

3-1-2010

Striking a Balance: When Should Trade-Secret Law Shield Disclosures to the Government?

Elizabeth A. Rowe

University of Florida Levin College of Law, rowe@law.ufl.edu

Follow this and additional works at: <http://scholarship.law.ufl.edu/facultypub>



Part of the [Administrative Law Commons](#), and the [Intellectual Property Commons](#)

Recommended Citation

Elizabeth A. Rowe, *Striking a Balance: When Should Trade-Secret Law Shield Disclosures to the Government?*, 96 Iowa L. Rev. 791 (2011), available at <http://scholarship.law.ufl.edu/facultypub/226>

This Article is brought to you for free and open access by the Faculty Scholarship at UF Law Scholarship Repository. It has been accepted for inclusion in Faculty Publications by an authorized administrator of UF Law Scholarship Repository. For more information, please contact outler@law.ufl.edu.

Striking a Balance: When Should Trade-Secret Law Shield Disclosures to the Government?

Elizabeth A. Rowe*

I. INTRODUCTION.....	793
A. <i>A TIMELY AND CONTINUING ISSUE</i>	794
B. <i>THE ARTICLE'S MISSION</i>	796
II. RELEVANT BACKGROUND.....	798
A. <i>TRADE-SECRET INTRODUCTION</i>	798
B. <i>THE COST OF DISCLOSURE BY THE GOVERNMENT</i>	800
C. <i>SNAPSHOT OF THE RULES</i>	803
1. <i>FOIA</i>	804
2. <i>Sample Disclosure Provisions and Exemptions</i>	807
a. <i>FDA</i>	808
b. <i>SEC</i>	810
c. <i>FTC</i>	812
d. <i>EPA</i>	814
D. <i>DO COMPANIES HAVE REASON TO BE CONCERNED?</i>	815
III. APPROACHES TO ORDERING PRODUCTION OF TRADE SECRETS.....	818
A. <i>CASE REVIEW</i>	819
1. <i>Private-Party Cases</i>	819
2. <i>Government Cases</i>	821
3. <i>Reverse-FOIA Cases</i>	823
B. <i>UNSUITABILITY OF EXISTING APPROACHES</i>	825

* Associate Professor of Law, University of Florida Levin College of Law. I extend much gratitude to Mary Jane Angelo, Hank Chambers, Jonathan Cohen, Charles Collier, Mark Fenster, Jacqueline Lipton, Xuan-Thao Nguyen, Sharon Rush, and Katheryn Russell-Brown for comments or conversations about ideas expressed in earlier versions of this work. I also thank participants at the University of Virginia School of Law, MAPOC conference, the 2010 Intellectual Property Scholars Conference held at the University of California, Berkeley School of Law, as well as participants at a faculty workshop at the University of Florida Levin College of Law for helpful comments. Peter Vasat, Derek Fahey, Rachele Bergeron, and Chase Carpenter provided excellent research assistance. Finally, thank you to the University of Florida Levin College of Law for its research support.

IV. STRIKING THE BALANCE IN DISCLOSING TO THE GOVERNMENT	826
A. <i>THE SHIELD-OR-DISCLOSE MODEL</i>	827
1. Company Establishes Trade-Secret Status and Harm.....	828
2. Government Establishes Relevance and Need.....	830
3. Court Balances Need Versus Potential Injury.....	831
4. Court Determines Scope of Order.....	833
B. <i>BROADER IMPLICATIONS OF THE FRAMEWORK</i>	834
V. CONCLUSION	835

I. INTRODUCTION

In 2010, Toyota issued recalls on over eight million vehicles because of faulty acceleration.¹ As a result, several government agencies and Congress are requesting information about Toyota's safety problems, and even the SEC is interested in Toyota's disclosure practices related to the unintended acceleration in its vehicles.² Assume that a device of potential interest to the government is the event data recorder (commonly known as a "black box") that Toyota has installed in its vehicles. This device, similar to the black box on an airplane, can measure and record a wide range of electronic information about the vehicle and the driver's interaction with it.³ Assume further that the National Highway Traffic Safety Administration ("NHTSA") requests that Toyota allow the government access to the data in black boxes on the recalled vehicles.⁴ The black boxes are operated by proprietary software, and the information recorded on them can only be accessed with special laptops held by Toyota.⁵

Assume that Toyota refuses to provide the government with the black box data, claiming that it would reveal its trade secrets and proprietary information.⁶ How should a court decide whether to compel Toyota to produce the black box data? How does a court achieve the proper balance between the public benefit resulting from disclosure⁷ to the government and the potential harm to the company if its trade secrets are exposed? In refusing to produce trade-secret information to the government

1. Peter Valdes-Dapena, *Toyota Recalls Total 8.1 Million Vehicles*, CNNMONEY.COM, Feb. 4, 2010, http://money.cnn.com/2010/02/04/autos/toyota_recall_total/index.htm?postversion=2010020410. Among the models recalled were Camry, Avalon, Prius, and several Lexus models. Hibah Yousuf, *Toyota: 3.8 Million Cars with Risky Floor Mats*, CNNMONEY.COM, Oct. 2, 2010, http://money.cnn.com/2009/09/29/news/companies/toyota_lexus_floor_mats/.

2. *U.S. Launches Criminal Probe into Toyota Safety*, MSNBC.COM, Feb. 22, 2010, <http://www.msnbc.msn.com/id/35520628/ns/business-autos>.

3. Curt Anderson & Danny Robbins, *AP IMPACT: Toyota Secretive on 'Black Box' Data*, ABCNEWS.COM, Mar. 4, 2010, <http://abcnews.go.com/Technology/wireStory?id=10012461>.

4. At the time of this writing, it is unclear precisely what information is contained in the Toyota black box. It is believed that the data contained in these boxes include data from five seconds before until two seconds after an air bag is deployed in a crash, such as speed, the accelerator's angle, gear-shift position, whether the seat belt was used and the angle of the driver's seat, the brake's position, and the antilock brake system. *Id.*

5. *Id.*

6. While based on real events, this hypothetical is fictitious and created to help illustrate the problem addressed in this Article. However, in the real world, Toyota has generally been secretive about its black box data. *Id.* It did recently agree, however, to make some readers to its black boxes available to the government to aid in the recall investigation. See Stephen Manning & Tom Raum, *U.S. May Require Brakes That Can Override Gas Pedals in New Cars*, USATODAY.COM, Mar. 2, 2010, http://www.usatoday.com/money/autos/2010-03-02-toyotadeaths_N.htm.

7. See, e.g., Mary L. Lyndon, *Secrecy and Innovation in Tort Law and Regulation*, 23 N.M. L. REV. 1, 2-3 (1993) ("Proprietary claims to information impose substantial costs on regulation and hinder such regulatory initiatives as waste reduction.").

(particularly when they are not required to do so),⁸ companies often argue that the information is vital and essential to their ability to compete successfully and that it is the kind of information that competitors desperately desire. Accordingly, sometimes they are either unwilling to provide trade-secret information at all, or may be willing to provide the information if and only if the integrity and safety of the information will be fully protected against direct or indirect disclosure to competitors.⁹

How should courts approach what I coin as these “refusal-to-submit” cases? There is a void in the literature and the case law on appropriate theoretical and doctrinal approaches for the special circumstances created by these cases. There is much inconsistency in the ways that courts might approach and resolve them, and no coherent framework exists to address the unique challenges and considerations they present. For example, while one might assume that the logical threshold issue should be whether the information sought to be protected indeed qualifies for trade-secret protection, courts often bypass that determination in related cases and instead appear to make value judgments about the relevance of the information, or whether there is sufficient public benefit to justify disclosure.

A. A TIMELY AND CONTINUING ISSUE

The sociopolitical climate in the United States makes this a pressing and timely issue, and one that is likely to continue.¹⁰ The recent financial crisis brought multimillion dollar corporations, as well as individuals on the eve of retirement, to financial ruin and required government bailouts to avert even further widespread economic disaster.¹¹ In the wake of these

8. Companies are often statutorily required to produce information to the government for regulatory reasons to obtain approvals for their products or services. Accordingly, even if the information consists of protectable trade secrets, it must be produced unless they wish to forego the opportunity to conduct that aspect of their business in the United States. *See, e.g.*, 7 U.S.C. § 136a(c)(1)(D) (2006) (providing that to sell or distribute a pesticide in the United States, a manufacturer must register it with the EPA and include the complete formula of the pesticide). At other times, such as in the Toyota hypothetical, the government requests information that a company is not statutorily required to submit to the government. While companies may raise objections to submitting trade secrets, even where required, it is the latter set of circumstances that is the focus of this Article. *See infra* text accompanying notes 169–71.

9. Many of these kinds of cases are likely to arise in the context of administrative subpoenas. *See, e.g.*, U.S. Int'l Trade Comm'n v. Tenneco W., 822 F.2d 73, 76 (D.C. Cir. 1987); FTC v. Owens-Corning Fiberglass Corp., 626 F.2d 966, 969 (D.C. Cir. 1980); EEOC v. Aon Consulting, Inc., 149 F. Supp. 2d 601, 603 (S.D. Ind. 2001).

10. For example, Philip Goldstein, a cofounder of the hedge fund Bulldog Investors, refused to disclose to the SEC certain security positions held by the fund and their values. He argued that disclosure would reveal trade secrets to competitors: namely his trading strategies. *See Hedge Funds Take on SEC over Disclosure Requirements*, CNBC, May 17, 2007, <http://www.cnbc.com/id/18722751>.

11. Interestingly, the Federal Reserve Board refused to disclose information identifying the financial companies to which it made loans under the government's \$2 trillion loan bailout

events comes a push for greater transparency of governmental decisions and greater oversight of private companies by the government in the hope of better protecting the public.¹² Coupled with this phenomenon is the fact that we live in the information age, with all kinds of information easily and widely available on the Internet. The notion of secrecy is, therefore, not a chic concept, but rather has probably become passé: when it comes to information, the popular feeling is probably that more is better.

