Secrecy Clause and the Licensee

Agreements pose problems when secret information must be divulged so licensee can evaluate proposition

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It happens frequently that a manufacturer has secret know-how which is essential to a licensing proposition and which must be disclosed to the potential licensee in order that he may evaluate the licensing proposition.

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The question of how to secure his position in such a situation is therefore of considerable practical importance. Very little, however, is to be found in licensing literature on this matter.

Let us take a brief look at the nature of the problem. If the licensing proposition rests firmly on industrial property rights, the situation of the potential licensor is reasonable secured in the national law of most countries.

The very nature of know-how, however, is different. Even if many countries accept the proprietory nature of trade secrets the question of its ramification remains vague and often confused.

Know-how consists of knowledge which the licensor has and the licensee has not got and which he may be willing to pay for the use of. As to trade secrets or proprietory know-how it is usually not necessary that the knowledge be unique. There may be more than one offeror. The essential quality is, therefore, that it is industrially useful information which can be obtained only by the expenditure of time, money and/or effort (see Eckstrom, Licensing in Foreign and Domestic Operations, 3rd edition, Boardman New York 1977, I-109 and IV-124 et seq.). Outside this area often called proprietory information is the broader field of know-how — the art of knowing to behave so as to get the optimal result in a given situation.

This wider part of know-how, although not necessarily secret, may also be of considerable value. Know-how, therefore, is a fairly wide and necessarily ambiguous concept. It embraces not only patentable inventions and developments which may be termed trade secrets, but also a fair amount of practical application necessary to obtain a given result. It is, therefore, evasive, some would say in the extreme and probably only worthy of definition in a given concrete situation.

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On the other hand, know-how has been one of the vital elements in cultural, and not least industrial development, and (in this sense) is universally accepted and very often admired. Its legal ramifications, however, must necessarily be vague. Moreover, it must be admitted that probably because of this, the necessity of legal sanction has not been universally understood. Indeed, there seems to be a thorough lack of understanding of the value of know-how, even in the Commission of the European Common market, as the draft regulation on patent licensing seem to indicate (see Amede Turner in *Les Nouvelles*, Vol. XII Sept. 77, page 166 et seq.).

Most countries, however, afford some kind of legal protection to the owner of know-how in the form of copyright, prohibition against plagiarism, protection of artistic and scientific creations, etc. The problem is partly that they are meant to protect some artistic or other specific virtue, and secondly a very wide burden of proof in order to obtain protection.

On the other hand, nearly all countries have very concise rules to defend contracts and to protect against misuse and breach. Therefore, the obvious instrument used in trying to defend one's know-how is to make a specific agreement on *why, what and how* to keep it secret. This is the aim of the secrecy agreement (clause).

The secrecy clause has three distinct functions:

a)—Partly it is the question to define what is to be kept secret and in what ways.

The underlying reasons, however, are:

b)—Partly to create an awareness of the necessity of secrecy and,

c)—Partly to secure a direct legal claim based on contract for the breach of secrecy.

A simple illustration of *b* is the stamping of a drawing so that it is clearly marked as to ownership and confidentiality. A simple form of *c* is the secrecy agreement imposed by many firms on visitors to certain areas of their production or research.

The situation of the potential licensor, however, is more complex and may be more embarrassing. It should be emphasized that it only arises where secret information must necessarily be transferred. In many instances this is not unavoidable, and this must be carefully considered.

Study Needed

If it is necessary to transfer trade secrets, it must be studied for what reason, and in what spirit such transfer of information must take place, and a specific agreement should be drawn up. At this stage it is important to define and balance the two elements of creating awareness and legal protection.

There are two common types of such agreements with variations. We may first want to keep our alternatives open, to present our proposal to more than one on a non-exclusive basis. That kind of agreement often is called a *provitional agreement.* Secondly, we may want to extend a definite option on an exclusive basis and then the agreement is often called an *Option Agreement.*

I shall not go into much detail as to the relevant clauses, as examples of such agreements will be discussed later, but very briefly a typical agreement would contain the following conditions:

In the first place it is often useful to describe the situation and intention of the parties—the aim and the atmosphere of the transfer. This is conveniently made in a preamble.

One clause should state whether the transfer is exclusive (option) or nonexclusive. Another clause should state the unconditional acceptance of secrecy (which would continue after termination of the agreement) and describe the aim and restrictions of use. In order to strengthen this — to create more awareness — a clause is often inserted to define who is to know and secure that they are pledged to secrecy in their term. Care should be taken to ensure that this is lawful. Another clause is used to define the time allowed and possible stages.

Termination

As to termination there are two possibilities. Either the recipient is not interested; he shall then be pledged to no further use, to return all information, and to continued secrecy. If he is interested, a description of further developments — negotiations — is required.

A vital question is consideration, both because it is indispensible in Anglo-Saxon law, but also for commercial and tactical reasons.

Last, but essential, is the consequence of breach of the security clause. This will vary considerably, but in some instances it is found useful that the recipient accepts to pay a specific amount of money (liquidated damages).

Certainly the "boiler-plate" clauses, especially the disputes clause, may be of decisive importance in this type of agreement. The choice of law will be balanced in favor of the recipient, and court procedure would seem advantageous, especially where the weight is on legal protection.

Stress Possible

It should be recognized that this type of agreement may inflict considerable stress. It is important that claims of secrecy in contravention of law or already in the public domain are void and may explode the whole agreement. But also claims of secrecy for knowledge already in the recipiants lawful posession, will be illegitimate. It is, therefore, important for the recipient to establish his state-of-art before signature. Certain firms have their information verified at this stage by Notarius Publicus.

On the whole, however, these agreements, have been found fair, practical and useful.

A brief warning signal in the end: Certain firms — especially large U.S. corporations -- refuse this kind of agreement and ask for signature on a statement in which they explicitly state that they are not bound to keep any material received confidential. This claim seems to me directly unethical. Anyway, compliance puts the potential licensor in a lawless vacuum. So my very brief advice is *avoid them!*