § 1.05, at 1-15 (1997)).

173. *See Air Philippines Corporation*, 540 SCRA.

174. Discretion is defined as

> the power exercised by courts to determine questions arising in the trial of a cause to which no rule of law is applicable, but which from their nature and [the] circumstances of the case, are controlled by the personal judgment of the court, or the judgment of the court uncontrolled by fixed rules of law ... When the law does not provide a rule or norm for the court to follow in deciding a question submitted to it, but leaves it to the court to determine it in one way or another at his or her discretion, the judge is not absolutely free to act at his or her pleasure or will or arbitrarily. He [or she] must decide the question, not in accordance with law[,] for there is none, but in conformity with justice, reason[,] and equity, in view of the circumstances of the case. Otherwise[,] the court or judge would abuse his [or her] discretion.

Araneta, Inc. v. Rodas, 81 Phil. 506, 508-09 (1948) (citing JOHN BOUVIER, BOUVIER'S LAW DICTIONARY AND CONCISE ENCYCLOPEDIA 884 (8th ed. 1914) & Hodges v. Barrios and Redfern, 80 Phil. 751 (1948)).

175. Kyle J. Mendenhall, *Can You Keep a Secret? The Court's Role in Protecting Trade Secrets and Other Confidential Business Information from Disclosure in Litigation*, 62 DRAKE L. REV. 885, 910 (2014).

176. *Id.* (citing United States v. McDougal, 103 F.3d 651, 658 (8th Cir. 1996) (U.S.)).

merely delay the case, or frustrate the ends of justice.[177] Granting the same would run counter to the very purpose of discovery proceedings.

It is incumbent that the judge, in deciding whether or not to allow discovery, properly exercises his or her discretion. An order allowing or refusing to allow discovery is "generally held ... not appealable ... [for the reason that it is merely] interlocutory and not final" in character; hence, there is that imperative need for the judge to rule judiciously at the first instance.[178] In the event that the judge decides to allow the discovery, trade secret owners are faced with a dilemma as to how to maintain the confidentiality of their trade secrets — from the adverse party (especially when the same is his or her competitor) and from the public.

D. Dilemma of Trade Secret Owners

If the proponent of the discovery request succeeds in convincing the court of the necessity of disclosing the trade secret, lawful orders of the court would subsequently direct the trade secret owner to disclose the same. In this case, the trade secret owner is confronted with two options: (1) to disclose the trade secret, risking its confidentiality in the process, or (2) to opt not to divulge the trade secret and face the risk of being subjected to the sanctions under Rule 29. Thus, the trade secret owner who therefore elects not to reveal his or her trade secret must be prepared to accept the heightened possibility of losing his or her case and thereby be subjected to pecuniary liability as a result of the same, although with the consolation of having maintained the confidentiality of his or her secret processes or formulas. Faced with this dilemma, trade secret owners are inclined to seek and consider alternative remedies in order to protect their interests.

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177. Peñoso v. Dona, 520 SCRA 232, 241 (2007) (citing Public Estates Authority v. Caoibes, Jr., 312 SCRA 767, 770 (1999)) ("Rules of procedure being designed to facilitate the attainment of justice, their rigid application resulting in technicalities that tend to delay or frustrate rather than promote substantial justice[ ] must always be avoided.").

178. Brown v. Saint Paul City Ry. Co., 241 Minn. 15, 29 (1954) (U.S.) (citing Apex Hosiery Co. v. Leader, 102 F.2d 702 (3d Cir. CA 1939) (U.S.); O'Malley v. Chrysler Corp., 160 F.2d 35 (7th Cir. CA 1947) (U.S.); Zalatuka v. Metropolitan Life Ins., Co., 108 F.2d 405 (7th Cir. CA 1939) (U.S.); National Nut Co. of California v. Kelling Nut Co. et al., 134 F.2d 532 (7th Cir. CA 1943) (U.S.); & R. D. Goldberg Theatre Corp. v. Tri-States Theatre Corp. et al., 119 F.Supp. 521 (Ne Dist. Ct. 1944) (U.S.)). *See also* Biñan Rural Bank v. Carlos, 757 SCRA 459, 462-63 (2015) ("An order ... is interlocutory as it leaves something to be done by the court before the case is finally decided on the merits.").

V. ALTERNATIVE REMEDIES OF TRADE SECRET OWNERS

A. Amicable Settlements: A Risk-Averse Alternative

The most logical remedy of the trade secret owner who is against disclosure of his or her trade secret is to prevent the trial and, as a consequence, any pre-trial discovery by agreeing to extrajudicially settle[179] the case. [180] This is indubitably under the assumption that the adverse party consents to such extrajudicial settlement. This, however, is the least advisable mode of protecting a trade secret from disclosure because the owner of the same renders himself or herself susceptible to an avalanche of legal claims once it becomes publicly known that he or she would rather settle than run the risk of going to trial and be compelled to disclose such trade secrets.[181]

Although agreeing to settle has its obvious disadvantages, still, in certain instances, it may work to a party's advantage. This holds true especially when the public is, as of yet, unaware of the claim against the company and, as such, the parties can settle the case surreptitiously with the agreement that the settlement and the nature of the case should remain confidential.[182]

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179. RULES OF CIVIL PROCEDURE, rule 18, §§ 2 (a), 4, & 6 (a); rule 48, § 1; & rule 70, § 9 (1). *See also* 1 RIANO, *supra* note 18, at 434-36.

180. In *Republic*, the Court, borrowing the words of former Chief Justice Moran, explained that

> [t]he experience in other jurisdictions has been that ample discovery before trial, under proper regulation, accomplished one of the most necessary ends of [modern] procedure[—] it not only eliminates unessential issues from trial[,] thereby shortening them considerably, but also requires parties to play the game with the cards on the table so that *the possibility of fair settlement before trial is measurably increased.*

Republic, 204 SCRA at 223 (citing 2 MORAN, *supra* note 72, at 5-6) (emphasis supplied). *See generally* Stephen McG. Bundy, *The Policy in Favor of Settlement in an Adversary System*, 44 HASTINGS L.J. 1 (1992).

181. Alison Lothes notes that, "if the defendant establishes a reputation for settling, [he or] she may encourage rogue plaintiffs with meritless claims to attempt to extract settlement." Alison Lothes, *Quality, Not Quantity: An Analysis of Confidential Settlements and Litigants' Economic Incentives*, 154 UNIV. PA. L. REV. 433, 456 (2005).

182. *See* Richard Zitrin, *The Judicial Function: Justice Between the Parties, or A Broader Public Interest?*, 32 HOFSTRA L. REV. 1565, 1565-66 (2004). In a US case involving defective Bridgestone/Firestone tires, which led to the death of a victim, the lawyer of the mother of a victim was described to have "defended secretizing the settlement, while acknowledging others may have died later as a consequence." *Id.* at 1566. *See generally* Christopher R. Drahozal & Laura J.

