

**The interrelation of the effects of characterization and enforceability against third parties, or not, as property right. Are trade secrets a property right?**

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**Abstract:** This article aims to explore whether trade secrets are a property right, demonstrating the interrelation of effects of their characterisation and the enforceability against third parties. The growing importance of trade secrets in the world today shall also be duly explored. Initially, there will be a brief historical analysis that shall assist in understanding the origins and necessity of this entity particularly for companies. Furthermore, their legal nature shall be defined, focusing explicitly on their proprietarial aspects. Ultimately, their misappropriation and consequent risks shall be discussed, arriving finally at the applicability against third parties. As a final thought, this article shall consider the importance of the public domain and the social function of trade secrets.

**Keywords:** Trade Secrets, Property, Misappropriation, Third Party Liability, Social Function.

**Contents:** 1. Introduction; 2. Historical development and conceptual basis; 3. Trade secrets protection and justifications; 4. Trade secrets theories; 4.1. Property theory; 4.2 Contract theory; 4.3 Tort theory; 5. The property aspect; 6. Trade secret misappropriation; 6.1. Rights of the trade secret owner; 6.2 Misappropriation risks; 7. Third party liability; 8. The public domain; 8.1. Trade secret social sanction; 9. Conclusion; Bibliography

## 1 - Introduction

*The power of a trade secret is its potential immortality<sup>2</sup>*

Trade secrets, also referred to as “proprietary information” or “proprietary technology”, are a form of intellectual property. The definition of this term is somewhat inconsistent throughout the

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<sup>2</sup> Stephanie Zimmerman, ‘Secret’s Out: The Ineffectiveness of Current Trade Secret Law Structure and Protection for Global Health’ (2010-2011) 29 Penn. St. Int’l L. Rev. 777, 778

literature, thus trade secrets are engendered a lesser degree of legal protection.<sup>3</sup> Nevertheless, with the recent tendency to dematerialise tangible goods, industrial secrets, which are intangible assets, have increasingly gained importance. According to Samuelson, "in the information age, economic information becomes the primary commodity, the greatest source of wealth".<sup>4</sup>

In this modern age, information management is extremely crucial for business enterprises seeking to protect and guarantee themselves against misuse. Historically, this kind of Intellectual Property has not been duly cared. Currently, however, trade secrets represent approximately 80% of the assets of companies whose growth is based on and driven by the creation of new ideas.<sup>5</sup> Therefore, every day a myriad of trained personnel must labor to discover new industrial secrets.<sup>6</sup> It is paramount for companies to attempt in every way to safeguard themselves against any misappropriation that could potentially destroy the secret character of a trade secret if it falls into the public domain, or to be accessed by any other competitor

Moreover, the advances of technology are so fast that often the most rapid and efficient way to protect the vital information is through trade secrets.<sup>7</sup> The number of patents, copyrights and trademarks that a company owns is relatively small compared to the number of trade secrets which, due to the fact that there are no specific limits compared to other types of intellectual property, are grouped together forming a mesh of information that is often problematic to divide.<sup>8</sup>

A very common practice these days is to primarily individualize the object of protection. This better identifies how such rights will be intellectual property protected so they can be managed more efficiently, ensuring that the ensuing protection will be the most appropriate. In fact, businesses are extremely keen not to take the risk of finding themselves helpless due to the law demands concerning protection basis.

Nevertheless, nowadays, a major problem arising is the usage of trade secrets without the consent of its holders, especially due to increasing industrial espionage and employee mobility.<sup>9</sup> The affirmative protection intended to protect the secrets varies according to the value of the

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<sup>3</sup> Gregory G. Letterman, *Basics of International Intellectual Property Law*, (1<sup>st</sup> edn Transnational Publishers 2001) 315

<sup>4</sup> Pamela Samuelson 'Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?' (1988-1989) 38 *Catholic U. L.* 365, 367

<sup>5</sup> Mark Halligan 'Duty to identify, protect trade secrets has arisen' (2005) *The National Law Journal*, 1

<sup>6</sup> Julie A. Henderson 'The Specifically Defined Trade Secret: An Approach to Protection' (1987) 27 *Santa Clara Law Review* 537, 539

<sup>7</sup> WIPO Magazine 'Trade Secrets Are Gold Nuggets: Protect Them.' (2002) *IP And Business*.

<sup>8</sup> M. Halligan and R. Weyand 'The economic Valuation of Trade Secrets Assets' (2006) *Journal of Internet Law*, 1

<sup>9</sup> Henderson, above n.5 at 540

information for the right holder, and it is used differently in each type of industry taking in consideration the different categories of situations involving companies and individuals.<sup>10</sup>

Trade secrets are particularly important for certain types of industries such as the pharmaceutical industry, biotechnology and yet also for the software industry<sup>11</sup>. Currently, companies rely heavily on creativity and innovation for the development and expansion of their limits, and this is due to the intellectual property rights that they're ensured that external parties will not economically exploit such secrets<sup>12</sup>.

In addition, owing to the enormous importance that trade secrets currently hold, there has been great interest and need for a legal definition that ensures comprehensive protection and does not bring legal uncertainties. Nonetheless, a need for clarification is tantamount.<sup>13</sup>

The protection afforded to trade secrets by the courts over the passage of time allows us to observe that both the English and American courts have understood the diverse nature of juridical secrets. At the end of the nineteenth century and during the early twentieth century, trade secrets were viewed as a property right; this trend has changed much throughout the years.

Many theories about the nature of secrets have been invoked to justify the rights of not only the holder of the secret, but also the rights of third parties and society after the predominance of decisions supporting the proprietorial character of secrets. Among these, perhaps the most important have been the tort law, best known as the duty-based theory and the contract theory that focus on the existence of contracts to afford protection to trade secrets. These theories have gained strength in the twentieth century, but have also demonstrated some imperfections. Many law studies have contributed to the construction of theories involving trade secrets and were important in tracing the resulting consequences for all parties involved. Changes concerning the conception of property rights over the years are crucial for one's view to understand the role of trade secrets in the modern economy.

Therefore, to better understand the importance of secrets, this thesis will present some historical aspects and the difficult conceptualization of object studied, also assessing its afforded protection, its prerogatives and requirements. It will examine the trade secret mentioned theories

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<sup>10</sup> G. Graham and V. Bryyan 'The Increasing Importance of Trade Protection in the Biotechnology Pharmaceutical and Medical Device Fields' (2007) 89 J. Pat. & Trademark Off. Soc'y 261, 283

<sup>11</sup> Report on Trade Secrets for the European Commission. Hogan Lovells International LLP. Study on Trade Secrets and Parasitic Copying (MARKT/2010/20/D) at 6-7

<sup>12</sup> WIPO National Seminar on Commercialization of Intellectual Property Rights and their Management 'Why, What, When and Where to Protect Intellectual Property Rights' (2001)

<sup>13</sup> Vincent Chiappetta, 'Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law' (1999-2000) 8 Geo. Mason L. Ver. 69, 72

and some of its minutiae, also discussing the property question that has changed over the time, and ultimately clarify and better justify the adopted view for many of the legal decisions. Finally, it will demonstrate how misappropriation occurs, discussing the interrelation of effects and characterization of enforceability against third parties, highlighting such aspects as the public domain and the social function of the secrets.

## 2 - Historical development and conceptual basis

Although trade secrets stem back many centuries, the law of modern trade secrets is of Anglo-American origin.<sup>14</sup> It is believed that the creation of trade secret law was made to satisfy the need for ethical standards during the industrial revolution<sup>15</sup>. As the secrets were already fundamental for the manufacturing process, since there was no precise knowledge of what was proprietary information, it is believed that many entrepreneurs or owners of the supposed secrets lost many of them by not appreciating their importance, or how to subscribe protection over them<sup>16</sup>.

The task of conceptualizing the trade secrets - a 'difficult and critical area'<sup>17</sup> - has generated a series of different concepts all without a universally accepted definition. This controversy is unsurprising since the same content information that is given protection as a trade secret often may not receive protection in accordance with the facts.<sup>18</sup>

The U.S. experience clearly shows the difficulty of reaching a solid concept about the trade secrets. Being an abstract and broad area, the law of trade secrets has found it difficult to be 'bundled into universally easily applicable principles'.<sup>19</sup> In fact, the trade secret law in the United States was created by state common law and the Restatement of Torts was the first attempt to clarify.<sup>20</sup> Years later, the Uniform Trade Secret Act (UTSA)<sup>21</sup> was adopted to serve as a model for

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<sup>14</sup> Mark A. Lemley, 'The Surprising Virtues of Treating Trade Secrets as IP Rights' (2008-2009) 61 Stan L. Ver. 311, 315-316

<sup>15</sup> Lindsay Furtado, 'Protecting Your Secrets from the Media: A Case for California's Content-Neutral Approach to Trade Secret Injunction' (2010-2011) 15 Intell. Prop. L. Bull. 123, 125

<sup>16</sup> M. Hutter (1978) 'Trade Secret misappropriation: A Lawyer's Practical Approach to the Case Law' W. New Eng. L. Rev. 1: 2 n.1 at (2)

<sup>17</sup> Richard A. Epstein, 'Trade Secrets as Private Property: Their Constitutional Protection' (2003) The Law School The University of Chicago at 1

<sup>18</sup> Henderson, above n.5 at 551

<sup>19</sup> Ryan M. Wiesner, 'A State-By-State Analysis of Inevitable Disclosure: A Need for Uniformity and a Workable Standard' (2012) 16 Intellectual Property L. Rev. 211, 214

<sup>20</sup> James W. Hill, 'Trade Secrets, Unjust Enrichment, and the Classification of Obligations' (1999) 4 Va. J.L.& Tech. 2, 3-4

<sup>21</sup> The Uniform Trade Secret Act is a uniform law on which states rely to write their legislations regarding trade secrets. Serving as a guide only, the states are free to choose which sections of the USTA want and need to use.

the United States. The subsequent and final attempt to explain the modern trade secret law was given through the Third Restatement of Torts<sup>22 23</sup>.

The TRIPS Agreement,<sup>24</sup> however, in an attempt to achieve standard pattern, defined the following regarding trade secrets under article 39.2:

- (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<sup>25</sup> 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.

Analyzing the requirements to have a protectable trade secret, it is interesting to note that despite there being no need for secrecy to be absolute, a fact which would make knowledge more restricted, being an obstacle to its holder to put into practice (practical use), the treatment given by the holder of the secret to the parties involved is important to maintain the duty of confidentiality. In other words, employees should be aware of their duty of confidentiality as a result of the secret they hold and simple prohibitions could not be configured as a duty.<sup>26</sup>

Moreover, unlike the profile applied towards patent law where there is a need for absolute secrecy in danger of losing the novelty, with regards to trade secrets there is more flexibility and relative secrecy is required in, whereby even if other people know the secret, it does not necessarily mean that the information has fallen into the public domain.<sup>27</sup>

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<sup>22</sup> Hill, above n.19 at 4

<sup>23</sup> According to § 39 comment (d) of the Restatement Third of Unfair Competition, ‘a trade secret can consist of a formula, pattern, compilation of data, computer program, device, method, technique, process, or other form or embodiment of economically valuable information. A trade secret can relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service. A trade secret can also relate to other aspects of business operations such as pricing and marketing techniques or the identity and requirements of customers.’

