UNIT II

TRADE SECRETS

Introduction

Competitive strength usually depends on innovative techniques and accompanying know-how in the industrial and/or commercial field. However, such techniques and know-how are not always protectable by patent law. Firstly, patents are in principle available only for inventions in the field of technology and not for innovative achievements concerning the conduct of business, etc. Moreover, some technical discoveries or information, while providing a valuable commercial advantage for a particular trader, may lack the novelty or inventive step required to make them patentable. Furthermore, while a patent application is pending, as long as the information has not been disclosed to the public, the owner of the information to be patented ought to be protected against any wrongful disclosure of the information by others, regardless of whether or not the application eventually leads to the grant of a patent. All such information can be classified as a trade secret. Although the Paris Convention does not mention trade secrets as such, Article 10bis on unfair competition requires protection against any act of competition contrary to honest practices in industrial or commercial matters; the need for protection against wrongful disclosure of undisclosed information (another term for trade secrets) is generally recognized.

There are many examples of trade secrets, which are very well guarded. To name just one, the formula of soft drink coca-cola is one of the most successfully guarded trade secret till date. Naturally, lot of efforts are taken to keep this secret, which is quite expensive affair. The trade secrets are also kept at small scale. You may have a bakery in your locality, which bakes the cakes or cookies in unique way. The recipes of these items are the trade secrets of that baker. There are many traditional dishes cooked in a family, whose recipes are passed on from generation to generation, but kept just within the family. All these types of trade secrets are also protected in some national laws.

In this Unit, you will learn about the protection of trade secrets. Some basic aspects like how to guard a trade secret, what is meant by violation of a trade secret, how to make a choice between patent protection or trade secret, are also discussed.

What is a trade secret? Before we start discussing the reasons for protecting a trade secret,let us first understand, what is a trade secret?

There are several lines of inquiry that serve to determine what information constitutes a trade secret: the extent to which the information is known to the public or within a particular trade or industry, the amount of effort and money expended by the trader in developing the secret information, the value of that information to the trader and to his competitors, the extent of measures taken by the trader to guard the secrecy of the information and the ease or difficulty with which the information could be properly acquired by others.

From a subjective point of view, the trader involved must have a considerable interest in keeping certain information as a trade secret. Although contractual obligations are not necessary, the trader must have shown the intention to have the information treated as a secret. Frequently, specific measures to maintain the secrecy of the particular information are also required. The fact that the information has been supplied confidentially will not always be sufficient. In some countries (for example, the United States of America and Japan), the efforts made by the owner of the information to keep it secret are considered by courts to be of primary importance in determining whether the information constitutes a trade secret at all.

From an objective point of view, the information must, in order to qualify as a trade secret, be known to a limited group of persons only, that is, it must not be generally known to experts or to competitors in the field. Even patent applications may be regarded as trade secrets as long as they are not published by the patent office. Therefore, external publications or other information that is readily available will not be considered secret. For example, the use or disclosure of a trade secret by a person who has acquired it in a legitimate business transaction and without any negligence is not deemed unfair. On the other hand, absolute secrecy is not a requirement, for the information might also be discovered independently by others. Also, business partners can be informed without loss of secrecy if it is obvious that the information has to remain secret. Factors that indicate whether the information has the necessary degree of confidentiality to constitute a protectable trade secret are whether it contains material that is not confidential if looked at in isolation, whether it has necessarily to be acquired by employees if they are to work efficiently and whether it is restricted to senior management or is also known at the junior level. Still, the most solid proof is the strict confidentiality of the information and the contractual duty to keep it secret.

A trade secret can be any formula, pattern, idea, process, physical device or a compilation of information which provides its owner a competitive advantage in the market. The tradesecret is expected to be treated in such a way that it is not available to others (public or competitors) unless obtained by theft or by improper acquisition.

Some potential matters of trade secret can be a recipe, chemical formula, survey methods, confidential

data, computer programmes, manufacturing process, marketing strategies, financial strategies or a new invention for which patent application is not yet filed.

Why to protect a trade secret?