Moreover, almost immediately upon taking office the Obama Administration ordered several agencies to review the propriety of keeping certain company-submitted information secret.¹³ The Obama Administration has set up a task force “within the [FDA] to recommend ways to reveal more information about F.D.A. decisions, possibly including the disclosure of now secret data about drugs and devices under study.”¹⁴ Critics have complained that keeping this kind of information secret can harm the public.¹⁵ Similarly, at the EPA, Congress is considering revisions to the 1976 Toxic Substances Control Act,¹⁶ which requires manufacturers to report to

program. It argued that such information was protected under the Freedom of Information Act’s (“FOIA”) trade-secret and confidential-information exemption. David Glovin & Bob Van Voris, *Federal Reserve Must Disclose Bank Bailout Records (Update 5)*, BLOOMBERG BUSINESSWEEK, Mar. 19, 2010, <http://www.businessweek.com/news/2010-03-19/federal-reserve-must-disclose-bank-bailout-records-update1-.html>. A federal appellate court did not agree. *Bloomberg, L.P. v. Bd. of Governors of the Fed. Reserve Sys.*, 601 F.3d 143 (2d Cir. 2010), *petition for cert. filed*, 79 U.S.L.W. 3271 (U.S. Oct. 26, 2010) (No. 10-543).

12. For instance, the State of New York requested that Bank of America disclose information about bonuses it paid to Merrill Lynch employees before Bank of America acquired Merrill Lynch. Bank of America objected to producing the information claiming that such compensation figures were a trade secret. The State argued that because Bank of America received \$45 billion from the government, it needed to divulge the information. “Taxpayers demand and deserve transparency,” the New York Attorney General Andrew Cuomo argued. *BoFA Must Disclose Merrill Payout*, SAN JOSE MERCURY NEWS, Mar. 19, 2009, at 3C (internal quotation marks omitted). A state court judge ruled against Bank of America. *See People v. Thain*, 874 N.Y.S.2d 896 (Sup. Ct. 2009).

13. *See, e.g.*, Letter from Andrew J. Emmett, Dir. for Sci. & Regulatory Affairs, Biotechnology Indus. Org. (BIO), to FDA (Aug. 5, 2009), <http://www.bio.org/reg/20090805.pdf> (discussing President Obama’s Transparency and Open Government initiative and the FDA task force).

14. Gardiner Harris, *Drug Agency May Reveal More Data on Actions*, N.Y. TIMES, June 2, 2009, at A10. Company information treated as trade secrets before the FDA can include company plans to test experimental medicines, the complete results of most clinical trials, and the FDA’s reasons for rejecting a company’s application to market a product. *Id.* Results of clinical trials for a drug that failed to win FDA approval are also secret. Jeanne Lenzer, *Drug Secrets: What the FDA Isn’t Telling*, SLATE MED. EXAM’R (Sept. 27, 2005, 6:38 AM), <http://slate.com/id/2126918/> (discussing situation where a nineteen-year-old clinical-trial volunteer committed suicide in testing of antidepressant drug).

15. Harris, *supra* note 14. For example, a popular diabetes drug made by GlaxoSmithKline, Avandia, was found to increase the risk of heart attack by forty-two percent, but that information was kept secret by the FDA. *Id.*

16. 15 U.S.C. §§ 2601–2692 (2006).

the federal government new chemicals that they intend to market.¹⁷ However, the law exempts reporting trade secrets, and it is believed that “95 percent of the notices for new chemicals sent to the government requested some secrecy.”¹⁸ Critics argue that the secrecy provision makes it difficult to control potential dangers or for consumers to know to which toxic substances they may be exposed.¹⁹ No doubt, the public appeal against secrecy in circumstances where public health and safety could be at risk is understandable.²⁰

On the other hand, the fact that the existing rules governing the protection of trade secrets by the various agencies could be revised to offer even less protection is further cause for concern for trade-secret owners. Even without any changes, the current patchwork of agency regulations and practices could pose risks to company trade secrets in the hands of the government since trade secrets necessarily involve a unique form of property right that can vanish upon disclosure. Accordingly, the decision to produce trade-secret information to the government in the first instance is not one to be made lightly. The current regulations, as well as the direction of pending revisions to the regulations that shield trade secrets in the government’s custody, suggest that the scope of protection is unclear. This Article therefore takes on the novel approach of focusing on the front end of the process—the submittal of company trade secrets to the government in the first instance.

B. THE ARTICLE’S MISSION

Disclosure of company trade secrets by the government to the public is already addressed in the elaborate regulatory scheme of agency rules and regulations, as well as in the FOIA case law.²¹ However, there is a paucity of case law and other guidance specifically relevant to refusal-to-submit cases and when the government is entitled to a company’s trade-secret information. This Article is the first to identify this gap in the law and to examine the problem from the lens of trade-secret law with an eye toward developing a more principled approach to resolving these cases. Since it is the fear of disclosure by the government that triggers the reluctance to

17. Elana Schor, *Obama Admin Steps Up Pressure To Ratify Treaties on Toxics*, N.Y. TIMES, Sept. 24, 2010, <http://www.nytimes.com/gwire/2010/09/24/24greenwire-obama-admin-steps-up-pressure-to-ratify-treati-73636.html>.

18. Lyndsey Layton, *Law Allows Companies To Hide Risks of Chemicals*, WASH. POST, Jan. 4, 2010, at A1.

19. *Id.*

20. See, e.g., Elizabeth A. Rowe, *Patents, Genetically Modified Food, and IP Overreaching*, 64 SMU L. REV. (forthcoming Mar. 2011) (arguing that patent law’s support of research restrictions on genetically modified foods threatens public health and is against the public interest).

21. See discussion *infra* Part II.C.

release trade-secret information in the refusal-to-submit cases, I consider existing regulations that determine how the government treats confidential business information already in its possession. In addition, I examine cases that address, in other contexts, when one party can be ordered to produce its trade secrets to another. Lessons from these cases ultimately help frame my proposed “shield-or-disclose” model.

The framework proposed in the Article has wide-reaching application and could be instructive to the larger body of cases where a party seeks to compel production of another’s trade secrets. However, the Article, by necessity, has a more targeted analytical focus that pays particular attention to the void that has been identified in the refusal-to-submit cases. In particular, it focuses on the scenario represented by the Toyota hypothetical where a company refuses to submit trade-secret information to the government for compliance or regulatory reasons.²² The shield-or-disclose model, among other things, makes clear the roles and burdens the various players must assume. It requires a threshold determination that the information in question qualifies for trade-secret protection under the common law. It also requires evidence of need, relevance, and potential harm before a court could order disclosure.

In the process of deriving guidance for the creation of the shield-or-disclose model, this Article makes a further contribution by analyzing the varied and obscure patchwork of agency rules, as well as related areas of case law, to succinctly identify themes and approaches relevant to the refusal-to-submit problem. Following this introduction, Part II provides relevant background on trade-secret law and a sampling of the agency rules that govern the protection of trade secrets received by the government. Part II explores why companies may have reason to be concerned about submitting trade-secret information to the government. Part III undertakes a review of the approaches courts use to determine when to order the production of trade secrets in other contexts. Part IV introduces the shield-or-disclose model and suggests other contexts in which the framework might be useful. Finally, this Article concludes in Part V that the guidelines proposed provide a more balanced approach that is specifically tailored to the needs of the individual case and reaches more of a middle-ground solution than currently exists to achieve the balance between secrecy and access.

22. Accordingly, this Article is not directly concerned with other scenarios, such as the disclosure of trade secrets between parties in litigation or cases where companies have entered into a business relationship with the government, such as with vendors or contractors for government services. These scenarios have been appropriately addressed elsewhere. *See, e.g.*, David S. Levine, *Secrecy and Unaccountability: Trade Secrets in Our Public Infrastructure*, 59 FLA. L. REV. 135 (2007) (arguing that companies providing services for public infrastructure should disclose trade secrets for access and transparency).

II. RELEVANT BACKGROUND

This Part provides relevant background on trade secrets and the kinds of injury that could result from the government's inappropriate disclosure of a company's trade secrets. It also introduces the relevant regulatory landscape by discussing the mechanism by which the federal government makes third-party information available to the public—FOIA.²³ Moreover, it provides a snapshot of the intricate patchwork of agency rules and regulations that govern the treatment of trade-secret information. Finally, in light of this regulatory framework and the unique nature of trade secrets, it explains why companies may fear submitting trade secrets to the government. Before going further, it is worth clarifying that this Article treats trade-secret information as separate from the larger category of confidential business information. Thus, it is important to keep in mind that when regulations refer to confidential information, in keeping with the principles of trade-secret law, they necessarily refer to a larger body, a small subset of which would be legally protectable trade secrets.²⁴

A. TRADE-SECRET INTRODUCTION

A trade secret can be any business information that is secret and derives value from its secrecy.²⁵ Trade-secret law derives from state law.²⁶ Most states have adopted the Uniform Trade Secrets Act ("UTSA"), which provides some uniformity in defining trade secrets and trade-secret misappropriation. The states that have not adopted the UTSA tend to rely on common law based on the Restatement of Torts.²⁷ Finally, and more recently, the Restatement (Third) of Unfair Competition²⁸ also addresses trade secrets.²⁹

23. 5 U.S.C. § 552 (2006), amended by OPEN Government Act of 2007, Pub. L. No. 110-175, 121 Stat. 2524.

24. See generally Elizabeth A. Rowe, *Trade Secret Litigation and Free Speech: Is It Time To Restrain the Plaintiffs?*, 50 B.C. L. REV. 1425, 1447 (2009) (discussing the substantive requirements for establishing that business information is a protectable trade secret).

25. UNIF. TRADE SECRETS ACT § 1(4)(i) (amended 1985), 14 U.L.A. 538 (2005).

26. There are federal criminal statutes that address espionage and the inappropriate disclosure of trade secrets by a federal employee. These are the Economic Espionage Act, 18 U.S.C. § 1831–1839 (2006), and the Trade Secrets Act, 18 U.S.C. § 1905 (2006). However, the bodies of civil law are state based.

27. See MICHAEL A. EPSTEIN, EPSTEIN ON INTELLECTUAL PROPERTY § 1.02, at 1-4 (5th ed. 2006). The Restatement (Third) of Unfair Competition now also governs trade secrets, and its rules apply to actions under both the UTSA and the Restatement of Torts. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 reporters' note (1995).

28. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45.

