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THE CASE FOR A FEDERAL TRADE SECRETS ACT

Christopher Rebel J. Pace[*]

INTRODUCTION

Companies regularly seek to maintain their most valuable information in confidence. Their reason for doing so is simple: a company that can keep its valuable information secret can then use the information—and the resulting innovations—to gain an advantage over those of its competitors that lack such insights.[1] Of course, to prevent this situation, a company's competitors will seek to uncover its proprietary information in order to eliminate the company's advantage.[2]

In this on-going battle over information and innovation, numerous state laws play an important role by providing a remedy for the misappropriation of a company's most valuable confidential information—its trade secrets. This cause of action for the misappropriation of trade secrets protects a company from having its confidential information taken from it by the improper actions of its competitors. In limited circumstances, this action even forgives a company's mistaken disclosure of its valued information to its competitors and forbids the competitors from using it. At the same time, however, this cause of action does not empower a company to discourage its competitors from independently developing the same information or gaining access to one another's information by proper means.

The cause of action for trade secret misappropriation was imported from English common law to American common law in a series of mid-nineteenth century decisions by the highest courts of several eastern

* Assistant United States Attorney, Southern District of Florida. J.D., University of Pennsylvania Law School, 1990; B.B.A., Southern Methodist University, 1987. The views expressed in this article do not necessarily express the views of the United States Department of Justice. This article is dedicated to John Dempsey and Debbie Russell Pace, proud additions to the family.

1. *See, e.g.*, Michael A. Epstein & Stuart D. Levi, *Protecting Trade Secret Information: A Plan for Proactive Strategy*, 43 BUS. LAW. 887, 887 (1988).

2. See RICHARD S. F. EELLS & PETER R. NEHEMKIS, CORPORATE INTELLIGENCE AND ESPIONAGE: A BLUEPRINT FOR EXECUTIVE DECISION MAKING 118 (1984); RICHARD M. GREENE, BUSINESS INTELLIGENCE AND ESPIONAGE 4-5, 13 (1966).

states.[3] Although commonly referred to as a tort (a trend this Article will continue), this cause of action more closely resembles a property right than an ordinary tort. In its fundamental form, the trade secret misappropriation action provides a remedy for any business that attempts to protect its commercially valuable information but that, nevertheless, has such information revealed to its competitors as a result either of improper action (such as espionage or breach of a confidential relationship) or accident. The trigger of the action, therefore, is an infringement of a trade secret "owner's" right to exclude others from using the information, which is more similar to an element of property than of tort. Moreover, the prevailing modern justification for protecting against trade secret misappropriation is that such protection permits businesses to reap the benefits of their activities—again a property concept distinguishable from the usual tort justification of requiring persons to bear the costs of their harmful activities.[4]

Whether classified as a property right or a tort, trade secret misappropriation is an important component of the legal regime that shelters commercial intellectual investments. As set forth in Section I below, the trade secret misappropriation remedy fills a gap in federal intellectual property law by providing legal shelter for non-patentable, non-copyrightable innovations, but only on the condition that the owner of the innovation take adequate steps to safeguard the innovation.[5] When the owner undertakes such safeguards, the law of misappropriation provides an additional layer of protection against improper or accidental disclosure, which enhances the trade secret owner's ability to capture the benefits that flow from exploiting her innovation. In turn, this ability increases the owner's incentive to invest in other innovations, secure in the knowledge that she can recoup her investment in those innovations.[6]

Of course, the misappropriation of trade secrets cause of action is not without its limits. Some restrictions stem from the definition of the action itself. For example, one cannot protect a trade secret from being

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3. *See* Vickery v. Welch, 36 Mass. 523 (1837); Jarvis v. Peck, 10 Paige Ch. 118 (N.Y. Ch. 1843); McGowin v. Remington, 12 Pa. 56 (1849); Hammer v. Barnes, 26 How. Pr. 174 (N.Y. Sup. Ct. 1863); Taylor v. Blanchard, 95 Mass. 370 (1866); Peabody v. Norfolk, 98 Mass. 452 (1868).

4. *Cf.* Wendy J. Gordon, *Toward a Jurisprudence of Benefits: The Norms of Copyright and the Problems of Private Censorship*, 57 U. CHI. L. REV. 1009, 1048-49 (1990) (stating that both copyright and tort law share common aims of compensating victims and providing incentives for socially beneficial activities).

5. *See infra* text accompanying notes 39-44.

6. *See infra* text accompanying notes 44-47.

independently discovered or reverse engineered by a competitor. Other limits arise because the cause of action is governed by state law, not federal law, which ensures that the contours of the action vary significantly among the states. Section II below explores how this state-by-state variation limits the effectiveness of the action because it imposes a special burden on trade secret owners to determine what level of protection will be afforded their trade secrets.[7] Section II also addresses recent international agreements protecting trade secrets and explains how the laws of various states are not in accord with these agreements.[8]

The restrictions on trade secret protection that originate from the very definition of trade secret misappropriation are, as discussed in Section I, appropriate limitations designed both to encourage optimal investment in innovation and to avoid infringing on the domain of patent law.[9] The restrictions that originate from the variability of state laws on trade secret protection, however, are less defensible, as discussed in Section II. Thus, Section III sets forth and explains a proposal for a federal trade secrets act, one that is nationally uniform and in compliance with international agreements on trade secret protection.[10] The proposed act is modeled after the Uniform Trade Secrets Act—some version of which prevails in the majority of states—but is adapted to the unique opportunities and requirements of federal legislation.[11]

I. AN OVERVIEW OF STATE LAWS ADDRESSING THE MISAPPROPRIATION OF TRADE SECRETS

A. General Elements of Trade Secret Misappropriation

Every state protects, to varying extents, the rights of businesses to develop and exploit proprietary information in a confidential setting for the sake of competitive advantage. The most common form of such protection is the state law cause of action for misappropriation of trade secrets, which provides a business with an injunctive or damage remedy in the event that a competitor wrongfully, or in some cases accidentally,

7. *See infra* text accompanying notes 67-69.
8. *See infra* text accompanying notes 70-85.
9. *See infra* text accompanying notes 46-47.
10. *See infra* text accompanying notes 91-127.
11. *See infra* text accompanying notes 95-100.

acquires one of the business' trade secrets. While state laws on misappropriation of trade secrets differ in important respects, as explained below in Section II(A), all are fashioned after one or both of two similar models: the *Restatement of Torts* Section 757 and the Uniform Trade Secrets Act.

1. *Section 757 of the* Restatement of Torts

The first trade secrets model is found in Section 757 of the *Restatement of Torts*, entitled Misappropriation of Trade Secrets.[12] According to the *Restatement*, a trade secret "may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."[13] In addition to requiring that the trade

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12. RESTATEMENT OF TORTS § 757 (1939). Courts rely on the first *Restatement of Torts* rather than the second, which drops the tort of trade secret misappropriation. The drafters of the *Restatement (Second) of Torts* reasoned that trade secret misappropriation and similar torts based on unfair trade practices had developed into an area of law deserving individualized treatment. *See* RESTATEMENT (SECOND) OF TORTS, intro. note to Division Nine (1979). Trade secret misappropriation has reappeared in the *Restatement of Unfair Competition*. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39-45 (1995). Courts generally tend to ignore this recent reincarnation and still rely on the *Restatement of Torts* § 757 for defining or interpreting the tort of trade secret misappropriation.

Only eleven states have not enacted trade secret statutes modeled, in some form or another, after the Uniform Trade Secrets Act: Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, Tennessee, Vermont, and Wyoming. *See infra* note 17 (listing states with trade secret statutes patterned after the Uniform Trade Secrets Act). Of these states, at least nine—Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas, and Tennessee—have relied on the *Restatement of Torts* § 757 approach to trade secrets. *See* MELVIN F. JAGER, TRADE SECRETS LAW § 3.01[1], at 3-16.5 to -22 (1994); Daniel J. Gleason & Michael J. Engelberg, *Can Your Client Keep a (Trade) Secret?*, 40 PRAC. LAW. 37, 39 (1994).

Even in states that have enacted statutes specifically defining the tort of trade secret misappropriation and its remedies, *Restatement of Torts* § 757 is frequently relied upon by courts adjudicating trade secret misappropriation cases. As Melvin Jager noted in his authoritative text on trade secrets:

> The *Restatement* continues to be cited and used for guidance even in cases involving the Uniform Trade Secrets Act. The *Restatement* treatment of trade secrets has become so universal that it is difficult to find a modern trade secrets case that does not cite, and rely heavily upon, some of its rules or comments.

JAGER, *supra*, § 3.01[1], at 3-4 (footnote omitted). *See also* William E. Hilton, *What Sort of Improper Conduct Constitutes Misappropriation of a Trade Secret*, 30 IDEA J. L. & TECH. 287, 288 (1990).

13. RESTATEMENT OF TORTS § 757 cmt. b (1939). The comment explains that trade secrets compose a class narrower than all information held by a business in secret:

secret is used in business and provides competitive advantage, the *Restatement* also requires that a trade secret be kept, as the name implies, secret:

> [A] substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.[14]

Even if a business possesses information that can properly be classified as a trade secret, any possession of that information by an outsider is not necessarily considered a misappropriation. Instead, for a trade secret to be misappropriated, the *Restatement* requires that the secret be acquired either by improper means or with notice of its mistaken disclosure. To this end, *Restatement* Section 757 provides:

> One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if
> (a) he discovered the secret by improper means, or

> [A trade secret] differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business.

Id.

14. *Id.* at § 757 cmt. b.

> (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
> (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or
> (d) he learned the secret with notice of the facts that it was a secret and that disclosure was made to him by mistake.[15]

As a corollary to Section 757, *Restatement* Section 758 addresses the use of another's trade secret originally acquired without notice of its wrongful or mistaken disclosure. Section 758 thus provides:

> One who learns another's trade secret from a third person without notice that it is secret and that the third person's disclosure is a breach of his duty to the other, or who learns the secret through a mistake without notice of the secrecy and the mistake,
> (a) is not liable to the other for a disclosure or use of the secret prior to receipt of such notice, and
> (b) is liable to the other for a disclosure or use of the secret after the receipt of such notice, unless prior thereto he has in good faith paid value for the secret or has so changed his position that to subject him to liability would be inequitable.[16]

2. *Uniform Trade Secrets Act*

The second model for trade secret protection is the Uniform Trade Secrets Act ("UTSA"), adopted by the National Conference of Commissioners on Uniform State Laws.[17] The National Conference's intent in

15. *Id.* at § 757.
16. *Id.* at § 758.
17. There are actually two versions of the UTSA, one originally approved by the National Conference of Commissioners in 1979, and an amended version approved by the National Conference of Commissioners in 1985. *See* 14 U.L.A. 433 (1985). The 1985 amendments were to sections of the UTSA addressing injunctive relief, damages, the effect of the Act on other laws, and the prospectivity of the Act. *Compare* UNIF. TRADE SECRETS ACT §§ 2, 3, 7 & 11 (1985) *with* UNIF. TRADE SECRETS ACT §§ 2, 3, 7 & 11 (1979). They were intended mainly to clarify certain provisions of the 1979 version and to add to the

proposing the UTSA was not to revolutionize the standards for trade secret misappropriation, but to codify existing common law standards and to provide a uniform approach to trade secret misappropriation among the states.[18] The enactment by numerous states of some version of the UTSA represented the first major attempt to legislate trade secrets misappropriation rather than to leave it in the hands of the courts and the common law.[19]

The UTSA expands the *Restatement*'s definition of "trade secret" and simplifies the standard for determining whether information is kept

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remedies available for trade secret misappropriation. *See* James C. Lydon, *The Deterrent Effect of the Uniform Trade Secrets Act*, 69 J. PAT. & TRADEMARK OFF. SOC'Y 427, 439-40 (1987). Unless otherwise specified, references in this article to sections of the UTSA are to sections that are the same in both the 1979 and 1985 UTSA versions, and will be cited simply as UNIF. TRADE SECRETS ACT § [section number].

