

# Trade Secrets

Trade secrets – also known as confidential information – protect information or knowledge that is not publicly available and that the law protects from misuse or improper disclosure. In Australia, the law does not provide a formal registration system for trade secrets. Instead, trade secrets are protected under common law through actions such as breach of confidence and ‘passing off’ unregistered trade marks. Trade secrets are not property, but you can control access to them through confidentiality protocols. You can also use contracts to license the use of trade secrets or to transfer the protected information to other parties.

## Patent or trade secret?

For some types of subject matter – for example, technical information – it may be possible to obtain protection either via patents or trade secrets. There are benefits and drawbacks associated with both of these options. The main benefit of trade secrets is that they exist for as long as the information remains secret, whereas the protection granted under patent law is limited to 20 years. Therefore, even if the subject matter of a trade secret is patentable, simply keeping a trade secret confidential may be a better strategy.

Trade secrets are most effective in cases where the product is difficult to ‘reverse engineer’, that is, where it is difficult to determine exactly how the product is manufactured. In such situations, it is easier to keep the relevant information and knowledge secret. Other factors to be considered when deciding whether to use a patent or a trade secret to protect a given product are the expected lifespan of the product in the marketplace, and whether you have an effective monopoly in the field.

Another way that patents and trade secrets intersect is that if an invention is publicly disclosed before a patent application is filed, it can be difficult to obtain patent protection. This is because one of the requirements for patent protection is novelty. Australian law provides a limited ‘grace period’, during which the public disclosure of an invention will not affect the validity of a subsequent patent application. The grace period will only apply if the patent application is filed within 12 months of the public disclosure. Nevertheless, the grace period should not be used as a general strategy for publishing an invention before a patent application, because other legal systems do not recognise similar grace periods (e.g., the European Patent Convention). Therefore, it is advisable to keep information

about a patentable invention secret at least until the patent application is submitted.

## How are trade secrets protected?

Trade secrets are only protected if they:

- have the necessary quality of confidence;
- have been disclosed in circumstances that indicate that the discloser expects the information to be treated as confidential; and
- have been used without the consent of the discloser.

## Is there an obligation of confidence?

An obligation of confidence can arise in several situations. These include where there is an express obligation arising out of the relationship between two or more parties, for example, where the nature of the relationship is contractual. An obligation of confidence also may be implied, based on relevant laws or because given the circumstances, one party should have known that the information was confidential.

The law recognises that obligations of confidence exist in the following relationships:

**Fiduciary relationships:** A fiduciary is someone who the law imposes a duty on to act in the best interest of another person. Examples of fiduciary responsibilities include the duty that director of a company has to the company, the duty that a lawyer owes to his or her client, and the duty of an agent to a principal. Fiduciaries are obligated to maintain confidentiality for confidential information that they received during the course of the fiduciary relationship, even after the relationship ends.

**Employment:** An employee owes a fiduciary duty to the employer. An employment contract may

expand on this duty by specifying what information is confidential, and by imposing restrictions on the use of confidential information. Employment agreements may stipulate that employees must maintain confidentiality even after the employment ends.

**Company officers and employees:** A person who obtains confidential information because they are, or have been, company officers and employees must not improperly use the information to gain an advantage for themselves or for someone else, or to cause detriment to the company.

An obligation of confidence does not override other legal obligations. This means that even if you have an obligation of confidence, a court can order you to disclose the confidential information.

### **Disclosure to collaborators, partners and financial backers**

In the context of research, it is important that all personnel involved in the project are aware of the need for confidentiality, and that procedures are established to ensure that information is not leaked. Trade secrets are protected regardless of whether you have a written agreement covering their use or disclosure. However, it is prudent to require all partners to sign a written confidentiality agreement (also known as a ‘non-disclosure agreement’) if you plan to disclose the confidential information to them. Doing so secures greater legal protection and clearly sets out the terms that govern the research project. A signed agreement means that you will be able to demonstrate that the information was disclosed under confidential circumstances.

Most importantly, where staff are involved in discussions with outside parties – such as potential collaborators in a commercialisation deal – a non-

disclosure or confidentiality agreement should be used. This is particularly important if an unpatented invention will be discussed with outside parties, because public disclosure can jeopardise future patent protection. The confidentiality agreement should establish the purpose of the disclosure (e.g., negotiations towards a licensing deal) and state that the information should not be used for any other purpose.

### **Benefits of a confidentiality agreement**

There are many advantages to using a clear, concise, written confidentiality agreement. As noted above, the agreement removes any doubt that the information was disclosed under circumstances of confidence. Other advantages include:

- Ability to clearly define the information and the limited purpose for which it can be used;
- Ability to clearly define the rights and obligations of each party;
- Ability to agree upon a notification process to follow if one party receives a subpoena or other legal order that may compel disclosure; and
- Ability to specify that threatened disclosure without proof of damage will entitle the disclosing party to seek an injunction to restrain any prospective breach (if this is not included, you would need to prove damage, which can be difficult).

Agreements can also restrict the use or disclosure of information that is not confidential. Such agreements will only be valid or enforceable if the restraint that is imposed and its duration are ‘reasonable’.

This fact sheet is only for information purposes, and to assist you in understanding your legal rights and obligations in a general sense. It is not tailored to any particular fact, situation or specific requirements, and must not be relied on as legal advice.

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