29. This is an interesting shift in the overall treatment of this area of the law, which corresponds with the growing union of trade-secret and unfair-competition issues becoming evident in the case law. For instance, unfair-competition claims involving trade secrets often mirror trade-secret-misappropriation claims. See, e.g., *GlobeSpan, Inc. v. O'Neill*, 151 F. Supp. 2d 1229, 1235–36 (C.D. Cal. 2001); *IBM, Corp. v. Seagate Tech., Inc.*, No. Civ. 3-91-630, 1991 WL 757821, at *4 (D. Minn. Dec. 31, 1991).

Its rules apply to actions under both the UTSA and the Restatement of Torts.³⁰ Most courts appear to rely on the definitions in the UTSA³¹ or in the Restatement of Torts,³² and as such, this Article will also rely on them for most of the analysis that follows.

The modern formulation of trade-secret law in the UTSA defines a trade secret very broadly, and virtually anything of competitive value to a company can be a trade secret as long as it is kept secret.³³ Accordingly, a wide range of confidential business information, including customer lists, sales records, pricing information, and customer information, can be protectable trade secrets.³⁴ Some jurisdictions have also granted trade-secret protection to secret contract terms, marketing strategies, and industry studies.³⁵ Further, under the UTSA, a trade secret does not need to be in

30. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 reporters' note.

31. The UTSA defines a trade secret as:

[I]nformation, 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.

UNIF. TRADE SECRETS ACT § 1(4) (amended 1985), 14 U.L.A. 538 (2005). The UTSA requires only reasonable efforts—not all conceivable efforts—to protect the confidentiality of trade secrets. See *Surgidev Corp. v. Eye Tech., Inc.*, 828 F.2d 452, 455 (8th Cir. 1987); see also *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs. Inc.*, 923 F. Supp. 1231, 1253–54 (N.D. Cal. 1995) (stating that the Church of Scientology made reasonable efforts under UTSA to protect the secrecy of religious documents through the use of locked cabinets and safes, logging and identification of materials, electronic sensors, alarms, photo identifications, security personnel, and confidentiality agreements for all given access to materials).

32. See EPSTEIN, *supra* note 27, § 1.02, at 1-4. The Restatement of Torts defines a trade secret as “any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.” RESTATEMENT OF TORTS § 757 cmt. b (1939). The Restatement then provides examples, stating that a trade secret “may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.” *Id.*

33. UNIF. TRADE SECRETS ACT § 1(4). The UTSA requires reasonable efforts to protect the confidentiality of trade secrets. See *Surgidev*, 828 F.2d at 455.

34. *McFarland v. Brier*, No. C.A. 96-1007, 1998 WL 269223, at *3 (R.I. Super. Ct. May 13, 1998), *vacated*, 769 A.2d 605 (R.I. 2001).

35. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1265–70 (7th Cir. 1995) (finding strategic financial and marketing information to be protected trade secrets under the UTSA); *ConAgra, Inc. v. Tyson Foods, Inc.*, 30 S.W.3d 725, 728–30 (Ark. 2000) (recognizing that Tyson’s business information concerning production, marketing strategies, pricing programs, and contract terms are protectable trade secrets under the UTSA, but refusing to grant such protection for failure to maintain their secrecy).

use to be protected, and negative information³⁶—comprised of failed research or an ineffective process—is also protected.³⁷

Trade-secret rights derive, in large part, from property interests.³⁸ The value of a trade secret rests in the information itself, not just the medium on which it is recorded. Once the information becomes public, the property aspect is gone. Thus, when a trade secret is disclosed and becomes generally known to others, it loses its status as a trade secret, and that status cannot be reclaimed.³⁹ If the trade-secret information passes into the hands of a third party, such as a competitor or the press, the trade-secret owner may not have any recourse against the third party or any ability to stop the dissemination or use.⁴⁰ That is because where a party learns a trade secret through a disclosure that was not made in breach of a contract or special relationship, or with knowledge of such a breach, she is entitled to use it.⁴¹ Therefore, a trade-secret owner may have no protection for a trade secret that is accidentally disclosed.⁴² If a trade secret is disclosed to one who has not promised confidentiality, and it is then released publicly, its status as a trade secret vanishes.⁴³ The significance of these basic principles in the context of the refusal-to-submit cases is discussed below.

B. THE COST OF DISCLOSURE BY THE GOVERNMENT

If a company submitted trade-secret information to the government and that information was disclosed by the government to the public, it is the trade-secret owner who would ultimately bear the cost of the government's misguided action. This is in part because when a trade secret is revealed, it loses all of its value, the loss is irreparable, and the company may not be

36. A negative trade secret is the knowledge of what not to do or what does not work—a lesson learned from a certain process or research and development effort that failed. See JAMES POOLEY, TRADE SECRETS § 4.02[3] (1997).

37. See 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01[2][a] (2008) (discussing the UTSA).

38. See Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 324–26 (2008).

39. *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir. 1984).

40. See generally Elizabeth A. Rowe, *Saving Trade Secret Disclosures on the Internet Through Sequential Preservation*, 42 WAKE FOREST L. REV. 1, 14–17 (2007) (discussing how a third party may not be guilty of stealing a trade secret if the information was not a trade secret at the time he or she acquired it).

41. See RESTATEMENT OF TORTS § 757 cmt. a (1939).

42. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974); *Fisher Stoves, Inc. v. All Nighter Stove Works, Inc.*, 626 F.2d 193, 196 (1st Cir. 1980) (“[E]ven a bona fide trade secret is not protected against discovery by fair means, including accidental disclosure.”).

43. See *Lockridge v. Tweco Prods., Inc.*, 497 P.2d 131, 134 (Kan. 1972) (“Once the secret is published to the ‘whole world,’ . . . it loses its protected status and becomes available to others for use and copying without fear of legal reprisal from the original possessor.” (quoting *Underwater Storage, Inc. v. U.S. Rubber Co.*, 371 F.2d 950, 954 (D.C. Cir. 1966))).

made whole by monetary damages.⁴⁴ An aggrieved trade-secret owner may have a trade-secret-misappropriation claim or constitutional-takings claim against the government.⁴⁵ There may also be a possible criminal action under the Trade Secrets Act against an individual government employee who discloses a trade secret.⁴⁶ However, none of these options may provide a satisfactory remedy, and legal recourse against the government may also be tenuous. The Trade Secrets Act does not provide a private right of action.⁴⁷ Moreover, a claim under the Act could only be against an individual, and any fine may not exceed \$1000.⁴⁸ It therefore provides practically no compensation to a company that may have suffered a multimillion dollar loss as a result of an inappropriate disclosure of its trade secret. Accordingly, the more feasible option with a better chance for damages may be a takings claim. As discussed below, however, those claims present their own challenges.

Trade secrets are a type of property.⁴⁹ Under the Fifth Amendment Takings Clause, the government may take property for public use only upon just compensation.⁵⁰ When the government takes a trade secret for public use and compensates the owner of the trade secret, it is not an unconstitutional taking.⁵¹ However, the government may not exercise its

44. See *Wearly v. FTC*, 462 F. Supp. 589, 599–600 (D.N.J. 1978), *vacated*, 616 F.2d 662, 663 (3d Cir. 1980) (holding that the matter was not “ripe” for judicial review).

45. Sovereign immunity does not bar the filing of a trade-secret claim against the government for disclosure of trade secrets. *Jerome Stevens Pharm., Inc. v. FDA*, 402 F.3d 1249, 1256 (D.C. Cir. 2005).

46. The Trade Secrets Act provides that:

Whoever, being an officer or employee of the United States or of any department or agency thereof . . . publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examination or investigation made by, or return, report or record made to or filed with, such department or agency or officer or employee thereof, which information concerns or relates to the trade secrets, . . . shall be fined under this title, or imprisoned not more than one year, or both; and shall be removed from office or employment.

18 U.S.C. § 1905 (2006).

47. *Id.* While the Trade Secrets Act does not furnish a private cause of action to enjoin government disclosure, a violation of the Act may be decisive in a judicial review of agency action under the Administrative Procedure Act (“APA”). See *Chrysler Corp. v. Brown*, 441 U.S. 281, 316–18 (1979).

48. 18 U.S.C. § 1905.

49. See, e.g., Mark Q. Connelly, *Secrets and Smokescreens: A Legal and Economic Analysis of Government Disclosures of Business Data*, 1981 WIS. L. REV. 207, 242.

50. See U.S. CONST. amend V.

51. See John C. Janka, Comment, *Federal Disclosure Statutes and the Fifth Amendment: The New Status of Trade Secrets*, 54 U. CHI. L. REV. 334, 338–39, 343–44 (1987) (discussing *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984), and public use).

sovereign power to take for private use.⁵² In *Ruckelshaus v. Monsanto Co.*, the U.S. Supreme Court held that a federal pesticide statute constituted a taking of trade secrets in some circumstances when the EPA used studies submitted by one pesticide manufacturer in evaluating similar pesticides by the manufacturer's competitors.⁵³ In the circumstances where it found a taking, the Court focused on statutory language that seemed to guarantee the manufacturer confidentiality for its trade secrets, noting that "[t]his explicit governmental guarantee formed the basis of a reasonable investment-backed expectation."⁵⁴

For information submitted by Monsanto during another period, however, the Court found that the government had made no guarantee of confidentiality.⁵⁵ Rather, Monsanto chose to enter a U.S. market "that long has been the focus of great public concern and significant government regulation," and should not have reasonably expected that the trade secrets would remain confidential.⁵⁶ Accordingly, it ruled there was no taking with respect to that information.⁵⁷ The Court also held that Monsanto could not rely on any promise of confidentiality from the Trade Secrets Act.⁵⁸

Monsanto is therefore a mixed bag for trade-secret owners whose trade secrets have been inappropriately used or disclosed by the government. There is a real risk that when a company submits business information to an agency and it falls into the hands of a competitor, a court could find there was no promise of confidentiality, and thus no taking.⁵⁹ Query whether the various agency provisions dealing with confidentiality might serve to craft an argument in favor of confidentiality, thus establishing the government's explicit guarantee of confidentiality.⁶⁰ One court has found that a trade-secret owner was within its rights to seek a protective order prior to responding to an agency's administrative subpoena where the agency was

52. *Wearly v. FTC*, 462 F. Supp. 589, 598 (D.N.J. 1978), *vacated*, 616 F.2d 662 (3d Cir. 1980).