Either the 1979 or 1985 version of the UTSA has been used as a model, at least in part, for fashioning statutory trade secret misappropriation remedies in the following states: Alabama, ALA. CODE §§ 8-27-1 to 8-27-6 (1993); Alaska, ALASKA STAT. §§ 45.50.910 to 45.50.945 (1994); Arizona, ARIZ. REV. STAT. ANN. §§ 44-401 to 44-407 (1994); Arkansas, ARK. CODE ANN. §§ 4-75-601 to 4-75-607 (Michie 1993); California, CAL. CIV. CODE §§ 3426 to 3426.11 (West Supp. 1995); Colorado, COLO. REV. STAT. §§ 7-74-101 to 7-74-110 (1986); Connecticut, CONN. GEN. STAT. ANN. §§ 35-50 to 35-58 (West 1987); Delaware, DEL. CODE ANN. tit. 6, §§ 2001 to 2009 (1993); Florida, FLA. STAT. ANN. ch. §§ 688.01 to 688.09 (West 1990 & Supp. 1995); Georgia, GA. CODE ANN. §§ 10-1-760 to 10-1-767 (Michie 1994); Hawaii, HAW. REV. STAT. §§ 482B-1 to 482B-9 (1992); Idaho, IDAHO CODE §§ 48-801 to 48-807 (1994); Illinois, 765 ILL. COMP. STAT. ANN. 1065/1 to 1065/9 (West 1993); Indiana, IND. CODE ANN. §§ 24-2-3-1 to 24-2-3-8 (Burns 1987 & Supp. 1994); Iowa, IOWA CODE ANN. §§ 550.1 to 550.8 (West Supp. 1994); Kansas, KAN. STAT. ANN. §§ 60-3320 to 60-3330 (1994); Kentucky, KY. REV. STAT. ANN. §§ 365.880 to 365.900 (Michie/Bobbs-Merrill 1994); Louisiana, LA. REV. STAT. ANN. §§ 51:1431 to 51:1439 (West 1987 & Supp. 1995); Maine, ME. REV. STAT. ANN. tit. 10, §§ 1541-1548 (West 1994); Maryland, MD. CODE ANN., Com. Law. II §§ 11-1201 to 11-1209 (1990); Minnesota, MINN. STAT. ANN. §§ 325C.01 to 325C.08 (West 1981 & Supp. 1995); Mississippi, MISS. CODE ANN. §§ 75-26-1 to 75-26-19 (1992); Montana, MONT. CODE ANN. §§ 30-14-401 to 30-14-409 (1993); Nebraska, NEB. REV. STAT. §§ 87-501 to 87-507 (1988 & Supp. 1993); Nevada, NEV. REV. STAT. §§ 600A.010 to 600A.100 (1991); New Hampshire, N.H. REV. STAT. ANN. §§ 350-B:1 to 350-B:9 (1994); New Mexico, N.M. STAT. ANN. §§ 57-3A-1 to 57-3A-7 (Michie 1994); North Carolina, N.C. GEN. STAT. §§ 66-152 to 66-157 (1994); North Dakota, N.D. CENT. CODE §§ 47-25.1-01 to 47-25.1-08 (1993); Oklahoma, OKLA. STAT. tit. 78, §§ 85 to 94 (1991); Oregon, OR. REV. STAT. §§ 646.461 to 646.475 (1993); Rhode Island, R.I. GEN. LAWS §§ 6-41-1 to 6-41-11 (1992); South Carolina, S.C. CODE ANN. §§ 39-8-1 to 39-8-11 (Law. Co-op. 1993); South Dakota, S.D. CODIFIED LAWS ANN. §§ 37-29-1 to 37-29-11 (1994); Utah, UTAH CODE ANN. §§ 13-24-1 to 13-24-9 (1992); Virginia, VA. CODE ANN. §§ 59.1-336 to 59.1-343 (Michie 1992); Washington, WASH. REV. CODE ANN. §§ 19.108.010 to 19.108.940 (West 1989); West Virginia, W. VA. CODE §§ 47-22-1 to 47-22-10 (1992); and Wisconsin, WIS. STAT. ANN. § 134.90 (West 1989). The District of Columbia has also enacted a trade secret misappropriation statute modeled after the UTSA. D.C. CODE ANN. §§ 48-501 to 48-510 (1990)

18. *See* UNIF. TRADE SECRETS ACT, 14 U.L.A. 369 prefatory note (1985).

19. *See* Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States' Response*, 24 CREIGHTON L. REV. 49, 49-50 (1990).

sufficiently confidential to qualify for trade secret protection. Thus, the UTSA defines a trade secret as:

> information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[20]

The UTSA also provides a relatively compact definition of misappropriation:

> (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
> (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
> (A) used improper means to acquire knowledge of the trade secret; or
> (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
>> (I) derived from or through a person who had utilized improper means to acquire it;
>> (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
>> (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
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> (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.[21]

20. UNIF. TRADE SECRETS ACT § 1(4).
21. *Id.* at § 1(2).

Unlike the *Restatement*, the UTSA explains the meaning of the phrase "improper means," though it does so merely by way of example, not definition. Hence, the UTSA states that "[i]mproper means" includes "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."[22]

B. The Importance of State Law on Misappropriation of Trade Secrets

That every state maintains laws providing for injunctive or monetary relief in the event that a person misappropriates a trade secret is, of itself, a reliable indication that trade secret laws are important. But even if fewer states recognized the tort of trade secret misappropriation, it would nevertheless be deserving of significant attention. By allowing companies to maintain the confidentiality of their valuable competitive information but permitting competitors to develop like information by proper means, the tort strikes a crucial balance between encouraging each individual business to develop valuable new uses of information, and not unduly discouraging the business' competitors from likewise developing valuable uses.[23] In doing so, the trade secret misappropriation tort fills a significant gap in the federal law of intellectual property by enabling companies to safeguard their valuable but non-patentable innovations.

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22. *Id.* at § 1(1).

23. Properly speaking, an innovation is a new idea, method, process or device. When used in this Article, it is meant to cover any commercially valuable idea, method, process or device that is new to a particular business (even if not new in an absolute sense) and is at least not widely known among the business' competitors.

The trade secret misappropriation tort does more than encourage innovation. By imposing liability on a party that acquires someone else's innovation by improper means, the tort discourages such improper conduct from being undertaken. It thus helps enforce a sort of commercial morality among business competitors. Indeed, the early American cases on trade secret misappropriation emphasized this rationale over the encouragement to innovation provided by the trade secret tort. *See, e.g.*, Eastman Co. v. Reichenbach, 20 N.Y.S. 110, 116 (Sup. Ct. 1892). *See also* KIM L. SCHEPPELE, LEGAL SECRETS: EQUALITY AND EFFICIENCY IN THE COMMON LAW 240-41 (1988). According to the United States Supreme Court, the trade secret tort also furthers a non-economic interest of the trade secret holder. As the Court stated in both *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 487 (1973), and *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 155 (1989), "[a] more fundamental human right, that of privacy, is threatened when industrial espionage is condoned or is made profitable." The discussion that follows, however, focuses solely on how the trade secret tort encourages innovation.

1. Federal Law and the Economics of Innovation

The dynamics illustrating the importance of trade secret protection to innovators are relatively straightforward. If an innovation could be developed at little or no cost to the company desiring the innovation, then each company would have all the incentive it needed to undertake such development.[24] This, of course, is not the case. Innovations are often very costly to develop, requiring substantial investments of time, money, and effort, not to mention patience.[25] Innovations are made all the more costly by the risk that the innovation may fail and even lead to potential liability for the innovator.[26]

Once a company recognizes that it will be costly to innovate, it is confronted with an obvious problem: if it cannot profit by exploiting its innovations, then it cannot recoup its investment in the innovations. If a company cannot recoup, then it loses its motivation to innovate in the first place.[27] This result would have disastrous effects on the economy; as many economists, most notably Joseph Schumpeter,[28] have argued for generations, an economy's growth is often largely a function of its participants' ability to innovate, to create new, beneficial products or services and to bring those products or services to the marketplace. This result would also hurt consumers, by depriving them of new technologies, improvements and enhancements.[29]

Recognizing both the benefits of innovation and the need to allow businesses to recoup their investments in innovation, federal law provides two primary encouragements to innovators—patent law and copyright law.[30] The former law allows one who "invents or discovers any new

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24. *See* EJAN MACKAAY, ECONOMICS OF INFORMATION AND LAW 110 (1982).

25. *See* G.S. Rasmussen & Assocs. v. Kalitta Flying Serv., Inc., 958 F.2d 896, 900 (9th Cir. 1992) (Kozinski, J.).

26. *See id.*

27. *See* RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW 36 (3d ed. 1986); 3 WILLIAM BLACKSTONE, COMMENTARIES *4.

28. *See, e.g.*, JOSEPH A. SCHUMPETER, CAPITALISM, SOCIALISM AND DEMOCRACY (3d ed. 1950); JOSEPH A. SCHUMPETER, THE THEORY OF ECONOMIC DEVELOPMENT (1912).

29. *See* PETER NANYENYA-TAKIRAMBUDDE, TECHNOLOGY TRANSFER AND INTERNATIONAL LAW 3 (1980).

30. Both of these legal regimes were specifically contemplated by the drafters of the United States Constitution, who included among Congress' powers the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8, cl. 8. The First Congress seized on this power almost immediately and enacted patent and copyright laws in 1790. *See* Act of Apr. 10, 1790, ch. 7, 1 Stat. 109 (first patent act) (repealed 1793); Act of May 31, 1790, ch. 15, 1 Stat. 124 (first copyright act)

and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" to obtain a government-granted right "to exclude others from making, using, or selling the invention throughout the United States" for a limited period.[31] The latter law grants the author of an "original wor[k] . . . fixed in any tangible medium of expression" the exclusive right to reproduce, adapt, distribute, perform and display the work for the life of the author plus fifty years.[32]

While both of these sources of law promote innovation, neither is without its major limitations. The patent process is slow and rather costly. In addition, patent law's requirements that an invention be novel[33] and non-obvious,[34] and that the invention fit within one of the law's designated subject matter areas,[35] further restrict the scope of protection afforded a business seeking to exploit a recent innovation.[36] The

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(repealed 1802).

31. 35 U.S.C. §§ 101, 154 (1988). For an insightful analysis of how the patent laws foster innovation, see Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. LEG. STUD. 247 (1994).

32. 17 U.S.C. §§ 102(a), 302(a) (1988).

33. 35 U.S.C. § 102 (1988). The most significant novelty hurdles a patent applicant must clear are the requirement in § 102(a) that the applicant's invention was not "known or used *by others* in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent," (emphasis added) and the requirement in § 102(b) that the applicant's invention was not "patented or described in a printed publication in this or a foreign country or in public use or on sale in this country [*by anyone, including the applicant*], more than one year prior to the date of the application for patent."

34. 35 U.S.C. § 103 (1988). An invention is obvious, and hence not the proper subject of a patent, if the "subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious . . . to a person having ordinary skill in the art to which said subject matter pertains." The skill level at issue is not merely the skill of the average person, or even the hypothetical "reasonable man," but the skill of one with expertise in the applicable "art." *See* Dann v. Johnston, 425 U.S. 219, 229 (1976).

While it may appear that the novelty and non-obvious requirements are redundant, or that one is subsumed within the other, this is not the case. An invention may be novel because no one other than the patent applicant had developed it to date, but the knowledge needed to create the invention may have been readily available prior to the invention's development. Such an invention would be novel because it had not been developed previously, but obvious because it could have been developed by one possessing the ordinary level of skill in the relevant field. On the other hand, a patent applicant's invention may be non-obvious because the person with ordinary skills in the applicant's field could not have developed the invention, but someone with extraordinary skills may have already developed the invention or exposed the basis for developing the invention. The patent applicant's invention would then be non-obvious but not novel.

35. 35 U.S.C. § 101 (1988). New algorithms are a significant example of an invention that does not come within the scope of the subject matter open to patent protection. *See* Gottschalk v. Benson, 409 U.S. 63, 71-72 (1972). Customer lists and advertising campaigns likewise are generally not classified as patentable subject matter. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 483 (1974).

36. Patent law is further limited by the fact that only the invention itself, not the

copyright system is much faster and cheaper than the patent process, but it too has serious limitations on the encouragement it gives businesses to innovate. The most obvious one is its limited subject matter: copyright protection is only available to guard "works of authorship fixed in any tangible medium of expression" and, even with respect to these works, it only protects the form of expression, not the idea being expressed.[37] Copyright, in short, protects innovations in expression only, and provides no shelter for innovations in processes, procedures or any other area.[38]

2. *Trade Secret Law and Innovation*

Given the safeguards provided by federal patent and copyright law, a business considering investing in innovation has three options: (1) work only on innovations that will qualify for federal shelter; (2) work on innovations that, once created, will be made public without federal shelter; or (3) work on innovations that lack federal shelter, but, once created, will be kept secret.[39] For the reasons stated above, the first option is not entirely satisfactory. Other than for innovations in expression, qualifying for federal shelter is slow, costly and uncertain. The second option is even less appealing: if competitors are able to obtain a business' innovation at less cost than the business incurred in creating the innovation, then the competitors are in a better position than the creating business to exploit the innovation, because they have not "wasted" valuable resources on the creative process.[40] This leaves the third

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concrete idea behind the invention, is patentable. *See* Parker v. Flook, 437 U.S. 584, 593-94 (1978).

