Intellectual Property Rights IPRs as Business Tool

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1. Trade Secret or Patent - A Principle Choice

Particularly in view of the considerable costs usually the patenting of technical inventions, to which in a broader sense also know-how, like computer software which is not protectable under the patent systems of most countries, belongs, it is difficult for a company to decide what kind of technical know-how created, here and in the following generally designated as "Invention", should be protected by the mere fact of keeping it secret, thereby preventing third parties to imitiate the Invention because of unawareness of it, and which Inventions should be protected by patents, here and in the following under this term including utility models.

The question of whether to protect an Invention by keeping it secret or by protecting it by a patent is of a principle nature. The reason is that if one tries to protect an Invention by a patent, necessarily publication of the respective Invention takes place, based on the general rule that the grant of a patent is the reward the public gives to an inventor just for the fact that the inventor does not keep the respective Invention secret, but discloses it to the public. Accordingly, a wise choice has to be made between the alternatives of trade secret and patent protection. In the following, it shall be tried to give some guidelines for the aforementioned choice.

1.1. Inventions Derivable from Product Sold

A first step in the decision process, related as to whether an Invention should be protected by keeping it secret or by filing a patent application, is whether the invention can be derived or learnt by an ordinary expert from the product to be sold and marketed, respectively. If the product itself, like in case of certain structural Inventions related to an engine or the like, shows the Invention, the only way to protect such an Invention is to file a patent application before marketing of the product, since otherwise the Invention becomes known to the public, and thereafter can no longer be protected by neither keeping it secret or nor patenting. Accordingly, in this first step of the decision process those Inventions which can be learnt form the product to be marketed are subject of a definite choice between - impossible - protection by trade secret and patenting already.

1.2. Inventions not Derivable from Product Sold

If the decision process according to 1.1. has led to the result that the Invention cannot be learnt from a product sold, typically in case of methods of manufacturing, like physical processes to manufacture a certain chemical substance (temperature, pressure etc.), it principally is possible to protect the Invention by either keeping it secret or by patenting. The charm of protection by trade secret is that practically no cost, except those for secrecy agreements and documentation, as discussed under 1.2.1. and documentation, as discussed under 1.2.2., are created; the disadvantages and certain pitfalls are discussed under 2.

1.2.1. Secrecy Agreements

If a decision is made to protect an Invention by trade secret only, i. e. without applying for a patent, a first condition to continuing protecting the Invention by keeping it secret is that appropriate steps are taken to avoid disclosure of the Invention to third parties. Amongst those measures, in case of cooperation with third parties, marketing negotiations etc. Secrecy

Agreements are of vital importance. It is to be recommended that whenever trade secrets might be disclosed to third parties, or trade secrets might arise of the cooperation with a third party, in advance by appropriate Secrecy Agreements it is made sure that the respective know-how and Inventions are definitely kept secret by the third party. It is also necessary to include provisions into employment agreements, both in the own company where the Invention is created and in the company of the cooperation partner, which make sure that the associates and workers of the parties keep the Invention secret.

1.2.2. Documentation

Since this is a pre-condition for certain rights which the owner of a trade secret may still have even after the trade secret becomes publicly known, namely in case of patenting by a third party (2.2.) and also in relation to certain requirements to enjoy legal advantages in case of licensing (3.), the Invention should be carefully documented. This should be done in a written form, describing in detail, very similar to the drafting of a patent specification, the character and essence of the Invention, the name of the persons having contributed to the creation of the Invention, the date on which the development of the Invention began, and the date on which the Invention was finalized. Such documentation is of particular importance also in cases where rights in a first-to-invent country are concerned, like U.S.A., since the documentation may be of extreme use in later interference procedures, i. e. in cases where there is a fight, in relation to patent rights to be obtained in U.S.A., between independent inventors.

2. Trade Secrets and Pitfalls

If protection of an Invention by trade secret would, under all circumstances, be as effective as by patent, and would it not present certain pitfalls, as a matter of course probably no patent laws would exist in this world. Protection by trade secret, however, is rather fragile, and the advantages of it - factually prevention of third parties to use the Invention, just because of third party does not know it! - should be carefully balanced against certain disadvantages unavoidably connected to protection by trade secret only.

