Oury Clark Quick Guides:

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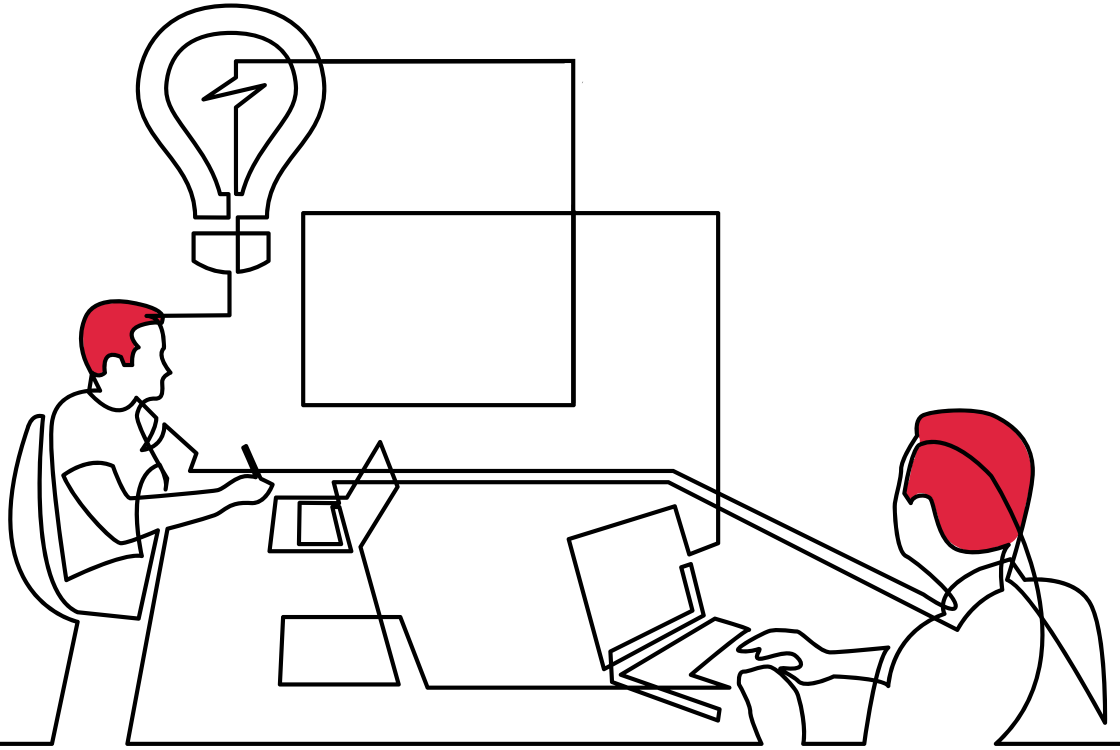
Patents vs Trade Secrets



Intellectual Property: A19

In the early stages of any new invention it is important to decide how you will protect your product.

There are two main options available:

1. apply to register a patent (provided that it is patentable); or
2. maintain it as a trade secret.

The most suitable method will depend on the nature of both the product and the inventor's business. Both methods have their advantages and disadvantages, some of which are explored below.

The Patent process

A patent is a way of registering and protecting an invention, giving the inventor legal rights over how a product is made and how it works. A UK patent is registered through the intellectual property office (IPO). The process includes an initial application, publication, and a substantive examination before the grant of a patent. For an invention to be patentable it must be new, have an inventive step (i.e. not be obvious to someone in that field), and have an industrial use. Please see our separate Quick Guide on the topic of Patents.

During the invention process, the inventor will likely need to disclose some aspects of the underlying ideas to colleagues or investors, however before disclosing any information, a risk assessment should be undertaken, as the right to a patent can be lost by disclosing too much information. Disclosing the competitive benefits and the broad idea is likely to be safe, but disclosing what makes an invention novel is higher risk.

Wherever appropriate, copyright notices should be utilised.

Why register a Patent?

As technology continues to develop, it is becoming easier for a competitor to find out the component parts of a product; this may be by chemical analysis, through the packaging regulations requirements for food products or by deconstructing a product.

Whilst the patent registration process carries the significant downside of making the details of an invention open to the public, once registered it can protect the inventor from reverse engineering, by facilitating an infringement action against any competitor who attempts to financially gain from the invention.

