



INNOVATION COUNCIL

Trade Secrets: A Primer

Trade secrets are an important component of the intellectual property (IP) system. In addition to their important role protecting business' confidential information, they are an effective complement to patent protection. They can be used in areas where patents are not appropriate tools for protecting knowledge. Depending on the context, they can also be more cost-effective and practical to use than registered IP rights, especially patents. As such, trade secrets are a particularly useful tool for businesses with limited resources, such as small companies and firms in developing countries.

1/ What are trade secrets?

Article 39.2 of the WTO TRIPS Agreement defines trade secrets as information that 1) is secret, 2) has commercial value because it is secret, and 3) has been subject to reasonable steps to keep it secret. Though trade secrets can include anything that businesses wish to keep secret, they generally relate to three categories of information: 1) technical information, 2) confidential business information, and 3) know-how.

2/ How are they different from patents?

Trade secrets, which are unregistered IP rights, differ substantially from patents. Whereas patents involve registration and the public disclosure of sensitive information (in exchange for government-granted protection of that information for a set period of time), trade secrets generally do not require registration or the payment of government fees. Their existence depends simply on actions taken by the holder, usually a company, to keep them secret. This means, first of all,

that they are non-exclusive: they do not protect against independent discovery or reverse engineering. It also means that, in theory, trade secrets can last for as long as a company can keep them secret. Furthermore, it means that trade secrets can consist of any kind of information. Patents, in contrast, must meet stringent patentability criteria and must always be technical in nature.

3/ What is required for trade secrets to receive legal protection?

Courts and commentators have emphasized the importance of the third element of trade secrets' definition—that reasonable steps be taken to keep them secret—and businesses must show that they have taken such steps in order for their trade secrets to receive legal protection. For companies whose business activities take place within a single building, this requirement may be met simply by adopting employee agreements and visitor precautions, while sophisticated—and often expensive—technological safeguards may be required of more globally-connected firms. Certain jurisdictions lack specific trade secret legislation altogether, and businesses operating in such environments that wish to give their trade secrets legal protection must make sure to have contracts in place with suppliers, partners, and employees. In addition, businesses in all jurisdictions must be careful to protect the confidentiality of their trade secrets during legal proceedings. Trade secrets must be shared openly in court proceedings in order for the court to be able to address an infringement, and it may sometimes be better for companies to overlook infringement by a single party, rather than risk the wider disclosure of the secret inherent in open court proceedings.

4/ Why are trade secrets useful?

The distinct features of trade secrets as compared to patents allow them to complement patent protection in several ways. First, the reality that trade secrets can cover a broader range of information allows businesses to use them to safeguard information that they cannot protect with patents, such as tacit and non-codifiable knowledge. In addition, trade secrets allow companies to avoid the high costs and administrative hurdles associated with patents. As a result, they also do not suffer from the delays involved in patent registration, and can thus be more effective than patents in industries where the pace of innovation is fast. Businesses also generally consider trade secrets to be more effective than patents for protecting processes, because the infringement of process-related patents can be difficult to monitor and detect behind the closed doors of competitors' facilities.

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Are trade secrets the same as hoarding knowledge?

In jurisdictions with effective trade secret protection in the laws, trade secrets do not encourage hoarding – rather, they actually facilitate knowledge transfer. This may seem counterintuitive at first glance. When there are laws that make it possible for firms to license or otherwise share their trade secrets with others, without losing control over the knowledge and competitive edge related to it, this can incentivize knowledge transfer by rendering it less risky. The possibility to license trade secrets, in fact, helps to avoid hoarding, which otherwise may be the only way that companies can protect sensitive and valuable information. As an example, 40% of companies in the European Union have reported that, absent trade secret protections, they would be unlikely to share their business information outside the company.¹

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Are they helpful to a business that has limited resources?

Trade secrets are especially useful to businesses with limited resources, such as small businesses and businesses in developing countries. First of all, their lower cost (relative to patents) and the absence of a registration requirement make them more accessible than other forms of IP protection. Similarly, the breadth of their applicability means that they can be used to safeguard forms of information that other forms of IP protection cannot, such as formulas, customer lists, marketing strategies, or tacit know-how. Of particular importance is the fact that trade secrets can be easily used to protect gradual advancements – “incremental innovations” – in relation to which patents can be difficult to obtain or simply impractical. In addition to making trade secrets useful to innovative and fast-paced industries in general, this fact renders them especially advantageous for businesses in developing countries, as it allows for the adaptation of existing technologies to local environments.

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Are there drawbacks to relying on trade secrets?

With the aforementioned benefits in mind, the nature of trade secrets does make them vulnerable to particular challenges – such as breach of trust, corporate espionage, state-sponsored corporate espionage, and employee mobility – which can only be addressed using well-crafted government policies. Unfortunately, most current regimes for trade secret protection are ineffective, due largely to inadequate legal protection and enforcement and to fragmented policy across countries and regions. There has been some progress on this front over the past two decades, driven in large part by the agreed definition of trade secrets and basic protections set forth in the WTO TRIPS Agreement. In reality, though, legal approaches across countries remain highly variable, leaving significant gaps in protection and challenges for international businesses and their employees.

¹ European Commission, “Impact Assessment Accompanying the Document Proposal for a Directive of the European Parliament and of the Council on the Protection of Undisclosed Know-How and Business Information (Trade Secrets) against Their Unlawful Acquisition, Use and Disclosure.”



In a nutshell

The nature of trade secrets means they are an important form of IP protection in their own right, and also a useful complement to patent protection. This makes them strategic for many types and sizes of businesses. This may be particularly true for those businesses with limited resources. Where the right actions have been taken to ensure that trade secrets are properly protected, and where the appropriate legislative framework is in place, trade secrets can help to de-risk and thus encourage knowledge sharing. Whereas patents are particularly useful for facilitating the sharing of technology, trade secrets can help to drive the sharing of know-how and expertise. In sum, trade secrets are an important tool allowing innovators to protect – and share – the tacit and other forms of knowledge that drive innovation.

Works Cited:

European Commission. "Impact Assessment Accompanying the Document Proposal for a Directive of the European Parliament and of the Council on the Protection of Undisclosed Know-How and Business Information (Trade Secrets) against Their Unlawful Acquisition, Use and Disclosure." European Union, November 28, 2013. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52013SC0471>.