2.1. Public Disclosure

By definition, the protection of trade secret disappears, essentially fully, as soon as secrecy is no longer given. A company protecting its Inventions merely by keeping them secret is under the permanent risk that a third party becomes aware of the Invention and thereafter, except in certain cases where the know-how in a legally not acceptable manner became available to the third party, is fully entitled to make unrestricted use of the Invention. A special risk insofar is the transfer of an employee, knowing of the Invention, to a different employer.

2.2. Patenting by a Third Party

Sometimes inventors and companies, respectively, believe that the risk of trade secrets becoming publicly known or easily accessible to the public is the greatest risk to lose the full protection by trade secret. Another possibility, however, is even much more dangerous: If a third parties, independently of the party having made the Invention earlier and having kept it as a trade secret, creates the Invention and gets patent protection based thereon, at least in the Western European countries the earlier inventing company cannot prevent patenting of the Invention by the later new creator. The reason is, of course, that protecting an Invention by trade secret only means that the Invention, by definition, does not become part of the state of the art, and accordingly cannot create and be the basis, respectively, for attacking a later patent application because of lack of novelty and inventiveness, respectively.

The only right the earlier inventor/company retains in such an instance is that in spite of the patent of the later party the use of the respective Invention may be continued. This is restricted, however, at least as far as Germany is concerned, similar rules applying to the other countries of Western Europe, first of all to essentially the same kind of use as already conducted before the Invention of the third party was applied for patent. In other words, if before the secondary Invention and its application date, respectively, in a certain country covered by the third party by later patent protection a product was only sold, it is not possible to switch

to manufacturing. In Germany, at least, however, if a company (first inventor) has alredy manufactured before the priority date of the secondary application, also later switching to marketing (sale) and use is permitted. Additionally, the aforementioned right, the so called right of prior use, is restricted to using the Invention by the owner of the trade secret itself, no licensing being possible. Furthermore, the right of prior use is restricted to the country where the trade secret was used before the priority date of the later patent application, and no exports into other "patented" countries (of the third party) are possible, even not under the doctrine of the permittance of parallel imports according to the rules of the European Union.

In other words, approximately the worst thing that can happen for the owner of a trade secret is that the respective Invention is "repeated" by a third party and patented. In this case, the owner of the trade secret is restricted to a very limited right of continuation of use in the country where the trade secret was already used before, without the right of licensing, and without export rights. The right of prior use can only be sold, according to German law, at least, and the same applies to most Western European countries, together with the company itself owning the respective right of prior use, but not separately therefrom.

2.3. Remedies

In view of the aforementioned pitfalls of protecting Inventions by trade secret only, very little can be done to protect against these disadvantages as far as the risk of public disclosure is concerned. Practically secrecy measurements, as discussed particularly under 1.2.1. are the sole remedy.

Something can be done, however, against the much bigger risk for the owner of the trade secret, namely that a third party independently of the first inventor makes the same Invention and obtains patent protection for it, as discussed under 2.2.: The solution in instances of this kind is that the trade secret is published, at the time when the decision not to file a patent application is made, at a rather remote place and in a rather remote publication, like a public gazette or the like, newspaper, magazine etc., such publication being to be made in a manner

which satisfies the requirements of creating printed state of the art in the sense of general patent laws, on one side, but on the other side not creating a too big risk that the respective publication is really read by the "civilized" world, i. e. persons and companies interested in the respective technology.

It has been heard of instances where, e. g., German companies have published articles relating to the manufacturing of certain chemicals in scientific papers of rather local importance e. g. in New Zealand. When drafting such a "hidden" publication, besides of making sure that in general the requirements of patent law in relation to novelty destroying publications are met technically, one also must make sure that the respective newspaper article etc. describes the Invention in such a manner that the expert can learn and derive it therefrom, since otherwise even for this material reason no novelty destroying character of the publication would be created.

3. Strategy for Optimizing Costs

The various possibilities to obtain IPRs in Europe create the chance that a potential licensor wishing to protect its technology etc. in Europe makes use of various systems in a particularly smart form. In the following it will be discussed in which way cost minimization, at the same time guaranteeing the full legal effect of IPR protection in Europe, can be achieved.

