



Ssssh – can you keep a secret?

Your trade secret is protected by law – but only if you can keep it

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New regulations have been adopted in the EU and the USA

A trade secret can be a product formula, a special process, a commercial method or other types of information, which is not known to the general public, and by which a corporation has an economic advantage over its competitors. Although subject to national differences, trade secrets must generally be

- secrets in the sense that they are not generally known among or readily accessible to persons within the technological field,
- of commercial value because they are secret,
- subject to reasonable efforts to keep secret.

How are trade secrets protected?

Trade secrets are protected without registration at national or international authorities. Thus, the term of protection of trade secrets is in principle unlimited. This is a key difference to patents, which require registration and usually confer protection for a maximum of 20 years. Moreover, the protection of trade secret has immediate effect, whereas patent grant typically requires 3–5 years of prosecution.

Thus, at a first glance, trade secrets would appear to be preferable over patents in terms of lower costs and longer duration. However, it is important to know that compliance with the three above criteria

is critical in order to enjoy protection as a trade secret. The first two criteria are generally inherent to the subject-matter of the secret, because formulas, processes, customer lists, price lists etc., which are generally known to the public, would not normally be of specific commercial value to a corporation.

What is a trade secret?

MANUFACTURING

- Production processes
- Recipes

INDUSTRIAL SECRETS

- Chemical formulas
- Blueprints
- Prototypes

COMMERCIAL SECRETS

- Customer/client lists
- Supplier lists
- Sales methods
- Price agreements
- Distribution methods
- Contract forms
- Business schedules
- Advertising strategies

Thus, the commercial value of a formula or process normally depends on the subject-matter of the formula or secret being unknown to the public. However, compliance with the last criteria that reasonable measures must have been undertaken in order to maintain the secret may indeed turn out to be both more difficult and more costly than initially expected.

How to keep your secret

- Define the secret in specific terms, write down, and keep in a safe place
- Limit and list the number of people with access to the secret
- Use non-disclosure agreements to bind employees and subcontractors to secrecy

Strict procedures should be implemented and recorded in order to show which subject-matter is considered to be subject to protection as a trade secret and which steps have been taken in order to maintain its secrecy. The subject-matter of the secret should be clearly defined in clear and concise terms, such that it is clear what falls under the trade secret and what does not. The procedures should also define how access to the subject-matter is restricted and which limited number of persons has access to the information. Access can be restricted by locking the relevant documents describing the subject-matter of the secret (customer lists, recipes etc.) in a safe, or if the relevant documentation is stored on a company server, access should be restricted to a limited number of relevant and trusted employees, and these employees should be instructed and/or have a contractual duty to maintain secrecy.

Trends in trade secrets in the EU and USA

The protection of trade secrets has recently been high on the agenda in both Europe and USA. Breaches and theft of trade secrets affects large numbers of companies and in the EU, it was estimated that as many as one company out of every five is victim of trade secret theft every year.

New trade secret directive adopted in Europe

For this reason, the European Commission proposed a new trade secrets directive on 28 November 2013 in order to lay down common measures against the unlawful acquisition and use and disclosure of trade secrets, with the overall purpose of smoothening the function of the internal market.

Following negotiations with the European Council as well as the European Parliament, a final draft was put to a vote and accepted in the European Parliament on 13 April 2016. The necessary approval by the EU Council was set to a meeting on 17 May 2016, where the decision however was postponed to the next meeting following objections from civil society organizations, who expressed their concerns for the legal safety of journalists and whistleblowers. The directive was, however, finally adopted by the council on 25 May 2016 and it was concluded that the directive is in compliance with the EU's Charter of Fundamental Rights, which preserves freedom and pluralism of the media. The new measures fully ensure that investigative journalism and use of journalistic sources can be exercised without any new limitations. Whistle-blowers, understood as persons who in good faith reveal trade secrets for the purpose of protecting the general public interest, are also not limited by the provisions of the directive.

EU member states must now within a maximum of two years adopt the new trade secret directive by incorporating the new provisions into domestic law.

The Directive harmonizes protection of trade secrets

- Civil action possible against a trade secret misappropriator
- Seizure of stolen trade secrets
- Whistle-blower protection

President Obama recently signed a Defend Trade Secrets Act of 2016

In USA, an Act to defend trade secrets has been underway for a few years and a final bill known as the Defend Trade Secrets Act (DTSA) was passed

unanimously in the Senate and ratified with a large majority in the House by a vote of 410-2 in April 2016. The DTSA bill was signed into law by President Obama on 11 May 2016, and now provides a Federal cause of action for trade secret theft. The new law is the most significant expansion of Federal intellectual property law in many years, introducing significant benefits for intellectual property owners and employers. Prior to this new Federal legislation, trade secret owners could protect their rights under state law or a patchwork of Federal laws.

Key aspects of the Defend Trade Secrets Act

- Civil action possible against a trade secret misappropriator
- Seizure of stolen trade secrets
- Whistle-blower protection

A misappropriator is understood as a person who has used improper means to obtain the trade secrets. It is specifically stated, however, that reverse engineering, independent derivation, or any other lawful means of acquisition is not misappropriation. The new law provides employers with a greater number of litigation forums than were previously available. A trade secret owner is now allowed to bring a civil action against a misappropriator if the trade secret is related to a product or service used in interstate or foreign commerce. For example, companies seeking to remedy the misappropriation of trade secrets could now proceed directly to federal court, avoiding the backlog of state court dockets.

In extraordinary circumstances, a court may also issue an order to seize property as “necessary to prevent the propagation of dissemination of a trade secret” that is subject of a lawsuit. The act also protects whistleblowers who report trade secret misappropriation, and precludes criminal or civil liability for disclosure of a trade secret that is made to the government to report or investigate suspected violations of law.

Trade secrets or patent

The protection of trade secrets is high on the political agenda worldwide, and there is a clear ambition among many politicians to strengthen the protection of trade secrets. However, it is also important to consider patenting as an alternative to trade secrets. Compared with patenting, there are a number of disadvantages associated with trade secret protection. For example, if the trade secret is made public, anyone is allowed to use it. Moreover, if the innovative idea is embedded in a product, which is put on the market, others might be able to discover the idea by reverse engineering, in which case they would be entitled to use it. Trade secrets are also in general more difficult to enforce than patents, and the level of protection granted to trade secrets varies considerably between countries. Compared to patents, trade secret protection is generally weaker. In addition, the subject of a trade secret could be conceived and patented by anyone else by legitimate means. Thus, there are good reasons to consider patenting as an alternative to trade secrets in respect of ideas which are vulnerable to the above factors.

If you want to know more about the protection of trade secrets, you are welcome to contact Jens Raabjerg Olesen



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