37. 17 U.S.C. § 102(a) (1988). "It is an axiom of copyright law that the protection granted to a copyrighted work extends only to the particular expression of the idea and never to the idea itself." Sid & Marty Krofft Television Prods. v. McDonald's Corp., 562 F.2d 1157, 1163 (9th Cir. 1977).

38. The Copyright Act is clear on this point. It states, in § 102(b):

> In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

17 U.S.C. § 102(b) (1988).

39. *See* James R. McKown, *Taking Property: Constitutional Ramifications of Litigation Involving Trade Secrets*, 13 REV. LITIG. 253, 257 (1994) (citing RICHARD I. MILLER, LEGAL ASPECTS OF TECHNOLOGY UTILIZATION 12-14 (1974)).

40. "Sufficiently high costs of innovation and low costs of imitation . . . will lead to the eventual suppression of all firms that continue to attempt to innovate." Sidney G. Winter, *Competition and Selection*, *in* THE NEW PALGRAVE: A DICTIONARY OF ECONOMICS

option—a business investing in innovations that it can maintain in secrecy while exploiting the innovations to recover its expenses and, it is hoped, turn a profit.[41]

Trade secret law plays a significant role in conjunction with this third option.[42] While it is expensive to innovate, it is even more expensive to innovate, and exploit innovation, in secrecy.[43] Of course, assuming it is more profitable for a corporation to develop or exploit an innovation in secrecy than to do so publicly, one can expect the corporation to expend resources on maintaining secrecy. Again, however, a corporation encounters a basic economic problem: it makes no sense to spend resources on confidentiality measures if those resources equal or exceed the relative value of keeping an innovation away from competitors. Thus, a corporation will invest in confidentiality measures up to the point where the direct and indirect cost of those measures equals the corporation's marginal expected loss if its innovation is discovered by the competition.[44]

545, 547 (John Eatwell et al. eds., 1987). For a further explanation of this concept (albeit in the context of copyright), see Wendy J. Gordon, *Asymmetric Market Failure and Prisoner's Dilemma in Intellectual Property*, 17 U. DAYTON L. REV. 853, 863-64 (1992). *See also* J. Miles Hanisee, Comment, *An Economic View of Innovation and Property Right Protection in the Expanded Regulatory State*, 21 PEPP. L. REV. 127, 148-49 (1993) (explaining the innovation/imitation dilemma in terms of the basic economic theories of "free riders" and the "tragedy of the commons").

41. *See* POSNER, *supra* note 27.

42. Trade secret law also plays an important role in relation to the first option—developing innovations that will qualify for federal shelter, and in particular, patent shelter. At the inception of the innovation process, a company cannot know for certain whether any workable innovation it develops will be patentable, as patentability will depend on the unique features of the innovation and the available state of knowledge at the time the innovation is sought to be patented. Because of the special protection accorded trade secrets, however, the company can take some solace in knowing that if it develops a valuable innovation that turns out to be unpatentable, it still may be able to profit from the innovation by exploiting it in secret.

43. Innovations, especially innovative processes, can be kept secret by measures such as physical security, restricted access, non-disclosure agreements and employee non-compete covenants. MICHAEL A. EPSTEIN, MODERN INTELLECTUAL PROPERTY 34-46 (3d ed. 1995); Derek P. Martin, Comment, *An Employer's Guide to Protecting Trade Secrets from Employee Misappropriation*, 1993 B.Y.U. L. REV. 949, 955-56, 968-74 (1993).

44. *See* Note, *Trade Secret Misappropriation: A Cost-Benefit Response to the Fourth Amendment Analogy*, 106 HARV. L. REV. 461, 473 (1992). *See also* Rockwell Graphics Sys. v. DEV Indus., 925 F.2d 174, 180 (7th Cir. 1991) (Posner, J.). In this context, the marginal expected loss is "the loss of the trade secret to the owner multiplied by the decrease in the risk that the secret will be discovered by a competitor brought about by taking additional precautions." Note, *supra*, at 473. For example, assume that certain information is worth $150,000 to a company if kept away from the company's competitors, but worth only $50,000 if disclosed to any one competitor. The company in this situation can be expected to spend up to $10,000 in time, effort and money for a security option that decreases by ten percent the chance that the company's secret information will be disclosed to its competitors (($150,000 - $50,000) x 10% = $10,000).

If a corporation takes these reasonable precautionary measures expected of it, the tort of trade secret misappropriation steps in to provide an added layer of protection. The tort enables the corporation to exclude an outsider from using its innovation, so long as the outsider knew it had acquired the innovation through some type of improper conduct or as a result of a breakdown in the corporation's confidentiality program. At its root, then, the tort provides that if a corporation takes reasonable precautionary measures to protect its innovation, it need not spend on extraordinary precautionary measures to prevent disclosure; the law, instead, will insure against commercially undesirable disclosures, and will even forgive the corporation's mistaken disclosures in appropriate circumstances.[45] This decreases the amount of resources the corporation

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This example is overly simplified because it does not factor in: (1) the decreased value to the owner of its trade secret due to the risk that the secret will be "discovered" by a competitor through independent effort or reverse engineering; (2) the decreased value to the owner of a security option because of the risk that the secret will be "discovered" by a competitor through independent effort or reverse engineering; (3) the variance in the value to the owner of its trade secret depending on how many of its competitors will eventually receive its trade secret in the event the secret is initially acquired by just one competitor (e.g., if the competitor sells the secret); and (4) the variance in the value to the owner of its trade secret depending on how valuable its information is if known by all its competitors versus some smaller set of competitors. It may be the case, however, that these additional factors cancel each other out. For example, the discount rate applied to the value of a trade secret due to the risk of independent discovery or reverse engineering probably (but not necessarily) will equal the discount rate applied to the security option due to the risk of independent discovery or reverse engineering. Also, the risk that a disclosure to one competitor will lead to a disclosure to another competitor is inversely proportionate to the drop in value of a trade secret if known to one competitor versus two competitors, because the first competitor has an interest similar to the owner in avoiding a further drop in the value of the trade secret. All told, therefore, the reasonable company may simply assume that these additional factors balance out to zero because the cost of calculating these factors is greater than the value of the increased accuracy they provide to the company's security calculations.

45. *See* Note, *supra* note 44, at 473. Once again, the actual economics of this situation are not quite so simple. Assuming a misappropriator, after acquiring a company's trade secret, would itself keep the secret confidential, it may be difficult for the trade secret owner to realize that its secret information has been misappropriated, seeing as "[o]ne of the . . . properties of information is that many people can simultaneously possess it without knowing who else has it." SCHEPPELE, *supra* note 23, at 241-42 n.36. And even after learning of the misappropriation, the owner will incur costs in enforcing its legal rights against the misappropriator. In sum, despite the protection provided by trade secret law, a trade secret owner will invest in extra precautionary measures (1) that are more expensive than the marginal expected loss of its trade secret, *see supra* note 44, but are (2) less expensive than the marginal expected loss *plus* the "enforcement cost"—that is, the appropriately discounted cost of detecting and prosecuting any misappropriations that might occur due to the absence of the extra precautionary measures.

While there is no empirical data on how high this "enforcement cost" is, it is likely to be relatively low for the following reasons: (1) prosecution of trade secret misappropriation cases is made less costly by the general availability of attorney fees and punitive damages must spend on precautionary measures, thereby increasing the amount of resources available to the corporation for innovation, the profitability of innovations, and the overall investment in innovation.

Obviously, the protection afforded by trade secret law is less than absolute. Indeed, if the goal of the trade secret tort was to provide absolute protection to the first company to develop an innovation, it falls far short of the mark. It does not allow the first company to prevent other companies from later independently discovering, and using, the company's innovation. It also does not enable the first company to bar others from uncovering the company's innovation by proper means, such as reverse engineering or permissible disclosure.

The goal of the trade secret tort, however, is not solely to guard the interests of the *first* company to develop an innovation, but to encourage the maximum beneficial amount of innovation by *all* companies. Thus, while affording each company extra protection for its innovations against disclosure by improper means and mistake, the trade secret tort still allows all other companies an equal opportunity to discover the same innovation independently or by acceptable commercial means. This trade-off leads to several desirable effects, each of which is related to the other. First, the trade-off encourages companies to invest in complex innovations that are not easily duplicated by its competitors, and discourages them from over-investing in simple innovations. Second, it prevents companies from obtaining monopolies over innovations that do not qualify for patent protection and provides a strong incentive for companies to pursue patent protection for innovations that do so qualify. This preserves the central role of the patent laws in controlling the creation and duration of monopolies over innovations.[46] Finally, the trade secret trade-off allows

to the prevailing plaintiff, (2) the costs of detection and prosecution are discounted because they are future expenditures, and (3) the costs of prosecution and some of the costs of detection are further discounted by the fact that they will never arise if no misappropriation occurs.

46. *See* Bonito Boats v. Thunder Craft Boats, 489 U.S. 141, 150-51 (1989); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481-89 (1974). The term "monopoly" is used here in a lay sense and is not intended to connote a monopoly as understood by economists and lawyers. A patent gives its holder a right to prevent others from duplicating its patented process or invention, but it does not prevent others from competing with the holder by using different processes or inventions. Thus, a patent does not necessarily confer any significant power on its holder in any relevant product or service market unless there are no reasonable substitutes in that market for the patented process or innovation. Absent significant market power in a relevant market, there is no legal/economic monopoly. *See* Dam, *supra* note 31, at 249-50. *See also* Abbott Labs. v. Brennan, 952 F.2d 1346, 1355 (Fed. Cir. 1991), *cert. denied*, 112 S. Ct. 2993 (1992); American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1367 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984).

each company to search for new, non-patentable innovations secure in the knowledge that it will be able to use any innovation it finds even if it is not the first acquirer of the innovation.[47]

II. THE CASE FOR A FEDERAL TRADE SECRET LAW

It may be that all Congress needs to motivate it to federalize an existing body of state law is proof that the body of law is critical for competition. In that event, the discussion in the preceding section is all that is necessary to justify fashioning a federal trade secrets act. However, to the extent that the concept of federalism is of concern to federal legislators, the fact that the tort of misappropriation of trade secrets encourages socially beneficial innovation does not alone explain why this tort should be federalized. Instead, some independent basis, relevant to the free flow of commerce among states or to the operation or interests of a national government, is needed to support a call for transforming a traditional area of state law into a new body of federal law. This section provides two such independent bases for adopting a federal law of trade secret misappropriation.

A. Variances Among the States and the Need for Uniformity

The best reason for enacting federal legislation to displace state law on trade secret misappropriation is the need for national uniformity in this area of law. As noted in Section I(A), every state protects a business' trade secrets from misappropriation, and the vast majority do so via the

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47. *Cf.* Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutionary Impulse*, 78 VA. L. REV. 149, 157-58 (1992).

The importance of this last point should not be understated. Patent law, unlike trade secret law, provides the patent holder with protection against subsequent independent discovery of her patented invention. 35 U.S.C. § 154 (1988). Thus, others who pursue the same invention but are slower than the holder to complete the invention or obtain patent protection for the invention essentially lose their investment. The patent system minimizes such losses in two ways: (1) it is designed to encourage potential patent holders to apply for patents at the earliest possible stage, thus leading to the issuance of patents as quickly as possible (given the administrative confines of the system), and (2) the process of issuing a patent reveals the patented invention to the public, so others are notified that they should cease investing in the same (or equivalent) invention. *See* Dam, *supra* note 31, at 264-65. In this way, only those working on the same invention as the future patent holder at roughly the same time are in serious risk of having invested substantial amounts in an invention that they will lose by not being the first to the Patent Office.

adoption of state statutes based on the UTSA. Yet, despite this universal recognition and near-universal origin of trade secrets protection, states vary widely in their treatment of trade secret misappropriation.

1. A Brief Sample of State Misappropriation Laws

Part of the lack of uniformity results, of course, from the fact that not all states have adopted trade secret statutes modeled after the UTSA. Some states, most notably New York, Pennsylvania, and Texas, continue to prefer the *Restatement* approach to trade secret misappropriation.[48] Also, two versions of the UTSA are in circulation: the original 1979 version and the amended 1985 version.[49] Several states, including Arkansas,[50] Delaware,[51] and Washington,[52] enacted trade secret statutes following publication of the original UTSA but prior to publication of the current, amended UTSA; many of those states have not amended their trade secret statutes to conform to the current UTSA. Other states, including Florida,[53] Nevada,[54] and Rhode Island,[55] did not enact their trade secret statutes until after 1985, and hence used the current UTSA as their legislative model.