<sup>24</sup> See TRIPS Agreement on <[http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf)> Accessed 12 June 2012

<sup>25</sup> It is important to note that the UTSA has defined a trade secret as an information that has actual or potential economic value.

<sup>26</sup> Henderson, above n.5 at 560

<sup>27</sup> L. Bentley and B. Sherman, *Intellectual Property Law* (3th edn, Oxford 2009) 1014

In actuality, the requirement about the secrecy is not entirely illuminating, which has led to some courts finding that secrecy may not even be important for the process of obtaining the trade secret protection<sup>28</sup>.

Meanwhile, as one of the requirements to be met to achieve protection according to TRIPS is that the information must be secret, it is believed that trade secrets encourage secrecy; however, it would appear that trade secret law actually encourages the dissemination and use of ideas. This can occur in two different ways.<sup>29</sup>

In the first place the protection afforded by the law of trade secrets has the final result of reducing the possible and probable investments in physical secrecy; a fundamental aspect to keep the information reserved.<sup>30</sup> The absence of trade secret law to protect the secret character of information brings with it an urgent need to invest in ways to protect the content, meaning that companies often disburse substantial sums to achieve this goal<sup>31</sup>

Another disadvantage to companies having trade secrets is that the effort and investment to safeguard its secrets occurs individually, meaning each specific secret must be protected alone; this would not happen in a trade secret law system wherein legal investments are only deemed necessary if and when misappropriations occur.<sup>32</sup>

Therefore, a system in which there is no protection to trade secrets, where restrictions are created on the flow of information, not only hinders the commercialization and investment, but also interferes with the development of new ideas and the disclosure of the secrets.<sup>33</sup> The protection creates the possibility for the owners of secrets to share them in specific situations without risk, which it certainly would not succeed in doing without the existence of law.

In the second aforementioned way, the disclosure would also be encouraged by trade secret law, seeing as that would serve as a possible solution to Arrow's Information Paradox. This Paradox predicts that without proper protection it would be difficult to sell an idea without the risk of losing it, a problem that does not occur with trade secret law, because in that arena there is the possibility of disclosure the information in pre-contractual confidential relations.<sup>34</sup>

Another problem that trade secret owners face is the difficulty to individuate the secrecy of information. Often, this information may be part of a general knowledge or skill of the trade and

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<sup>28</sup> Chiappetta, above n.12 at 71

<sup>29</sup> Lemley, above n.13 at 333

<sup>30</sup> Id. At 334

<sup>31</sup> Id.

<sup>32</sup> Id at 335

<sup>33</sup> Id.

<sup>34</sup> Id. at 336

therefore, it behoves the courts to consider the particular circumstances involving employees, employers and information to assess whether the data is worth protecting as a secret, without misunderstandings being committed<sup>35</sup>.

One way to assess whether the secret is being used is to compare production factors, efficiency, costs, speed and quality before and after the time of disclosure of the trade secret<sup>36</sup>.

There are certain practices, however, that can be fundamentally negative in keeping the secrecy. If the secret is given in a confidential relation to an irresponsible defendant or kept for an unreasonable period of time with the defendant, protection might be not provided.<sup>37</sup> Another important feature to guarantee the protection afforded to the secret is that it is not available outside the circle of confidentiality established by the owner.<sup>38</sup> Contrary to that, it would be difficult to pervade its character of secrecy from disclosure.

However, the requirement of novelty, even if not required in TRIPS in relation to trade secrets, needs to be included because it is not as strict as that required for patents, primarily because they do not have the objective of protecting the secret of independent creations.<sup>39</sup> The protection seeks to act against breach of good faith and acquisition of the secret by improper means.<sup>40</sup>

There are two theories usually adopted regarding the novelty. The first asserts that the novelty must be absolute as occurs with patents, while the second, as accepted in US, does not understand that there is a need for novelty for the obtainment of protection, although a minimum of novelty is often required.<sup>41</sup>

The novelty as it relates to the trade secret, however, refers to the confidential character and not to any physical feature.<sup>42</sup> Furthermore, it also requires certain originality about the secrets, but different from the originality required in relation to patents.<sup>43</sup>

An important issue is that information must represent an economic advantage to its holder. The economic relevance of trade secrets according to Fekete can be explained as the expenses for

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<sup>35</sup> Henderson, above n.5 at 547

<sup>36</sup> Ramon A. Klitzke, 'Trade Secrets: Important Quase-Property Rights' (1985-1986) 41 Bus. Law. 555, 566

<sup>37</sup> Id. at 565

<sup>38</sup> Id. at 560

<sup>39</sup> Gale R. Peterson, 'Trade Secret in an Information Age' (1995-1996) 32 Hous. L. Ver. 385, 416

<sup>40</sup> Id at 416

<sup>41</sup> Elisabeth K. Fekete, *O Regime Jurídico do Segredo de Industria e Comércio no Direito Brasileiro* (1<sup>st</sup> edn, Editora Forense 2003) 74

<sup>42</sup> Id. at 75

<sup>43</sup> Id.

obtaining and maintaining the information, and as the advantage of exclusivity that is created in relation to competitors.<sup>44</sup>

Another point is the requirement regarding precautions taken to protect the secret. This is a strong point of attack when there is a dispute, and generally, omissions on this regard are difficult to remedy.<sup>45</sup> Implementing reasonable secrecy precautions, therefore, is a measure to be observed by holders of trade secrets, primarily because it is a requirement for protection, and moreover because the investment in measures to prevent misappropriation of the secret is considerably less than the cost of a dispute.<sup>46</sup>

The reasonable protective measures required to maintain the secrecy are typically divided into physical methods and control information.<sup>47</sup> The measures that use physical methods aim to create physical barriers that restrict access to information as locks, guards, and even some virtual methods such as passwords and encryption.<sup>48</sup> The second type of measure seeks to control the dissemination of information through policy measures that aim primarily to control who can or must have access to the secret.<sup>49</sup>

Alternatively, companies can establish systematic audits and create inventories with secrets as a way to protect against disclosure.<sup>50</sup> The protection for trade secrets should be carefully established and observed at the risk of losing the protection of the secret. Measures of precaution taken by the holder of the secret to avoid spending enormous figures (in legal disputes after the secret has already been leaked) are indeed wise.<sup>51</sup>

Nonetheless, an issue arising concerning protection is that it is impossible to precisely state parameters for establishing the existence of a trade secret, thus, it is advisable to carry out a comparative evaluation of all relevant factors such as the secrecy, the value and also sometimes the nature of the defendant's misconduct to satisfy this regard.<sup>52</sup>

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<sup>44</sup> *Id.* at 78

<sup>45</sup> Alan J. Tracey, 'The Contract in the Trade Secret Ballroom – A Forgotten Dance Partner?' (2007-2008) 16 *Tex. Intell. Prop. L.J.* 47, 64

<sup>46</sup> Robert G. Bone, 'Trade Secrecy, Innovation, and the Requirement of Reasonable Secrecy Precautions' (2010) Boston Univ. School of Law Working Paper No.09-40, 2

<sup>47</sup> C. Pacini and R. Placid, 'The Importance of Trade Secret Laws in Deterring Trade Secret Espionage' (2009) 7 *Buffalo Intellectual Property Law Journal* 102, 108

<sup>48</sup> *Id.* at 108

<sup>49</sup> *Id.*

<sup>50</sup> Pacini, above n.46 at 131

<sup>51</sup> Robert G. Bone, 'Secondary Liability for Trade Secret Misappropriation: A Comment' (2005-2006) 22 *Santa Clara Computer & High Tech. L.J.* 529, 533

<sup>52</sup> Restatement Third of Unfair Competition in § 39 comment (d)



Besides all the suggestions regarding reasonable measures in the business world to ensure that the secret is kept away from any divulgation, a written agreement for instance, would be a proof that the holder of the secret worries and prevents unauthorized use or disclosure of his secret.<sup>53</sup> Such agreement, however, should be consciously written to avoid being too broad or too restrictive.<sup>54</sup>

In such cases where adequate measures of precaution are not taken to protect secrets, the secrecy is not automatically destroyed, since in some cases, courts have found implicit non-disclosure agreements<sup>55</sup> that can eventually serve to ensure protection for the secret.

Another important difference between trade secrets and patents is the time it takes to receive recognition. While the patent holder is hampered by bureaucratic delays on the part of the agents responsible for the grant, the protection given to secrets occurs much faster, usually depending on agreements between the parties or as a result of the conduct of the holder<sup>56</sup>

A classic case illustrating the possible advantage of time protection when relying on the obligation of confidence<sup>57</sup> can be found in *Morrison v. Moat*<sup>58</sup> in which Morison invented 'Morison Universal Medicine' and disclosed the recipe for his partner (Moat) in confidence.

Before his death, Moat, appointed his son as his successor in society. With the subsequent end of the society, the son of Moat, using the secret received by his father, decided to open his own business making use of Morison's secret recipe.

The disclosure was seen as a breach of trust and breach of contract preventing Moat's son to use the secret and demonstrated the efficiency of trade secrets protection to the detriment of the patent system.<sup>59</sup>

Another factor that has contributed to the increasing acceptance of trade secrets from other forms of intellectual property is that it does not require any application to achieve the protection;<sup>60</sup> the information remains secret.

With trade secrets, two questions should be posed: firstly whether the information would actually be worthy of protection and secondly if some sort of misappropriation has taken place.

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<sup>53</sup> Henderson, above n.5 at 564

<sup>54</sup> Id.

<sup>55</sup> Klitzke, above n.35 at 562

<sup>56</sup> Henderson, above n.5 at 538

<sup>57</sup> T. Hart; L. Fazzani and S. Clark, *Intellectual Property Law* (5<sup>th</sup> edn Palgrave Macmillian Law Master 2009) 62

<sup>58</sup> *Morison v. Moat* (1851) 9 Hare 241

<sup>59</sup> T. Hart, above n.56 at 62

<sup>60</sup> Zimmerman, above n.1 at 782

The trade secret claims usually require elements to be satisfied for secret be subject to protection. Firstly, the information must be able to add economic value to its holder, then the holder of the trade secrets must take reasonable precautions to prevent the divulgation of the secret; and finally, the holder of the secret must prove that it was acquired in an illegal manner – misappropriated.<sup>61</sup>

Therefore, in order for the holder of the secret to succeed with their demand, one must prove that has a valuable secret and has been diligent regarding the protective measures adopted to ensure his secret, whichever way a misappropriation occurred.<sup>62</sup>

### **3 - Trade secrets protection and justifications**

Today, the protection of trade secrets is not to be underestimated, for this kind of content is as valuable as property rights were a few centuries ago.