53. 467 U.S. at 1020; *see also* *Philip Morris, Inc. v. Reilly*, 312 F.3d 24, 45-46 (1st Cir. 2002) (citing *Monsanto* to conclude that a Massachusetts statute effected a taking of tobacco companies' trade secrets).

54. 467 U.S. at 1011.

55. *Id.* at 1008.

56. *Id.* at 1008-09.

57. *Id.* at 1010.

58. *Id.* at 1008-09.

59. *See id.* at 1022 (O'Connor, J., concurring in part and dissenting in part) (stating that she was "frankly puzzled" by the majority's premise that "the degree of Government regulation determines the reasonableness of an expectation of confidentiality").

60. *See* 3 MILGRIM, *supra* note 37, § 12.04 (listing statutes prohibiting disclosure of trade secrets or confidential information by the FTC, SEC, IRS, FDA, FAA, Social Security Administration, and others).

not acting pursuant to an explicit rule that provided protection for the trade secrets.⁶¹

As discussed below, however, a review of a sampling of those regulations suggests that any such guarantee would not be absolute since the government generally reserves the right to disclose trade secrets to those not covered by the regulations. This includes Congress, for instance, and any disclosures by a member of Congress may not constitute an unconstitutional taking for private use.⁶²

C. SNAPSHOT OF THE RULES

There is a dearth of case law and other guidance specifically relevant to refusal-to-submit cases and when the government is entitled to demand trade-secret information. For that reason, I will now consider a sampling of existing regulations that govern how the government treats confidential business information already in its possession. This will provide insight into how the government safeguards trade-secret information, a relevant consideration in deciding whether trade secrets should be entrusted to a government agency in the first place. Moreover, it is the fear of disclosure by the government that sets the stage for the reluctance to release trade-secret information to the government in the refusal-to-submit cases. Lessons from this review will be incorporated into my shield-or-disclose model.

The government has an interest in maintaining the confidentiality of trade-secret information disclosed to it. Agencies, as part of their regulatory function, receive a vast amount of proprietary information from businesses. Accordingly, the agencies have instituted rules by which such information will be kept confidential and not disclosed to the public or to competitors. A sampling of those rules is discussed in this Part. Even in the absence of an explicit obligation, however, the government should have an incentive to secure the privacy of business information because without such assurances, companies will be less willing to provide information, or complete information, to the government. As the FTC argued in a case involving its inadvertent disclosure of Whole Foods Inc.'s trade secrets⁶³:

61. See *U.S. Int'l Trade Comm'n v. Tenneco W.*, 822 F.2d 73, 80 (D.C. Cir. 1987). To the extent the government was planning to use trade-secret information submitted by a company to prosecute the company, it may implicate another right under the Fifth Amendment—the right against self-incrimination. The right not to be compelled to testify against oneself when the testimony may tend to incriminate the witness is a central tenet of criminal procedure. See *United States v. Hubbell*, 167 F.3d 552, 575 (D.C. Cir. 1999) (discussing Fifth Amendment protections in the context of producing documents to the government), *aff'd*, 530 U.S. 27 (2000). However, that discussion is beyond the scope of this Article.

62. See Janka, *supra* note 51, at 338–39.

63. See Christopher S. Rubager, *Error by FTC Reveals Whole Foods' Trade Secrets*, WASH. POST, Aug. 15, 2007, at D3.

It is axiomatic that if business secrets turned over to the Federal Trade Commission in furtherance of law enforcement efforts are thereby made available to firms in the same industry, companies will be less willing to provide that information to the Commission in the first instance. As a result, the Commission's ability to enforce the antitrust laws, among others, is impeded to the public's detriment.⁶⁴

This lack of candor could hinder the government's regulatory activity, and ultimately the public interest. These values are reflected in the standards that the courts have applied in FOIA cases to determine whether requested information will be withheld from the public.⁶⁵

A qualified right to protect trade secrets is reflected in the agencies' rules. One of the challenges of analyzing this body of rules is that it consists of an intricate patchwork of regulations and statutes, often with each agency having several separate regulations governing the treatment of trade secrets. Accordingly, this Part attempts to present a snapshot of the regulatory landscape to provide a sense of the wide variation with which businesses must contend. First, however, it is important to understand FOIA as relevant to this discussion since the agencies' protection regulations aim to describe what information should and should not be available to the public through FOIA.

1. FOIA

Under FOIA,⁶⁶ anyone may request copies of documents that form the records of agencies of the Executive Branch.⁶⁷ One does not need to show standing, legitimate interest, or any other threshold requirement to be entitled to the information.⁶⁸ Most FOIA requests come from businesses

64. Plaintiff's Memorandum in Opposition to Defendant Whole Food Market, Inc.'s Motion for Entry of a Final Protective Order at 7, *FTC v. Whole Foods Mkt., Inc.*, 502 F. Supp. 2d 1 (D.D.C. 2007) (No. 07-cv-01021-PLF), available at <http://www.ftc.gov/os/caselist/0710114/070620response.pdf>, *rev'd*, 548 F.3d 1028 (D.C. Cir. 2008).

65. See discussion *infra* accompanying notes 222-23.

66. 5 U.S.C. § 552 (2006), amended by OPEN Government Act of 2007, Pub. L. No. 110-175, 121 Stat. 2524.

67. Each of the states have statutes similar to FOIA. See, e.g., Burt A. Braverman & Wesley R. Heppler, *A Practical Review of State Open Records Laws*, 49 GEO. WASH. L. REV. 720 (1981); Andrea G. Nadel, Annotation, *What Constitutes "Trade Secrets" Exempt from Disclosure Under State Freedom of Information Act*, 27 A.L.R. 4TH 773 (1984). While this Article will only address the federal law, the proposal in this framework could apply to disclosure of trade secrets on the state level as well. See discussion *infra* Part IV.B.

68. *Wearly v. FTC*, 462 F. Supp. 589, 600 (D.N.J. 1978), *vacated*, 616 F.2d 662 (3d Cir. 1980).

seeking information on their competitors.⁶⁹ If trade-secret information is disclosed through a FOIA request, it could become the kind of private use of information that constitutes a taking under the Fifth Amendment Takings Clause.⁷⁰ FOIA therefore presents a considerable risk of loss to trade-secret holders.

FOIA contains exemptions against disclosure of trade secrets.⁷¹ However, it is significant to note that the Supreme Court has found these exemptions to be permissive, not mandatory.⁷² Thus, while FOIA permits the agencies to withhold company records containing trade secrets, it does not require them to do so.⁷³ Most relevant to this discussion, subsection 3 of 5 U.S.C. § 552(b) (“Exemption 3”), exempts information that is “specifically exempted from disclosure by statute,”⁷⁴ and subsection 4 (“Exemption 4”) exempts “trade secrets and commercial or financial information obtained from a person and privileged or confidential.”⁷⁵ Note that Exemption 4 applies to a wider category of information beyond trade secrets, i.e., “commercial or financial information.”⁷⁶ This would presumably be information that is confidential and proprietary to the company, but not necessarily a trade secret. Exemption 4 is the category most applicable and most often used in FOIA litigation to protect trade secrets and confidential information.⁷⁷ None of the exemptions, however, apply to Congress.⁷⁸ There is thus the risk that Congress could request information from an agency, increasing the chances that the information could be leaked or that

69. Michael Moss, *Public Eye: Federal Service Gets Wider Use by Sleuths, Snoops—and Senators*, WALL ST. J., Jan. 3, 1996, at A1 (quoting one source as estimating that seventy-five percent of all FOIA requests come from businesses).

70. See *supra* Part II.B.

71. 5 U.S.C. § 552(b)(3)-(4).

72. *Chrysler Corp. v. Brown*, 441 U.S. 281, 292-94 (1979).

73. Nevertheless, one must first determine whether that material falls within one of the applicable exemptions to then decide whether that information can be withheld by the government as falling outside of FOIA.

74. 5 U.S.C. § 552(b)(3).

75. *Id.* § 552(b)(4).

76. *Id.*

77. It is questionable when and whether Exemption 3 applies to protect trade secrets, mostly because courts differ on whether there is a statute that specifically exempts trade secrets from disclosure within the meaning of Exemption 3. Compare *Chrysler Corp.*, 441 U.S. at 300 n.29 (citing *Adm’r v. Robertson*, 442 U.S. 255, 264-65 (1975), *superseded by statute*, Government in the Sunshine Act, Pub. L. No. 94-409, 90 Stat. 1241 (1976)), and *Westinghouse Elec. Corp. v. Schlesinger*, 542 F.2d 1190, 1199-203 (4th Cir. 1976) (finding the Trade Secrets Act to be an Exemption 3 withholding statute), *abrogated by Gen. Motors Corp. v. Marshall*, 654 F.2d 294 (4th Cir. 1981), with *Anderson v. Dep’t of Health & Human Servs.*, 907 F.2d 936, 948-49 (10th Cir. 1990) (finding the Trade Secrets Act is not an Exemption 3 withholding statute), and *Gen. Elec. Co. v. U.S. Nuclear Regulatory Comm’n*, 750 F.2d 1394, 1401-02 (7th Cir. 1984).

78. 5 U.S.C. § 552(d) (“This section is not authority to withhold information from Congress.”).

a member of Congress could use the Speech or Debate Clause⁷⁹ to discuss the information openly on the congressional floor and thereby destroy the proprietary information.⁸⁰

According to the Director of the Office of Public Information and Library Services, it is only through FOIA that the general public would be able to access a copy of an agency record.⁸¹ When a request is received, the Office of Public Information and Library Services will assign the request to the agencies with jurisdiction over the record(s) at issue. There are trained staff within each of these component offices who are responsible for searching for the requested records, reviewing these records to determine whether they should be released, and redacting nonreleasable information (subject to both FOIA and the agency's implementing regulations).⁸² In making a disclosure decision, the FOI officer of the particular agency would consider the records in light of the FOIA statute and the agency's implementing regulations.⁸³

When a submitter of trade secrets to an agency seeks to prevent the agency from disclosing the trade secrets to a third-party FOIA requester, the mechanism for doing so within the courts is known as a reverse-FOIA action.⁸⁴ The process of a reverse-FOIA action occurs in two major sequential stages. In the first stage the submitter objects to the prospective disclosure directly to the agency, and in the second stage the submitter can appeal an unfavorable determination by the agency in federal court.

