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## Four Reasons to Enact a Federal Trade Secrets Act.

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## Four Reasons to Enact a Federal Trade Secrets Act.

### Cover Page Footnote

I thank Darin Snyder, Mark Miller, Luann Simmons, Nora Puckett, Michael Sapoznikow, Jerry Cohen, and Timothy Pomarole for their comments on earlier drafts. I also thank Stacey Drucker for her assistance. This Article does not purport to represent the views of O'Melveny & Myers LLP or its clients.

# Four Reasons to Enact a Federal Trade Secrets Act

David S. Almeling\*

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\* Associate, O'Melveny & Myers LLP. I thank Darin Snyder, Mark Miller, Luann Simmons, Nora Puckett, Michael Sapoznikow, Jerry Cohen, and Timothy Pomarole for their comments on earlier drafts. I also thank Stacey Drucker for her assistance. This Article does not purport to represent the views of O'Melveny & Myers LLP or its clients.

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## INTRODUCTION

Trade secrets stand alone as the only major type of intellectual property governed primarily by state law. Trademarks, copyrights, and patents are each governed primarily by federal statutes. Trade secrets, by contrast, are governed by fifty state statutes and common laws. The result is that trade secret law differs from state to state. It is time to eliminate these differences—and the significant problems they cause—by enacting a Federal Trade Secrets Act (“FTSA”).

An FTSA is the next logical step in the evolution of trade secret law, which comprises a series of failed attempts to achieve uniformity. These attempts include the Restatement of Torts in 1939,<sup>1</sup> which consolidated general principles of case law for state courts to embrace; the Uniform Trade Secrets Act (“UTSA”) in 1985,<sup>2</sup> which advanced a model statute for state legislatures to enact; and the Economic Espionage Act in 1996,<sup>3</sup> which federalized criminal trade secret law. These attempts fall short because they rely on an inherently variable state-based system (the Restatement and UTSA) or because they unify only criminal trade secret law (the Economic Espionage Act). The FTSA I propose in this Article is a complete solution. It would both preempt

<sup>1</sup> RESTATEMENT (FIRST) OF TORTS §§ 757–58 (1939).

<sup>2</sup> UNIF. TRADE SECRETS ACT (amended 1985), 14 U.L.A. 529 (2005).

<sup>3</sup> Economic Espionage Act of 1996, 18 U.S.C. §§ 1831–39 (2006).

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inconsistent state laws and unify criminal and civil trade secret law.

There are four reasons to enact an FTSA:

1. An FTSA would preempt state trade secret laws, thereby solving the problems caused by interstate differences. These problems include costs of investigating these differences and devising business plans to accommodate them; economic inefficiencies from adopting and overseeing either a suboptimal, one-size-fits-all business plan or fifty optimal plans for fifty different states; and many others.
2. There is no economic justification for keeping trade secret law at the state level, while an FTSA would boost the value of trade secret law to the U.S. economy, innovative employers, and mobile employees.
3. An FTSA would help innovative small businesses, which rely disproportionately on trade secrets, instead of patents, to protect their intellectual property (or “IP”).
4. An FTSA would create a unified federal IP regime. This will encourage innovation and ensure a proper balance between trade secrets and other types of IP.

I argue for an FTSA in three parts. Part I is the history of how the current, state-based regime came about and why it fails to achieve uniformity. Part II explains the four reasons for enacting an FTSA. Part III lists the three arguments advanced against an FTSA and explains why those arguments are unpersuasive. This Article concludes with a summary of the proposed FTSA, including the elements of an FTSA that are necessary to achieve the four benefits described in Part II.

## I. PROLOGUE: THE HISTORY OF TRADE SECRET LAW IS A SERIES OF FAILED ATTEMPTS TO ACHIEVE UNIFORMITY

Confidential business information is as old as business itself, but “trade secrets” as such began in England in the early 1800s and in the United States in the mid-to-late 1800s.<sup>4</sup> By the early 1900s, many core features of trade secret law had been established.<sup>5</sup>

The first attempt to unify the nascent law of trade secrets was the Restatement of Torts in 1939.<sup>6</sup> The Restatement summarized general principles of law with the hope that state courts would embrace those principles.<sup>7</sup> The Restatement gained widespread acceptance, but it failed to achieve uniformity because the Restatement was not binding, and thus courts were free to accept or reject its various principles.<sup>8</sup> So while most state courts cited

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<sup>4</sup> See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 29 cmt. a (1995) (chronicling the early history of trade secret law); Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800–1920*, 52 HASTINGS L.J. 441, 483–87 (2000–01) (discussing the development of trade secrets and trade secret law) [hereinafter Fisk, *Working Knowledge*].

<sup>5</sup> 1 MELVIN F. JAGER, TRADE SECRETS LAW § 2:3 (2008) (discussing the history of trade secrets in U.S. courts).

<sup>6</sup> RESTATEMENT (FIRST) OF TORTS §§ 757–58 (1939). Neither the Restatement (Second) of Torts nor Restatement (Third) of Torts contains a section on trade secrets. The drafters of the Restatement (Second) of Torts stated that the tort of trade secret misappropriation had developed into its own area of law and thus required individual treatment. RESTATEMENT (SECOND) OF TORTS, div. 9, introductory note (1979). The current Restatement addressing trade secrets is the Restatement (Third) of Unfair Competition. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (1995). The rules in Restatement (Third) of Unfair Competition are meant to apply to actions under either the UTSA or common law. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a.

<sup>7</sup> The American Law Institute, which was responsible for promulgating the Restatement (First) of Torts, was created to “address uncertainty in the law through a restatement of basic legal subjects that would tell judges and lawyers what the law was.” American Law Institute, Institute Projects, <http://www.ali.org/index.cfm?fuseaction=about.instituteprojects> (last visited Mar. 5, 2009); see also James Pooley, *The Top Ten Issues in Trade Secret Law*, 70 TEMP. L. REV. 1181, 1183 (1997) [hereinafter Pooley, *Top Ten Issues*].

<sup>8</sup> See, e.g., Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 282 (1980–81) (“The Restatement was the first attempt to enunciate the generally accepted principles of trade secrets law. Its principles became primary authority by adoption in virtually every reported case.”). The National Conference cited uncertainty in the law of trade secrets as one of the justifications for the UTSA. UNIF. TRADE

the Restatement, those courts adopted different principles to different degrees. Another reason for the Restatement's failure to achieve uniformity was the uneven development of trade secret law, as states in commercial centers developed extensive case law while agricultural states had a leaner body of precedent.<sup>9</sup>

The next attempt to unify trade secret law, the UTSA, abandoned the common law approach of the Restatement and proposed a model statute for state legislatures to adopt. The UTSA was proposed in 1968, adopted in 1979, and amended in 1985.<sup>10</sup> Like the Restatement before it, the UTSA gained widespread acceptance. It has been enacted, at least in part, by forty-six state legislatures.<sup>11</sup>

The UTSA nonetheless fell short of its central purpose—to “make uniform the law” of trade secrets.<sup>12</sup> To begin with, Massachusetts, New Jersey, New York, and Texas have not enacted it.<sup>13</sup> These four states represent 22% of the U.S. Gross Domestic Product.<sup>14</sup> And even among the forty-six states that have enacted it, differences remain because legislatures in those states have modified the UTSA and courts in those states have adopted

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SECRETS ACT, prefatory note, 14 U.L.A. 531 (2005). The National Conference of Commissioners on Uniform State Laws is the group responsible for the Uniform Commercial Code and other efforts to unify state law. Uniform Law Commission, <http://www.nccusl.org/Update/DesktopDefault.aspx?tabindex=0&tabid=11> (last visited Mar. 5, 2009) (“The National Conference of Commissioners on Uniform State Laws has worked for the uniformity of state laws since 1892.”).

<sup>9</sup> UNIF. TRADE SECRETS ACT, prefatory note, 14 U.L.A. 531 (2005) (“[The] development [of state trade secret law] has been uneven. Although there typically are a substantial number of reported decisions in states that are commercial centers, this is not the case in less populous and more agricultural jurisdictions.”).

<sup>10</sup> UNIF. TRADE SECRETS ACT, prefatory note, 14 U.L.A. 369 (1985). For an analysis of the UTSA, see Klitzke, *supra* note 8.