A registered patent gives the inventor exclusive proprietary rights to that invention. The value of any registered intellectual property can be used as security against financial investments. Before taking security, an investor will want to know that any intellectual property has been registered as unregistered IP doesn't carry any proprietary rights and so a lender would not have any security for its loan/investment.

Registered IP rights can be licensed or assigned to others in the market in order to create revenue.

Is it better to keep a Trade Secret?

Registering a patent is a lengthy and costly process; the initial application normally takes four years before final approval, and part of this process involves publishing details of your invention.

Five years after the filing date, the patent then needs to be renewed and thereafter it needs to be renewed annually (with the annual renewal cost increasing year on year).

A patent lasts for a maximum of 20 years. After it expires, a competitor can legally use this information to produce a similar product using the invention designs. A careful assessment therefore needs to be undertaken to ascertain how easy it is likely to be to reverse engineer the underlying invention when compared to the likely lifespan of the product.

In contrast to registering a patent, the initial cost of a trade secret is minimal. A trade secret can be protected by confidentiality agreements (or NDAs), so there is no registration requirement and therefore no fee. The initial cost will be the legal fees of drafting the relevant agreement.

Unlike a patent, a trade secret has no time limit. Protection will last as long as your agreement(s) remain in place provided that there are no breaches. For products which have a longer lifespan and cannot be reverse engineered, a guarded trade secret will provide protection without competition after 20 years at a minimal cost.

Whilst much cheaper than patenting, a trade secret will only give you protection to the extent that employees or third parties to whom the invention is disclosed can be trusted. Once breached, there is no way to prevent further infringement, and if a confidentiality agreement is breached, then the cost of enforcement may be greater than the available compensation or the equivalent infringement action for a registered patent. Breach of confidentiality will be harder to prove than infringement as the initial source of the breach may be unclear. Often a breach will be committed by an individual who has little financial worth, meaning that taking action is futile.

A trade secret will not give protection against improvements in technology, particularly for reverse engineering. A product that can be analysed or deconstructed will not be appropriate for protection by a confidentiality agreement as this would not protect against a competitor recreating the product.

Should a competitor successfully copy a product, then they may choose to patent the invention causing the earlier invention to be an infringement of their patent which could ultimately result in the original product having to be removed from the market or licence fees becoming payable to the competitor.

Not all types of invention are capable of patenting, and so for some inventions, a trade secret will be the only option.

Computer games, business methods and most software cannot be patented under the Patents Act 1977, so for these inventions a confidentiality agreement may be the only method of protection from infringement by employees or third parties with product knowledge.

Alternative Option - Publishing

An alternative option available to avoid others profiting from an idea, is publication. Although this will not necessarily protect your IP, publishing is often used as a defence mechanism to prevent others gaining an exclusive patent right. The details published will be available for competitors to use freely on the market, so whilst publishing will not give the publisher a monopoly over that invention, it will, unlike a trade secret, prevent competitors from gaining an exclusive patent right, due to the removal of the patent novelty criteria.

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Publishing can be achieved through many different formats including journals, patent applications and online publishing companies. The most obvious of these is a patent application, which can be abandoned later to save costs. Once published, the details of the invention will remain in the patent directory and will be available for patent examiners to inspect, should a similar application be submitted at a later date.

Alternatively, publishing an invention in a technical or academic journal is another quick method to ensure that the idea is in the public domain and prevent the success of later competing patent applications. However, a journal publication will be less prominent to a patent examiner and runs the risk of being overlooked.

There are now many online companies that create public disclosures. These companies will hold details of an invention on a public database which registers the time and date of publication as an independent source of evidence against patent applications. The cost and effectiveness of protection by this method will depend on the publication company used.

Which option is right for your business?

Your method of protection should be based on the needs associated with the individual product and on how you plan to exploit that product in the future.

You may choose to use a combination of registered patents and trade secrets to protect your products, or even consider publishing details if you operate in a crowded market where others may patent an idea before your products are developed enough to make an application.

In the early stages of invention, it is always worth implementing confidentiality agreements before a product is ready for patenting. This then acts as a safeguard regardless of whether or not you intend to patent your fully-developed product.