Further aspects how to proceed in relation to patenting also will be explained in some detail as follows:

3.1. Homework

For obvious reasons, the potential licensor (or entrepeneur seeking for capital investment etc.) wishing to protect IPRs in Europe, as an example, and looking for cost savings should do as much of the work necessary to protect its technology in its home country by himself. The best

way to do so, first of all, is to conduct a patent search and to determine whether the technology is protectable by a patent or not. After that has been done, a priority basing “home“ application should be made, based on which in accordance with the Paris Convention within a term of 12 months after the application date in the home country foreign applications can be made. It should be stressed that the application from the very beginning should be drafted in such a manner that it as closely as possible corresponds to the requirements of the European Patent Office, so that lateron, namely whenever filings covering Europe according to one of the methods available are conducted, only minimum modifications are still necessary. Besides of that, the inventor and applicant might wish to prepare an English language version of the application already so that, when filing in English speaking countries, including EPC, no translations costs will arise.

3.2. Use of PCT

The main advantage of PCT has to be seen in two aspects:

First of all, even until the end of the priority term, i. e. at the last day of the twelfth month according to the Paris Convention, by depositing an international application under PCT at the Chinese Patent Office, in the domestic language a valid application date can be secured, virtually, for all designated countries, including, of course, U.S.A. and the European countries, provided that lateron the national procedures are executed. Only twenty months after the priority term, instead of otherwise twelve months, the necessary translations etc. will have to be filed at the national patent offices of the designated countries, EPC as lateron CPC being applicable under PCT as one regional patent. If international examination is requested, the aforementioned term is even extended until thirty months after the priority basing term. This "extension effect" of the PCT according to the author's experience is the greatest advantage of PCT.

Particularly if at the end of the priority term it is not clear for an applicant whether the invention can be successfully evaluated in foreign countries, e. g. because of license negotiations

still pending, it can be of great value to "buy" an extension possibility for world-wide protection of the invention by means of the rather cheap PCT application, which does not involve translation costs yet. A big advantage insofar is also that for designating more than ten countries under PCT no further designation fees have to be paid. So, the real cost-causing decision as to whether patent protection in the designated countries and regions, respectively, of a PCT application should be sought for can be postponed until the end of the above mentioned periods of twenty and thirty months, respectively, after priority date.

3.3. National Patents or EPC?

Under cost aspects, a potential licensor seeking for patent protection in Europe should duly note that, as long as patent protection is only wished in less than three countries belonging to EPC, it will usually be cheaper to file national patent applications. Starting from the third country, however, EPC should be preferred under cost aspects, three countries being the break-even point, as far as external costs are concerned. The internal cost savings will be added thereto, of course, since the applicant only has to deal with one examination procedure, with a lot of internal R+D work etc. to be saved because of not having to answer tricky questions of patent agents in various countries.

4. Copyright Protection

Copyrights, which are unregistered e. g. in Germany unlike in many other countries, sometimes give an additional, sometimes the only protection for e. g. pure software or business methods, which according to the law of many countries, like under EPC, cannot be be patented “as such“.

Copyright Protection is created automatically, which is a specific favourable feature thereof, namely by the mere creation and “objectivation” of the respective software etc., i. e. whenever it has been written down, recorded etc. by the author in an objective, provable form. The disadvantage of copyright protection is that it protects exactly against what it says,

namely “copying”, so that it can not be enforced against independent creations, which is different from the “absolute“ protection as obtained by patents.

5. Conclusions

The choice between protection of Invention by trade secret on one side and patent on the other side has to take into account many aspects. In the decision process, it first has to be considered that Inventions automatically becoming disclosed by sale of a product etc. can only be protected by patents, and not as trade secrets. If an Invention in principle can be protected by either trade secret or patent, the question of whether it is really possible to keep the Invention secret (because of cooperations, leave of employees etc.) carefully has to be checked. Against the risk of patenting by third, independent parties "hidden" publications etc. should be taken into consideration. If exploitation of the technology in question by licensing is considered, in most instances it is preferable at least to protect core issues of the respective technology by patents.