<sup>11</sup> See JAGER, *supra* note 5, § 3:29 (providing citations to statutes in the forty-six states that have enacted the UTSA).

<sup>12</sup> UNIF. TRADE SECRETS ACT § 8, 14 U.L.A. 656 (2005).

<sup>13</sup> Marina Lao, *Federalizing Trade Secrets Law in an Information Economy*, 59 OHIO ST. L.J. 1633, 1650 n.99 (1998).

<sup>14</sup> BUREAU OF ECON. ANALYSIS, U.S. DEP'T OF COMMERCE, STATE ECONOMIC GROWTH SLOWED IN 2007: ADVANCE 2007 AND REVISED 2004–2006 GDP-BY-STATE ESTIMATES (June 5, 2008), available at [http://www.bea.gov/newsreleases/regional/gdp\\_state/2008/pdf/gsp0608.pdf](http://www.bea.gov/newsreleases/regional/gdp_state/2008/pdf/gsp0608.pdf).

different interpretations.<sup>15</sup> These modifications and interpretations have been catalogued elsewhere,<sup>16</sup> but they include fundamental differences about what constitutes a trade secret, what is required to misappropriate it, and what remedies are available. Finally, even in instances where states have enacted the UTSA, many state courts continue to rely on their own common law instead of the provisions of the UTSA.<sup>17</sup> These and other facts caused a leading commentator to call the UTSA the “non-Uniform Trade Secrets Act,”<sup>18</sup> and to suggest that “the state of trade secret law is today more conflicting and uncertain than it was in 1979” when the UTSA was adopted.<sup>19</sup>

This was not meant to be. By its own terms, the UTSA was intended to achieve uniformity. Section 8 of the UTSA, titled “Uniformity of Application and Construction,” provides that: “[t]his [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this

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<sup>15</sup> Lao, *supra* note 13, at 1649–50. “[T]he UTSA never won the support of all of the states, and even the states that did not adopt the UTSA modified it, sometimes substantially, before enactment. Consequently, despite the UTSA, the law on trade secret misappropriation continues to vary from jurisdiction to jurisdiction.” *Id.*

<sup>16</sup> See, e.g., 1-1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01[3] (2008) [hereinafter MILGRIM ON TRADE SECRETS] (discussing states’ interpretations of the UTSA); see also JAMES POOLEY, TRADE SECRETS § 2.03[1] (2008) [hereinafter POOLEY, TRADE SECRETS]; Gerald J. Mossinghoff et al., *The Economic Espionage Act: A New Federal Regime of Trade Secret Protection*, 79 J. PAT. & TRADEMARK OFF. SOC’Y 191, 196 (1997) (“While most states have enacted the UTSA in some form, the trade secret protection granted in each state is far from uniform relative to the other states.”); Rebel J. Pace, *The Case for a Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 443–45 (1995).

<sup>17</sup> See Annemarie Bridy, *Trade Secret Prices and High-Tech Devices: How Medical Device Manufacturers Are Seeking to Sustain Profits by Propertizing Prices*, 17 TEX. INTELL. PROP. L.J. 187, 201 (2009) (arguing that the persistent use of the Restatement (First) of Torts is “remarkable considering the near-antiquity of the First Restatement, the statutory pre-emption (in most states) of any common law cause of action for trade secret misappropriation, and the ostensibly superseding treatment of trade secret doctrine in the more recent (but seldom cited) Third Restatement of Unfair Competition”); Brandon B. Cate, *Saforo & Assocs., Inc. v. Porocel Corp.: The Failure of the Uniform Trade Secrets Act to Clarify the Doubtful and Confused Status of Common Law Trade Secret Principles*, 53 ARK. L. REV. 687, 714–15 (2000) (describing examples in which state supreme courts have relied on state common laws instead of the statutory requirements of the UTSA).

<sup>18</sup> See Pooley, *Top Ten Issues*, *supra* note 7, at 1188.

<sup>19</sup> POOLEY, TRADE SECRETS, *supra* note 16, § 2.03[1].



Act among states enacting it.”<sup>20</sup> Section 8 has failed. Several states did not include section 8 in the version of the UTSA they enacted.<sup>21</sup> And in those states that have enacted it, courts often bypass its mandate of uniformity and adopt minority views.<sup>22</sup>

The most recent step toward unification came in 1996 when Congress passed the Economic Espionage Act,<sup>23</sup> which makes misappropriation of trade secrets a federal crime. Congress passed the Act for several reasons, including the growing importance of trade secrets and the failure of existing state or federal laws to curb economic espionage (another name for trade secret misappropriation).<sup>24</sup> But the backdrop for the Act was Congress’s frustration with state trade secret laws, which Congress complained “protect[] proprietary economic information only haphazardly.”<sup>25</sup> Because the Act addressed only criminal misappropriation, Senator Arlen Specter suggested the need for a federal statute to address civil misappropriation: “We have been made aware that available civil remedies may not be adequate to the task and that a federal civil cause of action is needed. This is an issue we need to study carefully, and will do so next year.”<sup>26</sup> “Next year” came and went, and Congress has yet to consider a civil FTSA.

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<sup>20</sup> UNIF. TRADE SECRETS ACT § 8, 14 U.L.A. 656 (2005).

<sup>21</sup> Examples of states that have not enacted section 8 of the UTSA include Arkansas, Illinois, North Carolina, and Pennsylvania. *See* ARK. CODE ANN. §§ 4-75-601 to -607 (2009); 765 ILL. COMP. STAT. 1065/1 to 1065/9 (2008); N.C. GEN. STAT. §§ 66-152 to -157 (2008); and 12 PA. CONS. STAT. ANN. §§ 5301-08 (2008).

<sup>22</sup> *See, e.g.,* Burbank Grease Servs., LLC v. Sokolowski, 717 N.W.2d 781, 790-92 (Wis. 2006) (recognizing that Wisconsin has enacted section 8 but nonetheless has adopted a minority position on the issue of preemption).

<sup>23</sup> Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-39 (2006).

<sup>24</sup> H.R. REP. NO. 104-788, at 4-7 (1996), *reprinted in* 1996 U.S.C.C.A.N. 4021, 4023-25.

<sup>25</sup> S. REP. NO. 104-359, at 11 (1996).

<sup>26</sup> 104 CONG. REC. S12201, S12208 (daily ed. Oct. 2, 1996) (statement of Sen. Specter).

## II. FOUR REASONS TO ENACT AN FTSA<sup>27</sup>

### A. *An FTSA Would Solve the Inherent and Intractable Problem: There Can Be No Uniformity to a State-Based Trade Secret Regime*

The dominant failure of a state-based trade secret regime is that trade secret law differs from state to state. Consequently, the most obvious benefit of the FTSA is that it will instantly accomplish what the common law, Restatement, UTSA, and Economic Espionage Act have all failed to achieve—uniformity, both substantive and procedural.

#### 1. The Problems Caused by a Lack of Substantive and Procedural Uniformity

There is no denying that trade secret law differs from state to state. Nor is there denying the problems such differences cause, the most obvious of which are the transaction costs such differences impose on courts and parties. Litigants will use all available arguments to their advantage, and thus they have an incentive to find, emphasize, and litigate the variations in state trade secret laws. This imposes costs on the courts, which must resolve these differences. It also adds to the costs of litigation for the litigants themselves, as they must expend resources finding and litigating these differences.

Another problem is investigatory costs. When an entity decides to create or protect trade secret information, the entity must devise a plan. To devise an optimal plan, the entity must investigate what laws protect what information. These

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<sup>27</sup> In this Article I advance what I consider to be the most persuasive reasons to enact an FTSA. This Article does not seek to present all reasons that ostensibly support an FTSA. For example, some commentators argue that the current trade secret regime causes the U.S. to breach its treaty obligations under the North American Free Trade Agreement (“NAFTA”) and the Agreement on Trade Related Aspects of Intellectual Property Rights (“TRIPS”) because NAFTA and TRIPS set higher standards than those used in non-UTSA states. *See, e.g.,* Lao, *supra* note 13, at 1674–79; Pace, *supra* note 16, at 449–56. This concern, however, is more theoretical than practical. Since NAFTA was signed in 1992 and TRIPS in 1994, there have been no complaints on this issue from any trading partners.

investigatory costs are particularly daunting for companies that do business in multiple states, for those companies must investigate the laws in each state.<sup>28</sup> But these costs also affect all companies, as the vagaries of personal jurisdiction and choice-of-law issues mean that a trade secret owner rarely knows *ex ante* which jurisdiction's laws will control. Similarly, when employees move to new jobs, or when members of the public decide to access and use purported trade secrets, they must investigate to decide whether the information is protected. To be sure, not every entity, employee, or member of the public investigates differences, either because they suspect that any differences would be immaterial or because the investigatory costs are too high. But the point is that differences impose costs either way. Being risk averse and making an informed decision imposes the costs of investigating differences. Taking risks and making uninformed decisions also imposes costs, as uncertainty about which law applies leads to more litigation and fewer settlements.