However, even if one considers only states that borrowed from the UTSA and only those parts of the UTSA that are the same in both the 1979 and 1985 versions, there is still a serious lack of uniformity. This is due, in part, to the fact that many states modified the UTSA when they drafted their trade secret statutes. The statutes of Alabama and North Carolina, for example, differ substantially from both the 1979 and 1985 UTSA. Alabama's trade secret statute provides less protection than the UTSA, while North Carolina's statute provides more.[56] Less serious, but

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48. *See supra* note 12.

49. *See supra* note 17.

50. *See* ARK. CODE ANN. §§ 4-75-601 to -607 (Michie 1993).

51. *See* DEL. CODE ANN. tit. 6, §§ 2001 to 2009 (1993).

52. *See* WASH. REV. CODE ANN. §§ 19.108.010 to .940 (West 1989).

53. *See* FLA. STAT. ANN. §§ 688.001 to .009 (West 1990 & Supp. 1995).

54. *See* NEV. REV. STAT. §§ 600A.010 to .100 (1991).

55. *See* R.I. GEN. LAWS §§ 6-41-1 to -11 (1992).

56. *See* Thad G. Long, *The Alabama Trade Secrets Act*, 18 CUMB. L. REV. 557 (1988); Joseph E. Root & Guy M. Blynn, *Abandonment of Common-Law Principles: The North Carolina Trade Secrets Protection Act*, 18 WAKE FOREST L. REV. 823 (1982). Alabama's statute was intended to retain some of the features of the *Restatement* approach to trade secrets. ALA. CODE § 8-27-2 cmt. (1993). To that end, Alabama defines a trade secret as information that:

a. Is used or intended for use in a trade or business;

still noteworthy, departures from the UTSA model can be seen in many other state trade secret statutes. For example, a number of states have not adopted the UTSA's central definition of "trade secret." California dropped the UTSA requirement that a trade secret not be "readily ascertainable by proper means."[57] In Nebraska, information is not deserving of trade secret protection simply if it is "known to" or "ascertainable by proper means by" others.[58] Colorado went so far as to eliminate the bulk of the UTSA's definition of a trade secret, opting instead for a more amorphous test whereby information is deserving of trade secret protection when "the owner thereof . . . [takes] measures to prevent the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes."[59] Similar departures from the UTSA can be found in various states' definitions of "misappropriation"[60] and "improper means,"[61] or in the remedies states provide for misappropriations.[62]

> b. Is included or embodied in a formula, pattern, compilation, computer software, drawing, device, method, technique, or process;
> c. Is not publicly known and is not generally known in the trade or business of the person asserting that it is a trade secret;
> d. Cannot be readily ascertained or derived from publicly available information;
> e. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and
> f. Has significant economic value.

ALA. CODE § 8-27-2(1) (1993).

57. CAL. CIV. CODE § 3426.1(d)(1) (West Supp. 1995).

58. NEB. REV. STAT. § 87-502(4)(a) (Supp. 1993).

59. COLO. REV. STAT. § 7-74-102(4) (1986).

60. *See, e.g.*, WIS. STAT. ANN. § 134.90(2)(b)(2)(d) (West 1989). Wisconsin considers the acquisition of a trade secret by accident or mistake a misappropriation, even if the acquirer did not, as the UTSA requires, "kn[ow] or ha[ve] reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake." UNIF. TRADE SECRETS ACT § 1(2)(C).

61. *See, e.g.*, 765 ILL. COMP. STAT. ANN. 1065/2 (a) (West 1993) (changing the UTSA language of "breach or inducement of a breach of duty to maintain confidentiality" to "breach or inducement of a breach of a confidential relationship or other duty to maintain secrecy or limit use"); NEB. REV. STAT. § 87-502(1) (Supp. 1993) (changing the UTSA language of "'improper means' includes" to "improper means shall mean").

62. Substantive departures from both the 1979 and 1985 UTSA provisions for injunctive relief, compensatory damages, punitive damages, or attorney's fees can be found in the trade secret laws of Alabama, Alaska, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Louisiana, Montana, Nebraska, North Carolina, Oregon, Virginia, West Virginia, and Wisconsin. *See* Samuels & Johnson, *supra* note 19, at 70-84. The injunctive and damage sections of Georgia's trade secret statute, which was enacted in 1990 after the Samuels and Johnson article was written, *see id.* at 95 n.330, also substantially depart from the UTSA model. *See* GA. CODE ANN. §§ 10-1-762 to -763 (1994).

These divergences are even more significant because the injunctive relief and damage

Moving beyond statutory differences, uniformity in state trade secret protection is also undermined by the numerous disagreements among the courts of different states as to the application and interpretation of common elements of trade secret misappropriation. Many important concepts implicated in state trade secrets statutes, the *Restatement* and the UTSA—such as what constitutes "improper means" and "reasonable" security precautions and what standard should be used for granting injunctive relief—are ill-defined or undefined. This leaves the courts of each state with the task of providing either a precise definition for those concepts or at least some guiding principles for use in applying the concepts. Not surprisingly, as state courts have fleshed out these concepts, they have not all built the same body of law.[63] Other disagreements are less explicable, such as splits in judicial authority over whether there is a special "novelty" requirement for information to be considered a trade secret or whether customer lists and other non-technical information should be considered a trade secret.[64] That the courts of different states are interpreting or applying similar statutory or common law trade secret standards differently simply injects further discontinuity into the collective body of state trade secret law.

2. *The Special Problems Created by a Lack of Uniformity in the Area of Trade Secrets.*

Disuniformity among the fifty states' laws on a given subject is to be expected. Indeed, in many circumstances this variety is not only acceptable, but preferable, reflecting each state's modification of basic legal schemes to the unique needs and desires of its citizenry.[65] The variety

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provisions in the 1979 and 1985 versions of the UTSA already differ from each other. This leads to three classes of injunctive relief and damage provisions in UTSA-based trade secret statutes: those closely following the 1979 UTSA, those closely following the 1985 UTSA, and those departing from both the 1979 and 1985 UTSA.

63. *See* EPSTEIN, *supra* note 43, § 2.04[A] (improper means); JAGER, *supra* note 12, § 7.02, at 7-4 to -54.4 (injunctions); Note, *supra* note 44, at 464 (reasonable security precautions). *See also* David D. Slaby et al., *Trade Secret Protection: An Analysis of the Concept "Efforts Reasonable Under the Circumstances to Maintain Secrecy,"* 5 SANTA CLARA COMPUTER & HIGH TECH. L.J. 321 (1989); Hilton, *supra* note 12, at 292-96.

64. *See* EPSTEIN, *supra* note 43, § 1.02[E][3] (additional novelty requirement); JAGER, *supra* note 12, § 3.01[2], at 3-8 to -16.5 (non-technical information).

65. *See* New State Ice Co. v. Liebmann, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting) ("It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."); Fed. Energy Regulatory Comm'n v. Mississippi, 456 U.S. 742, 788 (1982) (O'Connor, J., concurring and dissenting) ("[T]he

among states often "allows a better matching of preferences and policies because [citizens] can choose that [state] which offers the most preferred policy package. That is, citizens may 'vote with their feet,' searching out the [state] offering the most attractive set of policies."[66]

In the context of trade secret protection, however, it is clear that uniformity deserves precedence over state autonomy and experimentation. The primary justification for this preference arises out of the free-flowing nature of information and the resulting havoc this creates for the trade secret owner trying to determine in which state its secret will, or may, be misappropriated. As information, a trade secret has no one set location; instead, it "exists" wherever the trade secret is being used or wherever someone who knows the secret is located. In the case of a company that uses its trade secret in its multistate operations, therefore, the company's secret exists in each state of operation and, more importantly, is vulnerable to disclosure in each such state. Furthermore, depending on the type of trade secret at issue, the secret may well be useful to businesses operating in states other than a company's states of operation. In sum, the trade secrets of a company, especially a multistate company, may be susceptible to disclosure in a large number of states and capable of being exploited in an even larger number of states.

This nearly boundless feature of trade secrets causes serious problems for a company trying to protect its trade secrets because it becomes nearly impossible for the company to know in advance of a misappropriation which state's law will govern. Under prevailing choice-of-law standards, a court faced with a misappropriation of trade secrets case will often, though not always, apply the law of the state where the misappropriation occurred—that is, either where the trade secret was disclosed or where the trade secret was used by the defendant after disclosure.[67] However,

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50 States serve as laboratories for the development of new social, economic, and political ideas."). *But see* Susan Rose-Ackerman, *Risk Taking and Reflection: Does Federalism Promote Innovation?*, 9 J. LEG. STUD. 593 (1980) (questioning Brandeis' conclusion that states serve as laboratories for experimentation).

66. J. Robert S. Prichard, *Securing the Canadian Economic Union: Federalism and Internal Barriers to Trade*, *in* FEDERALISM AND THE CANADIAN ECONOMIC UNION 3, 17 (Michael J. Trebilcock et al. eds., 1983). *See also* Charles M. Tiebout, *A Pure Theory of Local Expenditures*, 64 J. POL. ECON. 416, 418 (1956) ("[T]he consumer-voter moves to that community whose local government best satisfies his set of preferences. The greater the number of communities and the greater the variance among them, the closer the consumer will come to fully realizing his preference position.").

67. The two choice-of-tort-law tests that prevail in the United States are the "traditional" *lex loci delicti* (place of the tort) test and the "modern" most significant relationship test. *See Conflict of Laws*, 16 Am. Jur. 2d § 99, at 164-66, and § 102, at 168-

as noted above, it is nearly impossible for a company to know, ex ante, in which state such disclosure or use will occur. This forces the company into a difficult position: it must either adopt a different confidentiality program for each region of the country in which it operates—a program adapted to the unique aspects of the trade secret laws of that region—or it must adopt one confidentiality program designed to satisfy the most restrictive aspects of the trade secret laws of all the states where the company's secret may be disclosed or employed. Neither approach is particularly efficient. The former greatly increases the cost of designing and administering confidentiality programs, while the latter increases the cost of operating confidentiality programs. Additionally, each requires a company to expend significant resources on acquiring information about which states' laws might apply to its trade secret and what those laws are. In both situations, therefore, the net value of a trade secret is diminished by the fact that it is more costly to maintain the secret's confidentiality.

A troublesome byproduct of this confusion over which state's law will govern a trade secret misappropriation is that it partially undermines the very purpose of the trade secret remedy. An innovator is entitled to trade secret protection only after first investing in developing the innovation that can qualify as a trade secret, and then investing in safeguarding the confidentiality of the innovation. To know whether these investments are worthwhile, the innovator needs to know the legal conditions for evaluating these investments, such as the type of innovation that can qualify as a potential trade secret and the cost of the confidentiality safeguards required to transform a potential trade secret into an actual trade secret. Given the uncertainty over which law will apply in the event of a subsequent misappropriation, it is nearly impossible for the innovator to predict accurately the legal conditions that will govern its investments. This is likely to lead the innovator to use overly pessimistic

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70. Under the former test, a court focuses solely on the state where the act causing injury occurred, which in misappropriation cases is generally considered to be the state where the trade secret was disclosed or subsequently used. *See* JAGER, *supra* note 12, § 4.02[3], at 4-29 to -32. Under the later test, a court is to evaluate a number of factors, *see Restatement (Second) of Conflict of Laws* § 145 (1969), but in the misappropriation context the state where the trade secret was disclosed or subsequently used is given special significance. *See id.*, cmts. e & f. *See also* Sil-Flo, Inc. v. SFHC, Inc., 917 F.2d 1507, 1512 (10th Cir. 1990); Wilson v. Electro Marine Sys., Inc., 915 F.2d 1110, 1115 (7th Cir. 1990); Computer Assocs. Int'l, Inc. v. Altai, Inc., 832 F. Supp. 50, 51 (E.D.N.Y. 1993) (adopting choice-of-law analysis announced in earlier decision, 775 F. Supp. 544, 566); Default Proof Credit Card Sys., Inc. v. State Street Bank & Trust Co., 753 F. Supp. 1566, 1570-71 (S.D. Fla. 1990).

assumptions in evaluating its potential investments in innovation, thus discouraging the very investment activity the misappropriation tort is intended to encourage.[68]

A final reason for preferring a uniform trade secret law finds its roots in the economy's technological expansion. As the United States economy becomes increasingly information-driven rather than production-driven, the types of trade secrets and the means of acquiring those secrets are likely to increase exponentially. A uniform system of law protecting trade secrets is better suited to adapt to these new developments than are fifty separate legal systems. A uniform system is also more appropriate for a nation constructing information superhighways, nationwide cellular networks, and portable technology systems, all of which simplify or accelerate the exchange of information. The easier it is to transfer information, the more places the information can be used, disclosed or simply found. This presents no special problem under a national trade secret scheme, for a trade secret owner knows the law that governs in each and any state where its trade secret may, even temporarily, exist. A much more complex problem obviously arises when the trade secret owner is faced with fifty different trade secret schemes that may affect the safety of its trade secret.[69]

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68. *See* MACKAAY, *supra* note 24, at 116 ("Uncertainty about future yield would normally be reflected in a higher required return, as portfolio theory indicates."). This uncertainty is aggravated because the innovator cannot purchase insurance against the uncertainty. *Id.* at 110. It is further aggravated because the innovator will be unlikely to reduce its uncertainty by searching for and obtaining additional information because the uncertainty relates to future unknowable facts. *Id.*

Another byproduct of the confusion over the applicable trade secret law is that a state's law may have a greater extraterritorial effect than intended by the law's drafters. For example, assume a company with operations in states A, B, and C possesses a trade secret that it plans to use only in states A and B, but the company knows that its trade secret is available to its employees in state C and can be used by its competitors in states A, B, C, and D. Assume also that the trade secret laws of states C and D require a greater level of confidentiality for trade secrets than the similar laws of states A and B. If the company is unable to predict accurately the state in which a misappropriation will occur, if at all, and the state whose law will apply in the event of a misappropriation (the possibilities being at least states A, B, C, and D), the company is likely to adopt a trade secret confidentiality program that satisfies the strict requirements of states C and D's laws, even though the company will not use its secret in those states.