Furthermore, these settlements are, in most cases, "conditioned upon confidentiality agreements and orders that prohibit disclosure of the terms and amount of the compromise or the facts upon which they are premised."[183]

In product-liability cases, manufacturers would normally opt for amicable settlements rather than go to trial and run the risk of being compelled to disclose their manufacturing processes or formulas which they keep secret.[184] By proceeding with the trial, they not only subject themselves to the risk of losing the confidentiality of their trade secrets, and thereby lose their competitive advantage, but also of an equally greater risk of being exposed to numerous lawsuits in the event that it is discovered and publicly disclosed that their secrets are detrimental to public health and are responsible for numerous injuries to consumers.[185] Trade secret owners normally find it financially sound to settle a certain claim at the onset and thereby incur liability to a certain limited extent rather than run the risk of going to trial.[186]

What is highly condemnable with the practice of entering into amicable settlements is that manufacturers are able to prevent disclosure to the public of the hazards posed by their trade secrets by binding the other party to maintain the confidentiality of the settlement and the nature of the case.[187]

Hines, *Secret Settlement Restrictions and Unintended Consequences*, 54 U. KAN. L. REV. 1457 (2006) & Erik S. Knutsen, *Keeping Settlements Secret*, 37 FLA. STATE U. L. REV. 945 (2010).

183. Dore, *supra* note 163, at 285.

184. *See, e.g.*, W. Kip Viscusi, *Product Liability Litigation with Risk Aversion*, 17 J. LEGAL STUD. 101, 102 (1988).

185. *See generally* Robert Timothy Reagan, *The Hunt for Sealed Settlement Agreements*, 81 CHI.-KENT. L. REV. 439, 439-41 (2006).

186. *See* Dore, *supra* note 163, at 290-92.

187. Drahozal & Hines, *supra* note 182, at 1472-73 & Lothes, *supra* note 181, at 441. Lothes posits that "confidentiality provisions exacerbate the underlying problem of diverging costs and benefits when the defendant is willing to pay more because the information would expose [him or] her to even greater liability." Lothes, *supra* note 181, at 441.

B. Patents: A Fresh Alternative

Given that trade secret owners are "anxious for alternative methods for avoiding dissemination of materials provided through discovery[,]"[188] they may eliminate the possibility of having to disclose their secrets by applying for a patent which is duly afforded protection under the law.[189] The IP Code provides for the requirements of patentability, to wit — "Any technical solution of a problem in any field of human activity which is new, involves an inventive step[,] and is industrially applicable shall be [p]atentable. It may be, or may relate to, a product, or process, or an improvement of any of the foregoing."[190]

In addition to defining the characteristics of a patent, the IP Code also specifies what inventions cannot be patentable.[191] Thus, as long as the

188. Richard L. Marcus, *The Discovery Confidentiality Controversy*, 1991 U. ILL. L. REV. 457, 466 (1991) (citing Robert J. Jacobson, *Protecting Discovery by Copyright*, 71 J. PAT. & TRADEMARK OFF. SOC'Y. 483 (1989); Andrew Blum, *Drug Maker Copyrights Documents*, NAT'L. L.J., Feb. 11, 1991, at 3, col. 3; & Andrew Blum, *Copyright Used to Shield Discovery*, NAT'L L.J., Mar. 28, 1988, at 3, col. 1).

189. *See generally* Daniel C. Munson, *The Patent-Trade Secret Decision: An Industrial Perspective*, 78 J. PAT. & TRADEMARK OFF. SOC'Y. 689 (1996) & David D. Friedman, et al., *Some Economics of Trade Secret Law*, 5 J. ECON. PERSPECT. 61, 62-66 (1991).

190. INTELL. PROP. CODE, § 21. *See also* INTELL. PROP. CODE, §§ 23 (on the novelty requirement), 24 (on prior art), 26 (on the inventive step requirement), & 27 (on the industrial applicability requirement).

191. *See* INTELL. PROP. CODE, § 22 (as amended). This provision was last updated by Republic Act No. 9502, also known as the Universally Accessible Cheaper and Quality Medicines Act of 2008. Section 22 of the IP Code, as amended, provides —

> The following shall be excluded from patent protection:
>
> (1) Discoveries, scientific theories[,] and mathematical methods, and[,] in the case of drugs and medicines, the mere discovery of a new form or new property of a known substance which does not result in the enhancement of the known efficacy of that substance, or the mere discovery of any new property or new use for a known substance, or the mere use of a known process[,] unless such known process results in a new product that employs at least one new reactant.
>
> For the purpose of this clause, salts, esters, ethers, polymorphs, metabolites, pure form, particle size, isomers, mixtures of isomers, complexes, combinations, and other derivatives of a known

applicant complies with all the requirements for patentability, there is no justification for the arbitrary denial of a patent. Moreover, a patentable information or process, from the time the patent application is submitted and pending, and prior to its issuance, can be considered a trade secret, provided that the "patent application itself is not published by the patent office. The patented process or device is no longer a trade secret once the application is published or the patent is issued, because publication of the application or patent makes the process publicly available for all to see."[192]

Scholars have held the view that, "[t]raditionally, trade secrecy and patent rights have been considered mutually exclusive."[193] Indeed, there are several differences between trade secrets and patents — both having their fair share of advantages and disadvantages.[194] The most significant advantage of

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substance shall be considered to be the same substance, unless they differ significantly in properties with regard to efficacy;

(2) Schemes, rules[,] and methods of performing mental acts, playing games[,] or doing business, and programs for computers;

(3) Methods for treatment of the human or animal body by surgery or therapy and diagnostic methods practiced on the human or animal body. This provision shall not apply to products and composition for use in any of these methods;

(4) Plant varieties or animal breeds or essentially biological process for the production of plants or animals. This provision shall not apply to micro-organisms and non-biological and microbiological processes.

Provisions under this subsection shall not preclude Congress to consider the enactment of a law providing [*sui generis*] protection of plant varieties and animal breeds and a system of community intellectual rights protection[;]

(5) Aesthetic creations; and

(6) Anything which is contrary to public order or morality.

INTELL. PROP. CODE, § 22.

192. CARL ROPER, TRADE SECRET THEFT, INDUSTRIAL ESPIONAGE, AND THE CHINA THREAT 147 (2014).

193. Brian J. Love & Christopher B. Seaman, *Best Mode Trade Secrets*, 15 YALE J. L. & TECH. 1, 3 (2012) (citing Michael Risch, *Trade Secret Law and Information Development Incentives*, *in* THE LAW AND THEORY OF TRADE SECRETS: A HANDBOOK OF CONTEMPORARY RESEARCH 167-68 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2009).