Even if an entity absorbs the requisite investigatory costs, interstate differences still cause economic inefficiencies in at least two ways. One is the simple fact that implementing different trade secret plans for different states imposes unnecessary overhead. The other is that, if a company foregoes this overhead and adopts a company-wide plan, the plan is suboptimal because it works better in some states than others. For example, while every state requires a trade secret owner to engage in efforts that are reasonable to maintain the secrecy of its trade secrets, what constitutes "reasonable efforts" can differ from state to state.<sup>29</sup> The upshot of these differences is either the wasteful expenditure of resources

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<sup>28</sup> See, e.g., Pace, *supra* note 16, at 447 (making a similar argument that devising an approach to confidentiality "requires a company to expend significant resources on acquiring information about which states' laws might apply to its trade secret and what those laws are").

<sup>29</sup> See generally David W. Slaby et al., *Trade Secret Protection: An Analysis of the Concept "Efforts Reasonable Under the Circumstances to Maintain Secrecy,"* 5 SANTA CLARA COMPUTER & HIGH TECH. L.J. 321 (1989) (discussing what legal and situational efforts are required of a trade secret owner to determine reasonableness). Both the Restatement (First) of Torts and the UTSA impose an obligation on the trade secret owner to engage in reasonable measures to protect the secrecy of its trade secret. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939); UNIF. TRADE SECRETS ACT § 8, 14 U.L.A. 656 (2005).

(i.e., engaging in efforts that are unnecessary) or the loss of rights (i.e., foregoing efforts that turn out to be necessary). And while an owner may be tempted to adopt a plan that meets the strictest standard, that too is inefficient. Complying with the strictest common denominator means that the owner expends additional resources that it knows are unnecessary in at least some jurisdictions.<sup>30</sup>

Finally, interstate differences systematically encourage a series of bad results: trade secret owners engage in less innovation; nefarious agents misappropriate trade secrets more often; and the public under-uses the public domain. Trade secret owners must decide whether to create and protect trade secret information. If protection is uncertain, or if it can be realized only after expensive litigation to resolve those uncertainties, the rational trade secret owner would undervalue trade secrets and thus may be less likely to innovate since that innovation will not be as valuable.<sup>31</sup> The opposite is true for the nefarious agent. If trade secret law is uncertain or expensive to enforce, the nefarious agent may seek to exploit those uncertainties by taking the risk that the trade secret owner will not enforce its rights. There is thus an inverse relationship, all things being equal, between clarity of enforcement and likelihood of misappropriation. Finally, for the public and former employees interested in pursuing information in the public domain, uncertainty regarding whether information is a trade secret makes that information less attractive.<sup>32</sup> In such cases, the scope of a trade secret creeps beyond appropriately protected trade secret information and covers public-domain information.

## 2. An FTSA Would Achieve Substantive Uniformity

I will not catalogue all substantive differences among the states' trade secret laws, as there are simply too many to mention.

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<sup>30</sup> See Pace, *supra* note 16, at 447 (making a similar efficiency argument).

<sup>31</sup> See *id.* at 447–48 (making a similar argument that uncertainty creates less incentive to innovate).

<sup>32</sup> Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 338 (2008) (“If any idea, no matter how public, is subject to a claim of legal rights, individuals and companies will reasonably worry about using any information they do not themselves develop.”).

A complete list of these differences can be found elsewhere, such as in the annually updated, two-volume *Trade Secrets: A State-by-State Survey*,<sup>33</sup> or in previous articles that have critiqued interstate differences and called for uniformity.<sup>34</sup>

Instead, I will state the obvious point that an FTSA would achieve substantive uniformity by preempting nonuniform state laws, which, in turn, would solve the significant problems such differences cause. To be fair, there is debate about the scope of these problems, with some commentators arguing that any problems are minor.<sup>35</sup> There is no clear resolution to this debate, as the problems are based on economic theory and thus difficult to quantify. The bottom line is this. If substantive differences create significant problems, an FTSA would be of tremendous benefit. But even if these problems were minor, an FTSA would still confer a benefit, albeit a smaller one.

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<sup>33</sup> Brian M. Malsberger, *TRADE SECRETS: A STATE-BY-STATE SURVEY* (Richard Alfred et al. eds., 3d ed. 2006).

<sup>34</sup> See R. Mark Halligan, *Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 7 J. MARSHALL REV. INTELL. PROP. L. 656, 656–57 (2008) (“The time has come for the enactment of a federal trade secrets statute.”); Lao, *supra* note 13, at 1649–79 (arguing for federalization based on the lack of uniformity between states, the importance of trade secrets to interstate commerce, the complexity of choice-of-law problems, and treaty obligations); Pace, *supra* note 16, at 442–56 (arguing for an FTSA based on the need for substantive unity and compliance with treaty obligations); Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States’ Response*, 24 CREIGHTON L. REV. 49, 95 (1990) (“[C]onsideration should be given to a federal statute to provide uniformity and clarity . . .”). See generally Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378 (1971) (arguing for a federal statute based in part on lack of uniformity and preemption concerns).

<sup>35</sup> See, e.g., AM. INTELLECTUAL PROP. LAW ASS’N, REPORT OF THE AIPLA TRADE SECRETS COMMITTEE (2007), available at [http://www.aipla.org/MSTemplate.cfm?Section=Proposal\\_to\\_Federalize\\_Trade\\_Secret\\_Law&Site=Trade\\_Secret\\_Law&Template=/ContentManagement/ContentDisplay.cfm&ContentID=7041](http://www.aipla.org/MSTemplate.cfm?Section=Proposal_to_Federalize_Trade_Secret_Law&Site=Trade_Secret_Law&Template=/ContentManagement/ContentDisplay.cfm&ContentID=7041) [hereinafter AIPLA REPORT] (claiming that the UTSA has resulted in significant harmonization); Halligan, *supra* note 34, at 670 (“[T]he UTSA has, for the most part, resulted in a very coherent and consistent body of trade secret law . . . [despite the fact that] there are still some glaring holes and discrepancies [among the states].”).

### 3. An FTSA Would Achieve Procedural Uniformity

Each state has its own rules of civil procedure. Rules of civil procedure differ between states as well as between state courts and federal courts. For trade secret owners and their lawyers, and for alleged misappropriators and their lawyers, procedural disparities cause significant problems. Enacting an FTSA would solve these problems because an FTSA would include certain procedural rules specific to trade secrets. The UTSA has several such rules, including rules regarding protective orders and a statute of limitations.<sup>36</sup> And where the FTSA would be silent, the Federal Rules of Civil Procedure would provide a uniform set of default procedures.

To illustrate the importance of procedural differences, consider the following three examples. First, states have different rules regarding if, when, and how plaintiffs must identify their alleged trade secrets.<sup>37</sup> “With all other types of IP, the subject matter is identified in publicly available material—a registered copyright or trademark, an issued patent, or a publicly available product.”<sup>38</sup> But trade secrets, by definition, are secret and not publicly available and thus must be identified at some point in a trade secret case. While the identification issue comes up in every case, there is no consensus about when or how plaintiffs must identify their trade secrets.<sup>39</sup> As a court recently stated, “courts have developed at least nine different approaches to the problem.”<sup>40</sup> Identifying trade secrets is a big issue for both plaintiffs and defendants. Plaintiffs often want to avoid identifying and thus limiting their trade secrets.

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<sup>36</sup> UNIF. TRADE SECRETS ACT §§ 5–6, 14 U.L.A. 647–50 (2005).