The procedural steps of the first stage of a reverse-FOIA action typically begin when a requester submits a request to an agency for agency records under FOIA.⁸⁵ If, after receiving and reviewing the request, the agency

79. Article I, Section 6 of the U.S. Constitution grants an absolute privilege to members of Congress for any remarks made as part of an official proceeding in the Senate or the House, regardless of any harm it may cause, unless it amounts to a criminal act. ROY L. MOORE & MICHAEL D. MURRAY, *MEDIA LAW AND ETHICS* 414-15 (3d ed. 2008).

80. See, e.g., *Wearly v. FTC*, 462 F. Supp. 589, 600 (D.N.J. 1978) (discussing incident involving Senator Joseph McCarthy), *vacated*, 616 F.2d 662 (3d Cir. 1980).

81. The DOJ has provided a guide to FOIA in which it discusses what is a trade secret. U.S. DEP'T OF JUSTICE, *GUIDE TO THE FREEDOM OF INFORMATION ACT* (2009), *available at* http://www.justice.gov/oip/foia_guideog.htm.

82. *Id.*

83. *Id.*

84. *CNA Fin. Corp. v. Donovan*, 830 F.2d 1132, 1133 n.1 (D.C. Cir. 1987); *Mallinckrodt Inc. v. West*, 140 F. Supp. 2d 1, 4 (D.D.C. 2000) ("In a 'reverse FOIA' case, the court has jurisdiction when a party disputes an agency's decision to release information under FOIA."), *appeal dismissed voluntarily*, No. 00-5330 (D.C. Cir. Dec. 12, 2000); *Cortez III Serv. Corp. v. NASA*, 921 F. Supp. 8, 11 (D.D.C. 1996) (holding that in reverse FOIA actions "courts have jurisdiction to hear complaints brought by parties claiming that an agency decision to release information adversely affects them"), *appeal dismissed voluntarily*, No. 96-5163 (D.C. Cir. July 3, 1996).

85. See 5 U.S.C. § 552(a)(3)(A) (2006), *amended by* OPEN Government Act of 2007, Pub. L. No. 110-175, 121 Stat. 2524.

determines that it may disclose the requested information, it must give notice to the submitter of the information pursuant to Executive Order 12,600.⁸⁶ When the submitter receives notice that the agency has determined that the submitter's information must be disclosed under FOIA, the submitter may begin the first stage of a reverse-FOIA action by objecting to the disclosure to the agency.⁸⁷ In the situations involving potential disclosure of the submitter's trade secrets, the submitter will object to disclosure on grounds that the information falls within Exemption 4 of FOIA.⁸⁸ If the agency agrees that the information requested falls within FOIA's Exemption 4, the agency must not disclose the information because it is barred from doing so under the UTSA.⁸⁹

However, if the agency makes a final determination that the information does not fall within Exemption 4 and thus must be disclosed, the submitter may proceed to the second stage of a reverse-FOIA action by suing the agency in federal court under the APA.⁹⁰ In reviewing agency action under the APA, the court will examine the record developed by the agency to determine whether the agency's actions were arbitrary and capricious.⁹¹

2. Sample Disclosure Provisions and Exemptions

Against the backdrop of FOIA, this Subpart will catalog how the regulations of a representative sampling of federal agencies address trade secrets that have been submitted to them. The agencies which were randomly selected for discussion are the FDA, the SEC, the FTC, and the EPA. For each agency, I will describe relevant and noteworthy points of its

86. Exec. Order No. 12,600, 3 C.F.R. 235 (1987).

87. *Id.* at 236-37.

88. 5 U.S.C. § 552(b)(4).

89. *CNA*, 830 F.2d at 1151-52; *see, e.g.*, *Pac. Architects & Eng'rs v. U.S. Dep't of State*, 906 F.2d 1345, 1347 (9th Cir. 1990) (holding that when the release of requested information is barred by the Trade Secrets Act, "the agency does not have discretion to release it"); *Env'tl. Tech., Inc. v. EPA*, 822 F. Supp. 1226, 1228 (E.D. Va. 1993) ("[T]he Trade Secrets Act bars disclosure of information that falls within Exemption 4" (citation omitted)); *Gen. Dynamics Corp. v. U.S. Dep't of the Air Force*, 822 F. Supp. 804, 806 (D.D.C. 1992) ("[T]he Trade Secrets Act is an independent prohibition on the disclosure of information within its scope." (citation omitted)), *vacated*, No. 92-5186, 1993 WL 411465 (D.C. Cir. Sept. 23, 1993); *see also* Office of Info. Policy, U.S. Dep't of Justice, *OIP Guidance: Discretionary Disclosure and Exemption 4*, FOIA UPDATE, Summer 1985, http://www.justice.gov/oip/foia_updates/Vol_VI_3/page3.htm (discussing Trade Secrets Act bar to discretionary disclosure under Exemption 4).

90. 5 U.S.C. § 704 (2006); *see, e.g.*, *Canadian Commercial Corp. v. Dep't of the Air Force*, 514 F.3d 37, 39 (D.C. Cir. 2008) (citation omitted).

91. 5 U.S.C. § 706(2)(A); *Chrysler Corp. v. Brown*, 441 U.S. 281, 318 (1979) (citing 5 U.S.C. § 706); *Campaign for Family Farms v. Glickman*, 200 F.3d 1180, 1184 (8th Cir. 2000); *Reliance Elec. Co. v. Consumer Prod. Safety Comm'n*, 924 F.2d 274, 277 (D.C. Cir. 1991); *Gen. Dynamics*, 822 F. Supp. at 806; *Davis Corp. v. United States*, No. 87-3365, 1988 U.S. Dist. LEXIS 17611, at *5-6 (D.D.C. Jan. 19, 1988).

corresponding regulations or statutes concerning its treatment of trade secrets and any exemptions that allow disclosure of trade secrets. This attempt to parse through the regulations to identify, compare, and describe concisely the patterns and themes that bear on their protection of trade secrets is another unique contribution of this Article.

a. FDA

The Federal Food, Drug, and Cosmetic Act prohibits the revealing of trade secrets.⁹² However, it “does not authorize the withholding of information from either House of Congress” or any authorized committee or subcommittee.⁹³ The general public may access information held by the FDA through a FOIA request.⁹⁴ In making disclosures to the public, the FDA’s regulations provide for “fullest possible disclosure” consistent with the “property rights of persons in trade secrets . . . and the need for the agency to promote frank internal policy deliberations and to pursue its regulatory activities without disruption.”⁹⁵ Additional regulations further provide that when a request for alleged trade-secret information is received, if the FDA is uncertain about whether the material is in fact protected, the FDA will consult with the trade-secret owner to determine if the material should be disclosed.⁹⁶ If a trade-secret owner disagrees with the FDA’s decision that it should make the secret available to the public, then the trade-secret owner may seek judicial review.⁹⁷

92. 21 U.S.C. § 331 (j) (2006). The section provides as follows:

The following acts and the causing thereof are hereby prohibited:

....

(j) The using by any person to his own advantage, or revealing, other than to the Secretary or officers or employees of the Department, or to the courts when relevant in any judicial proceeding under [21 U.S.C. §§ 301–399], any information acquired under authority of section 344 . . . concerning any method or process which as a trade secret is entitled to protection; or the violating of [21 U.S.C. § 346a(i)(2)] or any regulation issued under that section.

Id.

93. *Id.*

94. According to 45 C.F.R. § 5.31 (2009): If the records sought are “exclusively records of the Food and Drug Administration, only the Associate Commissioner for Public Affairs, FDA, who also is the FDA Freedom of Information Officer, may determine whether to release or deny the records.” *Id.* § 5.31 (a) (2) (ii).

95. 21 C.F.R. § 20.20 (2010).

96. 21 C.F.R. § 20.47 (2010).

97. 21 C.F.R. § 20.48 (2010). Judicial review is available under 5 U.S.C. § 702. The section further provides:

Where the Food and Drug Administration consults with a person who will be affected by a proposed disclosure of data or information contained in Food and Drug Administration records pursuant to § 20.47, and rejects the person’s request that part or all of the records not be made available for public disclosure, the decision constitutes final agency action that is subject to judicial review pursuant to

Another set of regulations provides further guidance on the agency's handling and disclosure of trade secrets by setting forth the agency's definition of a trade secret and establishing the procedure for producing requested information to the public.⁹⁸ The FDA appears to have adopted a definition of "trade secret" similar to that from the Restatement (Second) of Torts,⁹⁹ but in some ways narrower. While it is a more restrictive definition than the modern definition under the UTSA, the agency regulations also protect from disclosure the wider subset of confidential commercial or financial information, not just trade secrets.¹⁰⁰

When the agency receives a request for potentially trade-secret or confidential information, it notifies the submitter of its right to object within five working days.¹⁰¹ The FDA (it is unclear who at the FDA makes this decision) then reviews the basis for the objection and decides whether to sustain the objection, and thus not make the information available, or disagree with the objection, and thus disclose it.¹⁰² If the agency deems that the information should be disclosed, the submitter is notified of the agency's decision, and has five working days to file an action in a U.S. district court.¹⁰³ A separate regulation, appearing to work in tandem with the provisions for notice above, also provides that if the trade-secret owner fails to intervene in a court proceeding to defend the exempt status of the

5 U.S.C. chapter 7. The person affected will be permitted 5 days after receipt of notification of such decision within which to institute suit in a United States District Court to enjoin release of the records involved. If suit is brought, the Food and Drug Administration will not disclose the records involved until the matter and all related appeals have been concluded.

Id.

98. See 21 C.F.R. § 20.61 (2010).

99. The regulation states that:

A trade secret may consist of any commercially valuable plan, formula, process, or device that is used for the making, preparing, compounding, or processing of trade commodities and that can be said to be the end product of either innovation or substantial effort. There must be a direct relationship between the trade secret and the productive process.

Id. § 20.61(a). This last sentence requiring a direct relationship between the trade secret and the process does not appear in the Restatement of Torts. See also 21 C.F.R. § 720.8(b) (2010) (applying the six-prong test from the Restatement of Torts to determine whether information qualifies as a trade secret for cosmetic ingredients).