194. *See generally* VICKIE L. HENRY & CLAIRE LAPORTE, TRADE SECRETS: A GUIDEBOOK FOR TECHNICAL AND BUSINESS PROFESSIONALS INVOLVED IN LEGALLY PROTECTING PRODUCTS, TECHNOLOGIES AND SERVICES 10 (2009) (showing a table comparing trade secrets and patents) & J. Jonas Anderson, *Secret*

patent protection is that it covers all potential infringers. The trade secret owner, now a patent owner, acquires a cause of action[195] under the law to sue a person guilty of infringing his or her patented invention. On the other hand, one notable shortcoming of patent protection lies in the fact that not all trade secrets are patentable.[196] In this regard, patent laws become highly inadequate in protecting the rights of trade secret owners because not all of his or her trade secrets may meet the necessary requisites of patentability.[197]

With the consideration that "inventions start as trade secrets[,]" the fact that those trade secrets that are patentable and, thus, subject to patent protection may persuade the innovator or the trade secret owner to accept the "government's offer of patent rights ... in exchange for [his or her] trade secret rights."[198] Essentially, as one patent expert puts it, the trade secret owner "makes a truly Faustian bargain with the sovereign, exchanging secrecy, of indefinite and of possibly perpetual duration, for ephemeral patent rights[.]"[199] The downside of a patent application, however, is the loss of the confidential nature of the trade secret because by virtue of said application, the trade secret is published and thereby made available to the general public, which thus results in the abandonment of the secret.

Moreover, patent "is a ... monopoly [ ] that gives an inventor the exclusive right to make, use, and sell one's invention *during the patent's duration*, and the right to exclude all others from doing so."[200] As can be gleaned from this statement, the State affords the patent holder exclusive rights; however, the conferment of such rights are for a specific limited

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Inventions, 26 BERKELEY TECH. L.J. 917, 923-27 (2011) (discussing the legal differences between patents and trade secrets).

195. *See* Michael R. McGurk & Jia W. Lu, *Intersection of Patents and Trade Secrets*, 7 HASTINGS SCI. & TECH. L.J. 189, 191 (2015).

196. *Id.* at 190-91.

197. *See* INTELL. PROP. CODE, §§ 21-24 & 26-27.

198. Max S. Oppenheimer, *The Innovator's Dilemma*, 4 AM. U. BUS. L. REV. 371, 373 (2015).

199. Michael D. Oliver, *Comments: Antitrust Liability for Bad Faith Assertion of Trade Secrets*, 18 U. BALT. L. REV. 544, 551 n. 47 (citing PETER D. ROSENBERG, PATENT LAW FUNDAMENTALS 7 (1975)).

200. 60 AM. JUR. 2D *Patents* § 6 (citing Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969); Dawson Chemical Co. et al. v. Rohm & Haas Co., 448 U.S. 176 (1980); McCoy v. Mitsuboshi Cutlery, Inc., 67 F.3d 917 (Fed. Cir. 1995) (U.S.); & Trendx Enterprises, Inc. v. All-Luminum Products, Inc., 856 F.Supp. 2d 661 (D.N.J. 2012) (U.S.)) (emphasis supplied).

duration. Under the IP Code, patent protection is granted only for a period of 20 years.[201] As aptly observed by a US court, "[w]hen a patent expires, the monopoly created by it expires also and the right to make, use[,] and sell the article passes to the public, since an aim of the patent laws is that the public should then be free to use that which the inventor chose to disclose to them in return for the grant of a monopoly for a *limited time*."[202]

However, although the trade secret may have been divested of the protection it enjoyed as confidential information, it nonetheless acquires a more comprehensive protection under the law by virtue of becoming patented.

Inasmuch as there are indeed numerous legal and business considerations when the owner decides whether to register his or her trade secret or not,[203] one of the primary considerations for a trade owner seems to be that patents are afforded a more definitive protection under the law.[204]

C. Protective Orders: A Viable Alternative

While the most logical alternative of an owner to prevent disclosure of his or her trade secret is to oppose the discovery itself on grounds allowed under the Rules (i.e., privileged nature of the information, irrelevancy, and bad faith on the part of the movant), once disclosure of a trade secret is compelled by the courts through different modes of discovery, trade secret owners are left with no alternative other than to attempt, as much as possible, to confine the disclosure of the trade secrets to a limited number of people. As aforementioned, the nature of a trade secret is that as long as it is not divulged to the public, it continues to be valuable to the owner. However, once a trade secret is disclosed to competitors, the competitive edge it affords is lost. It also loses its protected status, as it is now of public knowledge — hence, no longer privileged. As such, trade secret owners are vigilant in trying to limit, if not avoid, unwarranted disclosure of their trade

201. INTELL. PROP. CODE, § 54. It provides that "[t]he term of a patent shall be [ ] [20] years from the filing date of the application." *Id.*

202. Plastic & Metal Fabricators, Inc. v. Roy, 163 Conn. 257, 270 (1972) (U.S.) (citing Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 255-56 (1945); Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 118 & 120 (1938); & Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169, 185 (1896)) (emphasis supplied).

203. *See generally* Andrew Beckerman-Rodau, *The Choice between Patent Protection and Trade Secret Protection: A Legal and Business Decision*, 84 J. PAT. & TRADEMARK OFF. SOC'Y. 371 (2002).

204. *See* INTELL. PROP. CODE.

secrets through the application of protective orders from the court. The most expedient remedy for a trade secret owner, once discovery of his or her secret processes or formulas is allowed by the court, is to seek protective orders, disclose the trade secret through the mode of discovery availed of by the other party, and proceed with the trial.

In the context of discovery, a protective order is "an order that prevents the disclosure of sensitive information[,] except to certain individuals under certain conditions."[205] As can be gleaned from the Rules, the main function of protective orders is to prevent the use of discovery devices as an instrument for annoying or harassing the deponent in particular or the other party in general.[206] It empowers the court to issue such orders as justice and fair play may require to ensure that the right to discovery is not abused. Evidently, courts are authorized to issue protective orders and may prescribe terms and conditions as to how discovery procedures are to be conducted.[207] Rule 23 governing depositions provides that the party, presumably the trade secret owner, has the burden to prove, upon motion, that the issuance of a

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205. ROGER J. R. LEVESQUE, THE PSYCHOLOGY AND LAW OF CRIMINAL JUSTICE PROCESSES 697 (2006).

206. A US court also once had the opportunity to explain the reason behind subjecting confidential information to court-issued protective orders, to wit —

> The use of protective orders is vital to the efficient litigation of every stage of many [IP] disputes. If protective orders were not issued to safeguard the confidentiality of trade secrets and other confidential commercial information when warranted by the circumstances, litigants would be forced to choose between fully presenting their claims or defenses (and thereby destroying their trade secrets through disclosure to competitors or the public), or foregoing their claims or defenses (in order to keep their trade secrets and other sensitive information confidential). ... In addition, if protective orders were widely believed to be ineffective, the litigation of [IP] claims would become even more complex and protracted than the nature of such cases already requires. Among other things, discovery disputes would proliferate, as parties struggled desperately to withhold confidential information from potentially ruinous disclosure whenever possible.