<sup>37</sup> Darin W. Snyder & David S. Almeling, *Trade Secrets: The Identification Issue*, NAT’L L.J., Aug. 18, 2008, available at <http://www.omm.com/files/upload/IdentificationIssue.pdf>.

<sup>38</sup> *Id.*; see Charles Tait Graves & Brian D. Range, *Identification of Trade Secret Claims in Litigation: Solutions for a Ubiquitous Dispute*, 5 NW. J. TECH. & INTELL. PROP. 68, 73 (2006).

<sup>39</sup> See Graves & Range, *supra* note 38, at 79–91 (cataloging ways and times in which courts do or do not require the identification of the allegedly misappropriated trade secret); Snyder & Almeling, *supra* note 37 (describing the trend that courts increasingly require plaintiffs to identify with particularity each allegedly misappropriated trade secret during the early stages of discovery).

<sup>40</sup> *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 681 (N.D. Ga. 2007).

Defendants often want plaintiffs to identify the alleged trade secrets as early and precisely as possible to frame the scope of discovery and to enable defendants to prepare their defenses. It thus makes a significant difference whether a trade secret case is in a state like California, which requires by statute that the plaintiff must identify its trade secrets before discovery commences,<sup>41</sup> or in a state like New York, which has no such statute and has been reluctant to impose a strict burden of identification.<sup>42</sup>

A second procedural difference concerns whether the UTSA, enacted in some form in forty-six states, preempts causes of action for misappropriation of confidential information when that information does not qualify as a trade secret. There is a split of authority on this issue.<sup>43</sup> A few states, such as Wisconsin,<sup>44</sup> find no preemption, while most states, such as New Hampshire, find preemption.<sup>45</sup> These differences are important because they determine what causes of action a plaintiff can assert and what remedies are available.

The third difference relates to choice-of-law problems. Since trade secret law is state-based, many cases require a choice-of-law analysis to determine what substantive law to apply, the appropriate forum, and what remedies are available.<sup>46</sup> As a litigator of trade secret cases, I have found that choice-of-law issues arise frequently and require substantial work. An FTSA would solve these problems because choice-of-law issues arise

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<sup>41</sup> CAL. CIV. PROC. CODE § 2019.210.

<sup>42</sup> See, e.g., *Norbrook Labs., Ltd. v. G.C. Hanford Mfg. Co.*, No. 5:03CV165(HGM/GLS), 2003 WL 1956214, at \*3–4 (N.D.N.Y. Apr. 24, 2003); see also *Xerox Corp. v. IBM Corp.*, 64 F.R.D. 367, 370–72 (S.D.N.Y. 1970).

<sup>43</sup> See generally Michael Ahrens, *Wisconsin Confidential: The Mystery of the Wisconsin Supreme Court's Decision in Burbank Grease Services v. Sokolowski and its Effect upon the Uniform Trade Secrets Act, Litigation, and Employee Mobility*, 2007 WIS. L. REV. 1271 (2007) (discussing a Wisconsin court's holding that the USTA-based Wisconsin statute did not preempt Wisconsin civil law); Robert Unikel, *Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841 (1998) (discussing the protection of confidential information in courts).

<sup>44</sup> See, e.g., *Burbank Grease Servs. v. Sokolowski*, 717 N.W.2d 781 (Wis. 2006).

<sup>45</sup> See, e.g., *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652 (N.H. 2006).

<sup>46</sup> See JAGER, *supra* note 5, §§ 4:6–4:8 (describing the range of choice-of-law issues that must be decided in each trade secret case).

only when state laws differ, and an FTSA would preempt those differences. To be sure, there would continue to be choice-of-law issues that accompany trade secret litigation, such as if the complaint asserts theories under state employment or contract law. But removing the choice-of-law problems related to trade secret law will decrease the frequency with which these issues arise.<sup>47</sup>

*B. There is No Economic Reason to Keep Trade Secret Law at the State Level; but There are Many Economic Reasons to Make it Federal*

I have found no persuasive economic argument that supports keeping trade secret law as state law instead of federal law. This is likely because there is nothing about trade secrets that is limited to a particular state. Instead, trade secrets are information (a customer list, formula, method, etc.),<sup>48</sup> and information exists wherever it is accessed or used. Nor is there anything geographically limited about trade secret law. A trade secret owner has an interest in its trade secret against anyone who misappropriates it within the applicable jurisdiction. If the jurisdiction is a state, rights are limited to that state. But if the jurisdiction is federal—as it would be under an FTSA—rights are nationwide. Trade secrets thus present an even more compelling case for federalization than trademarks. In trademark law, the

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<sup>47</sup> I do not claim that an FTSA would eliminate all forum shopping. Nor do I claim that there won't be regional differences if an FTSA is adopted, as regional courts of appeals may apply different interpretations of the FTSA. Instead, I submit that if an FTSA is enacted, there will no longer be differences between trade secret laws in different states. I further submit that the differences between varying interpretations of an FTSA in different federal circuits is likely to be less significant than the current differences in statutory trade secret laws in different states, and that varying interpretations of the FTSA would be short-lived as the U.S. Supreme Court could grant certiorari to resolve such differences.

<sup>48</sup> UNIFORM TRADE SECRETS ACT § 1(4), 14 U.L.A. 538 (2005).

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

*Id.*



original trademark owner can have rights to a trademark that are confined to a particular location, such as a town or state; another trademark owner can have rights to the same trademark in another location.<sup>49</sup> Trade secrets are never so limited.

In sharp contrast to the lack of economic justification for the status quo, there would be substantial economic benefits to an FTSA. The most immediate is the large and growing importance of trade secrets to the U.S. economy.<sup>50</sup> Estimates vary, but the most recent report is that as much as 75% of the market value of a U.S. company resides in its IP assets.<sup>51</sup> As strong evidence of the value of trade secrets, corporations spent \$95 billion in 2005 trying to protect their confidential information.<sup>52</sup> Yet thefts continue. The best available data shows that in 2005, more than 60% of U.S. companies reported an attempt to compromise their trade secret information.<sup>53</sup> In quantifying the costs of trade secret losses, some statistics place the amount as high as \$300 hundred billion per year.<sup>54</sup> To provide examples for these numbers, consider the trade

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<sup>49</sup> See 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 26 (4th ed. 2008) (detailing the territorial rules regarding trademark rights).

<sup>50</sup> MICHELE BOLDRIN & DAVID K. LEVINE, AGAINST INTELLECTUAL MONOPOLY 167 (2008) (arguing, based on survey evidence from R&D lab and company managers, “that outside the pharmaceutical industry, where the regulatory system effectively forces revelation, trade secrecy is considerably more important than patent”).

<sup>51</sup> ASIS INTERNATIONAL, TRENDS IN PROPRIETARY INFORMATION LOSS 1 (2007), available at <http://www.asisonline.org/newsroom/surveys/spi2.pdf>. ASIS International is a professional organization for security professionals. *Id.* It conducted seven surveys since 1991, with the 2007 survey being the most recent. *Id.*

<sup>52</sup> Joseph Pisani, *Spy vs. Spy: Corporate Espionage*, BUSINESSWEEK, Oct. 2, 2006, [http://www.businessweek.com/technology/content/sep2006/tc20060929\\_557426.htm](http://www.businessweek.com/technology/content/sep2006/tc20060929_557426.htm) (citing a study from Freedonia Group, a market research company).

<sup>53</sup> ASIS INTERNATIONAL, *supra* note 51, at 2.