Often, trade secrets cannot receive the reasonable protection of copyright and patents, being suitable for trade secret protection only. The differences involving these other forms of intellectual property and trade secrets receive criticism because there is no benefit to the public since the information is hidden.

The policy of encouraging the creation and sharing of new ideas as occurs with the patent and copyright law is contrary to what is preached in relation to trade secrets, where it is encouraged that secrets be kept and undisclosed to have guaranteed protection.

Furthermore, there are two theories that serve to justify the legal protection for trade secrets. The first believes that the protection of information against theft would be a way to encourage investment, while the other is premised on preventing and punishing wrongful acts concerning the acquisition of information.<sup>63</sup>

Trade secret law provides a series of advantages to its holders if compared to patent law. Some that are worth mentioning are as follows: firstly that trade secret definition is more inclusive than the definition which encompasses patents. Trade secrets are automatically protected if they meet the requirements while the procedure involving patents is much longer; and trade secrets are less expensive in terms of litigation compared with patent litigation.<sup>64</sup> Inordinate sums of money are spent protecting trade secrets. However, despite such costly protection, the return allows a

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<sup>61</sup> Lemley, above n.13 at 317

<sup>62</sup> Id.

<sup>63</sup> Id. at 319 The first is sometimes associated with a proprietary conception of trade secrets and the second sometimes as a tort theory.

<sup>64</sup> Id. at 331

substantial protection entirely worth the investment.<sup>65</sup> After all, what is the advantage of the existence of trade secrets if the owner can not prevent others from using the secret to their advantage?<sup>66</sup> It is also important that the information subject to protection should not be trivial or immoral.<sup>67</sup>

Usually the simple observance of cases involving trade secrets does not allow a conclusion to be reached regarding the reason of its existence, not even if secrets should receive the same treatment received as occurs with other forms of real, personal, and intellectual property.<sup>68</sup>

Trade secret law could be justified by the numerous economic benefits, especially by reducing costs from the protection intended for secrets.<sup>69</sup> Sometimes trade secrets are justified by the Lockean theory where those who create value through their labor ought to “own” the end product of their labor. Locke understood that people would not want to reap the fruit of others’ work.<sup>70</sup> This theory is criticized because the period in which the philosopher wrote his theory he was referring to real property and not intellectual property<sup>71</sup>. The theory of Locke could be considered overprotective which would go against innovation.<sup>72</sup>

The creation of an advantage secret entitles the holder to prevent others from using or taking it. Such protection is guaranteed through the development of principles such as fairness and honesty in business competition.<sup>73</sup> It would not be fair to allow a third party, for instance, to use freely the fruit of the effort of another.

Although there are efforts to establish international parameters to regulate trade secret law, countries have enough freedom to enforce the provisions pertaining to international minimum standards.<sup>74</sup> The fact that countries have independently developed their laws and provisions relating to trade secrets complicates the process of harmonization between them.<sup>75</sup> Nevertheless, the CUP (Paris Convention for the Protection of Industrial Property) provides a minimum base of protection.

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<sup>65</sup> Bone, above n.50 at 534

<sup>66</sup> Michael Risch, ‘Why Do We Have Trade Secrets?’ (2007) 11 *Marquette Intellectual Property Law Review* 1, 3

<sup>67</sup> M. Spence, *Intellectual Property* (1st edn Oxford 2007) 298

<sup>68</sup> Risch, above n.65 at 3

<sup>69</sup> *Id.* at 5

<sup>70</sup> Hill, above n.19 at 5

<sup>71</sup> Risch, above n.65 at 29

<sup>72</sup> *Id.* at 30

<sup>73</sup> Klitzke, above n.35 at 557

<sup>74</sup> Zimmerman, above n.1 at 778

<sup>75</sup> *Id.*

The existing requirements requiring the holder of the content to show that his secret is real, can often have implications diverting the attention of the applicant to the protection provided by trade secrets law, sheltering in other legal doctrines that would give them equivalent protection without the need for demonstration of the secret.<sup>76</sup> Advantageously, the protection to trade secrets can potentially be of infinite duration<sup>77</sup> and a variety of trade secrets are unlimited depending on the technology available, the imagination and ingenuity of its creators.<sup>78</sup>

In an attempt to justify the trade secret there is a certain disagreement which brings uncertainty, mainly because case-law hasn't been enough elucidative to raise a rationale to win the acceptance of those in the legal environment. Some scholars and lawyers characterize them as a property, while others describe the institute as protected by tort or contract law. This theoretical discrepancy leads Bone to suggest that maybe it is not necessarily a separate trade secret law because trade secrets could be well guided by common law doctrines.<sup>79</sup>

The effects of industrial secrets are enlarged or restricted according to the way they are treated. While seen as contract rights, they would be traditionally restricted only to the contracting parties. Nonetheless, the expansion of the good-faith principle has enlarged the duty of non-contract parts concerning the legitimate expectation of others<sup>80</sup>.

Conversely, if they are understood as property rights, they will provide direct exclusive rights that go beyond any contractual relationship<sup>81</sup>. Moreover, regardless of effort and investment to develop the industrial secret, the holders are not guaranteed exclusive rights as with other types of intellectual property and also real property.<sup>82</sup>

According to Epstein, the fact the holder of the trade secret is never sure if others have independently developed the same secret, does not satisfy the necessary condition of exclusivity, thus creating obstacles to the understanding of the secret as property<sup>83</sup>.

In addition, Samuelson argued that trade secrets must not be understood as a form of property although they are alienable and descendible because the law will not prevent a person from independently acquiring the specific information, not even from reaching by lawful means<sup>84</sup>

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<sup>76</sup> Lemley, above n.13 at 344

<sup>77</sup> Andrew R. Beckerman, 'The Choice Between Patent Protection and Trade Secret Protection: A legal and Business Decision' (2002) 84 J. Pat& Trademark Off. Soc'y 371, 407

<sup>78</sup> Henderson, above n.5 at 537

<sup>79</sup> Lemley, above n.13 at 312-313

<sup>80</sup> Luiz E. Fachin, *Teoria Crítica do Direito Civil* (2nd edn Rio de Janeiro: Ed. Renovar, 2003) 325.

<sup>81</sup> Epstein, above n.16 at 3

<sup>82</sup> Pamela Samuelson, 'Principles for Resolving Conflict Between Trade Secrets and the First Amendment' (2006) UC Berkeley Public Law Research Paper n.925056 at 38

<sup>83</sup> Epstein, above n.16 at 3

Following this uncertainty, Chiappetta posed an interesting question when asking whether trade secret law would be like a chameleon because it has the ability to be justified as property, quasi-property or even a duty of confidence according to the circumstances presented in a concrete case.<sup>85</sup>

In order to understand why trade secrets can be justified in different manners, closer scrutiny at such theories and past decisions may shed some light on some questions and clarify how the decisions were following new tendencies.

#### **4 - Trade secrets theories**

At this stage of the thesis, three of the major theories will be examined to better understand not only the change in relation to the nature of trade secrets over the years, but also to assess how decisions were given.

The analysis of theories follows the chronological order in which they were adopted, starting with the most discussed and still sometimes used to justify trade secrets – The property theory. Following this, there will be analysis of Contract Theory – of which aspects are still necessary today to protect secrets. Finally, the evolution of understanding requires the analysis of Tort Theory, in which the obligation between the parties is evidenced not only over the contract but even over a property right of a secret.

##### *4.1 - Property theory*

Historically it debated whether trade secrets are property and therefore deserve to be treated as such. The justification of trade secrets as property found shelter in the nineteenth century but it would be hard to justify them nowadays in the same manner would be complicated because the conception of ‘property rights’ has changed much over time.<sup>86</sup>

However, some decisions still explain trade secrets as property. The trend in calling intangible assets property has contributed to the overprotection of intellectual property.<sup>87</sup> One of the earliest decisions that justified trade secret as property was the *Peabody v. Norfolk*<sup>88</sup> in which Peabody held as a trade secret a manufacturing process of gunny cloth. Consequently the plaintiff

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<sup>84</sup> Id. at 4

<sup>85</sup> Chiappetta, above n.12 at 70

<sup>86</sup> Lemley, above n.13 at 324

<sup>87</sup> Risch, above n.65 at 15

<sup>88</sup> *Peabody v. Norfolk*, 98 Mass. 452 (1868)

held that one of his employees violated the law, under the allegation that he had disclosed the secret to become a competitor of Peabody in the same branch of cloth.

The Supreme Court of Massachusetts recognized the trade secret of Peabody as a property stating that:

If a man establishes a business and makes it valuable by his skill and attention, the good will of that business is recognized by the law as property ... If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, He has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but He has the property in it, which a court of chancery will protect against one who, in violation of contract and breach of confidence undertakes to apply it to his own use or to disclose it to third parties.<sup>89</sup>

Decisions justifying trade secrets as property can also be found more recently.

In one of the cases, the Supreme Court of the United States in two opportunities deemed trade secrets as property. In *Ruckelshaus v. Monsanto Co.*<sup>90</sup> it was decided that the data involving research submitted to the Federal Agency for the analysis of issues involving safety could be considered property.<sup>91</sup>

‘Trade secrets have many of the characteristics of more tangible forms of property. A trade secret is assignable. A trade secret can form the res of a trust, and it passes to a trustee in bankruptcy’<sup>92</sup>

Although the decision in *Ruckelshaus v. Monsanto Co.* justifies a trade secret as a form of property right, this concept differs from Locke’s earlier conception.<sup>93</sup>

Nonetheless, in *Carpenter v. United States*<sup>94</sup>, the Court also considered as a property of the publisher a series of information involving his own newspaper. In both decisions the Court did not

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<sup>89</sup> Id. at 457-458

<sup>90</sup> 467 U.S. 986 (1984) A recent case that also justified secrets as property was *Phillip Morris, Inc. v. Reilly*, 312 F.3d 24 (1st Cir. 2002).