ERIC M. DOBRUSIN & KATHERINE E. WHITE, INTELLECTUAL PROPERTY LITIGATION: PRETRIAL PRACTICE, 8-9, § 8.03 (3d ed. 2017) (citing Beam Systems, Inc. v. Checkpoint Systems, Inc., 42 U.S.P.Q.2d (BNA) 1461, 1463 (C.D. Cal. 1997) (U.S.)).

207. *See, e.g.*, RULES OF CIVIL PROCEDURE, rule 23, §§ 16, 18, & 28.

protective order is "for good cause shown."[208] Though protective orders are explicitly provided solely under Rule 23, courts are empowered, nonetheless, to issue the same in relation to the other modes of discovery, given that Rule 15 governing motions allows parties to file motions, including a motion for a protective order.[209] The filing of motions for protective orders is in keeping with the policy of promoting liberal discovery procedures, while recognizing the trade secret owner's interest to keep the trade secret confidential.

Protective orders, although by no means sufficient to guarantee complete protection, nonetheless provide a suitable safeguard against the dissemination of the secret to the public.[210] One of the major concerns of a trade secret owner is that "[o]nce the secret is published, it loses its protected status and becomes available to others for use and copying without fear of

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208. RULE OF CIVIL PROCEDURE, rule 23, §§ 16 & 28. The Court has elaborated on the meaning of good cause in so far as the issuance of protective orders is concerned in this wise —

> The requirement [ ] that good cause be shown for a protective order puts the burden on the party seeking relief to show some plainly adequate reasons for the order. A particular and specific demonstration of facts, as distinguished from conclusory statements, is required to establish good cause for the issuance of a protective order. What constitutes good cause furthermore depends upon the kind of protective order that is sought.

Fortune Corporation, 229 SCRA at 371-72 (citing Kiblen v. Retail Credit Co., 76 F.R.D. 402 (E.D. Wash. 1977) (U.S.) & 4 MOORE, ET AL., *supra* note 68, § 26.68)).

209. RULES OF CIVIL PROCEDURE, rule 15. *See also* RULES OF CIVIL PROCEDURE, rule 41, § 9.

210. *See* Bead Chain Mfg. Co. v. Smith, 1 N.J. 118, 120-21 (N.J. 1948) (U.S.). In one case, the Supreme Court of New Jersey remarked that "[t]he presentation of the truth to the court is paramount; it must proceed unimpeded and unhampered despite claims of prying, *where ... there exists the means of affording adequate protection against unwarranted intrusion and invasion of the rights of one party by another party.*" *Bead Chain Mfg. Co.*, 1 N.J. at 120-21 (emphasis supplied). However, in relation to this point, a case decided by a circuit court of the US, citing an earlier case, proves to be instructive — "Care is required, and should be observed by the court, to avoid unnecessary exposure of a party's private affairs, or improper prying into his [or her] case, by limiting the order for production and examination to what is shown to be important to the mover's case." Rosenberger v. Shubert, et al., 182 F. 411, 417 (W.D. Mo. 1910) (U.S.) (citing Coit v. North Carolina Gold Amalgamating Co. 9 Fed. 577 (C.C.E.D. Pa.1881) (U.S.)).

legal reprisal from the original possessor."[211] After all, publication of a secret may be inevitable in an openly conducted judicial proceeding.[212] However, the presence of protective orders makes a limited disclosure possible and one legal scholar is of the view that the owner of a trade secret does not abandon his or her secret if there is merely a "limited publication for a restrictive purpose[.]"[213] Likewise, neither does "the disclosure of the details of a trade secret in the course of a judicial proceeding[,] which was held in camera and under other similar safeguards[,]" constitute such abandonment.[214]

In view of the peculiar nature of protective orders permitting limited disclosures, it has become the most viable remedy of trade secret owners. The presence of protective orders not only protects the trade secrets of a party from disclosure to the public; it also allows the proponent of the discovery access to information otherwise considered as privileged and confidential. In this regard, a compromise is reached between the seemingly irreconcilable interest of the proponent to avail of modes of discovery, and the interest of trade secret owners to maintain the confidentiality of their secret processes, formulas, or devices, among others.

VI. PROTECTIVE ORDERS VIS-À-VIS DISCOVERY OF HAZARDOUS TRADE SECRETS

A. Protective Orders: A Shield Preventing Disclosure of Public Hazards

Protective orders have been the subject of widespread criticism from both legal practitioners and consumer-advocacy groups, and from the trade secret owners themselves. Depending on whose point of view, it has been criticized as too comprehensive, thereby unduly interfering with one's preparation for the trial, or too inadequate to amply protect the interests of trade secret owners. While "protect[ing] the confidentiality of discovery

211. 54A AM. JUR. 2D *Monopolies and Restraints of Trade* § 1074 (2009) (citing Underwater Storage, Inc. v. U.S. Rubber Co., 371 F.2d 950 (D.C. Cir. 1966) (U.S.)).

212. *See, e.g.*, Plastic and Metal Fabricators, Inc. v. Roy, 163 Conn. 257 (1972) (U.S.).

213. Ferdinand S. Tinio, *Disclosure of Trade Secret in Court Proceedings as Abandonment of Secrecy*, 58 A.L.R.3d 1318 (1974) (citing 54A AM. JUR. 2D, *Monopolies, Restraints of Trade and Unfair Trade Practices* § 706).

214. *Id.*

materials," protective orders "create tension between individual litigants' confidentiality concerns and public access to the judicial system."[215]

Proponents for liberal discovery procedures argue that protective orders may unduly provide a party litigant with a very restrictive means of obtaining information necessary to support his or her cause of action or defense.[216] The orders may prohibit him or her from conferring with others who may have had a similar case involving the same party and thereby deprives him or her of a very important source of information.[217] The most immediate concern is that defendants may employ confidentiality orders to frustrate plaintiffs' preparation of their cases "by preventing needed consultation with other [counsels.]"[218]

Protective orders may further prohibit the disclosure or use of the discovered matters in another judicial proceeding.[219] This prevents lawyers from sharing discovered materials in a similar case involving the same party and calling for a repetition of the discovery process.[220] The lawyer is therefore forced to conduct his or her own discovery proceeding, entailing an additional expense and a waste of valuable time in addition to the risk that substantial matters that were uncovered in the previous discovery may not be brought out in the subsequent proceeding.[221]

Consumer advocates, on the other hand, criticize protective orders that are comprehensive in scope because they "prevent consumers from [uncovering] ... product defects and potential causes of action."[222] This, to the mind of the Authors, is the most dangerous flaw of protective orders.

