Problems in Secrecy Agreements

Discussion on key issues in secrecy agreements; guide for handling secrecy agreements which appear routine but are not

BY KEISHI NAMIKAWA*

A secrecy agreement aims at protection of the proprietary value of certain secret information (know-how is an example but not limited to it) when the owner of the information has to disclose it to others, by prohibiting other persons who would receive such information from using it except as licensed, and from disclosing it to a third party, and thus keeping its confidentiality.

The property value of confidential information will be lost with the forfeiture of its confidentiality. Therefore, it is a matter of course for the receiving party to assume appropriate confidentiality obligations so that the property of a pioneer in terms of technology and other aspects who discloses any confidential information, may be protected. However, the receiving party should not be unduly burdened with restrictions as the result of too much emphasis being placed on the protection of the disclosing party.

Generally, the number of secrecy agreements actually concluded is the largest of all the agreements relative to licensing, but it seems that there are many cases where a secrecy agreement is handled as routine work since it is composed of a relatively small number of pages. However, we sometimes encounter cases where a particular provision which was thought little of at the time of the conclusion of the agreement, eventually evolves into unexpectedly tight restrictions against various company activities. In this paper, I shall present views on key issues in secrecy agreements.

TERM OF SECRECY AGREEMENTS

One of the points to be kept in mind in concluding a secrecy agreement is to determine how long its term should be. An agreement without any specified term must be regarded as an endless agreement. Accordingly, when a secrecy agreement is concluded without any clarification of the term, the obligations of the receiving party not to disclose and not to use the information involved for any other purpose must continue forever.

It is also presumed that such an agreement must be kept in custody permanently. For this reason, it is preferable to set forth an appropriate limited duration, even in the case of an agreement for secrecy. Some may believe that, since technology will continuously advance and new technological development will be announced one after another, it is enough to provide a clause to exempt the confidential obligations of the receiving party with respect to the technology in the public domain.

However, considering the problems and complexity of proving the disclosed information is in the public domain, the term of an agreement should be limited so that after a certain period of time the receiving party will be definitely released from the confidential obligations.

When the term of a secrecy agreement is to be limited, what extent of the duration is appropriate? The term should vary depending upon the content and level of the information to be disclosed, the life of the art, and so forth. For example, the secrecy period at the evaluation phase is generally shorter than that appearing in a license agreement.

From the standpoint of the party which discloses confidential technical information, some may say that the longer the secrecy period the better the protection it provides. I suggest, however, the validity life of patent rights (15 years in Japan, 17 years in the United States, etc.) as one criterion. Some countries restrict the secrecy period even more. The U.S. Department of Justice has introduced this concept: the period which the party who received the disclosure of technical information under a know-how license agreement would have taken to develop an equivalent technology for itself, in case they had not received such a disclosure (such a period is referred to as the "Reverse Engineering Period"). The Department holds that it is questionable in the light of the Antitrust Law to restrict the licensee as to sales of products made using the technical information beyond such a period.

This idea would be instructive, although there would be various practical problems as to how to estimate the "Reverse Engineering Period."

INFORMATION EXCLUDED FROM THE OBLIGATIONS NOT TO DISCLOSE AND NOT TO USE FOR ANY OTHER PURPOSE

In an ordinary secrecy agreement, it is stipulated that the receiving party will be exempted from the obligations not to disclose and not to use for any other purpose when the disclosed information is identical to any of the following information:

1. Information which at the time of the disclosure has been already in the public domain.
2. Information which subsequent to the disclosure becomes the public domain through no fault of the receiving party.

*General Manager, Patent & Licensing Department, Nippon Mining Co., Ltd., Tokyo. *Paper presented at LES Japan meeting, Tokyo, June 1982.*

3. Information which prior to the disclosure has been already in the possession of the receiving party.

4. Information which subsequent to the disclosure was disclosed to the receiving party by a third party having due competence who did not acquire such information, directly or indirectly, from the disclosing party.

Are the Aforementioned Exclusions Enough?

The problem we first have to consider is whether it is necessary to exclude the information which was independently developed by an employee who belongs to the company that received the information and who has no access to the disclosed information. Currently, a number of large enterprises adopt the profit-center system and there are not a few cases where each profit center carries out its independent activities and personnel flow among such profit centers seldom takes place. If so, does it not seem better to exclude such information obtained through independent development from the confidential and other obligations? This does not seem to be a bad idea, although its proof may be difficult and it is somehow questionable to what extent this kind of exclusion could be actually made use of. Actually, some leading enterprises tend to adopt this kind of arrangement.

Obviousness

Is it possible to introduce the concept similar to "obviousness" in the patent laws? According to the above-mentioned provisions regarding exclusions, when the disclosed information is identical to information in the public domain or otherwise, such information will be exempted from the confidential obligations. According to the above-mentioned exclusion clause, however, even if the disclosed information can be easily derived ("obvious") from information in the public domain or otherwise, when it is not identical to the same, there is no exemption from the obligations. Should this remain as it is, unduly strong restrictions may be imposed on the receiving party, when the levels of arts are close to each other between the disclosing party and the receiving party. It is because restrictions also could be imposed with respect to such information that could be easily conceived by the receiving party based on information in the public domain or of its possession by reason of the fact that it has received the disclosure from the other party.

I admit, however, now that the idea of "obviousness' is introduced so as to enlarge the scope of exclusions from the obligations, it would be one-sided unless the scope of information to be protected from disclosure is enlarged, too, with the same thoughts. Still, protecting such information that can be easily conceived based on information in the public domain or otherwise would invite a case which conflicts with industrial policies of a country.

