DEFINITION OF TRADE SECRET

A trade secret is a formula, practice, process, design, instrument, pattern, or compilation of information used by a business to obtain an advantage over competitors or customers. In some jurisdictions, such secrets are referred to as "confidential information".

A company can protect its confidential information through non-compete non-disclosure contracts with its employees (within the constraints of employment law, including only restraint that is reasonable in geographic and time scope). The law of protection of confidential information effectively allows a perpetual monopoly in secret information—it does not expire as would a patent. The lack of formal protection, however, means that a third party is not prevented from independently duplicating and using the secret information once it is discovered.

The sanctioned protection of such type of information from public disclosure is viewed as an important legal aspect by which a society protects its overall economic vitality. A company typically invests time and energy (work) into generating information regarding refinements of process and operation. If competitors had access to the same knowledge, the first company's ability to survive or maintain its market dominance would be impaired. Where trade secrets are recognized, the creator of knowledge regarded as a "trade secret" is entitled to regard such "special knowledge" as intellectual property.

The precise language by which a trade secret is defined varies by jurisdiction (as do the particular types of information that are subject to trade secret protection). However, there are three factors that (though subject to differing interpretations) are common to all such definitions: a trade secret is some sort of information that:

- is not generally known to the relevant portion of the public;
- confers some sort of economic benefit on its holder (where this benefit must derive specifically from its not being generally known, not just from the value of the information itself);
- is the subject of reasonable efforts to maintain its secrecy.

Trade secrets are not protected by law in the same manner as trademarks or patents. Probably one of the most significant differences is that a trade secret is protected without disclosure of the secret.

CONCEPT OF TRADE SECRETS

Today's business environment has increased the importance of trade secret protection for business by developing and implementing information protection practices that address the risks associated with a global marketplace, rapid advancements in technology and telecommunications, a mobile, highly skilled workforce, and networked strategic business relationships, including extensive outsourcing. Technology is changing so rapidly that trade secret protection is, in some cases, the most attractive, effective and easily available intellectual property right. As with all intellectual property, trade secrets can be valuable to a company's growth, competitive advantage and, sometimes survival.

A trade secret is information of any type that is actually or potentially valuable to its owner, not generally known or readily ascertainable by the public, and for which the owner has made reasonable efforts to keep it secret. A trade secret generally has some cost associated with its development, and is not common knowledge in the industry. Even negative information, such as research options that have been explored and found worthless, can be trade secrets. Practically any type of technical and business information may be protected as a trade secret provided it meets these requirements; the following categories are illustrative:

- Data compilations, for example, lists of suppliers or customer (the more information a list contains, the more likely it would qualify for trade secret protection)
- Designs, drawings, architectural plans, blueprints, and maps
- Algorithms and processes that are implemented in computer programmes and the programmes themselves
- Instructional methods
- Manufacturing or repair processes, techniques and know-how
- Document tracking processes
- Formulas for producing products
- Business strategies, business plans, methods of doing business, marketing plans
- Financial information
- Personnel records
- Production or maintenance schedules
- Operating, maintenance or training manuals
- Ingredients of products
- Information about research and development activities of an enterprise

A trade secret may comprise of a combination of characteristics and components, each of which, by itself, is in the public domain, but where the unified process, design and operation of such characteristics or components, in combination, provides a competitive advantage. Inventions and processes that cannot be patented may be protected as trade secrets. SMEs should rely on trade secret route to safeguard the details of research and development, including draft patent applications, and patent applications before their official publication or grant. Even after grant of a patent, the associated knowledge is protected as a trade secret. A newly developed but not yet published or used industrial design or even trademark may be valuable confidential information.

Trade secrets can create an advantage over competitors in many ways. The right to use trade secret information can also be licensed or sold. Although trade secrets provide no protection against those who independently develop the trade secret information, trade secrets never expire as do patents, industrial designs and copyright.

