TRADE SECRETS: THE FUNDAMENTAL IP RIGHT

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TRADE SECRETS ARE BROAD AND VAGUE

• Any secret and useful information
• Potentially permanent, although non-exclusive
• Legal rules based on business ethics
• By far the most used form of IP
• Usually defined only in litigation
EXAMPLES

• Secret process and formulas
• Designs and machines
• R&D, including failed experiments
• Business and financial plans
• Bid packages
• Vendor data
TRADE SECRET CIVIL LITIGATION

- Intensely emotional, like a divorce
- Expensive and distracting
- Difficult to predict outcomes
- Misappropriation can be indirect
- Damage theories and awards are generous
HIRING

• New employees are primary source of infection
• Temporary workers are riskier
• Consultants present highest risk
• Careful intake is first step to protection
• Continuing education sets the tone
THE “MAKE vs BUY” CONUNDRUM

• R&D wants to make it; marketing wants to buy it
• Management suggests looking around
• Problem: the team includes R&D folks
• NDAs are signed without thinking through
• Result: project stalled, lawsuit filed
CRIMINAL EXPOSURE

• State laws since early 1960s
• Federal Economic Espionage Act 1996
• Fines up to $5M, 10 years prison
• Example: Avant!: $195M, jail for execs
• Compliance plans lower risk of infection and of indictment
TRADE SECRETS AROUND THE WORLD

• Owning information: a cultural disconnect
• Local laws varied enormously
• Harmonization (GATT TRIPs)
• The “wax fruit” problem
• Even in modern economies, lack of “discovery” system inhibits
• Result: police, politicians, local lawyers
TRANSACTION STRATEGIES

• Know the export regulations
• Check local compulsory licensing reg’s
• Check time limits set on confidentiality
• Check local limits and taxes on technology transfers and licenses
• Penalty clauses for breach of confidence
• Consent to U.S. venue for disputes
PRACTICAL STEPS

• Choose markets and factory sites carefully
• Check out licensees thoroughly
• Choose overseas managers carefully
• Use localized NDA’s for key employees
• Monitor licensees and business partners for confidentiality compliance
• Share only what they need to know
PRACTICAL STEPS (cont’d)

- Contract limits on information exposure
- Specify security measures for foreign facilities and communication systems
- Prominently mark sensitive records
- Avoid local telephones, use encryption
- Use electronic countermeasures
- Separate information into modules
CONCLUSIONS

• It’s a jungle out there
• Legal processes provide limited protection
• Risk of loss and risk of infection
• Look before you leap into a foreign market
• Vigilance and prevention are key