Much argument also would be caused about judgment on which information is "obvious" and which is not. It seems, however, that resolution of this problem needs to be expedited.

Generally speaking, in secrecy agreements, the provisions are often incorporated setting forth that information in the public domain, information of prior knowledge, etc., are excluded from confidential and other obligations. When there are provisions for exclusion from obligations (the exception clause), the question is how such exception clause would be applied in cases where general information which is not the same as the specific information disclosed but which embraces the same becomes the public domain. For example, in a case in which specific information has been disclosed which instructs that the reaction temperature of certain heavy oil processing equipment should be adjusted to 400-420°C, the description that the reaction temperature is preferable in the range of 300-500°C is published in a patent official gazette. Formally, the temperature conditions of 400-420°C can also be considered to have become part of the public domain. However, when this specific temperature range has a technically important meaning, the disclosing party would wish to protect this specific information despite the availability of the aforementioned general information in the public domain. In such a case, protection of the specific information may be contemplated by applying a sentence reading as follows:

"No information which is specific shall be deemed to be within any of the foregoing exceptions merely because it is embraced by more general information which falls within any one or more foregoing exceptions."

In another case where significance is found in the "combination itself" of information in the public domain, protection of the "combination itself" is contemplated by the following sentence:

"In addition, any combination of features shall not be deemed to be within any of the foregoing exceptions merely because individual features fall within any one or more of the foregoing exceptions, but only if the combination itself falls within any of the foregoing."

Even if protection of specific information is contemplated by taking the foregoing care, however, such protection would be difficult except in the case where specific information is of more value in some respect than general information. For example, in the above-mentioned case, the fact the control in the temperature range of 400-420°C is technically superior to the random choice between the range of 300-500°C, can be considered to be the requisite condition for protection. Because, when specific information is not of more value than general information, there will be no reason for particular protection of the former.

THE MOST-FAVORED CLAUSE

Several parties may individually receive disclosure of confidential information of the same contents from one and the same party. This might happen, for example, in cases where two or more enterprises individually introduce a new manufacturing process from the developer. In such a case, it is normal that the party who discloses the information arranges the conditions of secrecy under a definite policy so that there may be no differences among them. In some actual cases, however, there exist differences in the conditions of the secrecy agreements concluded, since the receiving par-

ties negotiate secrecy agreements individually.

For example, as the result of the investigation relating to license agreements for a famous nonferrous refining process, differences were found with respect to the secrecy periods among such license agreements. In one license agreement, the secrecy period was endless, while another license agreement set forth the period of 15 years.

The differences in conditions of secrecy agreements as mentioned above will result in discrimination in the degree of freedom with respect to the licensee's future application for a patent, sales of improved technology, etc. In order to avoid such differences, it is possible to introduce the most-favored clause in secrecy agreements. Application of the most-favored clause may be especially effective in regard to the term of secrecy agreements. What is to be taken care of here is to compare not the periods themselves of secrecy agreements but the points of time (the closing time) after which licensees are exempted from obligations under secrecy agreements. Because it may be considered unfair that whereas one licensee has a freedom to disclose specific information after a certain date, others have no such freedom.

On the other hand, from the standpoint of the disclosing party, it is important to review the identity of the disclosed information, when application of the most-favored clause is requested by the other party. This is because, in case of receiving such a request, there is no necessity to take into consideration that portion of the disclosed information which has no identity.

IDENTIFICATION OF THE DISCLOSED INFORMATION

In the administration of secrecy agreements, it is essential to identify the disclosed information subject to the confidential and other obligations. Notwithstanding the presence of a secrecy agreement, if the disclosing party is unable to clearly specifiy the confidential information thereunder, it would be difficult for the disclosing party to demand the receiving party's due compliance with the terms of the agreement.

Where information is disclosed in written form or as documents, identification of the disclosed information is not very difficult. On the other hand, where information is communicated orally or through a factory tour, it is not always easy to identify the information which has been actually disclosed.

Where information is disclosed or exchanged orally, it is important to make confirmation thereon as soon as possible in writing. Such provisions are sometimes found as stipulating that orally disclosed information which is not confirmed in writing within 30 days shall be excluded from the subject matter of confidential and other obligations.

The difficulty in identifying the disclosure of information is raised in the case of a factory tour. There may be differences in the views between the party permitting such a tour and the visitor regarding the contents and the scope of the disclosed information. For example, there may be cases where the disclosing party (the party permitting such a tour) is apt to consider that they have fully shown certain manufacturing equipment specified in the secrecy agreement, while, in fact, the visitor has just passed quickly in front of said manufacturing equipment.

The visitor may at a later time install equipment similar to that he saw on the tour, or he may apply for a patent on such equipment. In that case, when the disclosing party makes a protest against it, the visitor could argue in defense that he was not shown the equipment in detail or that the critical portion of the equipment was behind the equipment and they could not observe it, and so forth. There was a case where arguments similar to the above were presented in the course of the proceedings for patent objections before the Patent Office of Japan, and the visitor's contention was eventually upheld.

From the standpoint of the visitor, it would be necessary for them to take due care in obtaining confirmation of the equipment which was in the course of the tour but could not actually be observed. In any event, identifying the disclosed information after the tour by exchanging a memorandum or other instruments as to what was observed during the tour would prevent future conflict.

In other cases of permitting a factory tour, such provisions may be applied that a factory tour will be permitted on condition that the party who requests the factory tour shall give prior approval to the permitting party to allow access by such first party to the similar equipment that the requesting party now owns (or will own in the future). In this way, would it be possible, to some extent, to prevent the visitor from making a breach of the agreement?