<sup>91</sup> Samuelson, above n.3 at 366

<sup>92</sup> 467 U.S. (1984) 986, 1002

<sup>93</sup> Michael P. Simpson, ‘The Future of Innovation. Trade Secrets, Property Rights, and Protectionism – An Age-Old Tale’ (2004-2005) 70 *Brook. L. Rev.* 1121, 1128

<sup>94</sup> 108 S.Ct. 316 (1987)

consider the question related to property in a concrete manner, preferring to be guided by equitable considerations to arrive at a plausible and reasonable result.<sup>95</sup>

Therefore, the justification based on the property theory ensures that the information holder has the right in restricting the access, use, and disclosure, and that one also have the right to exclude others from certain information.<sup>96</sup> In this way, the trade secret holder would be entitled to control certain information (flow), even if these were no longer in their possession, with the possible justification of encouraging investment on the expansion of information.<sup>97</sup>

Whilst in these decisions the Court defines information as property, Samuelson believes that the Courts should carefully reflect upon the specific reasons why information was not generally accepted as property and in particular analyze the resulting implications of this assertion before applying it in similar cases.<sup>98</sup>

In fact, it is not surprising that some decisions consider trade secrets as property (anti-dissemination) because of the enormous importance of the production and sale of information to the economy.<sup>99</sup> In this point of view, Courts characterize trade secrets as property because of its value; however, the rights are effective only against those who have acquired the secret by improper means.<sup>100</sup>

The answer to the question as to whether trade secrets are property, notwithstanding the arguments above, remains not entirely accurate and convincing according to the current doctrinal positions and decisions aiming to elucidate the question.

The reason which leads many scholars to understand trade secrets as property is most likely due that the information can be owned (or controlled), while not pertaining to the public domain.<sup>101</sup> Some similarities between trade secrets and property may also lead to the conclusion to justify the trade secrets as property.

Analyzing some of the main features of the property institute conceiving the power of possession, use and enjoyment, including the right to transfer and to exclude others, it is observed

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<sup>95</sup> Samuelson, above n.3 at 366

<sup>96</sup> Lemley, above n.13 at 325

<sup>97</sup> Id. at 326

<sup>98</sup> Samuelson, above n.3 at 367

<sup>99</sup> Id. at 398

<sup>100</sup> Samuelson, above n.81 at 38

<sup>101</sup> Risch, above n.65 at 19

that with the exception of the right of possession which occurs differently, all other attributes are also rights of holders of information.<sup>102</sup>

Other features in common also related as examples are alienability, descendability, assignability, testamentary disposition and seizure during bankruptcy.<sup>103</sup>

One key feature of the institution of regular physical property that can be also found in intellectual property is the exclusivity quality, in which exclusive rights are secured.<sup>104</sup> This occurs also when dealing with trade secrets, however, essentially depends on a factual issue which differs from trade secrets, that which patents and regular property are ‘the collection and mixture of rights’.<sup>105</sup>

According to Bone<sup>106</sup>, ‘trade secrets, like all forms of information, exhibit the public-good characteristics of nonexcludability and nonrivalry’. Therefore, the protection afforded to trade secrets will not assure exclusivity to the owner if the secret has been obtained or used through lawful means,<sup>107</sup> whereby exclusivity does not reach secrets in all circumstances.

Moreover, a detailed and complete analysis of certain characteristics of information demonstrates the difficulty in recognizing property rights. The investigation starting with the tangibility aspect would create great difficulty in defining information since it is intangible, and it would also be laborious to establish what kind of specific information would be worthy of property interests.<sup>108</sup>

Another important argument that stands against property and information being protected in the same way is the fact that while property is legally unique (although fungible), information can be replicated without adverse effects.<sup>109</sup>

It is difficult to shield data in an exclusive manner since it can be easily shared in many ways and even where there are confidentiality, the protection will never be the same as that achieved in the case of tangible assets where ‘lock and key’, for instance, in which it prevails more effectively for this purpose.<sup>110</sup>

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<sup>102</sup> Samuelson, above n.3 at 370

<sup>103</sup> Charles T. Graves, ‘Trade Secrets as Property: Theory and Consequences’ (2007-2008) 15 J. Intell. Prop. 39, 76-77

<sup>104</sup> Risch, above n.65 at 16

<sup>105</sup> Id. at 19

<sup>106</sup> Bone, above n.50 at 532

<sup>107</sup> Risch, above n.65 at 16

<sup>108</sup> Samuelson, above n.3 at 368

<sup>109</sup> Risch, above n.65 at 23-4

<sup>110</sup> Samuelson, above n.3 at 369



Exclusive rights granted to authors and inventors, as occurs in copyright and patent systems, were created with the primary purpose of stimulating and encouraging innovation beyond the promotion of free circulation of information, hence the creation of property rights in information would serve for the same purpose if it was not against a policy choice to characterize data content as property.<sup>111</sup>

Moreover, there is no need to refer to trade secrets as property only to lend it more credibility and to protect the secret from those who acquire the information inappropriately.<sup>112</sup>

Regarding liability, the justification of trade secrets according to the property theory facilitates the enforcement of the law against parties which are not subject to contractual privity with the holder of the secret.<sup>113</sup> Nonetheless, it is interesting that where the UTSA states there is liability, it is not subject to contractual privity, and to understand that the trade secret liability is based on the justification of property. Furthermore, if trade secrets can be really understood as property then ‘liability for non-consensual takings can be justified’<sup>114</sup>

Therefore, it is important to notice that, although characterizing data content as property can guarantee the possibility of clearing to the holder, it is not necessarily creating a basis for action against those who own or use the information after its distribution is initially authorized.<sup>115</sup>

It is valuable to note that ‘one problem with giving property status to everything of value is that it can lead to social paralysis’<sup>116</sup> In a system in which information was private, property rights would be hard to be accepted by the community and would also create major problems in managing any rights.<sup>117</sup>

Conversely, the characterization of trade secrets as property plays a significant limitation compared with other ways to justify them.<sup>118</sup> It is clear that if ownership rights were guaranteed over any kind of information, it would prevent the normal flow of information.<sup>119</sup>

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<sup>111</sup> Id. at 371/372

<sup>112</sup> Id. at 375

<sup>113</sup> Furtado, above n.14 at 125

<sup>114</sup> Hill, above n.19 at 4

<sup>115</sup> Sharon K. Sandeen, ‘The Third Party Problem: Assessing the Protection of Information Through Tort Law’ in R. Brauneis (Ed) *Intellectual Protection of Fact-Based Works; Copyright and Its Alternatives* 2009, 1

<sup>116</sup> Hill, above n. 19 at 6

<sup>117</sup> Samuelson, above n.3 at 369

<sup>118</sup> Graves, above n.102 at 45

<sup>119</sup> Lemley, above n.13 at 338

Commentators, when considering trade secrets as property, do not justify them as natural property rights - an absolute right - but instead as a 'set of powers and restrictions imposed based on calculation about their utility is desired ends'.<sup>120</sup>

The uncertainty surrounding the understanding of a secret's nature helped push changes in the legal philosophy affecting the common law property right approach at the beginning of the twentieth century in regard to the basis for liability, changing the focus to the unlawful conduct of the defendant and no longer being related to violation of the holder's property right.<sup>121</sup> The liability was articulated considering a violation of a duty of confidence and no longer a property right.

#### *4.2 - Contract theory*

There has been a gradual change of focus of a secret holder's property right to the misconduct committed by an eventual defendant. To preserve the confidentiality of the secret, practical and contractual measures are crucial.<sup>122</sup>

Recently, the contract is no longer considered the touchstone of liability as it was before the decision concerning the case *Saltman v Campbell*<sup>123</sup>, however, it is still of significant. Nonetheless, to justify trade secrets within the limits of contract theory does not seem a choice which fully covers the rights and needs of trade secret holders. To best describe the difficulties in the application of the mentioned approach it will be discussed below.

The contract justification of trade secrets is based on licensing agreement or employment contracts containing clauses preventing the disclosure of information, however, the protection of the secret does not endure many years after the contract terminates.<sup>124</sup>

The fact that trade secret law does not have an independent regulatory body generates arguments to restrict or abandon it in favour of contract law.<sup>125</sup> The emphasis given on the relational duties when analysis of trade secrets cases is conducted, results in a view of the law more as contract focused than a property approach.<sup>126</sup>

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<sup>120</sup> Graves, above n.102 at 75-76

<sup>121</sup> Simpson, above n.92 at 1141

<sup>122</sup> Fekete, above n.40 at 9

<sup>123</sup> W. Cornish; W. Llewelyn and T. Aplin, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (7<sup>th</sup> edn Sweet & Maxwell 2010) 334

<sup>124</sup> Ruth E. Leistensnider, 'Trade Secret Misappropriation: What is the Proper Length of an Injunction After Public Disclosure?' (1986-1987) 51 *Alb. L. Ver.* 271, 279

<sup>125</sup> Hill, above n.19 at 2

<sup>126</sup> *Id.* at 6

However, even if contract theory has found some adherents it could not respond some questions involving trade secrets cases.

It is common that trade secrets are protected by contract and that the contract is used as the basis for trade secret claims. Breach of contract action without hindrance is clarified in the Third Restatement.<sup>127</sup>

According to Chiappetta, however, trade secret claims and contract claims are 'entirely independent' and therefore, contract claims should be considered only in situations where the owner cannot satisfy the requirements of trade secret protection.<sup>128</sup>

If trade secrets are understood as a contract, the protection regarding the secrecy would be limited to the contracting parties and would not hold situations in which the secret acquisition occurs by subjects which are not part of the contractual relationship.

Therefore, specific cases in which the secret is obtained by accident or by mistake or even when it is reached by a third party, who is not part of the confidential relationship, could not be resolved by the theory of contract.<sup>129</sup>

The major consequence of using contract law would be that its holder results prevented from attempting to recover the secret if it was not acquired by a party in the contract.<sup>130</sup> Therefore, there would be no duty regarding a third party since the owner is limited to the contractual boundaries.

Another problem arising when secrets are justified in accordance with the contract theory is that courts do not always enforce agreements involving secrets, especially if it is found that certain information does not qualify as a trade secret.<sup>131</sup> If the data content is not really secret, it will not be relevant as to what is contained in the contract or even what the owner of the information thinks on this regard.<sup>132</sup>

Concurrently, when there is not an expressed or implied contract, courts may impose the duty of confidentiality based on the analogy of a quasi-contract which are those implied in law as a way to ensure equity.<sup>133</sup>

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<sup>127</sup> Tracey, above n.44 at 69 'The existence of an express or implied in-fact contract protecting trade secrets does not preclude a separate cause of action in tort under the rules in this Section.' In Restatement (Third) of Unfair Competition.' § 40

<sup>128</sup> Chiappetta, above n.12 at 145

<sup>129</sup> Lemley, above n.13 at 323

<sup>130</sup> Hill, above n.19 at 24

<sup>131</sup> Id. at 7

<sup>132</sup> Graves, above n.102 at 48

<sup>133</sup> Hill, above n.19 at 7

An additional concern occurs when a former employee discloses the trade secret to a new employer who does not have any type of contract with the holder of the secret.<sup>134</sup> This kind of concern would not bother the property justification which predicts liability to the new employer in this case.<sup>135</sup>

Secrets are important; limiting them to contracts would be a risk, and therefore, the adoption of the theory that the holder's right exists independently of the enforcement of a contract and any attempted misappropriation will be avoided by tort, are advisable.<sup>136</sup>

#### *4.3 - Tort theory*

The tort theory appears as a result of the transformation that occurred in understanding the nature of the secret, and perhaps among all those that sought to justify data content confidentiality, this is perspective that described the institute in a more technical matter.