69. The argument in text cannot be condensed down to a simple argument that a uniform federal law of trade secret misappropriation is needed because allowing state law to control can lead to difficult choice-of-law issues in litigation. If this were the full force of the argument, it would hardly differentiate the trade secret misappropriation tort from other types of torts, and would thus justify federalizing almost any area of tort law.

Litigations involving trade secret misappropriation frequently raise complex choice-of-law issues because of the difficulty in identifying where an alleged misappropriation took place and where the injury from the misappropriation occurred, *see* JAGER, *supra* note 12,

B. International Trade and Trade Negotiations

The second significant basis for justifying a federal trade secrets act arises out of an area of uniquely federal concern—international trade. In recent years, the United States has dedicated considerable efforts to enhancing free trade among nations. These efforts have largely taken two forms: 1) negotiating and entering bilateral and multilateral trade agreements; and 2) encouraging trading partners, sometimes by threat of sanctions, to revise their laws to accord foreign businesses greater access to or protection in the trading partners' domestic markets. As part of these efforts, the United States has paid special attention to the protection of intellectual property rights abroad,[70] taking the position that true free

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§ 4.02[1], but the argument in text does not revolve around these litigation complexities. Instead, it implicitly assumes that a trade secret owner can readily determine which state's law applies *once a misappropriation occurs*. Even under such an assumption, the trade secret owner is still confronted with the problem discussed above: when deciding whether to develop a trade secret and when later designing a confidentiality program for its trade secret, the owner cannot know in which state a *future* misappropriation will occur. Thus, the owner has to identify ex ante all the states in which a misappropriation of its secret *could* take place and where an injury from that misappropriation *could* occur.

70. *See* Note, *Intellectual Property Protection Through International Trade*, 14 HOUS. J. INT'L L. 393, 393-95 (1992). *See generally Conference on International Intellectual Property Law and Policy*, 4 FORDHAM INTELL. PROP., MEDIA & ENT. L.J. 1 (1993); *Symposium: Intellectual Property and Competition Law: Changing Views in the European Community and the United States of America*, 20 BROOK. J. INT'L L. 1 (1993).

A helpful summary of the various means employed by the United States to promote international respect for intellectual property rights is provided in Spencer W. Waller & Noel J. Byrne, *Changing View of Intellectual Property and Competition Law in the European Community and the United States of America*, 20 BROOK. J. INT'L L. 1 (1993):

> The United States has made the enforcement of intellectual property rights a top priority through various disparate policy initiatives. These include the strengthening of the intellectual property laws through statutory amendments, the creation of the Court of Appeals for the Federal Circuit to handle the appeals of intellectual property matters on a nationwide and uniform basis, the vigorous use of section 337 of the Trade Act of 1930 to exclude imports infringing United States intellectual property rights, the conditioning of trade concessions on the enforcement of intellectual property rights by the recipient nations, and the threat and use of section 301 of the Trade Act of 1974 as a unilateral measure to investigate and retaliate against foreign governmental practices which injure United States intellectual property rights. Intellectual property rights also have been the driving force behind United States negotiating strategies in the GATT, the United States-Canada Free Trade Agreement, the North American Free Trade Agreement, and bilateral investment and commercial treaties.

Id. at 7-8 (footnotes omitted).

This last example, bilateral investment treaties, has become a particularly active avenue of late. *See* Jose L. Siqueiros, *Bilateral Treaties on the Reciprocal Protection of Foreign* trade does not exist when companies cannot protect, and therefore are reluctant to utilize, their intellectual property abroad.[71]

1. Trade, TRIPS and Trade Secrets

The United States has entered a number of international agreements specifically mandating that signatory nations provide a minimal level of protection for intellectual property existing within their borders. The two most recent, significant, and well-publicized examples of this trend are the North American Free Trade Agreement ("NAFTA")[72] and the Agreement Establishing the World Trade Organization, which arose out of the recent Uruguay Round of trade talks under the General Agreement on Tariffs and Trade ("GATT") and brought with it the Agreement on Trade-Related Aspects of Intellectual Property Rights ("GATT/TRIPS").[73]

Investment, 24 CAL. W. INT'L L.J. 255 (1994). The United States' prototype reciprocal investment treaty specifically addresses the protection of intellectual property rights. *See* Model Treaty Concerning the Encouragement and Reciprocal Protection of Investment arts. I(d)(v), II(2)(b) & II(3)(a), *reprinted in* Eleanor R. Lewis, *The United States Bilateral Investment Treaty Program: Protection for U.S. Investors Overseas*, *in* THE COMMERCE DEPARTMENT SPEAKS ON INTERNATIONAL TRADE AND INVESTMENT 1994, at 127, 135-37 (PLI Comp. Law & Practice Course Handbook Series No. B-863, 1994).

71. The United States is also concerned, of course, with the losses its citizens suffer when they do use their intellectual property abroad. The United States International Trade Commission estimated that in 1986 alone, domestic companies lost $23.8 billion as a result of inadequate foreign intellectual property protection. *See* U.S. INT'L. TRADE COMM'N, PUB. NO. 2065, FOREIGN PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND THE EFFECT ON U.S. INDUSTRY AND TRADE 4-1 (1988) [hereinafter ITC REPORT].

72. North American Free Trade Agreement, Dec. 17, 1992, 32 I.L.M. 605 [hereinafter NAFTA]. NAFTA's intellectual property provisions have been a popular topic among legal writers of late. *See, e.g.*, Kent S. Foster & Dean C. Alexander, *Opportunities for Mexico, Canada and the United States: A Summary of Intellectual Property Rights Under the North American Free Trade Agreement*, 20 RUTGERS COMPUTER & TECH. L.J. 67 (1994); Frank J. Garcia, *Protection of Intellectual Property Rights in the North American Free Trade Agreement: A Successful Case of Regional Trade Regulation*, 8 AM. U.J. INT'L L. & POL. 817 (1993); Charles S. Levy & Stuart M. Weiser, *The NAFTA: A Watershed for Protection of Intellectual Property*, 27 INT'L LAW. 671 (1993); Rodolpho Sandoval & Chung-Pok Leung, *A Comparative Analysis of Intellectual Property Law in the United States and Mexico, and the Free Trade Agreement*, 17 MD. J. INT'L L. & TRADE 145 (1993); George Y. Gonzalez, Note, *An Analysis of the Legal Implications of the Intellectual Property Provisions of the North American Free Trade Agreement*, 34 HARV. INT'L L.J. 305 (1993).

73. General Agreement on Tariffs and Trade, Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 33 I.L.M. 1125 [hereinafter GATT/TRIPS]. As with NAFTA's intellectual property provisions, GATT/TRIPS has drawn the recent attention of a number of legal commentators. *See, e.g.*, Al J. Daniel, Jr., *Intellectual Property in the Uruguay Round: The Dunkel Draft and a Comparison of United States Intellectual Property Rights, Remedies, and Border Measures*, 25 N.Y.U. J. INT'L L. & POL. 751 (1993); Michael L. Doane, *TRIPS and International Intellectual Property Protection in an Age of Advanced Technology*, 9 AM. U.J. INT'L L. & POL. 465 (1994); J.H. Reichman,

Of the various forms of intellectual property addressed in each of these two agreements, only one form—trade secrets—is not presently protected under United States federal law.

While at first this gap may not seem significant because of the prevalence of state laws protecting trade secrets, the fact is that a number of those laws do not meet NAFTA's[74] and

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The TRIPS Component of the GATT's Uruguay Round: Competitive Prospects for Intellectual Property Owners in an Integrated World Market, 4 FORDHAM INTELL. PROP., MEDIA & ENT. L.J. 171 (1993); Solomon F. Balraj, Note, *General Agreement on Tariffs and Trade: The Effect of the Uruguay Round Multilateral Trade Negotiations on U.S. Intellectual Property Rights*, 24 CASE W. RES. J. INT'L L. 63 (1992).

74. NAFTA, Article 1711, provides in full:

> 1. Each Party shall provide the legal means for any person to prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as:
>
> (a) the information is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question;
>
> (b) the information has actual or potential commercial value because it is secret; and
>
> (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.
>
> 2. A Party may require that to qualify for protection a trade secret must be evidenced in documents, electronic or magnetic means, optical discs, microfilms, films or similar instruments.
>
> 3. No Party may limit the duration of protection of trade secrets, so long as the conditions in paragraph 1 exist.
>
> 4. No Party may discourage or impede the voluntary licensing of trade secrets by imposing excessive or discriminatory conditions on such licenses or conditions that dilute the value of the trade secrets.
>
> 5. If a Party requires, as a condition for approving the marketing of pharmaceutical or agricultural chemical products that utilize new chemical entities, the submission of undisclosed test or other data necessary to determine whether the use of such products is safe and effective, the Party shall protect against the disclosure of the data of persons making such submissions, where the origination of such data involves considerable effort, except where the disclosure is necessary to protect the public or unless steps are taken to ensure that the data is protected against unfair commercial use.
>
> 6. Each Party shall provide that for data subject to paragraph 5 that are submitted to the Party after the date of entry into force of this Agreement, no person other than the person that submitted them may, without the latter's permission, rely on such data in support of an application for product approval during a reasonable period of time after their submission. For this purpose, a reasonable period shall normally mean not less than five years from the date on which the Party granted approval to the person that produced the data for approval to market its product, taking account of the nature of the data and the person's efforts and expenditures in producing them. Subject to this provision, there shall be no limitation on any Party

GATT/TRIPS'[75] nearly identical trade secret standards. Both NAFTA and GATT/TRIPS, for example, define a trade secret as information that (1) is "not . . . generally known among or readily accessible to persons . . . normally deal[ing] with the kind of information in question," (2) has "commercial value because it is secret," and (3) has been subject to

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> to implement abbreviated approval procedures for such products on the basis of bioequivalence and bioavailability studies.
> 7. Where a Party relies on a marketing approval granted by another Party, the reasonable period of exclusive use of the data submitted in connection with obtaining the approval relied on shall begin with the date of the first marketing approval relied on.

NAFTA, *supra* note 72, ch. 17, art. 1711, 32 I.L.M. at 675.

NAFTA defines "in a manner contrary to honest commercial practices" to mean "at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by other persons who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition." NAFTA, *supra* note 72, ch. 17, art. 1721(2), 32 I.L.M. at 680.

75. GATT/TRIPS, Article 39, provides in full:

> 1. In the course of ensuring effective protection against unfair competition as provided in Article 10*bis* of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
> 2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:
> (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
> (b) has commercial value because it is secret; and
> (c) has been subject to reasonable steps under the circumstances, by persons lawfully in control of the information, to keep it secret.
> 3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

GATT/TRIPS, *supra* note 73, art. 39, 33 I.L.M. at 1212.

TRIPS Article 39 also contains a footnote appended to the phrase "a manner contrary to honest commercial practices," defining that phrase to mean, as in NAFTA, "at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition." GATT/TRIPS, *supra* note 73, art. 39 n.10, 33 I.L.M. at 1212.

