

## Trade Secrets Monetization

In the current business world that we are living in, innovation has become the main driving force to the world economy. Intellectual property, therefore, is the central resource for creating wealth in almost all industries and its value has been universally recognized. Intellectual property right is not only regarded as a property right for innovators, but a special capital resource. In another word, capital resources nowadays no longer only brings to mind a picture of cash or manufacturing plants, it is dominated by intellectual property. Commercializing and monetizing intellectual property is one of the main ways to realize the value of intellectual property. At present, people have become familiar with the concept of monetizing trademarks, patents, copyrights, etc. in order to extract value from these intellectual property. However, trade secrets, one of the most important components of intellectual property, are rarely seen to be the main element of IP monetization business.

### **The following reasons addressed could explain why.**

Firstly, the existence of trade secrets is ambiguous. As the name suggests, trade secrets are not known to the rest of the world. Once a trade secret becomes public, it loses its value. There are two aspects related to the attributes of trade secrets. For one, the existence of trade secrets is not beneficial to the public and the society therefore lacks motivation to protect and maintain such secrets. Therefore judicial protection and enforcement are not strong enough which has lowered the value of trade secrets.

Secondly, the legal position is vague. Civil law countries usually place trade secrets under the framework of Unfair Competition Act, rather than directly under the law of intellectual property. Sometimes the right of trade secrets is regarded as an obligation which requires confidentiality. While at other times the right of trade secrets is clearly defined as a property right just like all other intellectual property rights. Due to the obscurity caused by the above mentioned reasons, how to protect trade secret rights is challenging and lack of standardized process.

Thirdly, trade secret owners would like their trade secrets remain secret, the less the public knows about their secrets, the better. They fear monetization activities would risk exposing their trade secrets to the public.

Due to the above mentioned reasons, owners of trade secrets often would not engage

in utilizing their rights to monetize such rights despite the tremendous value that trade secrets hold. Rather, they focus on the establishment of a protection system for trade secrets and hope to receive judicial remedy when facing infringement.

Keeping a secret indeed sometimes could create great value. However, in the modern society where information continuously exchanges and disseminates quickly, it is almost impossible to preserve trade secrets. In recent years, the trends towards greater mobility, especially changing jobs, have created a perplex problem for most of enterprises globally. Employees come and go and the loss of trade secrets remains a threat to lots of corporations. There is a fine line, often blurry, between what belongs to a corporation internally and what belongs to an employee. For example, how do we define the ownership of the skill and resources that an employee possesses? When past experiences have become a stepping stone for an employee to get a new job, how much of such past experiences belong to the team with which the employee previously work and how much belong to the individual even though the company claim their ownership regularly. All of these questions remain to be determined case by case.

Under such circumstances, why not we change the think differently to take the trade secrets as a property and systemized it. Here is a look at some famous examples of this possibility.

The first well known example is the trade secret dispute between Baidu and Jingchi. In December 2017, Baidu sued Wang Jing, the former general manager of its autonomous-driving division and JingChi technology, a mobility company founded by Wang Jing for infringement on trade secrets. The court has not reached the trial yet. The latest development is Wang Jing resigned from Jingchi Technology while Jingchi Technology joined the open platform of Baidu Apollo.

Another high-profile case is the trade secret dispute between Waymo and Uber. The two parties reached a settlement on February 9 that Uber will compensate Waymo with 245 million dollar worth of Uber shares and Uber is forbidden to use any trade secrets developed by Waymo.

The above two examples illustrated how to realize the value of trade secrets through litigation. Trade secrets, like all other intellectual properties, have enormous value. Monetizing trade secrets may bring high returns within a relatively short period (through litigation) which helps enterprises to attain first mover advantages in the competitive business environment. Therefore it is vital for corporations to systematically organize its trade secrets portfolio in order to help corporations to improve their competitiveness. Therefore, trade secrets, for enterprises, are as important as other intellectual property such as patents and trademarks.

Unlike the conventional trade secret system utilized by most of enterprises which only focuses on confidentiality preservation and right protection, commercialization of trade secrets is a more proactive pursuit of behavior. There are three aspects, in my opinion that each enterprise should pay attention to in order to build a solid trade secret monetization and commercialization system.

First, it is important to implement an internal trade secret system in which confidentiality protection is a vital part. On top of confidentiality protection, the system also focuses on daily organization and categorization of trade secrets. Trade secrets fall into two categories: technical secrets and business information. Like all other types of intellectual property, trade secrets should also be

categorized. For example, meeting minutes, internal client lists, and business plans, emails reflecting new ideas, technical data, and all documents generated in R&D should be categorized as business secrets and technical secrets. More importantly, a responsible person should be appointed for each document, agreement, or more precisely, each secret. At the same time, financial data corresponding to each secret including the R&D costs and human resource costs should also be very well organized and linked to each secret in case of need.

This is followed by the construction of an external system, which clarifies the range of information involving trade secrets. A corresponding trade secret quota should be established for each core employee. This scopes out each employee's responsibilities, rights and obligations, and the amount of financial value connected to secrets which eventually lead to a final product. From idea to product, based on the current intangible assets trading system and the company's own condition, an ideal and suitable trade secret commercialization system can be built in order to help enterprise to maximize the value of its products.

Lastly, let's talk about the construction of a legal protection system. From the cases of Baidu suing Jingchi and Waymo suing Uber, trade secrets bear a huge legal risk which also leads to a big potential to gain a high value return. This is also a natural advantage of trade secrets. Trade secrets are ambiguous in the form of existence and legal positioning. Defendants normally face a very high legal risk. Where there is an infringement in a patent or trademark, it is fairly easy for a law professional to make an accurate judgment, yet it is extremely difficult to judge the role that the trade secrets have played in creating the value by a former employees in his/her new company. Therefore, forming an internal legal team or commissioning a professional third party legal team is vital in order to perform investigations, collect evidence and assess the damages when there is infringement of the company's trade secrets.

Trade secrets are the earliest form of intellectual property in human history. From ancient secrets to modern Coca-Cola formula, they have embodied the wisdom and creativity of human beings in all industries. Intellectual

property has attained an extremely important status within the fabric of our society and livelihood. All industries are built on innovation and an intellectual property foundation. How we protect trade secrets and commercialize them

and realize their enormous value remains one of the most important topics for all involving parties including the innovators and law practitioners.

*The newsletter is not intended to constitute legal advice. Special legal advice should be taken before acting on any of the topics addressed here.*

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