The approach based on a confidential relation to the protection of secrets can be found in some decisions, however, perhaps the most famous case is found through the words of Justice Holmes in *EI du Pont de Nemours Powder Co. v. Masland*.<sup>137</sup>

The word “property” as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant a former employee knows the fact, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore, the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.”

The decision highlighted the crucial importance to respect the confidential relations more than merely the property in itself.

The theory invoking trade secrets as a tort-based view is often used today to justify the confidential content and is scoped to ‘replace trade secret law with a general tort of wrongful misappropriation of information.’<sup>138</sup>

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<sup>134</sup> Graves, above n.102 at 69

<sup>135</sup> Id

<sup>136</sup> Hill, above n.19 at 24

<sup>137</sup> 244 U.S. 100 (1917) 102

A key problem concerning the tort approach is the fact that the assumption of an error does not offer a clear and objective definition of what this error is; and the case Masland, whose focus is the breach of confidential relationship, would force the conclusion that the question involving trade secret would be embedded within the contract.<sup>139</sup>

Accordingly, ‘although trade secret law is sometimes clustered for the sake of convenience under the general rubric of “intellectual property” rights, this does not alter the essential and nature of trade secrets as a form of unfair competition’.<sup>140</sup> In fact, in opposition to justify trade secrets as property, it brings possible negative impacts on the dissemination of information.<sup>141</sup> Moreover, “the cause of action sounds in tort and the emphasis is more on the defendant’s conduct than on contractual promises.”<sup>142</sup>

Analysing the differences between tort and contract law, a particular characteristic that differentiate them is the nature of the right. While the parties in contract law create rights and limits of the contract to be respected by the defendant, in tort law, rights exist independently of defendant's conduct.<sup>143</sup>

From a different view, an advantage to analyse trade secrets as an intellectual property right over unfair competition in the words of Lemley is ‘that it puts the focus of the statutory inquiry first and foremost on whether the plaintiff has an IP right at all’<sup>144</sup>

Despite all these different theories attempting to justify trade secrets, property theory is no longer the dominant position. While issues related to property ownership were taken into consideration before, issues related to unfair appropriation of secrets as civil and criminal liability - over the years - become to be more relevant to the demand.<sup>145</sup>

Other theories have been raised in order to justify trade secret law, such as commercial morality theory, (which is a doctrine based on common standards of behavior) that, however, was

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<sup>138</sup> Lemley, above n.13 at 321

<sup>139</sup> Id.

<sup>140</sup> Samuelson, above n.81 at 38

<sup>141</sup> Graves, above n.102 at 64-65

<sup>142</sup> Klitzke, above n.35 at 567

<sup>143</sup> Hill, above n.19 at 23-24

<sup>144</sup> Lemley, above n.13 at 342

<sup>145</sup> Bone, above n.45 at 9. This development took place with the publication of the first Restatement. Therefore measures of precaution of the secrecy that enabled the possession lost their importance. However, the adoption of the UTSA has once again become essential to the existence of measures precautions and finally, were treated ‘as mere evidence of secrecy, value, and improper appropriation’ by the Third Restatement. at 14

not satisfactory since it needed some external source to define what kind of conduct is moral or not commercial.<sup>146</sup>

While the economic morality was suggested as a possible justification for trade secret law, the principle of ethics, according to a study, is not even taken in consideration for making decisions involving trade secrets.<sup>147</sup>

Although some courts have continued to use the concept of property to resolve cases involving trade secrets, most followed the orientation of the Restatement focusing on the nature of the conduct of the defendant.<sup>148</sup> The liability would take into consideration the nature of the conduct of the defendant while the possession or control of information started to become irrelevant.<sup>149</sup>

Since other legal theories such as tort and contract law have all the prerogatives to protect confidential content against misappropriation, the justification based on property right does not need to be used.<sup>150</sup>

Whatever theory is applied to justify the protection given to secrets, there seems no doubt that it is extremely important to comply with the principles of fairness and honesty in a business competition environment.<sup>151</sup>

## **5 - The property aspect**

To better understand the modification that has occurred in relation to the nature of secrets over time, it is necessary to analyze the property and its changes of perception.

Whereas historically there was not a property vision of information, which was based on tangible assets, today with the enormous importance that intangible assets have acquired, the proprietary perspective has not been quite the same.

Although the property figure was (and still is) vital and has been a topic much discussed over the centuries, there is not one definitive definition of its concept<sup>152</sup> able to precisely delimit its boundaries.

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<sup>146</sup> Lemley, above n.13 at 327

<sup>147</sup> Id. at 328

<sup>148</sup> Bone, above n.45 at 11

<sup>149</sup> Idem at 9

<sup>150</sup> Simpson, above n.92 at 1147

<sup>151</sup> Klitzke, above n.35 at 557

<sup>152</sup> Chiappetta, above n.12 at 150

The attempt to conceptualize property brought definitions varying from the despotic domination to a sophisticated ‘bundle of sticks’.<sup>153</sup> Although the definition of the most traditional (patrimonial) institute involves various positions that often do not fit, all perspectives, nevertheless portray the affirmation of ownership on a given resource.<sup>154</sup>

Therefore, with the aim of reaching a better understanding of the property rights institute, every legal system should observe the differences between tangible and intangible resources to specifically assign rights.<sup>155</sup> Thus, Epstein first seeks to explain the differentiation between private and common property which is undoubtedly important for a characterization of the system as a whole.

The author, in an attempt to proceed with the differentiation, alludes to ancient times explaining that common property resources would be fully available to all in society, although not in an exclusive manner, while private property would be likely to have been acquired by first possession to the detriment of others<sup>156</sup>

Epstein proceeds with a detailed analysis of the importance of the division between private and common property for the current system. Even more, the author enhances some political roadblocks that hindered the system’s development. Epstein also shows that systems of property involving tangible assets have specific and necessary rules for defining what is common and private property and how private property could be acquired, used and transferred, also mentioning the problems arising from common property.

On intangible assets, the demarcation between common and private property also occurs, however, it is more complex the individualisation of property rights in some form of intellectual property than it is for tangible assets, which are physical.<sup>157</sup>

The intellectual property system is in some proportions, simpler than those involving physical property. It could solve some problems arising from the system that regulates the tangible assets, such as shorter time limitation involving property interests, thus simplifying intellectual property law. There is no need to create a body of laws to take care of any invasions and there is no

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<sup>153</sup> Vincent Chiappetta, ‘The (Practical) Meaning of Property’ (2010) 46 Willamette Law Review 297, 303

<sup>154</sup> *Idem* at 312

<sup>155</sup> Richard A. Epstein ‘What is so Special about Intangible Property? The Case for Intelligent Carryovers’ (2010) The University of Chicago: The Law Scholl John M. Olin Law & Economics Research paper Series No. 524 and New York university Law & Economics Research Paper Series No. 10-49 at 4

<sup>156</sup> *Id.* at 5. Accordingly, common property included the air, water and to a limited extent, the beach. Private property in turn, included land, animals, and chattels.

<sup>157</sup> *Id.* at 12

risk of exhaustion, i.e., excessive consumption; and the necessary privileges are considerably smaller.<sup>158</sup>

All forms of private property must have as a characteristic the possibility to exclude others, a fact that unquestionably does not occur with forms of common property.<sup>159</sup> Disposal of property is another common feature between tangible and intangible assets that serve to simplify the interaction between the parties making the division of property rights and possible organization of work markedly easier.<sup>160</sup> Thus, property is nothing more than the result of society's decision about who has control of a given resource when there are disputes in relation to its use.<sup>161</sup>

When conflicts arise because there are insufficient resources or because there are inadequate resources for all, the property regime becomes important.<sup>162</sup> A new view on property was brought from the beginning of the nineteenth century based on positive law, in which courts and legislators could define the trade secret status as property left behind; a vision based on the property as natural rights of ownership.<sup>163</sup>

Propertization is a terminology that seeks to address the scope and reach of intellectual property law and the 'application of property analogies to intangible information'.<sup>164</sup> The intangible assets are protected as *res*, and are objects autonomous of law, absolute and patrimonial.<sup>165</sup>

The system recognizes the difference between property rights and rights to intellectual creations; the fact that in the first there is a pre-existing exclusivity whilst the second creates exclusivity that limits the activity of others.<sup>166</sup>

The secret itself, however, is not protected. What occurs is the indirect care of the right to secrecy that protects through the estoppel that is guaranteed against unlawful means which serve to understand them or even use them.<sup>167</sup>

Nonetheless many "text revolutions" concerning laws and Civil Codes around the world<sup>168</sup>, with their formal change on the patrimonial primacy, these were not able to alter the ownership

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<sup>158</sup> Id. at 13-15

<sup>159</sup> Id. at 17

<sup>160</sup> Id. at 26

<sup>161</sup> Chiappetta, above n.152 at 298

<sup>162</sup> Id. at 300

<sup>163</sup> Hill, above n.19 at 5

<sup>164</sup> Graves, above n.102 at 44

<sup>165</sup> Oscar Barreto Teoria do Estabelecimento Comercial – Fundo do Comércio ou Fazenda Mercantil (Saraiva 1998) 160

<sup>166</sup> Id. at 163

<sup>167</sup> Tulio Ascarelli, Teoria della Concorrenza e dei Beni immateriali (Editore Dott A. Giuffrè, 1960) at 285



relation of the dominant groups. While before the ‘power active owners’ were holders of tangible goods, today they are also owners of the intangible assets.<sup>169</sup> ‘After all, if the property is intellectual, then how can it be subject, almost by definition, no less, to physical occupation? The objection exalts literalism over functionalism.’<sup>170</sup>

Although there are many features in common between the intangible assets and property, it would be incorrect to group them under the same concept – in a Roman Law approach. According to Kohler such a deterrent would take place mainly because the intellectual rights would be temporary, unlike the property that is not limited in time.<sup>171</sup>

If any type of information is to be understood as property one would face an enormous problem, however, a broad and deep analysis of what kind of information and which circumstances information could be considered as property, should be considered with the appreciation of all possible consequences of such characterization.<sup>172</sup> In fact, the liability regarding misappropriation, for instance, would be influenced as it once was when the property vision prevailed.

## **6 - Trade secret misappropriation**

Misappropriation is a huge concern facing holders of trade secrets and therefore, they need to be careful and act accordingly to protect and avoid any misappropriation of their secrets. Trade secret misappropriation is not a ‘monolithic concept’ since it deals with two distinct types of situations that give rise to misappropriation.<sup>173</sup>

Misappropriation basically occurs when a trade secret is acquired or used through improper means and in the presence of a breach of confidence.<sup>174</sup>

These situations give rise to an action for trade secret misappropriation that usually considers the presence of a confidential relationship, normally arising from a contractual

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<sup>168</sup> As an example, the Brazilian Constitution of 1988 and the “new” Civil Code of 2002, changed completely the law text focus from an patrimonial society perspective, to the promotion of the human dignity in an existencial approach.

