

# Trade secrets - early value chain: Research & Start-ups

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Photo by Stefan Els

# What it is and why we do it

## Research



the systematic investigation into and study of materials and sources in order to establish facts, develop new knowledge and new understanding of that which was not previously known



Finding solutions for problems and are mainly categorized as basic or applied research – which could include contract research.

## Start-up

- Rooted in innovation, aims to remedy deficiencies of existing products or create entirely new categories of goods and services,
- disrupting entrenched ways of thinking and doing business for entire industries.

# Preferred form of IP Protection

## Research

- Publication
- Registered IP (Patents, Designs and Trade marks)
- Copyright
- Confidential information
- Rarely trade secrets: trade secret only if not possible to patent / strong reason not to patent
- Contract research with non-disclosure obligations.
- In essence: If development is likely to be commercialized or licensed, patent protection seems preferable to trade secret protection

## Start-ups

- Hybrid
- Registered IP (Patents, Designs and Trade marks)
- Copyright
- Confidential information and trade secrets

# Protection Mechanisms

## Research

- Ideally it should come from a project where there has been a level of publication on aspects of academic interest that do not disclose the trade secret.
- Secure IT access and limited access on a need to know basis to the core docs that provide the info.
- No student thesis may be involved as these cannot be suppressed indefinitely.
- Transfer know-how trades secrets to spin-outs with responsibility to maintain security of the Trade secret as the team being exposed to TS is generally the team involved in the spin-off or benefiting from its commercialization.

## Start-ups

- Start-ups often face a **complex relationship** with their trade secrets.
- Strengths of early stage start-ups, such as collaborative work among a small number of business partners and open access to proprietary information by all team members, can cloud clear ownership rights and confidentiality obligations concerning trade secrets
- If the development is likely to be commercialized or licensed, patent protection seems preferable to trade secret protection.

## Hybrid models

- Hybrid patent/trade secret agreements are also widely used, as patent disclosures typically only cover embryonic or early R&D results that are not sufficient for the commercialization of the patented technology due to lack of access to collateral proprietary know-how.
- Know-how can be protected as a trade secret and does not need to be included in patent applications and is usually developed after applications are filed.
- Technical and commercial information and collateralization know-how that can be protected by trade secrets cannot contain generally known, easily detectable or personal information. This exclusion still leaves enough data and know-how that can be protected as trade secrets – and often with additional patents to improve.

# Identifying the trade secrets

## Determine the level of secrecy and relative value of the information



Investment of time and money to develop the trade secret



Advantage conferred by trade secret



What is known to the public or to competitors



Identify those within Univ/Start-up that know the trade secret



Be clear on consequence of disclosure

# The challenge

## Research

- University student exchange programs – contamination and solicitation risk
- Researcher/employee has stolen trade secrets and is joining a competing company that could easily capitalize on the information.

## Start-up

- Start-ups often lack clear guidelines concerning employee departures, which can create an environment ripe for trade secret theft.
- It is a good policy to require exit interviews of departing employees where the employee is: 1.) reminded of his obligations to the company; 2.) confirms no confidential information is still in his possession (often inadvertently stored on a Dropbox account or personal email accounts); and 3.) signs an acknowledgement that he has not retained any confidential information.
- *Risk management and trade secret protection strategies*

- There are no international conventions on the scale of the Paris and Berne Conventions relating to trade secrets.
- Trade secret rights vary considerably from one country to the next
- In some countries, trade secrets are not considered property rights at all. They may only be protected by contract and cannot be “transferred”
- In some countries there are severe restrictions on the enforcement of trade secrets, and thus licensing of trade secrets.
- Agreements are not security:
  - limit the amount of proprietary material provided to those portions of the technology absolutely required
  - Have a mechanism to inspect the other party's security measures and site, without notice.
  - Once disclosed information stays in the minds of the recipient and may contaminate future work products: It is impossible to erase some ideas and techniques from the brains of those to whom they have been disclosed.