<sup>54</sup> OFFICE OF THE NAT’L COUNTERINTELLIGENCE EXECUTIVE, ANNUAL REPORT TO CONGRESS ON FOREIGN ECONOMIC COLLECTION AND INDUSTRIAL ESPIONAGE—2002 vii (2003), <http://www.fas.org/irp/ops/ci/docs/2002.pdf>. Other studies find different numbers, depending on their methodology. See also AM. SOC’Y FOR INDUS. SEC./PRICEWATERHOUSE COOPERS, TRENDS IN PROPRIETARY INFORMATION LOSS: SURVEY REPORT (1999) (reporting \$45 billion in costs due to theft of trade secrets); HEDIEH NASHERI, ECONOMIC ESPIONAGE AND INDUSTRIAL SPYING 59 (2004) (citing several studies concerning losses to the U.S. economy from trade secrets, including one conducted by ASIS estimating the loss at \$300 billion); The Costs of Corporate Espionage, Posting to The Trade Secrets Blog, <http://thetradesecretsblog.wordpress.com/2007/12/03/the-costs-of-corporate-espionage/> (Dec. 3, 2007).

secret formula for Coca-Cola,<sup>55</sup> or consider trade secret cases that have settled for hundreds of millions of dollars.<sup>56</sup>

The development of our information-based economy is further justification for an FTSA. The U.S. economy is increasingly based on ideas and information,<sup>57</sup> and companies increasingly rely on IP rights to protect their competitive advantages.<sup>58</sup> Among the various types of IP, trade secrets are well suited to protect new ideas and information because trade secret law is not limited to a particular subject matter.<sup>59</sup> Any information can qualify as a trade secret.<sup>60</sup> This flexibility makes trade secrets a good form of protection for rapidly evolving technologies. As noted by one prominent commentator on trade secret law, “trade secrets have gained importance because in many fields, the technology is changing so

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<sup>55</sup> *Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985) (“The complete formula for Coca-Cola is one of the best-kept trade secrets in the world.”); *see also Coca-Cola Still World’s Top Brand*, BBC NEWS, July 22, 2005, <http://news.bbc.co.uk/1/hi/business/4706275.stm> (discussing Coca-Cola’s value).

<sup>56</sup> *See, e.g., Micheline Maynard, \$1.1 Billion TRUCE Surprise End to Feud over Trade Secrets*, USA TODAY, Jan. 10, 1997, at 1B, available at <http://www.me.utexas.edu/~me179/topics/tradesecrets/case2articles/case2article3.html> (discussing a \$1.1 billion settlement involving trade secrets).

<sup>57</sup> *See* Catherine L. Fisk, *Knowledge Work: New Metaphors for the New Economy*, 80 CHI.-KENT L. REV. 839, 857 (2005) [hereinafter Fisk, *Knowledge Work*].

Virtually every observer from every possible perspective agrees that changes in the economy of industrial and postindustrial nations and the world as a whole have increased the importance of intellectual capital. . . . Compared to fifty years ago, even those who still sell or manufacture things (as opposed to knowledge) spend a greater proportion of dollars per unit of output on knowledge than they do on raw materials or labor.

*Id.*

<sup>58</sup> *See generally* Wesley M. Cohen et al., *Protecting Their Intellectual Property Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)* 7 (Nat’l Bureau of Econ. Research, Working Paper No. 7552, 2000), available at <http://www.nber.org/papers/w7552>.

<sup>59</sup> Michael A. Epstein, EPSTEIN ON INTELLECTUAL PROPERTY § 1.02[E] (5th ed. Supp. 2009) (“One of the advantages arising from the standards required for a trade secret to exist is that . . . there is no specific subject matter criterion for a trade secret.”).

<sup>60</sup> *Id.* (“As long as the definitional requirements are met, virtually any subject matter of information can be a trade secret.” (citation omitted)); *see also* MILGRIM ON TRADE SECRETS, *supra* note 16, § 1.01[1] (discussing the definition of a trade secret).

rapidly that it is outstripping the existing laws intended to encourage and protect inventions and innovations.”<sup>61</sup>

This explanation is not pure speculation. Rather, it is the justification articulated by Congress for passing the Economic Espionage Act<sup>62</sup> and federalizing criminal trade secret law.<sup>63</sup> Congress stated: “As this Nation moves into the high-technology, information age, the value of these intangible assets will only continue to grow.”<sup>64</sup> Since then, U.S. government reports have confirmed that, as the U.S. economy continues to depend more on IP such as trade secrets, the need to protect such IP continues to increase.<sup>65</sup> These considerations are not limited to criminal trade secret law, and thus they apply equally to the FTSA I propose. And while the Economic Espionage Act is an important step in trade secret law, it does not obviate the need for a civil trade secrets act for a host of reasons. These reasons include: volume (there have been less than 100 cases under the Act); the Act does not provide for civil damages; the prosecutor, not the victim trade secret owner, decides whether to initiate prosecution; and there is a significantly higher burden of proof for criminal conviction than civil liability.<sup>66</sup>

Technological change is another reason to pass an FTSA. Trade secret thefts were at one time local and involved the breach of a particular physical location. The Internet and computer networking mean that misappropriators can now breach security

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<sup>61</sup> JAGER, *supra* note 5, § 1:1.

<sup>62</sup> Economic Espionage Act of 1996, 18 U.S.C. §§ 1831–39 (2006).

<sup>63</sup> *Id.* § 1832; *see* S. REP. 104-359, at 6–7 (1996).

<sup>64</sup> S. REP. 104-359, at 6 (1996).

<sup>65</sup> *See generally* NAT’L INTELL. PROP. L. ENFORCEMENT COORDINATION COUNCIL, REPORT TO THE PRESIDENT AND CONGRESS ON COORDINATION OF INTELLECTUAL PROPERTY ENFORCEMENT AND PROTECTION (2006), *available at* [http://www.commerce.gov/opa/press/Secretary\\_Gutierrez/2006\\_Releases/September/2006%20IP%20report.pdf](http://www.commerce.gov/opa/press/Secretary_Gutierrez/2006_Releases/September/2006%20IP%20report.pdf) (discussing the importance of enforcing intellectual property rights in order to protect and encourage the development of innovations in fields such as technology, health, and safety).

<sup>66</sup> For a good discussion of these limitations of the Economic Espionage Act, and why these and other limitations counsel in favor of federalizing trade secret law, *see* Halligan, *supra* note 34, at 661–76.

from anywhere in the world.<sup>67</sup> The Computer Fraud and Abuse Act<sup>68</sup> is evidence of this worldwide threat and the need for national legislation. The Act, enacted in 1984, imposes civil and criminal liability for a wide variety of intentional, unauthorized access to computers. It is not, however, a substitute for trade secret law.

An FTSA would not only protect companies, it would also benefit employees. This dual benefit is no accident, as the goals of trade secret law are both to protect employers “by providing remedies for the misuse of confidential information” and to benefit employees “by defining and legitimizing zones of information that mobile employees may freely take from job to job.”<sup>69</sup> An FTSA would protect employees for the same reasons it would protect employers. It would provide clear, uniform rules so that both employers and employees can be certain about what constitutes a trade secret and what can be taken from job to job. Protecting employee mobility is critical because Americans are increasingly mobile. One government study found that a person who was born in the later years of the baby boom would hold, on average, 10.8 jobs from age eighteen to age forty-two.<sup>70</sup>

*C. An FTSA Would Help Innovative Small Businesses, Which Rely Disproportionately on Trade Secrets to Protect Their IP*

Study after study confirms that small businesses rely disproportionately on trade secrets, instead of patents, to protect their innovations.<sup>71</sup> The reasons for this are cost and

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<sup>67</sup> See ERIC M. DOBRUSIN & RONALD A. KRASNOW, INTELLECTUAL PROPERTY CULTURE: STRATEGIES TO FOSTER SUCCESSFUL PATENT AND TRADE SECRET PRACTICES IN EVERYDAY BUSINESS 234 (2008) (“With [new ideas and the Internet] also grew the opportunity for misappropriation of the ideas and the technological means for achieving such misappropriations.”).

<sup>68</sup> 18 U.S.C. § 1030 (2006).

<sup>69</sup> Graves & Range, *supra* note 38, at 44.

<sup>70</sup> Press Release, Bureau of Labor Statistics of the U.S. Department of Labor, Number of Jobs Held, Labor Market Activity, and Earnings Growth among the Youngest Baby Boomers: Results from a Longitudinal Survey 1 (June 27, 2008), *available at* <http://www.bls.gov/news.release/pdf/nlsoy.pdf>.

