Trade Secrets and Trade-Secret Licensing

Herewith a brief summary of my credos, insights and truisms about three salient Trade Secret issues, namely:

1) the importance of Trade Secrets,
2) the complementariness of Patents and Trade Secrets, and
3) the criticality of Trade Secrets in technology licensing and technology transfer.

My views would strike you as iconoclastic, if not heretical, should you believe, as does a noted professor in Washington, that Trade Secrets are the "cesspool of the patent system." Nothing, of course, could be further from the truth!

1) Trade Secrets are not only the oldest but also the most prevalent form of IP protection.

Over 90% of all new technology is grist for Trade Secrets. Patents are but tips of icebergs in an ocean of Trade Secrets.

All technical and business information, including inventions, know-how and show-how can be maintained as Trade Secrets.

Thus, Trade Secrets are not just for early-stage and subpatentable developments and manufacturing processes at best, as many believe.

All companies and institutions have tons of potential Trade Secrets, whether or not they appreciate it. But in an IPO survey awhile back, 88% rated Trade Secrets as their most important intellectual assets. So it's no surprise that Trade Secrets are often referred to in industry as "crown jewels."

And, especially internationally, Trade Secrets are the "workhorse of technology transfer." (Bob Sherwood)

Further proof of the importance of Trade Secrets is the fact that in recent Trade Secret litigation, Walt Disney, Cargill, and Toshiba each had to shell out several hundred million dollars in damages for Trade Secret misappropriation.

(Incidentally and very interestingly, Trade Secret protection operates without delay or undue cost against the whole world, unlike patents which are territorial and so expensive to obtain and maintain that only very selective foreign filing is done.)

2) Regarding the Patent/Trade Secret interface, let's keep in mind that all Patents are born as Trade Secrets, and that Trade Secrets also accompany Patents and outlast Patents.

Patents and Trade Secrets are not mutually exclusive, as is generally assumed, but highly complementary and mutually reinforcing. In other words, they dovetail. "The co-existence is well established," according to Don Chisum.

Hence, the question is not whether to patent or to padlock, but rather what to patent and what to padlock simultaneously. There is much overlap between Patents and Trade Secrets that can and need be exploited for synergistic dual protection as a matter of an effective IP strategy.

3) And lastly, anent the criticality of Trade Secrets in technology licensing (also in franchising), let's be mindful that over 80% of technology licenses cover Trade Secrets or are hybrid licenses covering Patents and Trade Secrets. Furthermore, it is indisputable that licenses under Patents without access to the associated or collateral know-how are often insufficient to practice the patented technology commercially.

A patent specification is often too brief and too general and discloses only embryonic or rudimentary R&D results rather than the ultimate scaled-up commercial embodiment.

The "best mode" requirement is no impediment as it applies only to the knowledge of the inventor(s), only at the time of filing and only to the claimed invention.

I have several authoritative quotations about the overarching role of Trade Secrets in technology licensing. Let me recite just one from Mel Jager. "Trade Secrets are a component of almost every technology license … (and) can increase the value of a license up to three times to ten times the value of the deal if no Trade Secrets are involved."

Thus, as a licensor you would leave money on the table, if you did not include Trade Secrets in the transaction.

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Hence, exploiting the overlap between Patents and Trade Secrets for optimal protection is a practical, profitable, and rational IP management and licensing strategy.

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