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215. Ashley A. Kutz, *Rethinking the "Good Cause" Requirement: A New Federal Approach to Granting Protective Orders Under F.R.C.P.26(c)*, 42 VAL. U.L. REV. 291, 293 (2007).

216. *See* Marcus, *supra* note 188, at 458-59.

217. *Id.* at 463.

218. Marcus, *supra* note 188, at 458.

219. *See* Marcus, *supra* note 188, at 463.

220. *Id.*

221. *Id.*

222. *Trade Secrets in Discovery: From the First Amendment Disclosure to Fifth Amendment Protection*, 104 HARV. L. REV. 1330, 1331 (1991) (citing Philip H. Corboy, *Masked and Muzzled, Litigants Tell No Evil: Is this Blind Justice?*, LEGAL TIMES, Jan. 8, 1990, at 28, col. 2).

B. In Search of Constitutional Rights Justifying Disclosure: A Dead End

1. Party Litigant's Right to Publicly Disclose Discovery Materials

With courts issuing protective orders barring the disclosure of hazardous trade secrets, a resort to the Constitution for rights that may justify disclosure of the same is in order.

In the Philippines, there has not yet been a Supreme Court case of first impression relating specifically to a party challenging a protective order prohibiting disclosure of discovery materials under constitutional grounds. In the US, many arguments have been put forth advocating that the dissemination of discovery materials — regardless of whether the same contain trade secrets — is constitutionally-protected speech under the First Amendment,[223] which is identical to Article III, Section 4 of the Philippine Constitution.[224] These advocates for complete dissemination are of the view that litigants who obtain information through discovery have a "[F]irst [A]mendment right to disclose what they know[.]"[225] This view seems to be supported by the fact that many past decisions of US courts have "seemingly uph[eld] the right of those who steal or improperly obtain material to publish it."[226] There are also arguments advocating the same founded on common law principles.[227] Moreover, under this view, the act of courts prohibiting publication and disclosure of trade secrets, e.g., by the issuance of protective orders, is seen as a form of prior restraint on speech, which is unconstitutional. [228]

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223. Marcus, *supra* note 188, at 459

224. *Compare* U.S. CONST. amend. I ("Congress shall make no law ... abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.") *with* PHIL. CONST. art. III, § 4 ("No law shall be passed abridging the freedom of speech, of expression, or of the press, or the right of the people peaceably to assemble and petition the government for redress of grievances.").

225. Marcus, *supra* note 188, at 459.

226. *Id.* (citing New York Times Co. v. United States, 403 U.S. 713 (1971) (where the US Supreme Court ruled that the publication of the classified "Pentagon Papers" by the New York Times was protected by the First Amendment) & United States v. Marchetti, 466 F.2d 1309, 1317 (4th Cir. 1972) (U.S.) (material retained in violation of security agreement) (cert. denied, 409 U.S. 1063 (1972)).

227. Marcus, *supra* note 188, at 459 (citing Richmond Newspapers, Inc. v. Virginia, 448 U.S. 555 (1980) (U.S.); Brown & Williamson Tobacco Corp. v. FTC, 710 F.2d 1165, 1177-78 (6th Cir. 1983) (U.S.), cert. denied, 465 U.S. 1100 (1983)).

228. Marcus, *supra* note 188, at 459-60.

However, in *Seattle Times Co. v. Rhinehart*,[229] the US Supreme Court laid the matter to rest when it held that a protective order issued in state discovery proceedings, which prohibits the parties seeking discovery "from publishing, disseminating, or using the information in any way except where necessary to prepare for and try the case[,]"[230] does not offend the First Amendment where the same is entered on a showing of good cause. "A litigant has no First Amendment right of access to information made available only for the purpose of trying his [or her case]."[231] It further held that "pre[-]trial depositions and interrogatories are not public components of a civil trial"[232] and, therefore, "restraints placed on discovered, but not yet admitted, information [in a judicial proceeding] are not a restriction on a traditionally public source of information" for First Amendment purposes.[233] However, it clarified that "a protective order prevents a party from disseminating only that information obtained through use of the discovery process."[234]

From the foregoing, it would seem that whenever a court-issued protective order prohibits the disclosure of trade secrets — especially hazardous ones — to the public, the constitutional guarantees of free speech and expression cannot be invoked to overcome the prohibition and justify public disclosure.

2. Citizen's Right to Access Discovery Materials

Section 7 of Article III of the Constitution states that

> [t]he right of the people to information on matters of public concern shall be recognized. Access to official records, and to documents and papers pertaining to official acts, transactions, or decisions, as well as to government research data used as basis for policy development, shall be afforded the citizen, subject to such limitations as may be provided by law.[235]

The esteemed constitutionalist, Fr. Joaquin G. Bernas, S.J., explains the quoted constitutional provision in this wise —

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229. Seattle Times Co. v. Rhinehart, 467 U.S. 20 (1984).

230. *Id.* at 27.

231. *Id.* at 32 (citing Zemel v. Rusk, 381 U.S. 1, 16-17 (1965)).

232. *Seattle Times Co.*, 467 U.S. at 33.

233. *Id.*

234. *Id.* at 34.

235. PHIL. CONST. art. III, § 7.

> In determining the allowable scope of official limitation on access to official records, it is important to keep in mind that the two sentences of Section 7 guarantee only one general right, that is, the right to information on matters of public concern. The right of access to official records is given as an implementation of the right to information. Thus, the right to information on matters of public concern is both the purpose and the limit of the right of access to public documents. Thus, too, regulatory discretion must include both authority to determine what matters are of public concern and authority to determine the manner of access to them.[236]

In the case of *Garcia*,[237] the Bataan Petrochemical Corporation (BPC) submitted an amended application for approval of the transferring of the site of its petrochemical project from Bataan, the original situs of choice, to the province of Batangas.[238] As one of those against the transfer, Enrique Garcia, the provincial governor of Bataan, invoked his constitutional right as a citizen and sought a copy of the amended application for registration of the BPC, among other related papers, from the Board of Investments (BOI).[239] The Court, after concluding that the matter is a public concern, ruled that Garcia's request "may not be denied, as it is the constitutional right of a citizen to have access to information on matters of public concern under Article III, Section 7 of the 1987 Constitution."[240] Citing *Legaspi v. Civil Service Commission*,[241] the Court, however, at the same time, clarified that

> just as the confidentiality of [BPC's] records ... is not absolute, neither is [Garcia's] right of access to them unlimited. The Constitution does not open every door to any and all information. 'Under the Constitution, access to official records, papers, etc. is subject to limitations as may be provided by law ... . The law may exempt certain types of information from public scrutiny[.]' ... The *trade secrets* and confidential, commercial[,] and financial information ... and matters affecting national security are excluded from the privilege.[242]

In disposing of the case, the Court ordered the BOI to grant Garcia "access to [BOI's] records" regarding the applications for registration, "excluding, however, privileged papers containing its *trade secrets* and other

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236. JOAQUIN G. BERNAS, S.J., THE 1987 CONSTITUTION OF THE REPUBLIC OF THE PHILIPPINES: A COMMENTARY 381 (2009 ed.).

