

## Keeping a Trade Secret - Part I

Nearly all businesses in all industries and sectors possess trade secrets. Trade secrets are a valuable and highly useful form of intellectual property that are nevertheless often undervalued and overlooked by their owners. This is not least the case in the service sector where the relative value of trade secrets as intangible assets can be extremely high. For example, a logistics firm may not hold any patents or few trade marks and substantial copyrights, but the value of its operations could heavily derive from information contained within client lists and standard procedures.

A considerable advantage for trade secrets is that unlike some other forms of IP rights, such as patents and copyrights that have a finite term, trade secrets can theoretically enjoy an infinite term of protection so long as the trade secret remains just that - a secret. The main difference between protecting something by patent or as a trade secret is that, while technical information is publicly disclosed in patents, it is kept away from the public eye in trade secrets. A trade secret can last forever as long as the confidentiality measures that protect it continue to work. An invention patent typically expires after 20 years.

On the other hand, legal protection of trade secrets is easily lost. Once the information becomes public information, it no longer enjoys any legal protection. As a result, *prevention* is the golden rule when it comes to protecting your trade secrets, because once your secret is out, there is usually very little that you can do about it. China, like most other countries, provides a legal framework for the protection for trade secrets, and the law provides for remedies in the event that your trade secrets are unlawfully disclosed. Part one of this two part article will describe what constitutes a trade secret and outline the measures you can take to protect them.

### Know your secrets

You can only protect trade secrets when you know you have them. But what exactly can be a trade secret? In China, by definition, a trade secret is “any non-public information with actual or potential commercial value and that is guarded by confidentiality measures”. Thus, in order for the information to be a trade secret, it must:

- (a) be non-public - it must not be known by the general public or by your competitors;
- (b) have actual or potential commercial value - it must give the owner a competitive advantage or be capable of generating economic benefit;
- (c) be guarded by confidentiality measures - the owner must take reasonable measures to protect the confidentiality of the information.

All three elements are essential pieces of the puzzle.

If you are still unsure whether you have trade secrets, a good rule of thumb is to consider whether the information is something your competitors would want to know or that would give them a commercial advantage. Your trade secrets may include:

- expressions of ideas that give your business a competitive advantage, for example, a new type of service, an innovative business model, or a new online concept, etc.;
- the status of products or services under development, expected product release dates, and details of how they function and their technical features, for example, new design features, a new interface, device functions, or how a new software program works, etc.;
- valuable business information such as customer lists, cost and price information, suppliers and contractors, contract terms, marketing strategy and plans, etc.;
- any other information with potential commercial value such as your preferences with regard to customers or suppliers, rankings of quality of suppliers or creditworthiness of customers, etc.

If you have not already done so, it is important to catalogue what trade secrets you may have, rank the trade secrets in terms of importance and value, and to remember to periodically update your catalogue as your business grows.

### **Keep It Secret, Keep It Safe**

It is important to remember that once trade secrets become publicly known, they can no longer be protected as trade secrets. Ways in which a trade secret can be disclosed include publication, disclosure of technical information by your engineer during a seminar, disclosure of information or documents during negotiations and other business dealings with third parties without a non-disclosure agreement, conversations, accidental disclosure by mis-directed emails or other correspondence, etc.

As it is not always possible to keep trade secrets locked away (they may be the knowledge of one or more employees), keeping them safe involves using a combination of *physical, technical, and contractual barriers*, and implementing a trade secrets protection policy.

**Physical barriers** may include simply marking documents "CONFIDENTIAL", keeping sensitive documents in a safe, undisclosed location, and locking files away after business hours. In addition, access to areas where sensitive business documents are stored should be restricted to certain employees. Limit access and copying rights to the personnel who actually need it. All visitors should be logged, required to sign a non-disclosure agreement before being granted access to sensitive areas of your premises, and should not be left unattended.

**Technical barriers** require the use of information technology (IT) to protect trade secrets stored in electronic files on your computers or data servers. The basic rule in IT security is that the more valuable the information, the harder, more expensive, and more difficult it is to protect. Consulting an IT security specialist can help you to design a cost-effective IT security system. However, even simple, inexpensive means of IT security measures can be used such as employing the proper use of passwords, commercially available encryption, and logging features. In addition, it is important to have a written technology policy in place and to ensure that your employees abide by it. For example, as it is extremely easy for your employees to E-mail sensitive documents to third parties or to transfer files using USB memory cards or CD/DVDs, you might want to consider restricting the ability of your employees to use these tools. Your employees in China should be given a copy of your technology policy written in both English and Chinese (possibly as an appendix to their employment contract) and be required to sign an agreement stating they received and understand the policy.

**Contractual barriers** normally involve the use of non-disclosure or confidentiality agreements, and are generally considered as one of the best ways to protect your trade secrets. Every existing employee and all new employees should be required to sign an employment contract with non-disclosure or confidentiality provisions. For employees in China, the contract should be in both English and Chinese to prevent an employee from claiming he or she did not understand the confidentiality obligations. Such agreements should also be entered into with suppliers, subcontractors and business partners who are given any level of access to your trade secrets.

Be sure to document the trade secrets protection measures you take and make sure your trade secrets protection policy is written down. It is also essential to maintain sufficient records of the flow of information in and out of your company, including keeping records of meetings, discussions, E-mails, written correspondence, and the transfer of electronic files so that you can conduct an investigation and assemble evidence in case you suspect your trade secrets have been misappropriated.

Finally, be vigilant in implementing your trade secrets protection policy. Businesses usually lose their trade secrets because they are too relaxed about keeping the information inside the company. Make sure your management is informed. Trade secrets are a double-edged sword - your staff and workers must be told not only to protect your trade secrets but also not to obtain or utilise the trade secrets of others. Designating a person to be in charge of ensuring compliance with your trade secrets protection policy may be a useful option to consider.

### Take-away Messages

- **Prevention is the key to protection.** More often than not, once a trade secret is disclosed, the damage is already done and it is often very difficult to recover its value, even if you succeed in litigation.
- **Establish an internal management system for trade secrets.** Training and clear written guidelines are essential. As your employees in China may not have the same understanding of

proprietary information and intellectual property rights as you might have, it is important to educate them on what can or cannot be disclosed. Adopt appropriate measures to mark and store confidential documents whether such documents are in electronic or paper format.

- **Require all employees to sign an employment agreement with strict confidentiality provisions.** To win a theft of trade secrets claim in China, you must show that the information stolen is (1) not publicly known, (2) has commercial value, and (3) that you took measures to keep it secret. When a current or former employee steals your trade secrets, having an employment agreement with confidentiality provisions is essential to show that you took measures to keep it secret.

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