<sup>71</sup> See Cohen, *supra* note 58, at 14–16; MARY ELLEN MOGEE, SMALL BUS. ADMIN, FOREIGN PATENTING BEHAVIOR OF SMALL AND LARGE FIRMS: AN UPDATE 5 (2003), [http://www.sba.gov/advo/research/rs228\\_tot.pdf](http://www.sba.gov/advo/research/rs228_tot.pdf) (collecting studies that find that small businesses use the patent system less often and less effectively than large businesses);

sophistication. Patents are expensive to obtain, keep, and enforce, and they require sophisticated legal counsel at each step.<sup>72</sup> Small businesses are less likely to know about and be able to bear these costs.<sup>73</sup>

In contrast, there are no formal requirements to obtaining a trade secret, as trade secrets exist without any specific filing procedure.<sup>74</sup> The only time that a trade secret must be identified is when it is used, such as in litigation or licensing. And while keeping a trade secret does require efforts that are reasonable under the circumstances to ensure its secrecy, reasonableness is a flexible, relatively lax standard.<sup>75</sup> Patents, by contrast, require the monitoring and payment of maintenance fees (due 3½, 7½ and 11½ years after issuance of the patent) that, if missed, can result in the loss of rights.<sup>76</sup> Finally, at enforcement, trade secret litigation is less expensive than patent litigation.<sup>77</sup> All of these considerations make trade secrets an attractive alternative for small businesses.

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U.S. GEN. ACCOUNTING OFFICE, REPORT TO CONGRESSIONAL REQUESTERS GAO-02-189, INTERNATIONAL TRADE: FEDERAL ACTION NEEDED TO HELP SMALL BUSINESSES ADDRESS FOREIGN PATENT CHALLENGES 21–24 (2002), <http://www.gao.gov/new.items/d02789.pdf> (describing numerous reasons why small businesses have more difficulty than large businesses obtaining foreign patents) [hereinafter U.S. GEN. ACCOUNTING OFFICE]; see also Richard C. Levin et al., *Appropriating the Returns from Industrial Research and Development*, 18 BROOKINGS PAPERS ON ECON. ACTIVITY 783 (1987) (discussing which industries require patent protection and which require trade secret protection); Roger M. Milgrim, *Sear to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U. L. REV. 17 (1971) (discussing the distinction between trademarks and trade secrets).

<sup>72</sup> Cohen, *supra* note 58, at 14–16.

<sup>73</sup> MOGEE, *supra* note 71, at 5–6; see U.S. GEN. ACCOUNTING OFFICE, *supra* note 71, at 21–24; David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 J. ECON. PERSP. 61, 63 (1991)

<sup>74</sup> See, e.g., *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179–80 (7th Cir. 1991).

<sup>75</sup> *Id.* at 179–80 (“[Reasonableness] depends on a balancing of costs and benefits that will vary from case to case . . .”).

<sup>76</sup> 35 U.S.C. § 41(b) (2006).

<sup>77</sup> See AM. INTELL. PROP. LAW ASS’N, REPORT OF ECONOMIC SURVEY 25–26 (2007) (reporting the average cost of various types of IP litigation, and showing that the cost to take a high-end patent litigation to trial costs about \$5 million per side while the same statistic for high-end trade secret litigation is \$1.75 million per side).

There is also evidence that trade secret theft threatens small businesses more than large ones.<sup>78</sup> There could be several reasons for this. One is that small businesses are less stable and experience more employee turnover, creating more opportunities for theft from departing employees. Another is that small businesses have fewer resources to weather the loss of trade secret information, especially if that information was the source of the business's competitive advantage.

There are many reasons to help small businesses protect their IP. Small businesses are an undeniably important part of the U.S. economy, as more than 99% of American businesses are small businesses and those businesses account for more than half of U.S. GDP.<sup>79</sup> Small businesses are also a significant part of the innovative economy, as their size and culture make them nimble and able to respond to change. Empirical studies confirm the disproportionate role small businesses play in innovation, as statistics show they develop thirteen times more patents per employee than large businesses.<sup>80</sup>

*D. An FTSA is Necessary to Create a Unified Federal IP Regime, Which in Turn Will Advance Innovation Policy*

Because trade secrets are the only major type of IP not already governed primarily by federal law, adopting an FTSA would consolidate IP law in the hands of Congress and the federal courts. Before addressing why IP should be consolidated at the federal level, it is important to explain why this has not been done already.

The U.S. Constitution was adopted in 1787 and contained a clause for patents and copyrights.<sup>81</sup> Their inclusion was not surprising because both had long-established statutory predicates.

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<sup>78</sup> See STEVEN FINK, STICKY FINGERS: MANAGING THE GLOBAL RISK OF ECONOMIC ESPIONAGE 198 (2002). Fink describes survey data that "small-sized to medium-sized businesses suffer the most significant losses." *Id.*

<sup>79</sup> SMALL BUS. ADMIN., THE SMALL BUSINESS ECONOMY, FOR DATA YEAR 2006: A REPORT TO THE PRESIDENT 1, 9 (2007), available at [http://www.sba.gov/advo/research/sb\\_econ2007.pdf](http://www.sba.gov/advo/research/sb_econ2007.pdf).

<sup>80</sup> CHI RESEARCH, INC., SMALL BUSINESS ADMINISTRATION, SMALL SERIAL INNOVATORS: THE SMALL FIRM CONTRIBUTION TO TECHNICAL CHANGE 3 (2003), available at <http://www.sba.gov/advo/research/rs225tot.pdf>.

<sup>81</sup> U.S. CONST. art. I, § 8, cl. 8.

Copyright law dates back to England's Statute of Anne in 1710.<sup>82</sup> And early patent laws included the Venetian Statute of 1474<sup>83</sup> and England's Statute of Monopolies in 1623.<sup>84</sup> Trademark law, by contrast, was not included in the U.S. Constitution. This omission was due, at least in part, to the fact that trademark law only gained prominence after the U.S. Constitution was adopted. Beginning in the early 1800s, courts expanded the torts of fraud and deceit to include trademark-like rights, and by 1850 rules regarding trademark infringement were well accepted.<sup>85</sup> Shortly thereafter in 1870, Congress passed the first federal trademark Act.<sup>86</sup> While that Act was held unconstitutional, Congress subsequently passed narrower federal trademark acts in 1881 and 1905, and the expanded, modern trademark Act in 1946.<sup>87</sup> The purpose of the 1946 Act "was to codify and *unify* the common law of unfair competition and trademark protection."<sup>88</sup>

Trade secret law is the newest type of IP. As detailed in Part I, it was recognized in America in the mid-to-late 1800s and gained prominence in the early 1900s. The evolution of trade secret law thus resembles (with a lag) trademark law. That is, trade secret law began in common law and gradually developed as it became more important. It is time for trade secret law to complete its evolution, like trademark law, with a federal statute.

By consolidating the four types of IP law at the federal level, an FTSA would be the final step toward a unified IP regime. This unification would, in turn, help achieve better innovation policy

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<sup>82</sup> Statute of Anne, 1710, 8 Ann., c. 19 (Eng.).

<sup>83</sup> See Ikechi Mgbefo, *The Juridical Origins of the International Patent System: Towards a Historiography of the Role of Patents in Industrialization*, 5 J. HIST. INT'L L. 403, 413–14 (2003).

<sup>84</sup> Statute of Monopolies, 1623, 21 Jac. 1, c. 3 (Eng.).

<sup>85</sup> MCCARTHY, *supra* note 49, § 5:2 (chronicling the history of trademark law in England and the United States).

<sup>86</sup> See, e.g., *In re Trade-Mark Cases*, 100 U.S. 82, 93 (1879) ("[T]he first . . . attempt by Congress to regulate the *right of trade-marks* is to be found in the act of July 8, 1870.").

<sup>87</sup> See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 847 n.1 (1982). For more information on the development of trademark law, see ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 617–19 (2006).

<sup>88</sup> *Inwood*, 456 U.S. at 861 n.2 (White, J., concurring) (citing S. REP. No. 79-1333 (1946)) (emphasis added).

because it would consolidate in one entity—first Congress, and then the federal courts—the power to define the scope of all major categories of IP. Congress legislates in the patent,<sup>89</sup> trademark,<sup>90</sup> and copyright<sup>91</sup> arenas and oversees the U.S. Patent & Trademark Office<sup>92</sup> and the U.S. Copyright Office.<sup>93</sup> These roles make Congress well positioned to craft and delimit an FTSA to work in tandem with the other types of IP law.