COMPARISON WITH TRADEMARKS AND PATENTS

Comparison with Trademarks

To acquire rights in a trademark under U.S. law, one simply uses the mark in the course of business. (It is possible to register a trademark in the U.S., and registration confers some advantages including stronger protection in certain respects, but it is not required in order to get protection. Other nations have different trademark regimes and the following remarks may not apply to them). Assuming the mark in question meets certain other standards of protectibility, it is protected from infringement on the grounds that other uses might confuse consumers as to the origin or nature of the goods once the mark has been associated with a particular supplier. (Similar considerations apply to service marks and trade dress). By definition, a trademark enjoys no protection (qua trademark) until and unless it is "disclosed" to consumers, for only then are consumers able to associate it with a supplier or source in the requisite manner. (That a company plans to use a certain trademark might itself be protectible as a trade secret, however, until the mark is actually made public).

Comparison with Patents

To acquire a patent, full information about the method or product has to be supplied to the patent bureau and will then be available to all. After expiration of the patent, competitors can copy the method or product legally. The temporary monopoly on the subject-matter of the patent is regarded as a *quid pro quo* for thus disclosing the information to the public.

DISCOVERING TRADE SECRETS

Companies often try to discover one another's trade secrets through lawful methods of reverse engineering on one hand and less lawful methods of industrial espionage on the other. Acts of industrial espionage are generally illegal in their own right under the relevant governing laws. The importance of that illegality to trade secret law is as follows: if a trade secret is acquired by improper means (a somewhat wider concept than "illegal means" but inclusive of such means), the secret is generally deemed to have been misappropriated. Thus, if a trade secret has been acquired via industrial espionage, its acquirer will probably be subject to legal liability for acquiring it improperly. (The holder of the trade secret is nevertheless obliged to protect against such espionage to some degree in order to safeguard the secret. As noted above, under most trade secret regimes, a trade secret is not deemed to exist unless its purported holder takes reasonable steps to maintain its secrecy).

PROTECTING TRADE SECRETS

Trade secrets are by definition not disclosed to the world at large. Instead, owners of trade secrets seek to keep their special knowledge out of the hands of competitors through a

variety of civil and commercial means, not the least of which is the employment of non-disclosure agreements (NDA) and non-compete clauses. In exchange for the opportunity to be employed by the holder of secrets, a worker will sign an agreement not to reveal his prospective employer's proprietary information. Often, he will also sign over rights to the ownership of his own intellectual production during the course (or as a condition) of his employment. Violation of the agreement generally carries stiff financial penalties, agreed to in writing by the worker and designed to operate as a disincentive to going back on his word. Similar agreements are often signed by representatives of other companies with whom the trade secret holder is engaged, e.g. in licensing talks or other business negotiations.

Trade secret protection can, in principle, extend indefinitely and in this respect offers an advantage over patent protection, which lasts only for a specifically delimited period, for example twenty years in the U.S. For example, Coca Cola has no patent for its formula and has been very effective in protecting it for many more years than a patent would have. However, the "downside" of such protection is that it is comparatively easy to lose (for example, to reverse engineering, which a patent will withstand but a trade secret will not) and comes equipped with no minimum guaranteed period of years.

LEGAL DEVELOPMENT TO PROTECT TRADE SECRETS

A relatively recent development in the US is the adoption of the UTSA, the Uniform Trade Secrets Act, which has been adopted by approximately 40 states as the basis for trade secret law. It is believed that a measure of uniformity among different states' laws will strengthen business' claims on their trade secrets.

Another significant development in U.S. law is the Economic Espionage Act of 1996 (18 U.S.C. § 1831–1839), which makes the theft or misappropriation of a trade secret a federal crime. This law contains two provisions criminalizing two sorts of activity. The first, 18 U.S.C. § 1831(a), criminalizes the theft of trade secrets to benefit foreign powers; the second, 18 U.S.C. § 1832, criminalizes their theft for commercial or economic purposes. (The statutory penalties are different for the two offenses).

In Commonwealth common law jurisdictions, confidentiality and trade secrets are regarded as an equitable right rather than a property right (with the exception of Hong Kong where a judgment of the High Court indicates that confidential information may be a property right). The Court of Appeal of England and Wales in the case of Saltman Engineering Co Ltd v. Campbell Engineering Ltd. (1948) 65 P.R.C. 203 held that the action for breach of confidence is based on a principle of preserving "good faith".

The test for a cause of action for breach of confidence in the common law world is set out in the case of Coco v. A.N. Clark (Engineers) Ltd. (1969) R.P.C. 41 at 47:

- the information itself must have the necessary quality of confidence about it;
- that information must have been imparted in circumstances imparting an obligation of confidence;