237. *Garcia*, 177 SCRA at 374.

238. *Id.* at 379–81.

239. *Id.* at 380–82.

240. *Id.* at 384.

241. Legaspi v. Civil Service Commission, 150 SCRA 530 (1987).

242. *Garcia*, 177 SCRA at 384 (citing *Legaspi*, 150 SCRA at 540) (emphasis supplied).

business and financial information[.]"[243] Nine years later, the case of *Chavez* likewise held that, in relation to the right afforded by Section 7 of Article III of the Constitution, "some of the [right's] recognized restrictions [are]: (1) national security matters and intelligence information, (2) *trade secrets* and banking transactions, (3) criminal matters, and (4) other confidential information."[244] As regards trade secrets and banking transactions, the Court opined that

> [t]he drafters of the Constitution also unequivocally affirmed that, aside from national security matters and intelligence information, trade or industrial secrets (pursuant to the [IP] Code and other related laws) as well as banking transactions (pursuant to the Secrecy of Bank Deposits Act) are also exempted from compulsory disclosure.[245]

Given these judicial pronouncements, the constitutional right to access official records relating to matters of public concern clearly has its limitations — including trade secrets, which are privileged in character. Unlike in *Air Philippines Corporation*, where the Court held that the privileged character of trade secrets may be overcome if the disclosure of the same is indispensable to render justice in the context of a court case, this constitutional right of a citizen, clearly in an out-of-court context, cannot be invoked to access discovery materials involving privileged matters such as trade secrets, as laid down in *Garcia* and *Chavez* — both of which enumerated limitations but did not even qualify the same.[246]

While the argument above is hinged on the privileged character of trade secrets, *Hilado v. Reyes*[247] elaborated on Section 7 of Article III of the Constitution in the context of a request for examining court records.[248] This case falls more squarely to the situation where a non-party to a trade secret case requests for discovered materials. The Court in *Hilado* held that

> [d]ecisions and opinions of a court are[,] of course[,] matters of public concern or interest[,] for these are the authorized expositions and interpretations of the laws, binding upon all citizens, of which every citizen is charged with knowledge. ... Unlike court orders and decisions, however, pleadings and *other documents* filed by parties to a case need not be matters of

243. *Garcia*, 177 SCRA at 385 (emphasis supplied).

244. *Chavez*, 299 SCRA at 763 (emphasis supplied).

245. *Id.* at 764 (citing INTELL. PROP. CODE).

246. *Compare Air Philippines Corporation*, 540 SCRA at 228-31 & 244 *with Garcia*, 177 SCRA at 384 (citing *Legaspi*, 150 SCRA at 540) & *Chavez*, 299 SCRA at 764.

247. Hilado v. Reyes, 496 SCRA 282 (2006).

248. *See Hilado*, 496 SCRA at 295-302.

> public concern or interest. For they are filed for the purpose of establishing the basis upon which the court may issue an order or a judgment affecting their rights and interests. In thus determining which part or all of the records of a case may be accessed to, the purpose for which the parties filed them is to be considered.
>
> ...
>
> In fine, access to court records may be permitted at the discretion and subject to the supervisory and protective powers of the court, after considering the *actual use* or purpose for which the request for access is based and the *obvious prejudice* to any of the parties. In the exercise of such discretion, the following issues may be relevant: 'whether parties have interest in privacy, whether information is being sought for *legitimate purpose* or for improper purpose, whether there is threat of particularly serious embarrassment to party, whether information is important to public health and safety, whether sharing of information among litigants would promote fairness and efficiency, whether [the] party benefiting from [the] confidentiality order is [a] public entity or official, and whether [the] case involves issues important to the public.[249]

Clearly, discovered materials fall under "other documents" as quoted above and *Hilado* requires that the purpose for which individuals intend to access the same should be scrutinized with utmost prudence.[250] The Court in *Hilado* further weighed the right of the party involved in the requested court documents, reasoning that "[g]ranting unrestricted public access and publicity to personal financial information may constitute an unwarranted invasion of privacy to which an individual may have an interest in limiting its disclosure or dissemination."[251] In view of the ruling in *Hilado*, it is clear that, in the context of a case involving trade secrets, the interest of the trade secret owner and his or her right to privacy are still respected and considered, especially as to whether there will be obvious prejudice to the owner. This, in turn, is to be weighed against the interest of the citizen requesting to access the discovered materials containing the trade secret, taking into account the considerations enumerated in *Hilado*. In any event, with a protective order in place, judges would be highly inclined not to entertain the request due to the fact that they themselves were the ones who,

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249. *Hilado*, 496 SCRA at 298 & 300-01 (citing Ex parte Brown, 166 Ind. 593 (1906) (U.S.); Times-Call Publishing Co., v. Wingfield, 410 P.2d 511 (1966) (U.S.); Nixon v. Warner Communications, Inc. et al., 435 U.S. 589 (1978); & Pansy v. Borough of Stroudsburg, 23 F.3d 772 (3d Ct. App. 1994) (U.S.)) (emphasis supplied).

250. *See Hilado*, 496 SCRA at 298.

251. *Id.* at 299.

in the exercise of their sound discretion, issued the protective order in the first place with the purpose of preventing the public disclosure of the trade secret.

C. Product-Liability Cases: A Concrete Illustration

The major concern of consumer groups is that protective orders may keep public hazards from the public's knowledge, to the detriment of the population at large.[252] A plaintiff filing a claim for damages against a manufacturer and who subsequently "unearths evidence through discovery that strongly supports the conclusion that the product is defective and dangerous[,]" or, in other words, deleterious, to the public, is nonetheless prevented from publicly disclosing the same because of the presence of protective orders.[253]

Nowhere is this conundrum more apparent than in product-liability cases.[254] These cases are conceivably not rare given that trade secrets have traditionally involved "secret processes used to manufacture products."[255] To illustrate, a consumer who purchases goods from a manufacturer suffers injury through the use of the product.[256] The consumer suspects that either hazardous or injurious substances were included during the manufacture of the product or that the manufacturer was negligent in his or her manufacturing processes resulting in the production of goods unsafe for human consumption.[257] The consumer therefore files a claim against the manufacturer for personal injuries, alleging that there was a breach of warranty as to the merchantability of the goods sold.[258]

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252. Marcus, *supra* note 188, at 463.