After an FTSA is enacted, the federal courts would further Congress's efforts to advance a better innovation policy. The courts' role is important because, as the U.S. Supreme Court has recognized, the core purpose of both patent and trade secret law is to provide incentives to invent.<sup>94</sup> A successful innovation policy is the core but not the sole aim of trade secret law. Other goals include reducing protection costs, ensuring privacy, and permitting employee mobility.<sup>95</sup> Trade secret law is thus complex and, at times, conflicting. For example, the policy of encouraging a company to innovate (by having strong rights to protect trade secrets) conflicts with the policy of permitting employee mobility (by having weaker rights so employees can take knowledge from job to job). To complicate matters further, trade secret law can

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<sup>89</sup> 35 U.S.C. §§ 1–376 (2006) (federal patent statute).

<sup>90</sup> 15 U.S.C. §§ 1051–1141n (2006) (federal trademark statute).

<sup>91</sup> 17 U.S.C. §§ 101–1332 (2006) (federal copyright statute).

<sup>92</sup> U.S. Patent & Trademark Office, <http://www.uspto.gov/web/menu/intro.html> (last visited Feb. 21, 2009) (explaining background of the U.S. Patent & Trademark office).

<sup>93</sup> U.S. Copyright Office, <http://www.copyright.gov/circs/circ1a.html> (last visited Feb. 21, 2009) (explaining background of the U.S. Copyright office).

<sup>94</sup> *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480–84 (1974) (discussing objectives of patent and trade secret law); see also Katarzyna A. Czapracka, *Antitrust and Trade Secrets: The U.S. and the EU Approach*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 207, 211–13 (2008) (“Consequently, trade secret protection involves the same fundamental policy choices between favoring innovation and favoring competition as laws protecting other forms of IP.”); Lemley, *supra* note 32, at 331 (discussing *Kewanee* and arguing that trade secret law serves to incentivize innovation).

<sup>95</sup> See POOLEY, TRADE SECRETS, *supra* note 16, § 1.02 (listing and discussing the various policies behind trade secret law). I accept the commonly held belief that trade secret law incentivizes companies to innovate. I nonetheless note that there is no universal agreement that trade secret law achieves this goal. See generally Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241 (1998) (arguing that trade secret law lacks a convincing policy justification).



overlap with other types of IP.<sup>96</sup> The result is that IP law requires courts to engage in a delicate balance to protect the rights of IP holders without unduly limiting the rights of others. Again, consolidating the weighing of these decisions in the hands of the federal courts, which already have expertise in the other areas of IP law, would lead to even greater expertise. It would also remove trade secret law from the state courts, which at present is the only major type of IP law over which the states have primary jurisdiction.

In sum, an FTSA would not only result in a uniform and consistent trade secret regime, but by placing trade secret regulation in the hands of Congress and the federal courts, it would also ensure that the major forms of IP—patent, trademark, copyright, and trade secret—are all part of a cohesive national IP policy.

### III. THREE REASONS NOT TO ENACT AN FTSA, AND WHY THOSE REASONS ARE UNPERSUASIVE

To assess the merits of an FTSA, one must balance the reasons for enactment with those against it. Indeed, arguments against an FTSA prevailed when proposals for some form of federal trade secret law were presented to the American Bar Association's Section of Intellectual Property in 1992<sup>97</sup> and the American Intellectual Property Law Association ("AIPLA") in 2007.<sup>98</sup> This

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<sup>96</sup> See, e.g., *Kewanee Oil*, 416 U.S. at 472–93 (discussing the interaction between patent law and trade secret protection).

<sup>97</sup> Resolution 410-1 read in full: "RESOLVED, that the Section of Patent, Trademark and Copyright Law favors in principle the passage of a federal law (preempting state law) for the protection of trade secrets; and specifically, the Section favors the passage of such a law based upon the Uniform Trade Secrets Act." 1992–93 A.B.A. SEC. INTELL. PROP. L. ANN. REP. 1, 329. But a federal trade secret law was rejected in 1992, and was not proposed in 1993 because "additional evaluation . . . [needed to] be made of the benefits and detriments of federal trade secret protection before any such resolution . . . [should] again [be] submitted." *Id.*

<sup>98</sup> AIPLA REPORT, *supra* note 35 ("Based on the information it has obtained and reviewed, the Committee does not at this time recommend any federal legislation focused on trade secret law.").

Part of the Article summarizes the three main arguments against an FTSA and demonstrates that those arguments are not persuasive.<sup>99</sup>

Before those arguments, however, I address the (non)argument that trade secret law has long been a state-based law, and since the system isn't broken, there is no reason to fix it. For example, the AIPLA argued that "current state regulation of trade secrets . . . is functioning adequately. . . ."<sup>100</sup> This reasoning fails because the system is broken for the four reasons detailed above, which demonstrate that the state-based system has not kept up with our information-based economy and should be replaced. So while there may be three reasons not to enact an FTSA, inertia is not one of them.

*A. An FTSA Would Not Harm the Principle of Federalism*

Opponents of an FTSA make constitutional and policy arguments based on federalism. The constitutional argument—federalizing trade secret law is an unconstitutional usurpation of state sovereignty—has already failed. In 1996, Congress passed the Economic Espionage Act, which makes misappropriation of trade secrets a federal crime.<sup>101</sup> In doing so, Congress recognized that it was federalizing a new type of IP: "For many years federal law has protected intellectual property through the patent and copyright laws. With this legislation, Congress will extend vital federal protection to another form of proprietary economic information—trade secrets."<sup>102</sup> Since its passage, no one has claimed that Congress did not have the authority to federalize trade secret law. And any such challenge would surely fail because, as detailed above in Part I.B, trade secrets have a substantial effect on interstate commerce and would thus easily qualify under the

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<sup>99</sup> Rejections by the ABA and AIPLA do not end the debate because these rejections did not address all of the reasons this Article advances. *See, e.g., id.* (considering only arguments for substantive uniformity, judicial efficiency, and compliance with international treaties).

<sup>100</sup> *Id.*

<sup>101</sup> *See supra* text accompanying note 3.

<sup>102</sup> H.R. REP. NO. 104-788, at 4 (1996), as reprinted in 1996 U.S.C.C.A.N. 4021, 4022–23; *see also* S. REP. NO. 104-359, at 5 (1996).

Commerce Clause.<sup>103</sup> A federalism challenge would also fail because, in addition to the Economic Espionage Act, there are many federal statutes that touch on trade secrets and pass constitutional muster.<sup>104</sup> These include the National Stolen Property Act<sup>105</sup> and the Computer Fraud and Abuse Act.<sup>106</sup>

The federalism policy argument—there are benefits to a state-based trade secret law that would be lost upon federalization—is also unpersuasive. This argument ignores the economic realities explained in Part II.B that a state-based trade secret regime is incompatible with both the informational nature and national economic implications of trade secrets. This argument also fails as an empirical matter. The primary policy argument is that states have unique issues that require unique solutions, and that states should be laboratories to experiment and devise solutions. The fact that forty-six states have passed the UTSA, however, empirically shows that states value uniform trade secrets laws over experimental ones. And while there are differences between states, these differences arise haphazardly and with little recognition or justification of the differences.

A final, federalism-based argument is that trade secret law is closely connected to other state-based laws, such as breach of contract (if the misappropriation is also governed by contract, such as nondisclosure, noncompetition, nonsolicitation, employment, or invention-assignment agreements), breach of fiduciary duty (if the misappropriation would violate a duty owed to the trade secret owner), employment law (if the misappropriation was by an employee), or torts (if the misappropriation involves another tort,

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<sup>103</sup> See Lao, *supra* note 13, at 1679–90 (arguing that a civil FTSA would be constitutional under either the Commerce Clause or the Foreign Affairs Clause). In the Senate Report accompanying the Economic Espionage Act, the Senate based its authority to pass the Act on both the IP Clause and the Commerce Clause. S. REP. NO. 104-359, at 4 (1996); see U.S. CONST. art. I, § 8, cl. 8 (IP Clause); *id.* cl. 3 (Commerce Clause). The former seems hard to justify for a variety of reasons that are beyond the scope of this Article. The Commerce Clause, however, provides a complete and sufficient basis for federal action.

<sup>104</sup> See generally Jerry Cohen, *Federal Issues in Trade Secret Law*, 2 J. HIGH TECH. L. 1 (2003).

