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Trade Secret

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Definition

A trade secret is information that has commercial value to an organization due to its secrecy, is not known outside of the organization, and the continuing secrecy of which the organization has taken reasonable measures to protect. Trade secrets may include information embodied in documents, electronic records, products and other media, as well as information known to individuals. The EU and some other jurisdictions exclude from the definition of trade secrets trivial information or experience/skills gained by employees during the normal course of their employment and information that is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question.

Commentary

A Form of Intellectual Property

Though information, per se, has often been considered to be beyond the reach of property law, trade secrets have, at least in the U.S., been recognized as a form of intellectual property (see *Kewanee v. Bicron* (U.S. 1974), *Rockwell v. DEV* (7th Cir. 1991), *U.S. v. DuPont* (D. Del. 1953)).

Codification of Trade Secrecy Laws

Prior to the 1970s, the unauthorized acquisition and use of another's secret information in the United States and Europe was actionable under a variety of common law and statutory theories including property, contract, bailment, trust, unfair competition, and unjust enrichment (Bone, 1998; Graves, 2013). Article 10bis of the 1967 revision of the Paris Convention for the Protection of Industrial Property requires member states to provide protection against acts of unfair competition, which include "any act of competition contrary to honest practices in industrial or commercial matters", but the Convention does not mention secret information specifically.

In 1979, after a decade of deliberation, in the U.S. the National Conference of Commissioners on Uniform State Laws adopted the text of the Uniform Trade Secrets Act (UTSA), a model statute proposed for adoption in the individual U.S. states. As of May 2023, the UTSA has been adopted, in some form, by all U.S. states except New York (which continues to recognize trade secrets under

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its common law). At the U.S. federal level, the 1996 Economic Espionage Act (EEA) created criminal liability for the theft of trade secrets, though relatively few prosecutions have been brought. Given perceived inadequacies of the EEA, in 2016 Congress enacted the Defending Trade Secrets Act (DTSA) (18 U.S.C. § 1836 et seq.), a general civil trade secrecy statute modelled on the UTSA.

In 2016, the European Union also adopted a trade secrecy directive in order to harmonize inconsistent national regimes (Directive No. 2016/943, Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure). Trade secrets are also addressed, albeit briefly, in Article 39 of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), on which the EU Directive is largely based (Niebel et al. 2018).

Trade Secrets Distinguished from Other Confidential Information and Know-How

While all trade secrets are confidential, not all confidential information qualifies for trade secret protection (Graves, 2013). For example, trade secrets must generally have commercial value. Accordingly, private information held by organizations concerning, for example, employee health conditions or retirement savings, or much of the personal information contained in corporate email correspondence, would often fail to qualify as trade secrets. In addition, information that may be accessible from sources outside the organization may still be considered confidential by an organization and thus subject to contractual confidentiality obligations without legal trade secret status.

Protection Measures

In most jurisdictions, a condition for trade secrecy protection is that the owner took reasonable measures to ensure the continued secrecy of trade secret information. Yet few statutes offer significant guidance regarding the types of measures that will qualify as reasonable. Among the measures recommended by commentators to preserve the trade secret status of an organization's information are: establishing a written policy detailing the organization's means for handling trade secrets, identifying and documenting trade secrets, valuing and classifying trade secrets based on their relative values, appropriately marking documents containing trade secret information, implementing trade secrecy procedures in employee and third party agreements, designating a trade secret protection officer, implementing physical and technical security measures to limit access to secret information, tracking access and use of trade secret information and conducting thorough entry and exit interviews of employees (Nachtrab 2019).

Duration

Unlike other forms of intellectual property that have specified durations (e.g., 20 years for patents, and the life of the author plus 70 years for copyrights), trade secrets have no defined expiration. Rather, they retain their protected status for so long as the necessary conditions for trade secrecy are satisfied. It is for this reason that the famous formula for Coca-Cola has

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allegedly remained a trade secret for more than 130 years (https://www.coca-cola.co.uk/our-business/faqs/is-the-coca-cola-formula-kept-secret-because-the-company-has-something-to-hide).

Misappropriation

Most trade secrecy laws give the owner of a trade secret a civil remedy for the unauthorized acquisition, use or disclosure of a trade secret (often referred to as "misappropriation"). Under the USTA and DTSA, misappropriation may be found if information is acquired by "improper means", which includes "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." Article 39(1) of the TRIPS Agreement and the EU Directive speak, rather, in terms of the acquisition of information in a manner that is "contrary to honest commercial practices," which includes "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."

Permitted Acquisitions and Disclosures of Trade Secrets

In general, the following means of acquiring information are not considered to constitute trade secret misappropriation: independent invention; "reverse engineering" (starting with a known product and working backward to find the method by which it was developed); discovery under a license from the owner of the trade secret; observation of an item in public use or on public display; or from published literature. Article 5 of the EU Directive sets out additional exceptions when a trade secret is acquired or disclosed (a) in support of the right to freedom of expression and information, including freedom and pluralism of the media; (b) for revealing misconduct, wrongdoing or illegal activity; (c) by workers to their labor representatives; or (d) for the purpose of protecting a legitimate interest recognised by the EU or national law.

Compulsory Licensing of Trade Secrets

Trade secrets are not covered by the compulsory licensing provisions of Article 31 of the TRIPS Agreement, which relates solely to patents. Beginning in 2020, trade secrets attracted significant global attention in the debate over manufacturing technology for COVID-19 vaccines. Commentators observed that, even without patent barriers, the manufacture of advanced biological products would not be feasible without significant transfers of secret manufacturing knowledge by current producers (Levine and Sarnoff, 2023). These observations led to calls for governmental intervention and potential compulsory disclosures of manufacturing know-how (ibid.).

Cases

- Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 478 (1974)
- Rockwell Graphic Sys., Inc. v. DEV Indus., 925 F.2d 174, 180 (7th Cir. 1991)

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- United States v. E.I. du Pont de Nemours & Co., 118 F. Supp. 41 (D. Del. 1953)

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