"reasonable steps under the circumstances . . . to keep it secret."[76] This definition is broader than the *Restatement* Section 757 definition, which limits trade secret protection to information "used in one's business" and which assesses whether information is sufficiently secret based on a multitude of factors beyond the three factors listed in NAFTA and GATT/TRIPS.[77] The *Restatement* definition prevails in Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Tennessee, and Texas, and may also govern in Vermont and Wyoming.[78] Moreover, for the reasons stated previously, the NAFTA-GATT/TRIPS definition is also more encompassing than the statutory trade secret definition in place in Alabama[79] and Nebraska.[80]

In addition, both NAFTA and GATT/TRIPS make a third person liable for using someone else's trade secret if the person "knew, or w[as] grossly negligent in failing to know" that improper means were employed to acquire the secret.[81] While this culpability standard is consistent with *Restatement* Section 757,[82] it may set a lower threshold than the standard found in 37 trade secret statutes modeled after the UTSA. In those 36 states and the District of Columbia, a third person is liable for using another's trade secret only when the person "knew or had reason to know" of the improper means utilized to acquire the secret.[83] And the NAFTA-GATT/TRIPS culpability standard is clearly lower than the standard used in Iowa's statute, which requires the third person to have actual knowledge of the improper means.[84]

To the extent the laws of the above states are not in accord with NAFTA or GATT/TRIPS, the United States has committed itself to bring its domestic trade secret law into accord with NAFTA and

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76. NAFTA, *supra* note 72, art. 1711(1), 32 I.L.M. at 675; GATT/TRIPS, *supra* note 73, art. 39(2), 33 I.L.M. at 1212.

77. *See supra* text accompanying note 14.

78. *See supra* note 12.

79. *See supra* note 56.

80. *See supra* text accompanying note 58.

81. NAFTA, *supra* note 72, art. 1721(2), 32 I.L.M. at 680; GATT/TRIPS, *supra* note 73, art. 39 n.10, 33 I.L.M. at 1212.

82. *See supra* text accompanying note 15.

83. As listed in note 17, there are 39 States with trade secret statutes modeled after the UTSA. Of those 39, the exceptions to the point made in text are: (1) North Carolina has no culpability standard, *see* N.C. GEN. STAT. § 66-152(1) (1994); (2) Alabama has a negligence standard, *see* ALA. CODE § 8-27-3 (1993); and (3) Iowa has a knowledge standard, *see infra* note 84. Admittedly, the UTSA standard of "knew or had reason to know" readily could be interpreted to encompass gross negligence.

84. *See* IOWA CODE ANN. § 550.2(3) (West Supp. 1994).

GATT/TRIPS.[85] While it is possible that the states will amend or interpret their trade secret laws to conform to the NAFTA-GATT/TRIPS standard, the United States can more readily assure conformity and fulfill its international obligations by enacting a federal trade secrets act. Moreover, by enacting federal trade secret legislation, the United States can also avoid the problem of a state later altering or interpreting its trade secret law, either by statute or judicial decision, in a manner inconsistent with the United States' international obligations under NAFTA and GATT/TRIPS.

2. *Bargaining Over Trade Secret Protection*

Leaving trade secret law in the hands of the states rather than the United States not only creates compliance problems with America's international obligations, but also hampers America's bargaining position on intellectual property issues vis-à-vis other nations. In addition to negotiating international agreements, the United States often seeks to influence other nations' domestic intellectual property laws through trade talks, informal negotiations, and meetings with world leaders, frequently holding out its legal system as a model worthy of replication by others.[86] These interactions can be set against the backdrop of a relevant international agreement (i.e., regarding what a signatory nation needs to or should do to comply with its obligations under a given international agreement) or be free-standing (i.e., independent of or as a precursor to an international agreement).[87] A frequent subject arising during these

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85. *See* NAFTA, *supra* note 72, art. 1701, 32 I.L.M. at 670-71; GATT/TRIPS, *supra* note 73, art. 1, 33 I.L.M. at 1198. Of course, that the United States has made a commitment to the other signatories of NAFTA and GATT/TRIPS to provide trade secrets protection within its borders commensurate with the standards set forth in NAFTA and GATT/TRIPS does not make those standards automatically enforceable by private actors in American courts. Rather, those standards would be enforceable domestic measures only if implemented into domestic law by Congress or in the unlikely event NAFTA or GATT/TRIPS were construed to be self-executing international agreements. *See* 1 RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES §§ 111-115 (1987). *See also In re* Erato, 2 F.3d 11, 15 (2d Cir. 1993); More v. Intelcom Support Serv., Inc., 960 F.2d 466, 469 (5th Cir. 1992); Frolova v. USSR, 761 F.2d 370, 373 (7th Cir. 1985).

86. The United States also influences other nations' intellectual property laws simply by having the most widely recognized and readily accessible legal regime from which to borrow. *Cf.* NANYENYA-TAKIRAMBUDDE, *supra* note 29, at 8. The argument in text, however, focuses solely on intentional attempts at influence, not unintended or effortless influences.

87. *See* Scott P. Boylan, *United States-Poland Economic Treaty: A Blueprint for Intellectual Property Reform in Eastern Europe and the Developing World*, 6 FLA. J. INT'L

talks, negotiations and meetings is the status of the trade secret laws of other nations, many of which in the judgment of United States industry provide inadequate trade secret protection.[88]

Here again the United States can be damaged by the lack of a uniform federal trade secret law. In the case of nations that are signatories to NAFTA or GATT/TRIPS, those agreements carefully define what trade secrets are but leave considerable room for nations to flesh out the details of how they will protect such secrets. Unlike the case of patents, copyrights and trademarks, the United States has no consistent trade secret model to present to these nations, and is in a poor position to challenge the manner in which other nations satisfy their trade secret obligations under NAFTA or GATT/TRIPS.

In the case of nations that have not assented to NAFTA or GATT/TRIPS, the United States is in an even worse bargaining position. Such nations can question a United States call for greater trade secret protection when trade secrets are the only common form of intellectual property that the United States itself does not safeguard via national legislation.[89] Moreover, the reluctant nation that caves under United States pressure may adopt a trade secret scheme similar to the least protective state system.[90] The nation can then readily challenge a United

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L. 101, 104-05 (1990); William R. Cornish, *The International Relations of Intellectual Property*, 52 CAMB. L.J. 46, 49, 56 (1993); Dylan A. MacLeod, *U.S. Trade Pressure and the Developing Intellectual Property Law of Thailand, Malaysia and Indonesia*, 26 U.B.C. L. REV. 343, 343-54 (1992); Loke K. Tan, *U.S., China Sign Important Memorandum of Understanding*, 9 COMPUTER LAW. 31 (1992); Holly E. Svetz, Note, *Japan's New Trade Secret Law: We Asked For It—Now What Have We Got?*, 26 GEO. WASH. J. INT'L L. & ECON. 413, 421-24 (1992). *See also* Waller & Byrne, *supra* note 70, at 7-8.

88. *See* ITC REPORT, *supra* note 71, at 3-9 to -10.

89. By leaving trade secret protection to the states while affirmatively acting to protect all other common forms of intellectual property, the United States may be signaling to other nations, albeit inadvertently, that it does not consider trade secrets as important as the other common intellectual property forms. *See generally* William B. T. Mock, *Game Theory, Signaling, and International Legal Relations*, 26 GEO. WASH. J. INT'L L. & ECON. 33, 38-41, 45-46 (1992).

90. Depending on the nation involved, however, such a move may be a vast improvement. For example, despite the fact that offering trade secret protection can be of substantial benefit to developing nations, *see* Reichman, *supra* note 73, at 235-39, many provide no trade secret protection, *see* ITC REPORT, *supra* note 73, at app. G-5. This situation is not limited to trade secrets; many developing nations provide little or no intellectual property protection, either because they do not have intellectual property laws or they do not enforce those laws. *See* Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 IOWA L. REV. 273, 282-83 (1991). The potential explanations for this are numerous, although probably the most common one is that "developing countries are far more interested in technology transfer than in the encouragement of domestic innovation." Alan S. Gutterman, *The North-South Debate Regarding the Protection of Intellectual Property Rights*, 28 WAKE FOREST L. REV.

States request that it raise its safeguards to a level greater than that provided within the United States' own borders. Finally, a nation negotiating with the United States on the issue of trade secret security can doubt the United States' commitment to enforcing an equal standard of security at home, because the United States government currently does not legislate its domestic standards for trade secret protection.

III. A PROPOSED FEDERAL TRADE SECRETS ACT

Upon recognizing the need for national legislation to protect trade secrets, Congress would need to determine the form and content of that legislation. Immediately below is a proposed Federal Trade Secrets Act. Following the proposal is a brief section-by-section discussion indicating the legislative precedents for the draft language and explaining why the precedents were chosen.

A. The Federal Trade Secrets Act

§ 1. Jurisdiction of Federal Courts

(a) The district and territorial courts of the United States shall have original jurisdiction, exclusive of the courts of the States, of all actions arising under this Act, without regard to the amount in controversy or the diversity of the citizenship of the parties.

(b) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction of an appeal from a final decision of a district or territorial court of the United States if the jurisdiction of that court was based, in whole or in part, on subsection (a) of this section.

§ 2. Definitions

As used in this Act, unless the context requires otherwise:

(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

(b) "Person" means a natural person, corporation, business trust, estate, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

89, 121 (1993). *See also id.* at 122-24 (stating other reasons for developing nations' resistance to recognizing intellectual property rights).

(c) "Commerce" means all commerce which may lawfully be regulated by Congress.

(d) "Trade Secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic advantage from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy, and

(iii) is used, capable of being used, or intended to be used in commerce.

(e) "Misappropriation" means:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another, without express or implied consent, by a person who:

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it; or

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change in position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(f) A person has "reason to know" a fact if the person was grossly negligent in failing to know the fact.

§ 3. Injunctive Relief

(a) The several courts vested with jurisdiction of civil actions under this Act may enjoin actual or threatened misappropriation. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

(d) Any injunction granted under this section and upon hearing, after notice to the defendant against whom such injunction is granted, by any district court of the United States may be served on the defendant anywhere in the United States where he may be found, and shall be operative and may be enforced by proceedings to punish for contempt, or otherwise, by the court by which such injunction was granted, or by any other United States district court in whose jurisdiction the defendant may be found. The said courts shall have jurisdiction to enforce fully said injunction, as provided in this Act, as if the injunction had been granted by the district court in which it is sought to be enforced. The clerk of the court or the judge granting the injunction shall, when required to do so by the court before which application to enforce the injunction is made, transfer without delay to said court a certified copy of all papers on file in his office upon which said injunction was granted.

§ 4. Damages

(a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages may include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

(b) If misappropriation is willful and malicious, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

§ 5. Attorneys' Fees

In exceptional cases, the court may award reasonable attorneys' fees to the prevailing party.

§ 6. Preservation of Secrecy

In any suit or proceeding brought in any of the courts of the United States, the court shall preserve the secrecy of a trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records in the action, and ordering any person involved in the litigation not to disclose a trade secret without court approval.

§ 7. Statute of Limitations

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purpose of this section, a continuing misappropriation constitutes a single claim.

§ 8. Preemption with Respect to Other Laws

(a) On or after the effective date of this Act, all legal and equitable rights that are equivalent to the rights specified in sections 3 and 4, in trade secrets as specified in section 2, are governed exclusively by this Act. Thereafter, no person is entitled to any such right or equivalent right in any trade secret under the common law or statutes of any state.

(b) Nothing in this Act annuls or limits any rights or remedies under the common law or statutes of any state with respect to:

(i) any cause of action arising from undertakings commenced before the effective date of this Act, or

(ii) activities violating legal or equitable rights (including contractual rights, whether or not based on a misappropriation as specified in section 2) that are not equivalent to the rights as specified in sections 3 and 4.

(c) Nothing in this Act annuls or limits any rights or remedies under any other Federal statute.

§ 9. Liability of States, Instrumentalities of States, and State Officials

(a) Any state, instrumentality of a state, or any officer or employee of a state or instrumentality of a state, acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for any violation under this Act.

(b) In a suit described in subsection (a) of this section remedies (including remedies both at law and in equity) are available for the violation of this Act to the same extent as such remedies are available for such a violation in a suit against any person other than a state, instrumentality of a state or officer or employee of a state or instrumentality of a state, acting in his or her official capacity.

§ 10. Time of Taking Effect

This Act takes effect on ______, and does not apply to misappropriation occurring prior to the effective date. With respect to a continuing misappropriation that began prior to the effective date, the Act also does not apply to the continuing misappropriation that occurs after the effective date.

B. Explanation of Sections in Proposed Federal Act

Section 1: Jurisdiction of Federal Courts

This section is drawn from the district court jurisdictional statutes in the federal trademark[91] and patent[92] laws and the United States Court of Appeals for the Federal Circuit jurisdictional statute that grants the Federal Circuit exclusive jurisdiction over patent appeals.[93] It is intended to give federal district courts exclusive jurisdiction over misappropriation cases under the proposed Federal Trade Secrets Act ("FTSA") and the Federal Circuit exclusive jurisdiction over misappropriation appeals.

