

Protection of Know-How

Protection is based on document itself; no absolute definition of trade secret, and comment on EEC Commission Draft Regs

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PROTECTION OF KNOW-HOW

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The licensing document itself is the protection, there is no patent or other form of public registration to fall back on. The interpretation of the license is decided according to the law selected by the parties, and one should select an advanced form of law, English or an American state perhaps, which gives effective protection by prohibiting unauthorized use or disclosure. However there is little point in selecting a law because of the remedies it gives, if the license is for a country where such remedies are not normally granted. In such cases the license must be consciously written to make damages an effective deterrent or remedy against breach.

WHAT ARE TRADE SECRETS AND KNOW-HOW?

There is no absolute definition, as there is with patents. Any information, oral or written, any physical thing (a die mould) is capable of being know-how if not known or available to a substantial number of people who would be willing to pay money or carry out work or research to get it.

The clearest category of trade secrets are inventions which are published eventually as patents, or designs which become known when the article is put on the market: to know and be able to use them before this publication is of commercial advantage — and a good subject matter for license.

The other main category is processes or knowledge of techniques which have been developed as the best way of doing something already generally published, or technical information enabling optimum use to be made of some particular technology in specific applications, e.g. knowing how best to adapt a technology to particular requirements.

GIVING AND EXCHANGING KNOW-HOW

It is unusual for trade secrets to consist of a finalized packet which is handed over complete: Normally whether they relate to a new patentable invention or

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to experience in optimising a generally known technology, developments are expected to be made after the initial disclosure, by one or both sides, and to be shared in subsequent disclosures. This is one of the essential distinctions between the principles of the law of patents (where an invention is invalid unless it is complete and operable, and subsequent developments must qualify as later inventions), and trade secrets (where experience and steady improvement are part of the basic nature of the subject matter).

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To protect the original disclosure, and subsequent ones, the parties and their agents must be under contract of confidence not to use or disclose except to the extent necessary to carry out the purposes of the license.

Basically, if it is clear that something secret is being handed over for a limited purpose, e.g. a design for an article disclosed to a mould-manufacturer who is to make the mould, then in Anglo-American law an implication of confidence which will impose an obligation on the recipient not to do anything that destroys the value of the disclosure, viz, its secrecy.

Naturally in licensing this will be expressed, but it is surprising how often the written document is defective in the after-light of events, and implications are attempted to be relied on by one or both parties to cover matters not expressed.

The guiding light in writing a license is that something valuable is being handed over for a mutually-agreed limited purpose, and must not be otherwise used. However, if a licensor oversteps the mark and places restrictions not justified by the need to maintain secrecy, he will be unjustifiably restraining trade, and the agreement will be invalid.

Thus it is vital to ensure that only secret material is subject to restrictions. This is commonly done by defining information which cannot be used or disclosed as that which is at any relevant time is confidential, i.e. not in the public domain, except by default of the recipient. In this way, as subject matter becomes unprotectable it is automatically excluded from the scope of the license.

Licenses are often written in the euphoria of hard-gained agreement between commercial and technical men, and too little thought is given to what happens in the event of dispute, or when the license ends for any reason. But no good writer of licenses should be able in the case of know-how to think of the relationship between the parties without having in mind the necessary or desirable consequences for the fate of the know-how arising from breach or termination. This is

because the very nature of the subject matter is created by the license. The licensor cannot fall back on his general rights like a patentee, and the licensee cannot fall back on a general right like that of revoking a patent. If the license goes, there is nothing regulating the rights of the parties: therefore the license must deal fully with that situation.

FORM OF LICENSE

I think that the Recitals should be given careful attention, not only because they can fill out the purpose of the license usefully, but also because by writing and agreeing them the parties are forced to look at the purpose of their relationship, and not just at the detailed effect of the terms. "Why is the know-how valuable?" "What do its value to the licensor, licensee and those who may discover depend?" "How, in what forms and why is it going to continue to exist and develop?" "How and to what extent should the licensee be able to manage to continue his operations, and the licensor keep his secrets if they part?"

PAYMENTS

The easiest payment is a lump sum, but that is not conducive to a long relationship. Any royalty is bound to be somewhat arbitrary because, assuming you know the sort of value of article it is to be levied on, what arrangements should be made for added value in added know-how, for payment in kind through disclosure of licensee's improvements, for loss of secrecy of part but not all the trade secrets?

The same thing arises with patents: but it is usually unrealistic to alter the royalty according to how many valid patents are used — the question is the value of the patent protection not the number of patents, valuations will differ from time to time, but it is not easy to put in sophisticated arrangements for reassessing royalty by agreement, because the license is then in constant turmoil. The problem is harder with know-how, because with patents both sides can fall back on the arms-length patentee-infringer rights. This is not possible with trade secrets.

EEC COMMISSION

The new Draft Regulation on notifiable patent licenses identifies terms considered bad under the Treaty of Rome. The only justification for such a decision is that terms go beyond what is justifiable as springing

from industrial property rights in accordance with article 36. The vital point is what is justifiable under the heading of "know-how." I have given the principles on which protection is based in law, the cardinal one being that information is handed over for a limited purpose. There seems little doubt whatever, both from a reading of the draft, and from informal discussions that these principles have not been recognized.

If the commission were to give decisions in particular cases on the same basis as is inherent in the Draft Regulation the reasoning in such decisions would be wide-open to attack in the Community Court on the ground that the commission had misunderstood the nature of industrial property rights insofar as they relate to know-how, and were therefore not in accordance with Article 36. I say this on the basis of the theorizing that apparently lies behind the Draft Regulation. Of course when called on to give specific decisions the commission will hear argument, and if consequent on that the reasoning in their decisions is consonant with trade secret principles, the Draft Regulation will be seen to be out of tune with such amplified decisions. It is always possible that in practice the results of commission's decisions would not do violence to actual know-how rights.

To take some examples of rules-of-thumb in the Draft Regulation as to what is *prima facie* bad, and which are wholly adrift from the principles of industrial property rights: The licensees' use of trade secrets is not to be limited to specific purposes; free use of still-secret material is not to be prohibited beyond three years from the end of the license (perhaps even if the license is terminated pursuant to a licensee's default); and licensee's improvements can be licensed to others than the licensor, a condition that could greatly undermine a relationship of confidence.

As a practical matter, one of the most difficult points underlying the draft is that royalty should be apportionable to parts of the licensed subject matter, and only paid on what is currently valid industrial property. This means that as know-how becomes public the royalty should lessen, though perhaps added improvements could be set in the balance. Very careful recitals as to intention and the type of value expected of the know-how would be required to avoid a flat-rate royalty being regarded as unjustifiable.

In conclusion, on this aspect, I find in the Draft Regulation an underlying failure to appreciate the particular nature of the industrial property right that arises from confidence relating to technical information, as distinct from the rights arising from patents, trademarks and copyright.