

**Law and Economics Seminar**  
***Lemley's Approach to Trade Secrets***

Strasbourg, May 14<sup>th</sup>, 2013

Lemley, Mark A., The Surprising Virtues of Treating Trade Secrets as IP Rights, Stanford Law Review, Vol. 61, p. 311, 2008.

## Bigger picture

- Fragmentation of protection for trade secrets is an issue for companies
- Trade secrets are an important mechanism of complementary protection of innovation for firms
- Especially in relation to patents, trade secrets provide additional protection
- But: Is trade secret protection encouraging innovation? (would companies not invent without this type of protection?)
- But: Should the focus be on industrial information?

## What can be a trade secret?

- No harmonized approach in law
- Any type of information that has commercial value because of being kept secret.
- Common types of information protected:
  - New business solutions
  - marketing data
  - Software
  - Formulas (esp. chemical)
  - Negative information (failed solution attempts)
  - Models, designs, and drawings
  - many incremental technological improvements (which would not qualify for patent rights)

## How are trade secrets protected in the US?

- Protection matter of state law (not federal law)
- American Law Institute Principles (not laws)
  - Restatement of Torts
  - 3<sup>rd</sup> Restatement of Unfair Competition
- Uniform Trade Secrets Act – each US state has to adopt.
  - Currently 46 states & DC adopted
  - UTSA not adopted in NY, NC, TX & MA (Introduced for legislative adoption in 2013 in TX & MA but not yet adopted) Source:  
<http://uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act>
- Economic Espionage Act criminalises
  - misappropriation of trade secrets with imprisonment up until 10 years
  - organizations are subject to fines up to USD 5 000 000.

## How are trade secrets protected in the US (II)?

- Prior to UTSA:
  - Common law:
    - Restatement of Torts (1939)
    - Sections 757 and 758
      - improper use or disclosure of a trade secret
      - widely adopted by U.S. courts.
      - § 757, comment b - 6 factors to be considered in determining whether information constitutes a trade secret.

## How are trade secrets protected in the US (III)?

- Unified Trade Secret Act (UTSA):
  - Trade secret definition all inclusive
    - Trade secret” means information, including, without limitation, a formula, pattern, compilation, program, device, method, technique, product, system, process, design, prototype, procedure, computer programming instruction or code
    - Commercial value requirement
    - Reasonable efforts to protect secrecy
  - Protection against “misappropriation by improper means”
    - Theft, Bribery; Misrepresentation; Willful breach or willful inducement of a breach of a duty to maintain secrecy;

## How are trade secrets protected in the US (IV)?

- Unified Trade Secret Act (UTSA):
  - Conditions for protection:
    - subject matter involved must qualify for trade secret protection; it must be the type of information trade secret was intended to protect, and it must not be generally known.
    - holder of the trade secret must establish that **reasonable precautions** were taken to prevent disclosure of the secret information
    - trade secret holder must prove that the information was wrongfully acquired by another

## How are trade secrets protected? – international dimension

- Paris Convention
  - Trade secrets are not explicitly mentioned
  - Not considered an industrial property right
  - Art. 10bis: “Any act of competition **contrary to honest practices in industrial or commercial matters** constitutes an act of unfair competition.”
    - Honest commercial practices not synonymous to trade secrets – differences in national laws



## How are trade secrets protected? – international dimension

- TRIPS
  - **Section 7: protection of undisclosed information**
  - Art. 39: “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.”

## How are trade secrets protected? – international dimension

### TRIPS (ctd)

- Art. 39: “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 the person lawfully in control of the information, **to keep it secret**.