Vesting appellate jurisdiction over FTSA claims exclusively in the Federal Circuit does not necessarily follow from the fact that the FTSA would be enacted in response to a perceived need for a nationally uniform trade secret law. If that were true, the Federal Circuit would have exclusive jurisdiction over many more federal claims than it presently does. Instead, the justification for the Federal Circuit's exclusive jurisdiction is based on both the unique uniformity concerns presented in trade secret cases and the likely synergy achieved by applying the Federal Circuit's established expertise in intellectual property law to this newest area of federal intellectual property.[94]

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91. 15 U.S.C. § 1121(a) (1988).

92. 28 U.S.C. § 1338(a) (1988).

93. 28 U.S.C. § 1295(a)(1) (1988). *See also* ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 495-554 (2d ed. 1991).

94. In the interest of avoiding unnecessary complexities in setting forth the FTSA, the jurisdictional provision is simply included as part of the FTSA. Were Congress to enact the

Sections 2-4: Definitions, Injunctive Relief, and Damages

a. Borrowing from the UTSA

With a few notable exceptions (discussed below in subsection (b)), the definition, injunction, and damage sections of the FTSA are taken almost verbatim from the 1985 version of the UTSA.[95] Understandably, initial reaction to this borrowing may be one of skepticism. After all, the lack of uniformity among state trade secret law is due in large part to the fact that, while most states modeled their trade secret statutes after the UTSA, few states adopted the UTSA wholesale. Therefore, if numerous states have rejected strict adherence to the UTSA, one could question the wisdom of Congress accepting the UTSA's definition and remedy provisions without major modification.

Although the inability of the UTSA to win unconditional approval among the states is a legitimate concern, several reasons justify borrowing these provisions. The UTSA definitions have a greater acceptance rate among the states than any alternative set of definitions. Furthermore, there is a wealth of precedents interpreting the UTSA definitions in the many states where those definitions are used. Given that there is no well-developed body of federal law from which to borrow, to the extent these precedents are consistent across state lines, they can be used to interpret the terms of the new FTSA, thus easing the transition from state to federal regulation of trade secrets. Finally, and perhaps most importantly, there appears to be no clear pattern among the state modifications to the UTSA definitions. The modifications, therefore, do not identify a flaw in the UTSA definitions as much as they reflect the idiosyncrasies of individual states. This weighs heavily in favor of discounting state modifications, because the very purpose of enacting a federal trade secret law is to avoid regional idiosyncrasies.

FTSA here proposed, it would be better off addressing jurisdiction over FTSA claims by amending sections 1295 and 1338 of title 28 than by providing for a separate jurisdictional provision in the FTSA. In doing so, FTSA jurisdiction would more readily fit within the already established original and appellate jurisdictional scheme designed by Congress. *See* 28 U.S.C. §§ 1295(a)(4), 1338(b) (1988).

95. UNIF. TRADE SECRETS ACT §§ 1-3 (1985). The definition sections in the 1979 and 1985 UTSA are identical, but the remedy provisions vary to some extent. *Compare* UNIF. TRADE SECRETS ACT § 2 (injunctive relief) & § 3 (damages) (1985) *with* UNIF. TRADE SECRETS ACT § 2 (injunctive relief) & § 3 (damages) (1979).

As to the FTSA injunctive relief and damage provisions, again the UTSA approach has a wider following than any other approach, and various states' deviations from the UTSA remedy provisions do not appear to be in response to a common perceived defect in the UTSA. Furthermore, the UTSA injunction and damage sections are consistent in substance with parallel provisions found in existing federal intellectual property law, thus allowing federal courts to draw on existing federal intellectual property precedents when interpreting and applying the FTSA remedy provisions.[96]

b. Modifications to the UTSA Definition and Remedy Sections

Commerce: The FTSA contains a definition of commerce not found in the UTSA, as well as a requirement that, to qualify as a trade secret, information be used in, capable of use in, or intended for use in commerce.[97] The definition and requirement were added to outline expressly the constitutional power Congress would be exercising if it enacted the FTSA. The commerce requirement is intended to extend the reach of the FTSA to the fullest extent permitted under the Commerce Clause.

Gross Negligence: Unlike the UTSA, the FTSA clearly states that a person has "reason to know" a fact if the person is grossly negligent in not knowing the fact. This provision was included in the FTSA to ensure that it is interpreted consistently with NAFTA and GATT/TRIPS' culpability requirement discussed previously in section II(B).[98]

Injunctive Relief: The FTSA takes advantage of an attribute of the federal system not considered by the drafters of the UTSA, who were drafting a model law for enactment only by states. It provides for nationwide enforcement of injunctions granted in trade secret misappropri-

96. The UTSA allowance for damages based on "the actual loss . . . and the unjust enrichment . . . that is not taken into account in computing actual loss" is similar to copyright and trademark's allowances for damages based on a plaintiff's actual loss and a defendant's profits. *See* 15 U.S.C. § 1117(a) (1988); 17 U.S.C. § 504(b) (1988). Likewise, the UTSA royalty provision has parallels to patent law's allowance for a reasonable royalty remedy. *See* 35 U.S.C. § 284 (1988). Finally, the UTSA provision permitting a court to add to a remedial damage award punitive damages not to exceed twice the remedial award is consistent with trademark and patent's authorization of treble damage awards. *See* 15 U.S.C. § 1117(b) (1988); 35 U.S.C. § 284 (1988).

97. The definition of commerce is taken from the federal trademark law. *See* 15 U.S.C. § 1127 (1988).

98. *See supra* text accompanying notes 81-84.

ation cases. The language of this nationwide enforcement provision is borrowed from like provisions in the trademark[99] and copyright[100] laws.

Section 5: Attorneys' Fees

The attorneys' fees provision in the FTSA is identical to the equivalent provisions in the federal patent[101] and trademark[102] laws, and is substantially similar to the attorneys' fees provision in the federal copyright law.[103] Given the wealth of federal precedent interpreting these provisions, the fact that they are used in existing federal intellectual property statutory schemes, and the lack of any strong justification for employing a different approach to attorneys' fees in the trade secrets context, the patent and trademark provisions are a perfect source of borrowing for the fees provision of the FTSA.[104] Moreover, because these provisions generally allow fee awards only in cases of bad faith or inequitable conduct,[105] allowing like awards in trade secret misappropriation cases should deter the assertion of frivolous claims and defenses without deterring the assertion of defensible but ultimately unsuccessful claims and defenses.[106]

Section 6: Preservation of Secrecy

This section is substantially similar to the UTSA, with only one significant change. Section 5 of the UTSA is designed to apply only in

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99. 15 U.S.C. § 1116(a), (b) (1988).

100. 17 U.S.C. § 502(b) (1988).

101. 35 U.S.C. § 285 (1988).

102. 15 U.S.C. § 1117 (1988).

103. 17 U.S.C. § 505 (1988).

104. The attorney's fees provision in the UTSA is more limited, and considerably more detailed, than its counterpart in the FTSA. The UTSA provides:

> A court may award attorney's fees to the prevailing party in a litigation under this Act if:
> (a) a claim of misappropriation is made in bad faith;
> (b) a motion to terminate an injunction is made or resisted in bad faith; or
> (c) willful and malicious misappropriation exists.

UNIF. TRADE SECRETS ACT § 4.

105. *See* Rohm & Haas Co. v. Crystal Chem. Co., 736 F.2d 688, 693 (Fed. Cir. 1984).

106. *See* Monique Michal, *After* West Virginia*: The Fate of Expert Witness Fee Shifting in Patent Litigation*, 59 U. CHI. L. REV. 1591, 1613-14 (1992).

trade secret misappropriation cases.[107] Section 6 of the FTSA, however, extends the obligation of courts to protect the secrecy of trade secrets in all litigation, and by its language applies in both state and federal courts.[108]

This extension is defensible on several levels. First, requiring a court to guard against the use of its procedures or the civil discovery process for the improper purpose of learning trade secrets closes a loophole whereby competitors could obtain trade secrets through the judicial process that they otherwise could not obtain through commercially acceptable means.[109] Second, both NAFTA and GATT/TRIPS impose a general obligation on the United States to protect confidential information, including trade secrets, during litigation.[110] While this obligation can be narrowly read to apply only to claims involving intellectual property of the forms described in NAFTA and GATT/TRIPS, there is no reasonable basis for protecting against the disclosure of trade secrets in all intellectual property litigation but not in other types of litigation. Finally, extending the obligation of courts to preserve the secrecy of trade secrets beyond trade secret cases does not significantly alter existing court practices, which in general already provide protections against the disclosure of trade secret information during litigation.

While addressing the problem of court-ordered disclosure of trade secrets, the FTSA does not address the related problem of government agency disclosure of private business' trade secrets pursuant to state or

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107. UNIF. TRADE SECRETS ACT § 5.

108. UTSA § 5 begins with the provision, "[i]n an action under this Act," thus limiting its application to UTSA claims. FTSA § 6, on the other hand, starts with the language "[i]n any suit or proceeding brought in any of the courts of the United States." Nearly identical language introduces section 3 of the Federal Arbitration Act. 9 U.S.C. § 3 (1988) ("If any suit or proceeding be brought in any of the courts of the United States . . ."). The United States Supreme Court has interpreted this introductory language to mean that 9 U.S.C. § 3 applies in all courts in the United States, whether state or federal. *See* Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp., 460 U.S. 1 (1983).

109. FTSA § 6's requirement that courts protect against the disclosure of trade secrets that are revealed in judicial proceedings does not present any conflict with courts' constitutional obligation to make their proceedings open to the public. The United States Supreme Court has made it clear that (1) litigants have no First Amendment right to use information gathered in discovery for purposes other than trying their pending lawsuit, *see* Seattle Times v. Rhinehardt, 467 U.S. 20, 32 (1984) (citing Zemel v. Rusk, 381 U.S. 1 (1965)); (2) there is no public right to access judicial discovery materials not admitted into court proceedings, *see id.* at 33; and (3) in appropriate circumstances, courts have the power to limit or prohibit public access to materials admitted into court proceedings, *see* Nixon v. Warner Communications, Inc., 435 U.S. 589 (1978).

110. *See* NAFTA, *supra* note 72, ch. 17, arts. 1715(1)(e) & (2)(a), 32 I.L.M. at 677; GATT/TRIPS, *supra* note 73, arts. 42 & 43, 33 I.L.M. at 1214-15.

federal open records laws.[111] Many of these laws either do not explicitly exempt trade secrets from public release,[112] or provide only a limited[113]