253. *Id.*

254. *Id.*

255. Beckerman-Rodau, *supra* note 203, at 371 (citing Susan Street Whaley, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, 838 (1999) & Diane Amann, *Publicker Industries v. Cohen: Public Access to Civil Proceedings and a Corporation's Right to Privacy*, 80 NW. U. L. REV. 1319, 1343 (1986)).

256. *See* Marcus, *supra* note 188, at 463.

257. *Id.*

258. "A *warranty of merchantability* is a warranty that goods are reasonably fit for the general purpose for which they are sold." HECTOR S. DE LEON, COMMENTS AND CASES ON SALES AND LEASE 324 (2005 ed.) (citing Dunfor Bros. Co. v. Consolidated Iron-Steel Mfg. Co., C.C.A. Comm. 1928, 23 F.2d 461 (U.S.)) (emphasis supplied). *See also* An Act to Ordain and Institute the Civil Code of the Philippines [CIVIL CODE], Republic Act No. 386, art. 1562 (1950).

In order to support his or her claim, the plaintiff-consumer attempts to elicit information before the trial regarding the manufacturing processes of the defendant-manufacturer by using the different modes of discovery. The defendant objects and refuses to answer. The plaintiff, therefore, applies for a discovery order from the court to allow him or her to examine the manufacturing processes of the defendant alleging that the same is necessary in order that he or she may pinpoint with certainty the alleged wrongful or tortious act of the manufacturer. The manufacturer objects on the ground that trade secrets are privileged and that allowing the discovery of the same might result to the revelation and disclosure of these secrets to his or her competitors, thereby depriving him or her of possessing a competitive edge in the market. The plaintiff counters by arguing that the information regarding the trade secret is necessary to establish and prosecute his or her claim. The court, after being satisfied as to the necessity of the discovery, issues an order allowing discovery and compels the trade secret owner to answer.

The defendant, on the other hand, seeking to prevent the disclosure of his or her trade secret to competitors, petitions the court to issue protective orders to prevent the plaintiff from divulging the discovered information to non-parties. In view of the potential harm that would result to the defendant's business interest in case the trade secret is unnecessarily disclosed to the public, the court then issues an order prohibiting the defendant from disclosing any discovered information to persons who are not parties to the case or who are not bound by the protective order.

In the course of the discovery proceeding, the plaintiff uncovers facts that tend to prove that the secret processes of the defendant are indeed injurious or hazardous to public health and safety. The plaintiff is now faced with a dilemma — whether or not he or she should divulge the information to the public and thereby be penalized for defying the protective orders issued by the court. If he or she chooses not to disclose a hazardous trade secret to the public, and considering the drawn-out, protracted nature of court litigations, such hazard may injure more individuals over a substantial span of time without them even being aware that the hazard exists.

In the end, an anomalous situation arises wherein protective orders, originally issued for the purpose of preventing the disclosure of a party's trade secret, eventually result in preventing the disclosure of a public hazard. This conundrum is the most flagrant imperfection of protective orders, especially in product-liability cases, for which drastic solutions are required. The Authors are of the opinion that the current legal mechanisms set in

place in this jurisdiction are inadequate to address the same. Thus, amendments to the current legal regime are in order.

D. Dealing with Hazardous Trade Secrets in Litigation: An Assessment of Plausible Solutions

Considering that provisions of the Rules have chiefly been lifted from the US,[259] there is much to learn from the American experience with regard to the protection of trade secrets as they have extensively wrestled with the challenges posed by trade secret litigation — including hazardous trade secrets — longer than this jurisdiction has.[260] The recommendations herein are primarily lifted from the US which has, in many states, developed various legal mechanisms to address hazardous trade secrets.

With regard to the first alternative, i.e., settlements being carried out with a cloud of confidentiality, thereby possibly concealing public hazards, a possible solution worth emulating is Assembly Bill 889 of California, amending the Code of Civil Procedure, proposed by Assembly Member Mark Stone; the bill is currently pending with the California State Legislature.[261]

The intent of Bill 889, as contained in its first Section, is

> to better protect Californians from death or substantial injury caused by any danger to the public health or safety, including defective products and environmental hazards, by creating a presumption against secrecy that protects the openness of information acquired through discovery. This presumption is to apply to settlement and confidentiality agreements, whether or not filed with the court, and to all stipulations for protective orders that would limit the disclosure of information acquired through discovery.[262]

The bill defines the phrase "[d]anger to the public health or safety" as "a defective product or environmental condition that has caused or is likely to cause repeated significant or substantial bodily injury or death to one or

259. *Webb*, 312 SCRA at 597 (J. Puno, concurring opinion). Former Chief Justice Puno said that "[i]t is a historical fact that [the Philippine] Rules of Court were taken from the [US]. It is thus proper to examine how the rules on discovery and deposition evolved in the [US]." *Id.*

260. *See generally* Almeling, et al., *supra* note 8.

261. An Act to Amend Section 1002 of the Code of Civil Procedure, Relating to Secrecy Agreements, Assembly Bill No. 889, Cal. Legislature, 2017-2018 Regular Session (2017) (U.S.).

262. *Id.* § 1.

more persons."[263] It prohibits a settlement agreement that prevents disclosure of information "regarding a defective product or environmental condition that poses a danger to public health or safety."[264] Bill 889 also provides that any provision found in a settlement agreement that prevents disclosure of such hazards is "void as a matter of law and against public policy."[265] With this bill, the public can be assured that amicable settlements between parties not only advance the parties' interests, but also promote the public interest of health and safety. Moreover, the interest of law-abiding trade secret owners with regard to maintaining the confidentiality of their non-hazardous trade secrets is also respected, as what this bill is merely against are hazardous trade secrets.

Another guide worth considering is the Texas Rules of Civil Procedure, which provide for a presumption that all court records are accessible to the general public.[266] Court records include "settlement agreements not filed of record, ... that seek to restrict disclosure of information concerning matters that have a probable adverse effect upon the general public health or safety, or the administration of public office, or the operation of government[,]"[267] and also "discovery, not filed of record, concerning matters that have a probable adverse effect upon the general public health or safety, or the administration of public office, or the operation of government, except discovery in cases originally initiated to preserve bona fide trade secrets or other intangible property rights."[268] Juxtaposed to this jurisdiction, a procedural rule similar to this one observed in Texas would promote the best

263. *Id.* § 2.

264. *Id.*

265. *Id.*

266. TEXAS REVISED CIVIL PROCEDURE, rule 76 (a) (1). "Court records," under this rule,

> are *presumed to be open to the general public* and may be sealed only upon a showing of *all of the following*:
>
> (a) a specific, serious[,] and substantial interest which clearly outweighs:
>
> (1) this presumption of openness; [and]
>
> (2) any probable adverse effect that sealing will have upon the general public health or safety; [and]
>
> (b) no less restrictive means than sealing records will adequately and effectively protect the specific interest asserted.

Id. (emphases supplied).