100. The section defined privileged or confidential commercial or financial information as "information which is used in one's business and is of a type customarily held in strict confidence or regarded as privileged and not disclosed to any member of the public by the person to whom it belongs." 21 C.F.R. § 20.61(b).

101. *Id.* § 20.61(e)(1)-(2).

102. *Id.* § 20.61(e)(3).

103. *Id.*

materials, then the submitter could be deemed to have waived its objection.¹⁰⁴

b. SEC

Like the FDA, the SEC also provides for the nondisclosure of confidential business information and has its own procedures governing FOIA requests. These provisions and procedures, however, differ from those observed at the FDA. No specific definition of “trade secret” (or “confidential information”) appears to be included in the SEC regulations,¹⁰⁵ even though mention is made of trade secrets in a few areas.¹⁰⁶ Rather, the regulations appear to incorporate FOIA and a catch-all of “other reason[s] permitted by Federal law,” which would encapsulate trade secrets.¹⁰⁷ Nevertheless, the fact that confidential business information comprises the broader group of information of which trade secrets are a subset leaves no doubt that the rules would cover trade secrets. However, it is interesting that, unlike the FDA, no effort appears to have been made to define “trade secrets.”

Similar to the FDA rules, the confidentiality rules do not authorize the withholding of any information from Congress.¹⁰⁸ In addition, unlike the FDA, an SEC exemption permits the agency, in its discretion, to provide all records to any person deemed appropriate by the Commission as long as the person makes a showing of need and provides assurances of confidentiality for records.¹⁰⁹ It is unclear how and whether this provision fits with FOIA.

104. 21 C.F.R. § 20.55 (2010) (“Whenever the Food and Drug Administration denies a request for a record or portion thereof on the grounds that the record or portion thereof is exempt from public disclosure as trade secret . . . under § 20.61, and the person requesting the record subsequently contests the denial in the courts, the Food and Drug Administration will so inform the person affected, i.e., the person who submitted the record, and will require that such person intervene to defend the exempt status of the record. . . . If the affected person fails to intervene to defend the exempt status of the records and to itemize and index the disputed records, the Food and Drug Administration will take this failure into consideration in deciding whether that person has waived such exemption so as to require the Food and Drug Administration to promptly make the records available for public disclosure.”).

105. A search and review of the following SEC regulations governing the treatment of confidential information did not reveal a definition of “trade secret”: 5 U.S.C. § 706 (2006); 15 U.S.C. § 78x (2006); 17 C.F.R. § 200.80 (2010); 17 C.F.R. § 200.83 (2010); 17 C.F.R. § 200.402 (2010); 17 C.F.R. § 229.402 (2010); 17 C.F.R. § 240.24b-2 (2010).

106. See 17 C.F.R. § 200.80; 17 C.F.R. § 200.402; 17 C.F.R. § 229.402.

107. 17 C.F.R. § 200.83(c)(1) (“Any person who, either voluntarily or pursuant to any requirement of law, submits any information or causes or permits any information to be submitted to the Commission, which information is entitled to confidential treatment . . . , may request that the Commission afford confidential treatment under the Freedom of Information Act to such information for reasons of personal privacy or business confidentiality, or for any other reason permitted by Federal law . . .”).

108. 15 U.S.C. § 78x(e)(2).

109. *Id.* § 78x(c) (“The Commission may, in its discretion and upon a showing that such information is needed, provide all ‘records’ . . . and other information in its possession to such

Presumably, this would apply to requests outside of FOIA.¹¹⁰ However, one could also infer that the SEC could decide to disclose trade-secret information to a person or entity, including foreign persons (not just another government agency), without complying with the established FOIA disclosure procedures as long as it is satisfied that the receiving party will maintain appropriate confidentiality of the records.¹¹¹

The procedure for requesting confidential treatment of information is also different from that of the FDA's. For the SEC to treat information as confidential, the submitter must omit from the material filed that portion that it wishes to remain confidential and must mark the omitted material as "confidential material" before filing it with the SEC.¹¹² However, a determination on whether the material will indeed be treated as confidential is not made until a FOIA request has been received by a member of the public for the materials.¹¹³ The regulation lists nine factors that one requesting confidential treatment may address to substantiate the request.¹¹⁴ It is noteworthy that only two of those are among the recognizable six-factor trade-secret test under the Restatement of Torts, as used by the FDA.¹¹⁵

persons, both domestic and foreign, as the Commission by rule deems appropriate if the person receiving such records or information provides such assurances of confidentiality as the Commission deems appropriate.”).

110. Courts have applied 15 U.S.C. § 78x(c) outside of FOIA. *See, e.g.*, SEC v. Merrill Scott & Assocs., Ltd., No. 2:02-CV-39-TC, 2008 WL 276502, at *2 (D. Utah Jan. 30, 2008) (holding that pursuant to 15 U.S.C. § 78x(c), the SEC could release confidential information to the DOJ), *aff'd in part and rev'd in part*, 600 F.3d 1262 (10th Cir. 2010); SEC v. R.J. Reynolds Tobacco Holdings, Inc., No. MISC.A.03-1651 (JDB), 2004 WL 3168281, at *12-13 (D.D.C. June 29, 2004) (holding that pursuant to 15 U.S.C. § 78x(c) and 17 C.F.R. § 240.24c-1, the SEC could use its discretion to release confidential information to the DOJ).

111. *See Merrill Scott*, 2008 WL 276502, at *2.

112. 17 C.F.R. § 240.24b-2 (2010). This section is also read in conjunction with 17 C.F.R. § 200.83, a separate regulation dealing with confidential treatment under FOIA. *See id.* § 240.24b-2(b)(2).

113. 17 C.F.R. § 200.83(c)(6) (2010).

114. *Id.* § 200.83(d)(2).

115. *See id.* § 200.83(d)(2)(v)-(vi). This subsection reads:

(2) Substantiation of a request for confidential treatment shall consist of a statement setting forth, to the extent appropriate or necessary for the determination of the request for confidential treatment, the following information regarding the request:

(i) The reasons, concisely stated and referring to specific exemptive provisions of the Freedom of Information Act, why the information should be withheld from access under the Freedom of Information Act;

(ii) The applicability of any specific statutory or regulatory provisions which govern or may govern the treatment of the information;

(iii) The existence and applicability of any prior determinations by the Commission, other Federal agencies, or a court, concerning confidential treatment of the information;

Those two are the “measures taken by the business to protect the confidentiality” of the materials and the “ease or difficulty of a competitor’s obtaining or compiling” the information.¹¹⁶ The SEC’s more varied considerations are consistent with the SEC regulations’ focus on confidential business information rather than on the narrower subset of trade secrets. If the Commission’s FOIA Officer denies the request for confidential treatment, the first appeal is to the Commission’s General Counsel, and a review of that decision can then be made by a U.S. district court.¹¹⁷ When the General Counsel is notified within ten calendar days that the matter has been appealed to federal court, the General Counsel should issue a stay on disclosing the allegedly confidential records.¹¹⁸ If the reviewing court decides that, among other things, the agency’s decision was “arbitrary, capricious, [and] an abuse of discretion,” the records will remain confidential.¹¹⁹

c. FTC

Similar to the FDA and SEC, the FTC does not have the authority to publically disclose trade secrets that have been submitted to it.¹²⁰ The prohibition against disclosure, however, does not apply to law enforcement (domestic or foreign)¹²¹ or to Congress.¹²² The FTC may also disclose trade-secret information to its contractors and consultants who are subject to the same confidentiality restrictions as its employees.¹²³ The process for

(iv) The adverse consequences to a business enterprise, financial or otherwise, that would result from disclosure of confidential commercial or financial information, including any adverse effect on the business’ competitive position;

(v) The measures taken by the business to protect the confidentiality of the commercial or financial information in question and of similar information, prior to, and after, its submission to the Commission;

(vi) The ease or difficulty of a competitor’s obtaining or compiling the commercial or financial information;

(vii) Whether the commercial or financial information was voluntarily submitted to the Commission and, if so, whether and how disclosure of the information would tend to impede the availability of similar information to the Commission;

(viii) The extent, if any, to which portions of the substantiation of the request for confidential treatment should be afforded confidential treatment; and

(ix) Such additional facts and such legal and other authorities as the requesting person may consider appropriate.

Id. § 200.83(d)(2).

116. *Id.* § 200.83(d)(2)(v)–(vi).

117. *Id.* § 200.83(e)(1).

118. *Id.* § 200.83(e)(3).

119. 5 U.S.C. § 706(2)(A) (2006).

120. 15 U.S.C. § 46(f) (2006).

121. *Id.* § 46(f)(1)–(2).

122. *Id.* § 57b-2(d)(1)(A), (b)(3)(C).

123. 16 C.F.R. § 1015.11 (2010).

disclosing confidential information is similar to the other agencies and in compliance with FOIA.¹²⁴ Once notified, if the submitter objects to the disclosure of its trade secrets, the decision can be appealed to a U.S. district court.¹²⁵

In determining what information qualifies as a trade secret, the FTC regulations differ from both the FDA and the SEC. Rather than adopting any of the six-factor test from the Restatement of Torts, the regulation looks toward the more modern UTSA and lists as one of five factors¹²⁶ whether “the information so specified is commonly known within the industry or is readily ascertainable by outside persons.”¹²⁷ It also calls for the submitter to describe how releasing the information would cause competitive harm to the company.¹²⁸ In one other departure from the previously discussed agencies’ rules, the FTC regulations explicitly provide that the determination of whether to disclose trade-secret information pursuant to FOIA will be based on “the most authoritative judicial interpretations available at the time a request for disclosure or production is considered.”¹²⁹ It further provides that to the extent the secret information can be segregated from the nonsecret information, a portion of the record may be disclosed to the requester.¹³⁰

Of the agencies reviewed in this Article, the provisions of the FTC regulations appear to be more closely tied to modern trade-secret principles and to the proposed shield-or-disclose model.

124. See 16 C.F.R. § 1015.18(b).

125. 15 U.S.C. § 57b-2(c).