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111. *See* 5 U.S.C. § 552 (1988); ALA. CODE § 36-12-40 (1991); ALASKA STAT. §§ 09.25.100 to 09.25.220 (1994); ARIZ. REV. STAT. ANN. §§ 39-121 to 39-121.03 (1985); ARK. CODE ANN. §§ 25-19-101 to 25-19-107 (Michie 1987 & Supp. 1993); CAL. GOV'T CODE §§ 6250-6268 (West 1980 & Supp. 1995); COLO. REV. STAT. §§ 24-72-201 to 24-72-206 (1988 & Supp. 1994); CONN. GEN. STAT. ANN. §§ 1-15 to 1-20a (West 1988 & Supp. 1994); DEL. CODE ANN. tit. 29, §§ 10001-10005, 10112 (1991 & Supp. 1994); D.C. CODE ANN. §§ 1-1521 to 1-1529 (1992 & Supp. 1994); FLA. STAT. ANN. §§ 119.01 to 119.165 (West 1982 & Supp. 1995); GA. CODE ANN. §§ 50-18-70 to 50-18-76 (Michie 1994); HAW. REV. STAT. §§ 92F-11 to 92F-19 (1988 & Supp. 1994); IDAHO CODE §§ 9-337 to 9-349 (1990 & Supp. 1994);5 ILL. COMP. STAT. ANN. 140/1 to 140/11 (West 1993 & Supp. 1995); IND. CODE ANN. §§ 5-14-3-1 to 5-14-3-10 (Burns 1987); IOWA CODE ANN. §§ 22.1 to 22.14 (West 1989 & Supp. 1994); KAN. STAT. ANN. §§ 45-215 to 45-225 (1993 & Supp. 1995); KY. REV. STAT. ANN. §§ 61.870 to 61.882 (Michie/Bobbs-Merrill 1993 & Supp. 1994); LA. REV. STAT. ANN. §§ 44:31 to 44:37 (West 1995); ME. REV. STAT. ANN. tit. 1, §§ 408-410 (West 1989); MD. CODE ANN. STATE GOV'T §§ 10-611 to 10-628 (1993 & Supp. 1994); MASS. GEN. L. ch. 66, §§ 1-18 (1991); MICH. COMP. LAWS ANN. §§ 15.231 to 15.244 (West 1994); MINN. STAT. ANN. § 13.03 (West 1988 & Supp. 1995); MISS. CODE ANN. §§ 25-61-1 to 25-61-17 (1992); MO. ANN.. STAT. §§ 109.180, 109.190, 610.010 to 610.030 (Vernon 1966, 1988 & Supp. 1994); MONT. CODE ANN. §§ 2-6-101 to 2-6-111 (1993); NEB. REV. STAT. §§ 84-712 to 84-712.09 (1987 & Supp. 1993); NEV. REV. STAT. §§ 239.010 to 239.030 (1991); N.H. REV. STAT. ANN. §§ 91-A:4 to 91-A:8 (1990 & Supp. 1994); N.J. STAT. ANN. §§ 47:1A-1 to 47:1A-4 (West 1989 & Supp. 1994); N.M. STAT. ANN. §§ 14-2-1 to 14-2-12 (Michie 1994); N.Y. PUB. OFF. LAW §§ 84-90 (McKinney 1988 & Supp. 1995); N.C. GEN. STAT. §§ 132-1 to 132-9 (1993); N.D. CENT. CODE §§ 44-04-18 to 44-04-19.1 (1993); OHIO REV. CODE ANN. §§ 149.43 to 149.44 (Anderson 1994); OKLA. STAT. tit. 51, §§ 24A.1 to 24A.22 (1991 & Supp. 1994); OR. REV. STAT. §§ 192.410 to 192.505 (1993); PA. STAT. ANN. tit. 65, §§ 66.1 to 66.4 (1959 & Supp. 1994); R.I. GEN. LAWS §§ 38-2-1 to 38-2-14 (1990 & Supp. 1994); S.C. CODE ANN. §§ 30-4-10 to 30-4-110 (Law. Co-op. 1991 & Supp. 1993); S.D. CODIFIED LAWS ANN. §§ 1-27-1 to 1-27-3 (1992 & Supp. 1994); TENN. CODE ANN. §§ 10-7-503 to 10-7-508 (1992 & Supp. 1994); TEX. GOV'T CODE ANN. §§ 552.001 to 552.123 (West 1994); UTAH CODE ANN. §§ 63-2-101 to 63-2-405 (1993 & Supp. 1994); VT. STAT. ANN. tit. 1, §§ 315-320 (1985 & Supp. 1994); VA. CODE ANN. §§ 2.10-340 to 2.1-346.1 (Michie 1987 & Supp. 1994); WASH. REV. CODE ANN. §§ 42.17.250 to 42.17.348 (West 1991 & Supp. 1995); W. VA. CODE §§ 29B-1-1 to 29B-1-7 (1993); WIS. STAT. ANN. § 59.14 (West 1988 & Supp. 1994); WYO. STAT. §§ 16-4-201 to 16-4-205 (1990 & Supp. 1994).

These open records laws are not the only means of obtaining information from federal or state agencies. At the federal level, there are a number of other information disclosure laws, including the Privacy Act of 1974, 5 U.S.C. § 552a (1988 & Supp. V 1993); the Government in the Sunshine Act, 5 U.S.C. § 552b (1988); the Federal Records Act of 1950, 44 U.S.C. § 2901 *et seq.* (1988); and the Federal Advisory Committee Act, Pub. L. No. 92-463, 86 Stat. 770 (1972), *reprinted in* 5 U.S.C. app. at 1175-83 (1988). States also have a number of information disclosure statutes, as well as common law rights to access information possessed by the government. *See* Burt A. Braverman & Wesley R. Heppler, *A Practical Review of State Open Records Laws*, 49 GEO. WASH. L. REV. 720, 723-26 (1981); William R. Henrick, Comment, *Public Inspection of State and Municipal Executive Documents: "Everybody, Practically Everything, Anytime, Except . . .,"* 45 FORDHAM L. REV. 1105, 1107-11 (1977). These other laws, however, usually offer access to a much more limited pool of information than that accessible under open records laws.

112. *See, e.g.*, ALASKA STAT. § 09.25.120 (1994); NEV. REV. STAT. § 239.010 (1991). Many of these states with open records laws that do not expressly exempt trade secrets from disclosure do allow for the withholding of information to which other state

or discretionary[114] exemption to the release of trade secrets,[115] thereby allowing competitors to access each others' trade secrets through a request under an open records law.[116]

The FTSA does not tackle this problem for various reasons. First is the fact that such disclosures are made possible because a trade secret owner knowingly turns over its secret to a government agency in exchange for receiving or maintaining regulatory approval or a government contract. Before disclosure, the owner can evaluate the risk that its secret will be released pursuant to the government's open records law and can make an informed decision whether or not to turn over its secret. In particular, assuming the owner knows the value to it of (1) keeping its trade secret confidential, and (2) obtaining the government benefit, it will turn its secret over to the government if the value of the benefit is greater than the value of keeping the trade secret out of its competitors' possession (discounted by the risk of independent discovery or reverse engineering) multiplied by the probability that competitors will learn the

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statutes restrict access. One or more of those "other" statutes may restrict the disclosure of trade secrets. *See* BURT A. BRAVERMAN & FRANCIS J. CHETWYND, INFORMATION LAW § 24-2.2, at 899-900 & n.29.

113. *See, e.g.*, OKLA. STAT. tit. 51, § 24A.10 (1991); VA. CODE ANN. § 2.1-342(B) (Michie Supp. 1994).

114. *See, e.g.*, MICH. COMP. LAWS ANN. § 15.243(1) (West 1994); OR. REV. STAT. § 192.501(2) (1993).

115. For discussions of the variety of treatments accorded trade secrets under state and federal open records laws, see 37A AM. JUR. 2d *Freedom of Information Acts*, §§ 136-38, at 173-76 (1994); JAMES T. O'REILLY, FEDERAL INFORMATION DISCLOSURE, chs. 13-14 (2d ed. 1994); BRAVERMAN & CHETWYND, *supra* note 112, § 8, § 24-2.2, at 899-900, § 24-5.2.3, at 925-28; JAGER, *supra* note 12, ch. 12; 76 C.J.S. *Records* § 106, at 205-06 & 208 (1994); Braverman & Heppler, *supra* note 111, at 741-43; Linda B. Samuels, *Protecting Confidential Business Information Supplied to State Governments: Exempting Trade Secrets from State Open Records Laws*, 27 AM. BUS. L.J. 467, 474-79 (1989).

116. Most requests for information under these laws are made by businesses seeking information provided to the government by competitors. *See* JAGER, *supra* note 12, § 12.02, at 12-6 to -9. *See also* Brian E. Lebowitz, Note, *The Freedom of Non-Free Information: An Economic Proposal for Government Disclosure of Privately Submitted Commercial Information*, 32 STAN. L. REV. 339 (1980). Businesses do so, presumably, less to monitor the government's decision-making process than to learn new information about their competitors. *See* JUSTIN D. FRANKLIN & ROBERT F. BOUCHARD, GUIDEBOOK TO THE FREEDOM OF INFORMATION AND PRIVACY ACTS § 4.01, at 4-3 (1994) ("Because federal agencies often use a company's data in making their decisions, that information is often a subject of interest to the press and the public. It is also a subject of interest to the company's competitors, who may use the FOIA in an effort to learn what other firms in their industry are doing."); 1 PETER C. HEIN, BUSINESS INFORMATION: PROTECTION AND DISCLOSURE 2-3 (1983) ("[C]orporate counsel have increasingly employed the FOIA as a tool to obtain access to the wealth of information in government files. . . . [T]here are vast quantities of information submitted to the government by private individuals and businesses which may be of great interest to other individuals or businesses.").

secret if it is revealed by the owner to the government. Thus, because the trade secret owner controls the initial decision whether or not to provide its secret to the government, it can eliminate the risk of the government exposing its trade secret altogether if it so chooses.

Second, in contrast to their general obligation to protect trade secrets from private misappropriation, neither NAFTA nor GATT/TRIPS creates any general obligation for government agencies not to disclose trade secret information rightfully within their possession.[117] Finally, open records laws implicate complex issues of public access and government accountability not presented in the normal case of trade secret misappropriation or court-ordered disclosure.

Section 7: Statute of Limitations

This section sets the statute of limitations for FTSA claims at the same length as found in the UTSA[118] and the copyright laws. [119] This limitations period is chosen simply because it is the period prevailing in most states for trade secret misappropriation claims and it finds support in federal intellectual property law. A different statute of limitations could just as easily be used without undermining the bases presented in this Article for enacting the FTSA. Indeed, for the purpose of this Article, the important point here is not so much the duration of the FTSA's statute of limitations,[120] but that the FTSA establishes a uniform limitations period.[121]

Section 8: Preemption with Respect to Other Laws

This section is modeled after section 301 of the Copyright Act, and it is clearly the most controversial provision in the FTSA. Congress could respond to the concerns expressed in Section II of this Article simply by enacting legislation that provided a minimal level of trade secret security

117. *See supra* notes 74-75. NAFTA and GATT/TRIPS each contain a limited obligation for government agencies not to release undisclosed data submitted to gain approval for a pharmaceutical or agricultural chemical product.

118. UNIF. TRADE SECRETS ACT § 6.

119. 17 U.S.C. § 507(b) (1988).

120. It is beyond the scope of this Article to debate the proper balance of competing concerns that must be struck whenever a legislature or court fashions a statute of limitations. *See* Wilson v. Garcia, 471 U.S. 261, 271 (1985).

121. It is not necessary for the FTSA to contain an express limitations period. For federal statutes enacted after December 1, 1990 that fail to include a statute of limitations, 28 U.S.C. § 1658 (1993) establishes the limitations period as four years.

while still allowing the states to provide greater trade secret protection if desired. This would both minimize the investment problems caused by disuniform state law, because an innovator would at least know what was needed to qualify for federal protection, and satisfy the demands of NAFTA and GATT/TRIPS, each of which allows signatory nations to provide "more extensive protection" for intellectual property should they so choose.[122]

Nevertheless, the FTSA preempts state law. The best justification for this choice is that, after passage of the FTSA, there would be only a narrow gap between federal trade secret law and federal patent law. States trying to fit into that gap would likely do so by protecting non-patentable innovations from independent discovery or reverse engineering, or allowing special protection for innovations generally regarded as being in the public domain. This would interfere with the balance struck by the patent laws between encouraging inventive activity and restraining monopolistic tendencies,[123] and would risk shrinking the overall investment in innovation by overly restricting the universe of public information available for use in subsequent endeavors.[124] FTSA preemption effectively eliminates these dangers, and leaves in federal control decisions over how best to foster the market in innovative activity through enforceable rights in intellectual property.

Section 9: Liability of States, Instrumentalities of States, and State Officials

This provision is lifted almost verbatim from the federal copyright[125] and unfair trade practice[126] laws, and is similar to a provision found in the federal patent law.[127] It is designed to eliminate the various forms of immunity from suit accorded states, their instrumentalities and their employees. The provision is included in the FTSA because the inclusion of like provisions in the patent, copyright and unfair trade practices laws reflects a clear congressional judgment that states and state officials

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122. NAFTA, *supra* note 72, art. 1702, 32 I.L.M. at 671; GATT/TRIPS, *supra* note 73, art. 1, 33 I.L.M. at 1198-99.

123. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480-81 (1974).

124. *See* Gordon, *supra* note 47, at 157-58; discussion *supra* note 47.

125. 17 U.S.C. § 511 (Supp. V 1993).

126. 15 U.S.C. § 1122 (Supp. V 1993).

127. 35 U.S.C. § 271(h) (Supp. V 1993).

should be subject to federal intellectual property laws to the same extent as ordinary citizens.

Section 10: Time of Taking Effect

This section is borrowed from UTSA § 11. It simply sets the effective date for the FTSA. It operates in conjunction with section 8 of the FTSA to provide that state law will continue to govern misappropriations first occurring prior to the FTSA's taking effect.

CONCLUSION

A decision by Congress to legislate in a traditional area of state regulation is a delicate and difficult one. Allowing for state rather than federal regulation of activities "assures a decentralized government that will be more sensitive to the diverse needs of a heterogeneous society; it increases opportunity for citizen involvement in democratic processes; it allows for more innovation and experimentation in government; and it makes government more responsive by putting the states in competition for a mobile citizenry."[128]

There are, nevertheless, appropriate occasions for congressional intervention, most notably those affecting the free flow of commerce among states or those implicating United States relations with other sovereigns. As explained in the preceding pages, the regulation of trade secrets involves issues of both interstate commerce and international commitments, and hence represents an appropriate subject for federal intervention. Moreover, because of the significance of trade secret protection to a variety of domestic industries, congressional action on this subject deserves considerable priority. Trade secret protection is, in short, a matter of national scope and national significance. All it awaits now is to become a matter of national legislation.

128. Gregory v. Ashcroft, 501 U.S. 452, 458 (1991).