# The Due Diligence

IT security: information are often held on a server or PC - verify "hack" attempts recipient been exposed to in the past; password use and change requirements

Procedures are in place to advise employees that there is third party confidential information on site that must be protected from disclosure

Use of email and online (cloud) storage of information

Thoroughly checking out the reputation and premises of a recipient *before* confidential information is disclosed.

When dealing with any party in a foreign country, consultant foreign in-country counsel

# Foreign Direct investment (FDI)

## Study in 2022 - MA Klein

- Patent and trade secret protection have distinct implications for the degree of technology transfer.
- Strengthening patent protection always decreases technology transfer because it:
  - directly reduces technology transfer by restricting the use of patented information, and
  - increases relative profits from FDI specifically by reducing the cost of preventing further technology transfer through worker mobility.
- Strengthening trade secret protection can stimulate technology transfer because it:
  - restricts the use of tacit knowledge, which increases relative profits from FDI
  - by decreasing the effective cost of allowing worker mobility to occur.

## IP Policies

- Policy should address not only the intellectual property owned but also the prohibition of the unauthorized use of third party intellectual property and securing access to trade secret information available to staff
- Supplement the general policy with specific policies regarding the use of equipment and technology, e.g.:
  - staff use of computers, e-mail, social media and the Internet;
  - secure Employer's right to monitor employee's use; Document retention policy (hard copy and electronic)
  - Policy and procedures to identify risks of disclosure and to report violations

# Most used vehicle for Trade Secret protection - Contracts

## Types of Agreements



Non-compete agreements – Post termination and Pre termination



Anti-solicitation agreements – Employees – Customers – Clients



Non-disclosure agreements – Limitations on use of information – Obligations of return/destruction

# Non-competes - who ?

- Identify staff/researchers that would truly hurt the company if he/she quit and went to work for a competitor
- Key employees
- Employees with R&D responsibilities
- Sales agents
- Customer service representatives

# Non solicitation – who?

Inter- university transactions

Consultants/customers/clients:  
Research and Early start-ups

- Restriction should be limited to those customers with whom the employee had contacts and/or supervisory duties
- Limited in duration until employee's replacement can be secured

# Debriefing and Exit interview

Every employee should receive an exit interview upon the termination of employment

Review terms of executed agreements

Discuss types of confidential information and duty to keep information confidential

Return all physical items containing confidential information

Employee should execute an acknowledgment

# Protecting Trade secrets in Technology Transfer

Sign	Sign a non-disclosure agreement before negotiation commences.
Negotiate	Negotiate detailed clauses on ownership and protection of confidential information including trade secrets.
Require	Require recipients of trade secret to maintain its secrecy during and after the term of agreement.
Impose	Impose strict control measures over use and penalties against disclosure or breach of trade secret by recipients.
Define	Define scope of rights to access, the right to use and the right to disclose trade secrets.
Specify	Specify that the ownership of any modification of your trade secret belongs to you.



# Take-aways: Tips for Trade Secret Protection

- Identify and keep record of trade secrets.
- Develop a trade secret protection policy, monitor its compliance and prosecute violators.
- Limit access to trade secrets to the only “need to know” persons.
- Mark documents “confidential”.
- Physically isolate and protect trade secret documents.
- Restrict public access to facilities that house trade secret.
- Maintain and implement computer secrecy policy.
- Include non-disclosure and non-competition clauses in employment agreements.
- Include a non-disclosure clause in agreements with contractors.



forward together  
sonke siya phambili  
saam vorentoe

A wide-angle photograph of a university campus. In the foreground, a large, multi-tiered set of red brick steps is the central focus. Numerous students are scattered across the steps, some sitting in groups, some walking, and some standing. The background shows a large, light-colored building with a red-tiled roof, surrounded by lush green trees and a clear blue sky. The overall atmosphere is that of a busy, vibrant academic environment.

# Thank you

Photo by Stefan Els