<sup>105</sup> National Stolen Property Act, 18 U.S.C. §§ 2314–15 (2006).

<sup>106</sup> Computer Fraud and Abuse Act, 18 U.S.C. § 1030 (2006).

such as interference with contractual or business relations). One could argue that since these laws are state-based, keeping trade secret law at the state level would further a unified contract, fiduciary, employment, and tort policy. This criticism falls short because in each of the other state-based laws there is something else at play besides the trade secret itself, such as a contract, fiduciary duty, employment obligation, or tort. These laws have different elements and serve different purposes. Trade secret laws, by contrast, are a type of IP law and thus would benefit from having Congress and the federal courts as the unified voice of IP policy.

### *B. An FTSA Would Not Overburden the Federal Judiciary*

Some commentators argue that providing federal subject-matter jurisdiction for civil trade secret cases would overburden the federal judiciary.<sup>107</sup> While it's true that federal courts are busy and becoming busier,<sup>108</sup> the pertinent question is not whether an FTSA would add to the caseload of the federal judiciary, for it surely would. Instead, the question is whether federal or state courts are better able to handle the burden of trade secret litigation. The answer is federal courts, as the data have long shown that state courts have more cases, their dockets are growing at a faster rate, and they have fewer resources.<sup>109</sup> Given these statistics, the issue of caseload actually supports enacting an FTSA.

Another argument based on burden is that providing a federal forum for all trade secret cases would cause a concomitant rise in

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<sup>107</sup> See, e.g., AIPLA REPORT, *supra* note 35 (“Others have argued, and the Committee agrees, that the current state regulation of trade secrets, although far from perfect, is functioning adequately and that federalizing state trade secret law would, therefore, needlessly burden the already overworked federal judiciary.”).

<sup>108</sup> See JUDICIAL CONFERENCE OF THE U.S., LONG RANGE PLAN FOR THE FEDERAL COURTS 9–10 (1995), available at <http://www.uscourts.gov/lrp/CVRPGTOC.HTM> (describing the burden of the federal courts and how federal caseload is exceeding the creation of new judgeships).

<sup>109</sup> See, e.g., John H. Beisner & Jessica Davidson Miller, *They're Making a Federal Case Out of It . . . In State Court*, 25 HARV. J.L. & PUB. POL'Y 143, 151–52 (2003) (describing each of these factors and the data that support them); Burt Neuborne, *The Myth of Parity*, 90 HARV. L. REV. 1105, 1122 (1977).

other types of litigation through supplemental jurisdiction.<sup>110</sup> It is this supplemental jurisdiction, one could argue, that would impose the burden on federal courts, as many trade secret cases include other state-based causes of action. Even if true, this criticism still supports enacting an FTSA because it would only further relieve the greater burden faced by state courts. Moreover, this criticism is a strong argument against *exclusive* jurisdiction, which would require all trade secret cases, and their supplemental causes of action, to be heard in federal court. Federal courts have exclusive jurisdiction in patent and copyright cases.<sup>111</sup> This criticism does not apply to *concurrent* jurisdiction, as I propose, which would permit both state and federal courts to hear trade secret cases. Federal and state courts have concurrent jurisdiction in trademark cases.<sup>112</sup>

It also warrants noting that an FTSA would enhance judicial efficiency by removing the substantive and procedural differences identified in Part II.A. Accordingly, while the raw number of trade secret cases would increase in federal courts, part of the burden of those cases (i.e., addressing substantive and procedural differences and choice-of-law issues) would disappear. An FTSA would also assist courts by providing them with a large, national pool of precedents instead of their current, smaller state-based pools. At present, each state has its own, autonomous body of trade secret precedent. Courts in populous states with innovative industries have larger bodies of precedent. To illustrate, from 2000 to 2009, there were 293 trade secret decisions from California state courts and 120 such decisions in New York state courts; over the same time period there was one trade secret decision in Wyoming state courts, four such decisions in North Dakota state courts, and five such decisions in Vermont state courts.<sup>113</sup> Courts in smaller states

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<sup>110</sup> 28 U.S.C. § 1367 (2006) (defining the civil procedure mechanism of supplemental jurisdiction).

<sup>111</sup> *Id.* § 1338(a).

<sup>112</sup> *See id.*

<sup>113</sup> I searched all cases in WESTLAW for each state database (i.e., California (“CA-CS”), New York (“NY-CS”) Wyoming (“WY-CS”), Vermont (“VT-CS”), and North Dakota (“ND-CS”)) that satisfied the following search: ATLEAST3(“TRADE SECRET!”) & DA(AFT 12/31/1999 & BEF 01/01/2009). This search is obviously

thus have to address, as issues of first impression, questions of trade secret law that have been decided elsewhere. Courts in smaller states can and do look to other states for persuasive authority. But those courts must still review their own authority to ensure it does not conflict with the persuasive authority, and, assuming it presents no conflict, courts may then choose to incorporate that persuasive authority. These steps would become unnecessary under an FTSA.

*C. An FTSA Would Create a Precedent Vacuum, but it Would Be Filled Quickly*

One could argue that an FTSA would, upon passage, create a vacuum in which there would be no precedent to apply. There is some truth to this concern, as there would be some period of time in which courts would have to develop a body of federal trade secret law. Yet this concern will have little effect because, as a practical matter, any FTSA should and would likely be similar to the UTSA. As detailed above in Part I, forty-six states have some version of the UTSA, and the other major modern trade secret statute, the Economic Espionage Act, is itself based in large part on the UTSA.<sup>114</sup> An FTSA will thus not create a complete vacuum, as courts will be able to incorporate and use UTSA-based precedent.

Moreover, federal courts already have substantial experience with trade secret litigation and thus will need little if any time to get up to speed. Federal courts have long decided state-based trade secret cases either through diversity or supplemental jurisdiction. And since 1996, federal courts have decided trade secret cases under the Economic Espionage Act.

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imperfect, for not every case that mentions “trade secret” at least three times applies substantive trade secret law, but it is a reasonable proxy of volume.

<sup>114</sup> POOLEY, TRADE SECRETS, *supra* note 16, § 13.03[2] (describing how the definitions in the Economic Espionage Act were based on the UTSA).

## CONCLUSION: ELEMENTS OF A SUCCESSFUL FTSA

The point of this Article is to demonstrate that Congress should enact an FTSA. To reap the benefits described above, an FTSA must have three elements. First, it must be based in large part on the UTSA, which has experienced widespread acceptance and has a deep well of precedent. Previous commentators have also argued for an FTSA based on the UTSA.<sup>115</sup> And while other commentators have argued for an FTSA based on amending the Economic Espionage Act to include civil actions,<sup>116</sup> the Economic Espionage Act is already based in large part on the UTSA and thus accomplishes the same end. Accordingly, the first element is met by either the independent creation of an FTSA or the addition of a civil remedy to the Economic Espionage Act.

Second, the FTSA must preempt inconsistent state trade secret laws, as the only way to eliminate differences between states is to preempt state laws. This preemption is limited to state trade secret laws as such—namely, causes of action based on the UTSA or the tort of trade secret misappropriation. An FTSA should not preempt the broad swath of trade secret-like laws, such as breach of noncompetition or nondisclosure agreements. These other laws have a long history. They have different elements and serve different aims than trade secret laws. They should thus retain independent status.

Third, an FTSA must have concurrent jurisdiction. An FTSA with exclusive jurisdiction would sweep up too many state-based causes of action, as trade secret cases often have causes of action related to employment and contract law. A litigant should have the option of federal or state court. This third element interacts with the second, for while a litigant can choose federal or state court, both courts would apply the same FTSA.

The past seventy years (from the Restatement in 1939 until today) have confirmed that a state-based trade secret law inevitably results in interstate differences and that these differences, in turn,

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<sup>115</sup> See, e.g., Pace, *supra* note 16, at 442–69.

<sup>116</sup> See, e.g., Halligan, *supra* note 34, at 656–57 (“The time has come for the enactment of a federal trade secrets statute. This Article recommends amendments to the Economic Espionage Act of 1996 to create a civil cause of action.”).

cause a host of problems. It is time for trade secrets to join the other types of IP at the federal level, as there are no real benefits to keeping the state-based regime, and, as articulated in this Article, there are at least four reasons to enact an FTSA.