126. The subsection provides as follows:

(c) Each request for exemption from disclosure under 5 U.S.C. 552(b)(4) as a trade secret or privileged or confidential commercial or financial information must:

(1) Specifically identify the exact portion(s) of the document claimed to be confidential;

(2) State whether the information claimed to be confidential has ever been released in any manner to a person who was not an employee or in a confidential relationship with the company;

(3) State whether the information so specified is commonly known within the industry or is readily ascertainable by outside persons with a minimum of time and effort;

(4) State how release of the information so specified would be likely to cause substantial harm to the company’s competitive position; and

(5) State whether the submitter is authorized to make claims of confidentiality on behalf of the person or organization concerned.

16 C.F.R. § 1015.18(c).

127. *Id.* § 1015.18(c)(3).

128. *Id.* § 1015.18(c)(4).

129. *Id.* § 1015.19(a).

130. *Id.*

d. EPA

The FDA, SEC, and FTC rules provide that confidentiality review would be initiated only when prompted by a FOIA request.¹³¹ Unlike these other agencies, the EPA's regulations provide that it can make determinations of confidentiality when prompted to do so by a FOIA request, without any such request, and when the EPA anticipates that it may receive a request for the information at a future date.¹³² In a nutshell, however, the EPA's procedure for disclosure under FOIA is the same as the previously discussed agencies.

First, a party requesting information submits a request to the EPA.¹³³ Next, the EPA office determines if the information is exempt from disclosure as a trade secret.¹³⁴ If the EPA determines that the information is not confidential, the EPA gives the trade-secret owner an opportunity to demonstrate to the EPA that the information is a trade secret.¹³⁵ An EPA legal office makes the EPA's final determination of whether or not disclosure will be withheld.¹³⁶

The agency's criteria for determining whether to grant confidential status to records invite the submitter to comment on nine factors.¹³⁷ This list

131. See, e.g., *supra* notes 101–02 and accompanying text (FDA); *supra* note 113 and accompanying text (SEC); *supra* note 124 and accompanying text (FTC).

132. 40 C.F.R. § 2.204(a) (2010).

133. The EPA has a control office for different categories of business information, including confidential information. The EPA assigns responsibility for confidential information to the control office. An EPA employee must first obtain the concurrence of the control office before making information available to the public. 40 C.F.R. § 2.212 (2010).

134. 40 C.F.R. § 2.204(d).

135. *Id.* § 2.204(d)–(e).

136. 40 C.F.R. § 2.205(a) (2010).

137. 40 C.F.R. § 2.204(e) provides as follows:

(4) The written notice required by paragraph (e)(1) of this section shall invite the business's comments on the following points (subject to paragraph (e)(5) of this section):

(i) The portions of the information which are alleged to be entitled to confidential treatment;

(ii) The period of time for which confidential treatment is desired by the business (e.g., until a certain date, until the occurrence of a specified event, or permanently);

(iii) The purpose for which the information was furnished to EPA and the approximate date of submission, if known;

(iv) Whether a business confidentiality claim accompanied the information when it was received by EPA;

(v) Measures taken by the business to guard against undesired disclosure of the information to others;

(vi) The extent to which the information has been disclosed to others, and the precautions taken in connection therewith;

(vii) Pertinent confidentiality determinations, if any, by EPA or other Federal agencies, and a copy of any such determination, or reference to it, if available;

(viii) Whether the business asserts that disclosure of the information would be likely to result in substantial harmful effects on the business'[s] competitive

does not mirror that of the other agencies.¹³⁸ It contains two generally recognizable trade-secret inquiries: (1) the measures taken by the company to guard the secrecy of the information and (2) the extent to which the information has been disclosed to others.¹³⁹ On the likelihood that the disclosure would result in harm, the provision here is more detailed, requiring a showing of “substantial harmful effects on the business’[s] competitive position” and “an explanation of the causal relationship between disclosure” and the harm.¹⁴⁰

Strangely, in a subsequent subpart, another EPA regulation governing confidentiality discussions uses a different list for establishing confidentiality,¹⁴¹ requiring a showing of reasonable measures to protect confidentiality and a showing that others cannot obtain the information by legitimate means.¹⁴² While there does not appear to be any significant difference between these factors and those used in the other regulation, it is odd that the same language (or list) was not used in both regulations to establish the same principle.

D. DO COMPANIES HAVE REASON TO BE CONCERNED?

The government collects an enormous amount of information from companies that it stores, analyzes, and disseminates to government agencies, other companies, and the public.¹⁴³ This practice increases the chances that information disclosed to the government that should remain secret does not. Accidental disclosures of confidential and trade-secret information occur.¹⁴⁴ Over the last few years, several government agencies have

position, and if so, what those harmful effects would be, why they should be viewed as substantial, and an explanation of the causal relationship between disclosure and such harmful effects; and

(ix) Whether the business asserts that the information is voluntarily submitted information as defined in § 2.201 (i), and if so, whether and why disclosure of the information would tend to lessen the availability to EPA of similar information in the future.

40 C.F.R. § 2.204(e).

138. See *supra* notes 99 (FDA), 115 (SEC), and 126 (FTC).

139. 40 C.F.R. § 2.204(e)(4).

140. *Id.* § 2.204(e)(4)(viii).

141. 40 C.F.R. § 2.208 (2010).

142. *Id.* § 2.208(b)–(c).

143. See, e.g., Irvin B. Vann, *Electronic Data Sharing in Public Sector Agencies*, in HANDBOOK OF PUBLIC INFORMATION SYSTEMS 249, 249 (Christopher M. Shear & G. David Garson eds., 3d ed. 2010).

144. See, e.g., *Jerome Stevens Pharm., Inc. v. FDA*, 402 F.3d 1249, 1251 (D.C. Cir. 2005) (discussing how trade secrets and confidential information for the thyroid drug Unithroid were accidentally posted on an FDA website for five months); *B&J Oil & Gas v. Fed. Energy Regulatory Comm’n*, 353 F.3d 71, 74 (D.C. Cir. 2004) (recounting how the Federal Energy Regulatory Commission (“FERC”) accidentally posted a gas company’s confidential information); *HiRel Connectors, Inc. v. United States*, No. CV01-11069 DSF VBKK, 2006 WL

inappropriately handled or inadvertently disclosed company trade secrets. The EPA alone has been the subject of three litigated cases that have resulted in written opinions,¹⁴⁵ and one more recent case.¹⁴⁶ In one case, for example, the EPA disclosed one organization's trade secrets to an environmental organization.¹⁴⁷ In another case, the agency is accused of disclosing trade secrets to a newspaper.¹⁴⁸ The FERC also inadvertently posted a company's confidential information on a publicly accessible information system.¹⁴⁹ The FDA has been accused of inappropriately disclosing to a prisoner the secret formula to a drug¹⁵⁰ and posting on its website another company's trade secrets contained in a New Drug Application.¹⁵¹

Beyond the inadvertent disclosures of trade secrets, there are other means by which the government could release trade secrets. These include, for instance, disclosures made by the government in conducting its business with vendors,¹⁵² disclosures mandated by statute,¹⁵³ disclosures made pursuant to FOIA,¹⁵⁴ and perhaps even intentional leaks made to the media or other outlet.¹⁵⁵ FOIA "is the root of the threat and of the risk" in

3618011 (C.D. Cal. Jan. 25, 2006) (examining allegations of trade-secret misappropriation involving disclosures of missile part specifications over the Internet and through responses to RFPs); *Myers v. Williams*, 819 F. Supp. 919, 920–21 (D. Or. 1993) (describing how the FDA accidentally disclosed the formula for Upjohn's sleeping pill Halcion to a prisoner who claimed the drug caused him to break the law; Upjohn obtained an injunction barring the prisoner from selling the formula to Upjohn's competitor).

145. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984); *Nat'l Wildlife Fed'n v. EPA*, 286 F.3d 554 (D.C. Cir. 2002); *Masonite Corp. v. Cnty. of Mendocino Air Quality Mgmt. Dist.*, 49 Cal. Rptr. 2d 639 (Ct. App. 1996).

146. *N. Coast Rivers Alliance v. Johnson*, No. 4:08 cv-05328 SBA (N.D. Cal. Feb. 2, 2009) (dismissed by stipulation of the parties).

147. *Nat'l Wildlife Fed'n*, 286 F.3d at 574.

148. *N. Coast Rivers Alliance*, No. 4:08 cv-05328 SBA.

149. *B&J Oil & Gas*, 353 F.3d at 74.

150. *Myers v. Williams*, 819 F. Supp. 919, 920 (D. Or. 1993).

151. *Jerome Stevens Pharm., Inc. v. FDA*, 402 F.3d 1249, 1251 (D.C. Cir. 2005).

152. See, e.g., *Secure Servs. Tech., Inc. v. Time & Space Processing, Inc.*, 722 F. Supp. 1354, 1357–65 (E.D. Va. 1989) (discussing a situation between two vendors where the government loaned the defendant one of plaintiff's fax machines to achieve compatibility between the machines, and no trade-secret violation was found since plaintiff had not prohibited the government from sharing the machine with an agreement).

153. See, e.g., *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 994–95 (1984) (discussing forced revelation of trade-secret information by amendment to Federal Insecticide, Fungicide, and Rodenticide Act).

154. See, e.g., *Chrysler Corp. v. Brown*, 441 U.S. 281, 285 (1979); *Doe v. Veneman*, 380 F.3d 807, 810 (5th Cir. 2004); *Pub. Citizen Health Research Grp. v. FDA*, 704 F.2d 1280, 1290 (D.C. Cir. 1983); *Williams v. Curtiss-Wright Corp.*, 681 F.2d 161, 162 (3d Cir. 1982).