The information is usually protected as a trade secret when the other forms of IPR protection cannot be used. For example, an idea cannot be protected by patent, it cannot be protected by a copyright, unless it is expressed or fixed. However, to protect this idea can be very crucial from the commercial point of view. In such case, it has to be protected as a trade secret. Many other matters like progress of developing a new product, customer list with critical comments, a negative know-how, which gives information about ineffectiveness of certain product or process, cannot be protected by any other IPR tools, without disclosing them. All this information can be kept as trade secrets.

Trade Secret versus Patent

The patent protection guarantees that nobody can work your invention without your prior authorization. This protection is valid within the term of the patent protection (typically 20 years). However, in your patent application, you disclose the patent for public knowledge and the moment the term of patent protection ends, the information disclosed in your application becomes a public domain information. Anybody is free to use it. Further, you have to pay prescribed fee for maintaining the patent protection valid and that too, in all the countries, where its protection is expected.

Now, keeping a trade secret can be a much simpler and cheaper method, if you can maintain secrecy in your organization. The less the number of people having access to the entire secret information the better are the chances of retaining the trade secret. The trade secret can be held indefinitely.

There are, however, some disadvantages of protecting confidential business information as a trade secret. If the secret is embodied in an innovative product, others may be able to inspect it, dissect it and analyze it (i.e. reverse engineer it) and find out the secret and be thereafter entitled to use it. Trade secret protection of an invention in fact does not provide the exclusive right to exclude third parties from making commercial use of it. Only patents and utility models can provide this type of protection. Once the secret is made public, anyone may have access to it and use it at will. Also a trade secret may be patented by someone else who developed the relevant information by legitimate means.

A trade secret is more difficult to enforce than a patent. The level of protection granted to trade secrets varies significantly from country to country, but is generally considered weak, particularly when compared with the protection granted by a patent.

Hence, though decision between trade secret and patent protection will have to be taken on a case-by-case basis, in the following circumstances it would be advisable to make use of trade secret protection:

- When the secret is not patentable; or

- When the likelihood is high that the information can be kept secret for a considerable period of time. If the secret information consists of a patentable invention, trade secret protection would only be convenient if the secret can be kept confidential for over 20 years (period of protection of a patent) and if others are not likely to come up with the same invention in a legitimate way; or

- When the trade secret is not considered to be of such great value to be deemed worth a patent; or

When the secret relates to a manufacturing process rather than to a product, as products would be more likely to be reverse engineered; or

- When you have applied for a patent and are waiting for the patent to be granted.

It is important to bear in mind, however, that trade secret protection is generally weak in most countries, that the conditions for, and scope of, its protection may vary significantly from country to country depending on the existing statutory mechanisms and case law, and that the courts may require very significant and possibly costly efforts to preserve secrecy.

Tools to protect a trade secret

Contrary to patents, trade secrets are protected without registration, that is, trade secrets are protected without any procedural formalities. Consequently, a trade secret can be protected for an unlimited period of time. There are, however, some conditions for the information to be considered a trade secret. Compliance with such conditions may turn out to be more difficult and costly than it would appear at first glance. While these conditions vary fromcountry to country, some general standards exist which are referred to in Art. 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement):

- The information must be secret (i.e. it is not generally known among, or readily accessible to, circles that normally deal with the kind of information in question);

- It must have commercial value because it is a secret; and

- It must be subjected to reasonable steps by the rightful holder of the information to keep it

secret.

The trade secrets are widely used by the small and medium scale enterprises (SMEs). In fact, many such enterprises rely almost exclusively on trade secrets for the protection of their IP.

This may include:

- Trade secret policy:Making sure that a limited number of people know the secret and that, all those who do, are well aware that it is confidential information.
- Employee agreement:Signing confidentiality agreements with business partners whenever disclosing confidential information.
- Non-disclosure Agreements: Including confidentiality agreements within employees' contracts. Under the law of many countries, however, employees owe confidentiality to their employer even without such agreements.
- Adequate documents: The duty to maintain confidentiality on the employer's secrets generally remains even after the employee has left the employment. This duty may be limited to a certain period of time after the employment ceases.
- Security Systems: It is important to make sure that enterprises take all necessary measures to protect their trade secrets effectively.