<sup>169</sup> Pedro M. Barbosa, *Direito Civil da Propriedade Intelectual. O caso da usucapião de patentes* (Rio de Janeiro Lumen Juris 2012) 43

<sup>170</sup> Epstein above n.16 at 7

<sup>171</sup> Fekete, above n.40 at 129

<sup>172</sup> Samuelson, above n.3 at 400

<sup>173</sup> Chiappetta, above n.12 at 94

<sup>174</sup> P. Merges; S. Menell and M. Lemley, *Intellectual Property in the New Technology Age* (Aspen Law & Business 1997) 63

agreement, and information that should be protected,<sup>175</sup> besides the improper ways to reach the secret.

According to the case *Coco v. A.N. Clark*<sup>176</sup>, Megarry J. explicitly lists the requirements required for the action for breach of confidence when stating that the holder of the secret should observe three essential elements: the information should first have a confidential nature; the disclosure of information not respecting the obligation of confidentiality, and finally there must have been unauthorized use of information.

In order to assess whether the information has the quality necessary to be confidential, four elements must be observed: the disclosure of the information would impact negatively for its owner or positive for his rival; the holder must believe that he has a confidential information; the previous two elements must be based on reasonableness and finally the information should be considered in relation to a commercial practice.<sup>177</sup>

In turn, Lord Goff of Chieveley in the famous *Spycatcher* case states a broad general principle that defines the confidentiality obligations:

A duty of confidence arises when confidential information comes to the knowledge of a person (the confidant) in circumstances where he has notice, or is held to have agreed, that the information is confidential, with the effect that it would be just in all the circumstances that he should be precluded from disclosing the information to others.<sup>178</sup>

Disclosure resulting from misappropriation is simpler to be accessed and occurs in a situation where someone has access to a trade secret and eventually uses or discloses the secret without the permission of the holder.<sup>179</sup>

Once all the requirements to have a trade secret are met, the focus shifts to the defendant's liability which will be analyzed when the secret was acquired, used or even disclosed.<sup>180</sup>

Cases involving misappropriation of trade secrets can be easily individualized in three different steps. Misappropriation results from the acquisition of the secret by the obtainment of

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<sup>175</sup> Henderson, above n.5 at 540

<sup>176</sup> *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41, 47

<sup>177</sup> T. Hart, above n.56 at 62

<sup>178</sup> [1988] UKHL 6 (27)

<sup>179</sup> Wiesner, above n.18 at 213

<sup>180</sup> Simpson, above n.92 at 1124

information, the disclosure of secret information to another; and the use of secrecy in order to achieve some advantage.

Additionally, misappropriation can occur at any stage involving the secret, both in acquiring, disclosing or using the information. Misappropriation does not happen by a group of individuals but by one single individual or few persons that in most cases, try to make use of information in a discrete manner.<sup>181</sup> It would be difficult to gain any advantage if many people use the secret.

Misappropriation of secrets on the internet, a vehicle that reaches billions of people, has brought a new possibility of disclosing trade secrets on the net; it is difficult to identify who would be responsible for the authorship of disclosures and to quantify probable losses.<sup>182</sup>

Another important issue is the liability of misappropriation that usually occurs in two specific cases involving trade secrets.

The first type occurs when a person who acquires the information directly uses it without its disclosure (very common in cases related to employees who have access to the secret). The second example occurs when information is acquired and disclosed to a third party.

Regarding wrongful acquisition, the USTA<sup>183</sup> requires the plaintiff to show that the secret was acquired by the defendant or, at least, the defendant knows or has reason to know that the secret was attained improperly.<sup>184</sup>

The case concerning wrongful disclosure is more complex because there is a need to show that the secret was used by or disclosed to someone else<sup>185</sup>

The definition of misappropriator can be found in the words of Samuelson as being "the errant licensee, a faithless employee or former employee, an abuser of confidence, the trickster who uses deceit or other looked wrongful means to obtain the secrets, or the recipient of misappropriated knowing information who is free-riding on the trade secret developer's investment."<sup>186</sup>

The goal intended by the misappropriator would be the use of the secrets of others on behalf of himself without paying for that or even incurring in the normal restrictions a licensing

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<sup>181</sup> Bone, above n. 50 at 537

<sup>182</sup> Samuelson, above 81 at 25

<sup>183</sup> Uniform Trade Secrets Act (USTA) <<http://euro.ecom.cmu.edu/program/law/08-732/TradeSecrets/utsa.pdf>> 2> Accessed 6 July 2012

<sup>184</sup> USTA Paragraph 1(2)(i).

<sup>185</sup> C. Pacini, and R. Placid above n.46 at 120

<sup>186</sup> Samuelson, above n.81 at 1

contract of use.<sup>187</sup> The principles of ethics might also cite an achievement that does not seem reasonable.

Even so, the scope of industrial secrets, beyond encouraging innovation and research to the development of new ideas, would be the preservation of commercial ethics by protecting secrets against breaches of confidentiality and the use of not adequate ways to achieve the secrets.<sup>188</sup>

Therefore if a person uncovers the secret observing ethical standards in an honest manner, there is no sense to mention the possibility of action for misappropriation. Especially when the defendant can prove that his conduct was not decisive for the unauthorized disclosure of information, but the responsible one was that of the plaintiff.<sup>189</sup>

If a secret, however, is achieved by improper means, then an eventual defendant would be unable to affirm the opposite and consequently would face action for misappropriation. Therefore, the misappropriation liability can be avoided if the ‘misappropriator’ shows that the information can properly be achieved through reverse engineering or through independent discovery.<sup>190</sup>

When a secret can be revealed through reverse engineering there is no convergent position. Some decisions do not understand as relevant the fact of using improper means to discover the secret if it is also possible to discover it through reverse engineering, while other decisions, however, are concerned by the fact of how such information was obtained.<sup>191</sup>

The possibility of reverse engineering to acquire a trade secret is considered a fair means and if it was not possible to use the reverse engineering to get to the data content, it would pragmatically confer *a de facto* monopoly to the secret.<sup>192</sup>

The second type involving trade secret misappropriation when the secret is acquired by improper means<sup>193</sup> is sometimes unclear. In reality, a lack of accuracy regarding the definition of what would be considered improper means brought criticism by commentators.<sup>194</sup>

Regarding the judgment of what would be considered ‘improper means’, the Courts have much flexibility,<sup>195</sup> including complying with standards of commercial morality and reasonable

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<sup>187</sup> Id. at 7

<sup>188</sup> Henderson, above n.5 at 541

<sup>189</sup> Klitzke, above n.35 at 563

<sup>190</sup> C. Pacini, and R. Placid above n.46 at 127

<sup>191</sup> Klitzke, above n.35 at 564

<sup>192</sup> Samuelson, above 81 at 8-9

<sup>193</sup> Wiesner, above n.18 at 213

<sup>194</sup> Hill, above n.19 at 2

<sup>195</sup> Simpson, above n.92 at 1125

conduct.<sup>196</sup> A popular case regarding improper means was discussed is *EI duPont de Nemours & Co. v. Christopher*,<sup>197</sup> where the defendant took aerial photographs of a plant under construction.

The decision held that although the aerial photographs had not violated any law, espionage would signify a form of improper means as the conduct practiced by the defendant could not be reasonably considered in accordance with the standards of commercial morality. The decisions therefore, should be a reflection of a factual analysis (case-by-case) in which the conduct charged will be considered relying on the observance of commercial morality.

Therefore, to better understand a case involving trade secrets it is necessary to observe the conduct of the defendant especially because the main objective arising from the misappropriation of the secret is to neutralize the competitive advantage created by the holder.<sup>198</sup>

According to Henderson<sup>199</sup>, “ownership of a trade secret represents only a proprietary right which is protected against usurpation by unfair means”. Such ownership does not confer an exclusive right to use the information as occurs with patents.

When the misappropriation of a trade secret occurs, the holder of the secret is urged to request an injunction to prevent that information being subject of a new misappropriation.

There are two types of legal remedies generally used when there is a misappropriation of secrets: Civil and criminal remedies. Within the civil remedies there are three different types divided in the injunction, monetary damages and also attorney's fees.<sup>200</sup> There are some theories as to when the injunction is granted. The determining factor for this decision is to ascertain whether there was actually public disclosure of the secret.<sup>201</sup>

With relation to the criminal remedies, the U.S. experience shows through the Economic Espionage Act (EEA) the typical division between two different Sections (1831 and 1832). While one section is specifically about economic espionage conducted by foreign, the other broadly regulates trade secret theft that occurs in favor of a person who is not the holder of the secret.<sup>202</sup> Thus, espionage can be perpetrated by foreign governments and also by private firms.<sup>203</sup> Criminal

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<sup>196</sup> Risch above n.65 at 10

<sup>197</sup> *E.I. du Pont de Nemours & Co., Inc v Christopher*, 431 F.2d 1012 (5<sup>th</sup> Cir. 1970)

<sup>198</sup> Klitzke, above n.35 at 558

<sup>199</sup> Henderson, above n.5 at 542

<sup>200</sup> Zimmerman, above n.1 at 788

<sup>201</sup> Leistensnider, above n.123 at 273

<sup>202</sup> Zimmerman, above n.1 at 788

<sup>203</sup> C. Pacini, and R. Placid above n.46 at 102

sanctions, however, appear to be more intimidating than the civil, which are often viewed by misappropriators as a consequence of the reach of secrecy not being a major hindrance.<sup>204</sup>

Although there are disagreements in trade secrets regarding its juridical nature, it is a common understanding that misappropriation of trade secrets is something that cannot be left unpunished.<sup>205</sup>

### *6.1 - Rights of the trade secret owner*

The holder of the trade secret has legal rights to prevent the secret being used or disclosed without proper consent and authorization. The owner of the trade secret faces situations involving individuals having partial knowledge of the secret.

To exploit the secret economically the holder needs to share the content of the undisclosed secret, and does so through contracts with their employees, suppliers and other stakeholders.

Further, the regular contracts including provisions of non disclosure agreements and the post employment non-competition agreement in which the holder of the trade secret protects itself. The post contract effects are aimed to avoid any inappropriate uses non-consent of the secret; nonetheless the usual protection occurs during the contract timeline.

These Agreements to prevent the disclosure of the secret by employees, customers, suppliers and other parties are necessary as the secret information is usually passed on to the achievement of an economic end.<sup>206</sup>

However, if the obligation of confidentiality arises from an expressed or implied contract, there may be changes regarding the contractual consequences by the intervention of public policy limitations concerning the scope and duration of the agreement.<sup>207</sup> These agreements are important because they define the limits of confidentiality and show the holder's effort to keep the information secret.<sup>208</sup> There are many possibilities that a violation of a contract, involving the classified information, may impact on the level of confidentiality (and therefore on the market value of the content), even if direct missappropriation doesn't occur.