267. *Id.* rule 76 (a) (2) (b).

268. *Id.* rule 76 (a) (2) (c).

interests of the public and ensure that public hazards are not concealed both by clandestine agreements and by protective orders preventing disclosure of discovery materials. While the right to access judicial records has been held by the Supreme Court to be under a court's careful scrutiny in its exercise of discretion, amending the Rules to reflect the more pressing public policy to protect the public from hazards could be one option. Another stronger option would be enacting a law mandating this rule and adopting this public policy in order to shift the attitude of courts, veering it away from its *Hilado* ruling, and promoting the constitutional right to access information on matters of public concern is promoted all the more.

Trade secrets should not, per se, be a bar to the right to discovery since the rights of trade secret owners can be protected through the proper issuance of protective orders. However, although protective orders are designed to prevent the dissemination of a trade secret to the general public, the same should not be utilized as a device to shield a manufacturer, guilty of employing dangerous processes or formulas, from culpability. Protective orders should in no way be absolute and unchangeable; it should be within the powers of the court to amend, modify, or annul any protective order it issued based on the exigencies of the case in the conduct of the trial.

With regard to the point raised by consumer-advocates as to the danger of non-disclosure of a public hazard due to the presence of protective orders, a plausible remedy is the limitation or the complete discharge of protective orders when the discovered information are necessarily of public concern. In the US, in answer to the call of consumer groups, the Florida Sunshine in Litigation Act was passed forbidding any contract that "has the purpose or effect of concealing a public hazard" or any information about such hazard, and any person has standing to contest any order, agreement, or contract that violates the Act.[269] A law of similar import could be adopted in the Philippines to cover not only contracts or agreements, but protective orders as well. This would allow the courts to cancel a protective order and permit public disclosure of a person's trade secret when the same is injurious to the public. This would, at the same time, prevent defendants from entering into amicable settlements with claimants, involving large sums of money, for the purpose of preventing the disclosure of the hazardous nature of defendants' secret processes or formulas.

269. Sunshine in Litigation Act [Sunshine Statute], § 69.081 (2008) (Fla. U.S.). *See, e.g.*, ACandS, Inc. v. Askew, 597 So. 2d 895 (Fla. App. 1992) (U.S.) (a case involving the said law).

As an alternative to the enactment of a new law, a more practical and expedient recourse, as intimated before, is to modify the Rules to provide that protective orders shall automatically become null and void whenever the secret processes or formulas protected by the same is found to be detrimental to the public. This can be justified on the ground that the right of the public to health and safety far outweighs the economic rights of an individual.

As embodied in the Constitution, human rights are at all times supreme over property rights.[270] When the discovery process results in the revelation of a "public hazard," such information must be made available to the public, regardless of the existence of a protective order preventing disclosure. The considerations of public safety are far superior to the proprietary interests of a single individual. There can be no legal justification for the circulation of dangerous substances throughout the community. If the product contains dangerous substances, the secrecy of its manufacture should not be protected nor be used as a shield to escape culpability. While there are currently no legal tools to adequately address these, the basic precepts advocated herein may serve as guides in the enactment of new laws to sufficiently address these concerns.

The determination of whether or not the secret processes or formulas are indeed detrimental to the public should be left to the sound discretion of the judge of the court where the case is pending, guided by the principle that the public safety is at all times paramount to the proprietary interests of a private individual. A *prima facie* showing of the hazardous nature of the process or formula should be deemed sufficient for the nullification of the protective orders over the same. After all, the State, through its inherent power of police action, is explicitly empowered to prohibit anything that is deleterious to public health or safety and it can therefore order that hazardous processes and formulas be divulged to the public.[271] With this

270. Fr. Joaquin G. Bernas, S.J. explains that "[w]hile the Bill of Rights also protects property rights, the primacy of human rights over property rights is recognized." BERNAS, S.J., *supra* note 236, at 111 (citing Philippine Blooming Mills Employees Organization v. Philippine Blooming Mills Co., Inc., 51 SCRA 189, 202-03 (1973)). *See also* Charles T. Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. L. 39 (2007).

271. Police power is defined as "that inherent and plenary power in the State which enables it to prohibit all that is hurtful to the comfort, safety, and welfare of society." BERNAS, S.J., *supra* note 236, at 101 (citing Ermita-Malate Hotel and Motel Operators Association, Inc. v. City Mayor of Manila, 20 SCRA 849 (1967) & Rubi v. Provincial Board of Mindoro, 39 Phil. 660 (1919)). Fr. Bernas said that

police power of the State, owners of trade secrets cannot argue that disclosure deprives them of their property.

VII. CONCLUSION

The privilege afforded to trade secrets should not be a shield to deny people protection from hazards. As discussed, the privilege is not absolute as courts can allow disclosure of trade secrets when the proponent can establish that the disclosure of the same through a discovery request is absolutely necessary and indispensable to the prosecution of his or her claim and to the fair adjudication of the case on the merits. There must also be a showing that the application for the discovery is made on a relevant matter, in good faith, and not for the purpose of annoying, embarrassing, or harassing the other party.

In relation to the discussed scenario concretely illustrating one of the unique challenges present in trade secret litigation, three proposed alternatives make it possible to strike a balance between the conflicting rights of a party litigant to discovery, the owners of trade secrets, and the public in general. The Authors recognize that these alternatives may not always be available, as there are a myriad of cases that involve trade secrets, whether directly or indirectly; nonetheless, the discussion of these alternatives may provide a glimpse of the many complexities that parties are inevitably confronted with in trade secret litigation.

In closing, the safety of the public can be guaranteed by the proposed passage of a law prohibiting agreements, contracts, and protective orders which have for their purpose or result in the concealment of public hazards or any information about such hazards. Likewise, it should also allow any person to have legal standing to contest any order, agreement, or contract that violates the proposed law. Public safety is further guaranteed by the proposed modification of the Rules to provide that protective orders shall automatically be cancelled whenever the secret processes or formulas

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> [t]he most frequently cited definition, however, has been Chief Justice [Lemuel] Shaw's classic statement that calls police power '[t]he power vested in the legislature by the constitution to make, ordain, and establish all manner of wholesome and reasonable laws, statutes, and ordinances, either with penalties or without, not repugnant to the constitution, as they shall judge to be for the good and welfare of the commonwealth, and of the subjects of the same.'

BERNAS, S.J., *supra* note 236, at 101 (citing Commonwealth v. Alger, 7 Cush, 53 (Mass. 1851) (U.S.)). *See also* U.S. v. Pompeya, 31 Phil. 245, 253-54 (1915); Churchill v. Rafferty, 32 Phil. 580, 603 (1915); & People v. Pomar, 46 Phil. 440, 447 (1924)).

protected by the same is *prima facie* deemed to be detrimental to the public, as determined by the judge of the court where the case is pending.