



“In Confidence” – Putting in Place a Trade Secret Protection Program in an SME

**WIPO Training of Trainers Program on
Effective IP Asset Management by SMEs**

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INTRODUCTION

What are TS ?

■ Definition:

Any business information that

- has an economic **value**
- is **not generally known** or easily accessible
- is kept confidential through proper **measures** (*reasonable steps*)

What are TS ?

- Idea:

By keeping valuable info secret, prevent competitors from learning about and using it and thereby enjoy a **competitive advantage** in the marketplace.

A Story...

DuPont vs Kolon Industries

- DuPont's core patents on Kevlar (para-aramid fiber) expired.
- DuPont developed trade secret (TS) estate over 40 years on application development and process improvement.
- Kolon and several of its executives and employees have been indicted for allegedly engaging in a multi-year campaign to steal TS related to DuPont's **Kevlar** para-aramid fiber.

DuPont vs Kolon Industries

■ The trade secrets at stake ?

- details about DuPont's manufacturing processes for Kevlar
- experiment results
- blueprints and designs
- prices paid to suppliers
- new fiber technology
- breakdown of DuPont's capabilities and costs for the full line of its Kevlar products
- customer pricing information
- analyses of market trends
- strategies for specific Kevlar submarkets

DuPont vs Kolon Industries

■ The remedies?

- The Court ordered Kolon to not produce, market or sell any para-aramid fiber products, worldwide, for 20 years.
- Permanently enjoined Kolon from using any of the TS it stole from DuPont.
- Pay US\$ 920 million damages.

TRADE SECRETS FROM AN ECONOMIC PERSPECTIVE

Trade Secrets - The facts

- **Information & know-how** = primary business asset of this century.
- For vast number of businesses: **most valuable IP asset**
 - *USA, NSF Survey, 2012*: TM and TS identified by the largest number of businesses as important forms of IP.
 - *EU, Study on TS and confidential business information in the internal market, 2012*: Secrecy appears to be much more heavily employed across most industries than previously.

The Facts

- Few recognize that vast majority of information assets are protected exclusively by **trade secret law**.
 - Lack of awareness
 - Traditional approach of IP (unrecognized)
 - No harmonization: no consensus on definition, protection, etc.

The Facts

- While the information economy has made TS more important, it has also made them **more likely to be lost** or stolen.
- Some figures:
 - Germany, 2009: estimated losing around **€50 billion** and **30,000 jobs** to industrial espionage.
 - USA, 2014: TS theft estimated **1 to 3 percent of US GDP** (www.create.org/protect-your-trade-secrets)

A Growing Problem – Why Does it Occur?

- **Way we do business today:** global marketplace, increased use of contractors, temporary workers, outsourcing
- **Declining employee loyalty:** more job changes
- **Organized crime:** discovered the money to be made in stealing high tech IP
- **Storage facilities:** external memories, keys

Why Do/Should SMEs Protect TS?

- **Competitive advantage**
- **Future use of other, potentially more effective, IP rights**
- **Extra income**
- **Remain ready for commercial opportunities**
- **Easy form of IP protection**
- **Open innovation, networked innovation**

Most Highly-Valued Types of TS:

- Source code
- Commercial bids and contracts
- Customer or supplier lists
- Financial information and business planning
- R&D data
- Process know-how and technology
- Formulae and recipes
- Product technology
- Marketing data and planning
- Secret know-how concerning the best mode of practice of a patented invention

TRADE SECRETS FROM A LEGAL PERSPECTIVE

What Types of Information can Qualify as a TS ?

A gigantic amount !

- Not limited to technical items
- Need not to be particularly inventive or novel (mundane things can qualify)
- You may have spent little or no money or effort to obtain the information

Financial
Information

Technical &
Scientific
Information

TRADE SECRET

Commercial
Information

Strategy
Information

Examples

Technical and Scientific Information

■ Manufacture Information

- production methods, processes, formulas, tolerances, technological know-how (e.g. weaving technique, process to treat metal)
- raw materials, specialized machinery

■ Quality Control Methods

■ Product Information

- technical composition of a product
- technical data about product performance
- service/maintenance manuals
- status of products under development

■ **Drawings, designs, patterns, prototypes**

■ **Computer technology**

- hardware + software (esp. source code)
- algorithms, formulas, data flow charts, circuitry
- software design documents

■ **Laboratory notebooks and invention disclosure reports**

■ **Pending patents or applications**

■ **Negative Know-How** (e.g. dead-ends in research)

Examples Strategy Information

- **Business, Marketing, Advertising and Investment Strategies**
- **Business Methods that confer a particular advantage**
- **Market Research & Competitive Intelligence Reports**
- **Agreements**

Examples

Financial information

- **Financial projections**
- **Cost & pricing information**
- **Sales data, price lists**
- **Internal cost structure**
- **Salary and compensation plans**

Examples

Commercial information

- **Supplier information**
- **Customer information**
- **Personnel information**
- **Contract terms**
- **Databases**
- **Sales methods**

Legal Protection of TS

■ Why?