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<sup>204</sup> Zimmerman, above n.1 at 790

<sup>205</sup> Lemley, above n. 13 at 312

<sup>206</sup> C. Pacini, and R. Placid above n.46 at 110

<sup>207</sup> Lemley, above n. 13 at 318

<sup>208</sup> C. Pacini, and R. Placid above n.46 at 112

For an efficient regime to exist, it is important that the holder of the secret can establish the time that will be necessary for competitors entering into the market through acts not considered misappropriation, thus having the peace of mind to recover costs spent on innovation.<sup>209</sup>

As expensive as trade secrets are to be discovered from an innovator, it is inherently more difficult to be independently developed from a competitor.<sup>210</sup> While the market is not saturated with the idea and this content is not deemed as generally known, the law will protect successive developers.<sup>211</sup>

Nowadays the trade secrets benefit industries under the guise of innovation that could be affected if certain information was not adequately protected.<sup>212</sup>

Moreover, the holder of the trade secret has the right to prevent the use or the disclosure of information obtained through improper means and also prevents situations where unauthorized use or disclosure by third parties occurs.

## *6.2 - Misappropriation risks*

Where there is no enforcement of misappropriation rights, the holder of the secret is forced to raise the price of the final product as a means of self-defense.<sup>213</sup> This measure may have a noticeable effect on the society. However, if the trade secret can be easily discovered, protection should not be spoken of in order to avoid the monopoly of information that is already in public domain.<sup>214</sup>

On the other hand, one of the risks associated to a disclosed trade secret is the possibility of it being used by competitors who have not paid heavily for development and innovation and consequently may charge less when selling them - at the expense of the holder of the secret.<sup>215</sup> Indeed, competition fares do not compute all the costs that the holder of the trade secret incurs in keeping its secret.

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<sup>209</sup> Jon Chally, 'The Law of Trade Secrets: Toward a More Efficient Approach' (2004) 57 Vand. L. Rev. 1269, 1297

<sup>210</sup> Id. at 1301

<sup>211</sup> Id. at 1302

<sup>212</sup> Simpson, above n.92 at 1121

<sup>213</sup> Chiappetta, above n.12 at 98

<sup>214</sup> Klitzke, above n.35 at 564

<sup>215</sup> Chally, above n.208 at 1273

Thus it is necessary to have a balance of interests while protecting trade secrets so it is possible allow the exclusive use by the owner and to avoid the irregular appropriation of the information being easily available to the public.<sup>216</sup>

All these risks are directly associated with the liability of third parties regarding trade secrets misappropriation, that sometimes depending on circumstances may take advantage of the secret. The third party liability, its characteristics and nuances are all pivotal to answer this clearly unresolved issue concerning the liability incidence which depends on the justification theory applied.

### **7 - Third party liability**

The failure to identify only one theory instead of many to justify trade secrets action explains why some aspects have not yet been well defined or clarified.<sup>217</sup> Third party liability is one of these unclear points that this thesis shall focus on.

When analyzing the resulting obligations of confidentiality it is customary to observe the nature of relationship between the parties<sup>218</sup> to better understand how the secret will be protected. Here, however the intent is not to enter into details in relation to all parties but focus on relations involving third parties.

The law of trade secrets aims to include the liability of third parties due to the misuse of information, even though these are not directly involved with the lack of privacy with the holder of the secret.<sup>219</sup> Limiting the trade secret liability to the contracting parties is detrimental to their owners, who can in turn stipulate the unfair competition.

The liability involving trade secrets, therefore, is not as strict as occurs with the patent and copyright systems. The breach of confidence or other wrongful conduct must happens in order to the acquisition, use or disclosure of the secret to be entitled for applicability, which therefore, facilitates the capture of third parties in direct liability.<sup>220</sup>

Essentially, the third party is liable when they use or disclose the secret knowing that the secret was acquired by wrongful means. The third party's awareness of the fact that the secret was accomplished by improper means allows the inference of some individual culpability.<sup>221</sup>

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<sup>216</sup> Klitzke, above n.35 at 564

<sup>217</sup> Bentley and Sherman above n.26 at 1005

<sup>218</sup> Idem at 1024

<sup>219</sup> Risch, above n.65 at 5

<sup>220</sup> Bone, above n.50 at 538

<sup>221</sup> Id. at 536



An interesting case involving third parties is *Fraser v Thames Television Ltd.*<sup>222</sup> in which three actresses disclosed their idea involving a television program about the rock band of three girls for a script writer who later disclosed it to a producer and other defendants. The actresses established an agreement that included their inclusion in the cast and also stipulated the name of the possible show. However, it was not enough to prevent the fact that other actresses were hired to develop the roles in the program.

The decision in question presented the third parties liability holding that the script writer, the producer and the other defendants were in a breach of confidence in using the idea.

In relation to third party liability there are two different types that are a requirement for third party culpability: The primary and the secondary liability.<sup>223</sup>

While the primary liability occurs when a third party acquires and uses the secret, the ‘secondary liability is liability imposed on a third party who induces actively, materially contributes to, fails to control, or facilitates the infringing acts of others’.<sup>224</sup>

Concerning liability in relation to third parties, the decisions have presented different opinions. While some case law decided that there is liability of third parties when they act in the absence of good faith understanding that there is an equitable obligation of confidence, others do not show understanding in the same way and avoid bringing the analogy with the trust rules to justify the existence of liability.<sup>225</sup>

On this matter, there are cases in which secrecy is achieved through effort by proper means or still where the secret is accidentally revealed and there is no liability for not having any kind of obligation to the owner of the secret. On the other hand, there are cases where even if there are no contractual obligations exist, the third party should exercise caution not to induce the employee or licensee to breach.<sup>226</sup>

The third party liability will depend on the circumstances. Bentley and Sherman summarize some factual situations pertaining to the liability of third parties.

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<sup>222</sup> [1984] 1 QB 44

<sup>223</sup> Samuelson, above n.81 at 12

<sup>224</sup> Bone, above n.50 at 536

<sup>225</sup> Bentley and Sherman above n.26 at 1028

<sup>226</sup> C. Correa and Y Abdulqawi, *Intellectual Property and International Trade The Trips Agreement* (2nd edn Wolters Kluwer Law & Business 2008) 288-289

Accordingly, there are situations in which the third party is aware of the confidentiality and is usually required to comply with the duty of confidence.<sup>227</sup> When the third party knows that the information is confidential there is direct liability.<sup>228</sup>

Furthermore, there are cases where the third party receives the information innocently but then comes to discover its confidential character and should thus, also respect the confidential character of information.<sup>229</sup>

In the event that there is the figure of the good faith purchaser who acquires the information there is also the duty of confidentiality due to the confidential character of information.<sup>230</sup>

The cases which the secret is acquired innocently or even purchased by a third party are those which require more attention and the third party will be liable as soon as they discover the confidential character of the information.<sup>231</sup>

If a third party purchases information without knowing the nature of the content, regarding its confidential character or acquires it innocently, there will be no obligation of secrecy.<sup>232</sup> In addition to this hypothesis there is the case of information communicated to a third party by someone who is not obliged to a duty of confidence. In such cases it is assumed that it is not by coincidence that the information is passed to the third party, so there is also duty of confidence based on the fact the information had been passed by a wrongdoer.<sup>233</sup>

There is liability even in cases where in fact the third party does not know about the confidential character of information but should ought to.<sup>234</sup>

Basically, a third party receiving confidential information will 'become involved in the web of confidence'<sup>235</sup> being therefore limited, since it is aware of the confidentiality. Among all these cases involving third parties it is important to mention that there will not be liability in cases of mere possession of a trade secret by a third party.<sup>236</sup>

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<sup>227</sup> Bentley and Sherman above n.26 at 1028

<sup>228</sup> P. Sadler 'Protection of Confidential Information in the Engineering Industry' (2005) 7 *The Engineering Industry*, 3

<sup>229</sup> Bentley and Sherman above n.26 at 1029

<sup>230</sup> Id. 1029 In this cases the available remedies are distinct, damages are not applied.

<sup>231</sup> Sadler, above n. 227 at 4

<sup>232</sup> T. Hart above n. 56 at 68

<sup>233</sup> Bentley and Sherman above n.26 at 1029-1030

<sup>234</sup> Sadler, above n. 227 at 3

<sup>235</sup> Paul Torremas, *Intellectual property Law* (6th Holyoak & Torremas 2010) 547

<sup>236</sup> Hill, above n.19 at 7

The fact that the indirect recipient is almost always liable is not expressed by his own default but certainly because confidential information has been defined with the property status or because there is the need to ensure that the information is protected “against breach of obligation of good faith originally assumed by the first recipient”<sup>237</sup>

Another important case involving third party liability that serves as an example was ruled in *Saltman v. Campbell*<sup>238</sup> in which the claimant, an owner of drawings of a type of tool used for making leather punches, was aided by a second company to manufacture the tool. This second company, however, instructed a third party, defendant in question, to manufacture the tools according to the drawings which later came to use the trade secret (drawings) to his own benefit.

Although there was no contractual relationship with the third party, the Court of Appeal decided that the third party was obviously aware of the confidential character of the drawings and therefore, there had been a breach of confidence. It would be extremely difficult to keep secret the character of the information in a contractual relationship if the holder did not have any kind of property right.<sup>239</sup>

Although the fact that the right to maintain the information is not disclosed, the absolute rights in this case, do not prevent a third party to acquire, create or discover the secret by proper means.<sup>240</sup>

According to the USTA, if there is some relationship between the holder of the secret and the alleged violator, it will not be difficult to prove his liability, however, even in cases where there is no relationship, wrongful behavior to acquire the information will be also give rise to liability.<sup>241</sup>

When the interaction between third-party and trade secrets is analysed, it is important to note that the protection given by law does not reach the third-party if it is not part of any duty confidentiality arrangement with the holder of the secret, and especially when unlawful methods have not been utilised to obtain them.<sup>242</sup>

The proprietary justification of trade secrets facilitates the enforcement of trade secret law in regard with the parties that are not complying with a contractual relationship of confidentiality.<sup>243</sup>

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<sup>237</sup> W. Cornish; W. Llewelyn and T. Aplin above n.122 at 351

<sup>238</sup> (1948) 65 RPC 203.