## How are trade secrets protected? – international dimension

- ACTA incorporates protection of all rights from TRIPS, so also trade secrets
  - Article 2: “(h) intellectual property refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II of the TRIPS Agreement;”
- EU:
  - Enforcement directive does not specifically include them. Clarification issued by the European Commission did not include trade secrets (Directive 2004/48/EC of 29.4.2004)
  - Roadmap for Protection of trade secrets/confidential business information from misappropriation and misuse by third parties launched in October 2012.
- All other aspects are covered by national laws

## How are trade secrets protected?

- In the European Union:
  - **Most civil law countries rely on unfair competition law** to protect trade secrets such as: AT, CZ, DE, DK, PL and RO (civil and criminal law provisions); CY, EL, PT (criminal law provisions only) and BE, BG, EE, ES, FI, HU, LT, LV, SI, SK (civil law provisions only)
  - Criminal law (other than unfair competition) is used by most EU Member States (for example AT, BG, CY, DE, DK, EE, ES, FI, FR, HU, IT, LT, LU, LV, NL, PT, RO, SE, SK, SI), but there are few criminal convictions. When there are convictions, penalties include imprisonment and fines, but maximum terms (e.g. 8 years vs. a few months) or amounts differ considerably.

Source: REPORT EUROPEAN COMMISSION CONFERENCE OF 29 JUNE 2012 "TRADE SECRETS: SUPPORTING INNOVATION, PROTECTING KNOW-HOW", pg. 9

## How are trade secrets protected?

- Approaches differ:
  - Different types of legal mechanisms
    - IP code + employment code in France
    - Unfair competition law in Germany
    - Breach of confidence/breach of contract in the UK
    - Separate act + common law in the United States
  - Requirements differ
  - Scope of protection differs:
    - France: employees (current and past) only
    - Germany: employees and third parties

## Lemley's propositions (I)

- Trade secret theory in the US is partly based on:
  - Tort law
  - Contract law
  - (IP) Property law
- It should be solely based on IP property law, as such form:
  - Focuses on the secrecy aspect of trade secrets
  - IP law preempts state law and thus preempts conflicting common law torts
  - Is based on the notion that trade secrets incentivize innovation
  - Will increase disclosure of trade secrets

## Lemley's propositions (II)

- Tort law falls short because:
  - Vague standards on when acquiring information is wrongful
- Contract law falls short because
  - It governs only relationships between contracting parties (not between strangers)
- (IP) Property law is best suited because:
  - Focus of IP is on exclusivity (trade secrecy implies the exclusivity of information)
  - Complements patent law
  - Provides rules for protection & thus formalizes the exchange (& thus disclosure of trade secrets)

## How is Lemley's proposal different?

- Harmonized mechanism – improvement for firms
- Main claims:
  - Trade secrets promote innovation
  - Trade secrets encourage disclosure of secrets (!)
- Parting with partial approaches, which:
  - Are inefficient
  - Cause certain degree of legal uncertainty
- Proposes harmonization of trade secrets protection in the form of an IP right



## **Commentary**

**Patrick Llerena (BETA)**

## Strengths and weaknesses of the article – what do you think?

- Strengths:
  - Proposing new argument that trade secrets, in fact encourage more disclosure (but to whom?)
  - Points out the shortfalls of the current, fragmented system for the protection of trade secrets

## Strengths and weaknesses of the article – what do you think?

- Weaknesses:
  - What is the nature of disclosure that trade secrets protection may encourage, according to Lemley?
  - Focus on common law jurisdictions (US, UK) – other regimes?
  - International norms (TRIPS)?
  - No coherent proposal (subject matter, limited or unlimited protection?)
  - Proposes a creation of a new type of IP right, where subject matter could be protected by many other IP mechanisms – morphing IP.

## Announcements

CEIPI-BETA Law and Economics Project is online:

<http://www.ceipi.edu/index.php?id=13737>

Materials for the future and past workshops can be found here:

<http://www.ceipi.edu/index.php?id=13763&L=2>

## References:

- Hogan Lovells, Study on Trade Secrets and Parasitic Copying (Look-alikes) MARKT/2010/20/D.
- European Commission, Report, Conference on “Trade Secrets: Supporting Innovation, Protecting Know-How,” 29 JUNE 2012 .

**Thank you!**

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