- Substitute for excessive investment in physical security (only reasonable)
- Facilitates disclosure in contract negotiations over the use or sale of know-how that otherwise would not occur
- Remedies
- Aims to create a supportive environment for R&D and invention, by ensuring that innovative businesses benefit from their creations

Three Essential Legal Requirements:

- The information must be secret
- It must have commercial value because it's secret
- Owner must have taken reasonable steps to keep it secret

BUSINESS



- Do-it-yourself form of IP
- Prevention is better than cure!
- In-bound and out-bound protection

LAW



- Automatic
- Potentially forever
 - Only if treated as confidential
- Remedies, but TS status can be lost
 - No monopoly

No monopoly:

- Independent development
- Reverse engineering

No Monopoly: Independent Development

Company Lien	Company Pierre
Database. Compares different brands of beer advertising and resulting annual sales.	Independently creates similar database.
TS. Used to determine how to allocate advertising budget.	Publishes in business book.

No Monopoly: Reverse Engineering

Company Lien	Company Pierre
Creates new beer with a taste of cigarettes and gasoline.	Buys a bottle of Lien's cigarette beer. One of its chemists examines the product, learns its formula and produces similar beer under his own trademark.
The formula of the beer is a trade secret.	The formula is no longer a trade secret.

No monopoly:

- Result: Often limited protection for features of innovative products after the product is put on the market (if the protected features are apparent from the marketed product)

TS in a Nutshell



- Wide category
- No disclosure
- No fee
- Immediate protection
- Potentially forever

SMEs: non-incremental + cost



- Confidentiality measures
- No monopoly
- Danger of leakage
- No harmonization
- Enforcement difficult ?

Legal Protection in Jordan

- Trade Secrets and Unfair Competition Law No. 15, 2000

- www.wipo.int/wipolex/en/details.jsp?id=2606

- WIPO Lex

- www.mit.gov.jo

- Ministry of Industry and Trade

- Paris Convention (art 10bis) + TRIPs (art 39)

- Unfair competition

TRADE SECRETS FROM A PRACTICAL PERSPECTIVE

1. Identify and Document Trade Secrets

- Accurate record keeping is important
- May be of extreme use in case of litigation

2. Develop a Protection Policy

Advantages of a written policy:

- **Clarity** (how to identify and protect)
- **How to reveal** (in-house or to outsiders)
- Demonstrates **commitment** to protection → important in litigation

■ Educate and train:

- Clear communication and repetition
- Copy of policy, intranet, periodic training & audit, etc.
- Make known that disclosure of a TS may result in termination and/or legal action

■ Monitor compliance, prosecute violators

3 .Restrict Access

to only those persons having a
need to know
the information

→ computer system should limit each
employee's access to data actually
utilized or needed for a transaction

4. Mark Documents

■ Help employees recognize TS

→ prevents inadvertent disclosure

- paper based
- electronic (e.g. 'confidential' button on standard email screen)

5. Physically Protect

- **Separate locked depository**
- **Authorization**
- **Access control**
 - log of access: person, document reviewed
 - biometric palm readers
- **Surveillance of depository/company premises**
 - guards, surveillance cameras
- **Shredding**

6. Restrict Public Access to Facilities

- Log and visitor's pass
- Accompany visitor
- Sometimes NDA/CA
- Visible to anyone walking through a company's premises
 - type of machinery, layout, designs, physical handling of work in progress, etc

7. Maintain Computer Secrecy

- Secure online transactions, intranet, website
- Password
- Mark confidential or secret (legend pop, or before and after sensitive information)
- Lock up: computer tapes, discs, other storage media
- Firewalls; anti-virus software; encryption
- TS protection in the cloud

8. Measures for Third Parties

- Consultants, financial advisors, computer programmers, website host, designers, subcontractors, joint ventures, etc.
- ✓ **Confidentiality agreement, NDA**
- ✓ **Limit access on need-to-know basis**

9. Measures for Employees

1. New employees

- Brief on protection expectations early
- Obligations towards former employer!
- Assign all rights to inventions developed in the course of employment
- NDA/CA
- Non-compete provision



Non-Competition Clauses in Labor Contracts



After employee leaves prior employer:

- **May he work for competitor?**
- **May he work in related job?**
- **May he open a competing business?**
- **Is a covenant not to compete enforceable?**

- Some jurisdictions: NC covenant binding if ‘reasonable’
 - **limited in time**
 - **limited in area**
 - **limited in type of industry**
 - **special compensation to be paid to employee for his obligation not to compete**

- Some jurisdictions: in writing + payment

2. Current employees

- Prevent inadvertent disclosure (**ignorance**)
- Train and educate
- NDA for particular task

3. Departing employees

- exit interview
- letter to new employer
- treat fairly & compensate reasonably for patent work

TRADE SECRETS FOR BUSINESSES

CONCLUSIONS

- SMEs can gain tangible benefits **from understanding the value** of their trade secrets.
- Increasing company-level awareness of the internal and external **threat** environment facilitates enhanced protection of trade secrets, and the potential for a long-term competitive advantage.

Putting in Place a Trade Secret Protection Program in an SME

Thank You.

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