<sup>239</sup> Epstein, above n.16 at 5

<sup>240</sup> Denis B. Barbosa, *Uma Introdução à Propriedade Intelectual* (2nd Lúmen Júris 2002) 563

<sup>241</sup> Sandeen, above n.114 at 16

<sup>242</sup> Epstein, above n.16 at 4

<sup>243</sup> Furtado, above n.14 at 125

In terms of legal costs, when there are a number of potential infringers under the control of a third party, it is better to try to frame the applicability of a third party on contributory infringement than to seek protection against all infringers individually. Nonetheless the hypothesis analysed, it is not common practice in cases involving trade secrets misappropriation<sup>244</sup>.

However, it is crucial to observe that if the trade secret holder is not diligent enough and leaked out the information, whoever receives the secret cannot be blamed for that, which allows the conclusion that there is no third party liability.<sup>245</sup>

With respect to the disclosure of the secret that occurs on the Internet, the current law suggests that there is no third party liability when a third party discovers the secret which makes the spread of the information even more difficult to be controlled.<sup>246</sup>

The information that is already in the public domain or when there is a public interest that outweighs the duty, are the only circumstances where a third party aware of the confidential information is not bound by a duty of confidence. The risk of having disclosed the secret and it falling into the public domain is directly proportional to the number of people who know it.<sup>247</sup> Therefore, the fewer people that has access to the secret, the higher the probability of it remaining undisclosed.

Furthermore, the trade secret law states that information in the public domain may be freely used by a third party who did not apply improper means to reach the secret. Notwithstanding the above, the third party should ignore the manner in which the secret was discovered (if it was acquired by improper means) and should not have any kind of relationship, whether contractual or other trust relationship, with the holder of the secret.<sup>248</sup>

If third parties could freely make use of secret information, the holders of secrets certainly would invest in fields that rely to a lesser extent upon secrets to obtain economic advantage.<sup>249</sup> When the holder chooses to disseminate information which can make himself obviously profit, however, it is hard to imagine why he should not bear the potential risk of that information ending

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<sup>244</sup> Bone, above n.50 at 537

<sup>245</sup> Samuelson, above n.81 at 13

<sup>246</sup> Elizabeth A. Rowe 'Saving Trade Secret Disclosures on the Internet Through Sequential Preservation' (2007) 42 Wake Forest L. Rev. 1, 5

<sup>247</sup> Epstein, above n.16 at 6

<sup>248</sup> Rowe, above n. 245 at 15

<sup>249</sup> Chiappetta, above n.12 at 87

up in the hands of a third party.<sup>250</sup> However, when third parties publish the secrets of others they greatly increase the risk of civil and criminal liability.<sup>251</sup>

Thus there have been changes in trade secret nature over the years - from a property perspective to a duty-based theory - in which there is an obligation to maintain the confidentiality of a secret regardless of the pre-existence of a contract.

While the property theory justification for trade secrets would encompass liability to all those who were not holders of a secret, and a contract justification would not be able to create direct liability to the parties outside the contract, a duty-based theory would better balance the third party liability.

## **8 - The public domain**

It would be difficult to analyse trade secrets without mentioning the importance of the public domain. Recently the academic world has been focusing on the definition of public domain whose limits and definition vary according to the type of information and legal system which it is a part of.<sup>252</sup>

One of the most important restrictions in relation to trade secrets protected by the breach of confidence occurs when the information in question is in the public domain (*res communis omnium*).<sup>253</sup> If information is already in the public domain the effort or protective measures practiced by the holder to keep it secrecy is irrelevant. If contracts, for instance, could create clauses that prohibit the use of information in the public domain, after its termination, employees would be excessively limited.<sup>254</sup>

Assessing when information is in the public domain is not necessarily an easy job. There is a line of thought that defends that the secret is public when a large number of people know its content, and, in theory this number would vary according to the field to which the secret is part.<sup>255</sup> Another opinion however, states the number of people who have knowledge of the secret would not be so important; what is relevant is that competitors do not have direct access to it.<sup>256</sup> Thus, the secret information will not be in the public domain even though the information has been

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<sup>250</sup> Sandeen, above n.114 at 29

<sup>251</sup> Samuelson, above n.81 at 66

<sup>252</sup> Graves, above n.102 at 85

<sup>253</sup> Bentley and Sherman above n.26 at 1014

<sup>254</sup> Graves, above n.102 at 68

<sup>255</sup> Fekete, above n.40 at 71

<sup>256</sup> Id.

disseminated to a large number of people, as long as all these people are subject to an obligation of confidentiality.<sup>257</sup> If specific information has entered in public knowledge before arriving at the eventual defendant or even between the time that information arrives to the defendant and the opportunity when the suit is ruled, however, usually there is nothing to be protected.<sup>258</sup>

Therefore, as stated by the House of Lords in *Spycatcher*, once the information is in public domain owing to a breach of confidence, is not possible to avoid the dissemination of the information.<sup>259</sup>

In fact, trade secrets are a paradox in regarding public domain because while there is a clear (private) interest of the holder of the secret in keeping it away from others, owing to business issues or even personal interests, society appears at the other end waiting to have access to any information that might be beneficial<sup>260</sup>

The public domain, however, is the natural path of all technology<sup>261</sup> and an efficient protection for trade secrets should be careful not to guarantee protection to information that is already widely known and also to those ideas revealed intentionally.<sup>262</sup>

### *8.1 - Trade secret social function*

Concerning social function, the property must be viewed as a set of rights and obligations; a legal relationship between parties that will govern their conduct in ways that are socially useful.<sup>263</sup> It is relevant to note that the importance (and the nature) of an immaterial good to the society will serve as a basis for application of a regime more or less rigorous in relation to social function.<sup>264</sup>

The protection settled by the law of trade secrets must always balance the type of information that deserves protection. It is important not to ensure protection to confidential information and data already widely known, for this would bring difficulties for industries that use such content to innovate and develop new technologies and business.<sup>265</sup> At the same time, however,

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<sup>257</sup> T. Hart above n. 56 at 66

<sup>258</sup> W. Cornish; W. Llewelyn and T. Aplin above n.122 at 337

<sup>259</sup> Bentley and Sherman above n.26 at 1019

<sup>260</sup> Torremas, above n. 234 at 523

<sup>261</sup> Pedro M. Barbosa, above n. 168 at 28

<sup>262</sup> Chally, above n.208 at 1290

<sup>263</sup> Pedro M. Barbosa, above n.168 at 142

<sup>264</sup> Id. at 143

<sup>265</sup> Julie Piper, 'I Have a Secret?: Applying the Uniform Trade Secrets Act to Confidential Information that does not Rise to the Level of Trade Secrets Status' (2008) 12 Marq. Intell. Prop. L. Rev. 359, 379

protection should be afforded otherwise there would be not guarantee for the owner of the secret regarding theft that consequently would result in less incentive to innovation.<sup>266</sup> On the contrary, it is important to encourage the disclosure of socially beneficial developments which have been kept out of reach of society.<sup>267</sup>

As access to information becomes wider with the technological development, holders of trade secrets utilize the secrecy of such information to promote and foster their companies<sup>268</sup> The economic policy rationale that trade encourages creation can be arguably unconvincing<sup>269</sup> since the welfare to society could never be realized if trade secrets remain undisclosed.<sup>270</sup> This is especially important because the ‘owners and holders of information are also the users of information,[therefore,] the alleged societal benefits of greater protection for information are arguably illusory.’<sup>271</sup>

Therefore, issues like public safety and the due administration of justice are some examples that justify the public interest exemption of liability.<sup>272</sup> However, cases must be judged according to their specificity, taking into consideration the proportionality between the freedom of expression and the non-disclosure of information<sup>273</sup> and finally the costs of limiting access.<sup>274</sup>

## 9 - Conclusion

The need for effective protection for trade secrets has grown considerably over the years and the reasons for such a necessity include the expansion of information-based economy; and the ‘outsourcing of manufacture’ with the consequent ease with which download, transmission and store of the information can be achieved.<sup>275</sup>

Nowadays, for businesses to be successful it is crucial to have the ability to create, discover, maintain and particularly protect trade secrets<sup>276</sup>. In addition, owing to the enormous

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<sup>266</sup> Id.

<sup>267</sup> Simpson, above n.92 at 1156

<sup>268</sup> Fekete, above n.40 at 1

<sup>269</sup> Simpson, above n.92 at 1144

<sup>270</sup> Id. at 1146

<sup>271</sup> Sandeen, above n.114 at 26

<sup>272</sup> W. Cornish; W. Llewelyn and T. Aplin above n.122 at 340

<sup>273</sup> Id.at 341

<sup>274</sup> Chiappetta, above n.12 at 74

<sup>275</sup> Report on Trade Secrets for the European Commission. Above n.10 at 6

<sup>276</sup> R. Chaudhry and K. kajigailiu ‘Can Your Firm Keep Its Secrets?’ (2008) 181 *Managing Intell. Prop.* 109, 109

importance that the trade secrets currently hold, there is a great interest and necessity for a definition that ensures protection and does not create juridical uncertainties.

Notwithstanding the previsibility forsaken, the courts have not yet been able to adopt a universally accepted theory in relation to trade secrets. This may represent an obstacle to effective protection of secrets by their owners, who do not feel comfortable spending large sums to safe them.<sup>277</sup> Such uncertainty in justifying trade secrets as contract, property or tort gives flexibility for decisions to use a wide variety of legal concepts,<sup>278</sup> which can also be problematic when discussing third party liability.

Therefore, it is important to be aware that the justification for trade secrets does not use retrograde concepts that do not make more sense, for instance defining the secret as a property right or even limiting its scope when justified as a contract. In this perspective, the holder of a secret is given a property right that would greatly expand its prerogatives, while the adoption of the contract theory would restrict much of their scope.

There is a property right to the secrecy that is often protected by contracts; however, justifying it according to the tort theory seems the most reasonable solution because the secret itself is not protected. What is protected is the right to not have it revealed in an improper manner. Hence, the efficient protection of trade secrets is one that is neither too broad nor too narrow.<sup>279</sup> Relative exclusivity regarding information already retains substantial value; absolute exclusivity would create an unnecessarily broad monopoly.<sup>280</sup>

Moreover, it needs to be taken in consideration that it is imperative that there is a balance between the interests protected by trade secrets and the interests of society.<sup>281</sup> Characterising trade secrets as property, as has been ruled many times, does not exclude the fact that there is often great public interest in it.<sup>282</sup>

In essence, regardless of the justification used in relation to trade secrets, it is firstly important that a system is weighted in balance with rights holders; secondly, to avoid the risk of securing protection for information already in the public domain, and the latter, it is important to consider the specific case and the public interest if the secret is truly significant.

Finally, if all the aforementioned factors are duly weighed and examined, then the intended nature of trade secrets shall long prevail in a fair and just manner.

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<sup>277</sup> Furtado, above n.14 at 129

<sup>278</sup> Tracey, above n.44 at 54

<sup>279</sup> Chally, above n.208 at 1269

<sup>280</sup> Id. at 1277

<sup>281</sup> Samuelson, above n.81 at 42

<sup>282</sup> Id.



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