155. These kinds of intentional disclosures, if made by a government employee whose identity can be ascertained, could lead to possible criminal liability. See Economic Espionage Act of 1996, 18 U.S.C. § 1832 (2006); Trade Secrets Act, 18 U.S.C. § 1905 (2006).

protecting trade secrets that are in the government's hands.¹⁵⁶ For many years now, companies have been fearful and mindful of the large amount of information accessible to competitors and the public through FOIA.¹⁵⁷ Indeed it is believed that most FOIA requests for business information come from competitors.¹⁵⁸ Even outside of FOIA, another gaping risk comes from Congress. Not only do the agency-protection rules not apply to Congress, but a member of Congress could destroy a trade secret, for instance, by making it public under the Speech or Debate¹⁵⁹ Clause.¹⁶⁰

There is also the problem that a trade-secret owner does not know for certain upon submitting the information whether the agency will ultimately agree to treat it as confidential and not disclose it. That is because the determination of protective status is generally not made *until* a FOIA request has been received.¹⁶¹ The FDA regulations, for instance, provide that if a regulation is issued specifying that certain categories of records should be disclosed, then the agency may produce the documents without providing notice and opportunity to object to the submitter.¹⁶² If an agency refuses to classify information as a trade secret, the company can challenge the decision under section 10(e) of the APA.¹⁶³ This section authorizes the court to set aside an agency decision that is "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law."¹⁶⁴ Not only is this a difficult standard to meet for one seeking reversal of an agency decision, but the agency also benefits from the courts' deference to its decision.¹⁶⁵

Moreover, in some agencies, the procedure by which an agency determines whether information qualifies as a trade secret is quite informal, without a hearing "on the record."¹⁶⁶ A company may not even know the identity of the person or persons within the agency who made the decision, or the person's expertise in making these kinds of decisions.¹⁶⁷ Nor does the person making the decision have access to all of the relevant information with which to make the determination. Unlike in the litigation context, there is no adversary who can challenge or produce additional information

156. *Wearly v. FTC*, 462 F. Supp. 589, 600 (D.N.J. 1978), *vacated*, 616 F.2d 662 (3d Cir. 1980) (holding that the matter was not ripe for judicial review).

157. *See, e.g., Connelly, supra* note 49, at 208.

158. *See, e.g., id.* at 209.

159. U.S. CONST. art. I, § 6, cl. 1.

160. *See Wearly*, 462 F. Supp. at 600 n.13 (discussing Senator Joseph McCarthy's classic use of the Speech or Debate Clause).

161. *See supra* text accompanying note 113.

162. 21 C.F.R. § 20.61 (f) (3) (2010).

163. 5 U.S.C. § 706 (2006).

164. *Id.* § 706(2)(A).

165. *See Zotos Int'l, Inc. v. Young*, 830 F.2d 350, 351 (D.C. Cir. 1987).

166. *See id.* at 353 (discussing the FDA's procedure).

167. *Id.* at 353-54.

on the alleged trade-secret status of the information.¹⁶⁸ This places the agency in the role of opposing counsel and judge simultaneously, adding even more weight to the agency's discretion.

Where the government makes it mandatory to submit information, a company could refuse to submit its trade secrets to the government and thus choose not to do business in the U.S. market.¹⁶⁹ Therefore, a company is forced to choose between its livelihood or what may be a waiver of its constitutional right not to be subject to a taking.¹⁷⁰ In *Phillip Morris, Inc. v. Reilly*, for instance, the court held that the Commonwealth of Massachusetts could not condition the company's right to sell cigarettes in Massachusetts on the company's disclosing its ingredient list (a trade secret) to the Commonwealth.¹⁷¹ However, the alternative to this rather unappealing option could be to disclose the information only if deemed necessary by a court under promises of confidentiality and only so much as is necessary to meet the underlying regulatory interests. The proposal set forth in this Article presents one step toward reaching that middle ground.

III. APPROACHES TO ORDERING PRODUCTION OF TRADE SECRETS

For additional guidance on the question of when the government should be entitled to take trade-secret information, I will now consider cases that address, in other contexts, when one party can be ordered to produce its trade secrets to another. Similar to the company-to-government level of exchange that is the focus of this Article, these cases involve, for instance, discovery of trade secrets in pending litigation between parties. Moreover, an additional body of cases involving disclosure of trade secrets by the government to the public is also considered. Lessons from these cases ultimately help frame my shield-or-disclose model.

There is no coherent or consistent approach in the case law that courts use to decide when to compel a party to produce its trade secrets to the government. Rather, courts tend to use a more contextual approach based on the circumstances or setting that the case presents. Accordingly, I have categorized and analyzed the cases into three categories to better understand the general approach for each group. By identifying what are essentially the "best practices" from these categories, I was better able to

168. See Mary L. Lyndon, *Secrecy and Access in an Innovation Intensive Economy: Reordering Information Privileges in Environmental, Health, and Safety Law*, 78 U. COLO. L. REV. 465, 502-03 (2007) (arguing that these dynamics in the regulatory context favor secrecy).

169. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1007 (1984) (noting that Monsanto willingly bore the burden of disclosure to the government in exchange for "the ability to market pesticides in this country").

170. See Janka, *supra* note 51, at 355 (discussing why this kind of choice may not be permitted under the unconstitutional-conditions doctrine, "which prevents the government from conditioning the receipt of public benefits on an individual's willingness to waive his constitutional rights").

171. 312 F.3d 24, 46-47 (1st Cir. 2002).

construct a more principled and structured approach for the refusal-to-submit cases. After discussing each of the categories, Part III.B will summarize the shortcomings from these various approaches.

A. CASE REVIEW

The cases are divided into three categories with lines drawn mostly around who the parties are in relation to each other and the procedural context in which the cases arise. First are the private-party cases that involve discovery disputes between private (nongovernmental) parties to litigation, where trade secrets have been placed at issue in the case or in discovery. One party seeks to discover information that the other party claims is a trade secret, and the court must rule on a motion to compel. Second are the government cases, where the government is a party to the litigation and a request has been made for production of trade secrets outside the FOIA context. The final category comprises the reverse-FOIA cases, where a company is objecting to production of its trade secrets to a third-party FOIA requestor. Each category is described in turn below. Following the discussion, the next Subpart pulls together the principles from these cases and explains why they are inadequate approaches for the refusal-to-submit cases.

1. Private-Party Cases

The private-party cases mostly involve discovery disputes. Typically, a party to litigation seeks to discover alleged trade secrets from another party during the course of the litigation. The private-party cases differ from the refusal-to-submit cases because of the nature of the relationship between the parties. In private-party cases, the parties have more “voluntarily” entered into a relationship; often they are competitors or have a previously existing relationship, and the question of producing a trade secret arises as a discovery dispute in a pending action.¹⁷² In private-party litigation, trade secrets have either been allegedly misappropriated, or they are relevant to an issue in the litigation (for instance, product-litigation cases).¹⁷³ Accordingly, the trade secrets have been placed at issue in the litigation, and they are relevant to an issue or claim in contention. Even in the private-party discovery disputes, the courts are more protective toward permitting

172. See, e.g., *Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co.*, 107 F.R.D. 288, 289–90 (D. Del. 1985) (action between Coca-Cola and its bottlers, wherein bottlers sought to compel production of the complete formula of Coke).

173. See, e.g., *Snowden ex rel. Victor v. Connaught Labs., Inc.*, 136 F.R.D. 694, 699–70 (D. Kan. 1991) (granting motion to compel disclosure of trade secrets relating to vaccine in a products-liability action); *Kleinerman v. U.S. Postal Serv.*, 100 F.R.D. 66, 69–70 (D. Mass. 1983) (granting motion to compel disclosure of trade secrets where central to plaintiff’s theory of trade-secret misappropriation).

discovery of third parties who are not a party to the litigation and are far less likely to compel disclosure of their trade secrets.¹⁷⁴

The courts' approaches to solving these disputes and determining whether to compel disclosure of trade-secret information are often guided by the discovery and evidentiary rules. In such instances, the party from whom the information is sought will request a protective order from the court to avoid production. Within the scheme of evidentiary and discovery privileges, there is no absolute privilege for not disclosing trade secrets.¹⁷⁵ However, unless the trade-secret owner seeks to "conceal fraud or otherwise work injustice," the trade-secret owner has a qualified privilege to resist discovery if such disclosure will cause harm.¹⁷⁶

Following an evidentiary-law framework, the trade-secret owner generally must first show that the information is indeed a trade secret and that disclosure of the trade secret might be harmful.¹⁷⁷ The "trade secret" privilege in the context of the law of evidence recognizes the fact that disclosure of the trade-secret information destroys the value of the property. When balancing the need for the evidence against the trade-secret owner's property right, it is treated as a qualified privilege insofar as disclosure is compelled only under the control of a protective order.¹⁷⁸ Although a party may have a legitimate interest in protecting its trade secrets, "that interest must yield to the right of the plaintiff to discover the full truth of the facts involved in the issues of the case" where "the issues cannot be fairly adjudicated unless this information is available."¹⁷⁹

Procedurally, the burden then shifts to the party seeking discovery of the trade secret to demonstrate that the trade secret is relevant and necessary to the litigation.¹⁸⁰ Once relevance and need are established, the trade secret will be disclosed barring an "unreasonable, oppressive, annoying, or embarrassing" subpoena.¹⁸¹ It is entirely within the

174. See, e.g., *Snowden*, 136 F.R.D. at 699 (noting that the trade secrets of a third party "are entitled to greater protection" and did not have to be disclosed). In the refusal-to-submit cases, however, there is no business relationship or litigation pending between the company and the government. This should suggest a more cautious approach to compelling production in the refusal-to-submit cases.

175. *Upjohn Co. v. Hygieia Biological Labs.*, 151 F.R.D. 355, 358-59 (E.D. Cal. 1993).

176. *Id.* at 358 (internal quotation marks omitted).

177. *Id.*

178. *Wearly v. FTC*, 462 F. Supp. 589, 594 (D.N.J. 1978), *vacated*, 616 F.2d 662 (3d Cir. 1980).

179. *Melori Shoe Corp. v. Pierce & Stevens, Inc.*, 14 F.R.D. 346, 347 (D. Mass. 1953).

180. *Id.*; see, e.g., *Hartley Pen Co. v. U.S. Dist. Court for the S. Dist. of Cal.*, 287 F.2d 324 (9th Cir. 1961) (seeking to compel party to answer interrogatories that would reveal its trade secrets).

181. *Centurion Indus., Inc. v. Warren Steurer & Assocs.*, 665 F.2d 323, 326 (10th Cir. 1981).

sound discretion of the trial court to decide whether trade secrets are relevant and whether the need outweighs the harm of disclosure. Likewise, if the trade secrets are deemed relevant and necessary, the appropriate safeguards that should attend their disclosure by means of a protective order are also a matter within the trial court's discretion.¹⁸²

The courts consider a wide range of factors that are neither definitive nor exhaustive in deciding whether good cause exists to grant a protective order. As part of the inquiry, some courts consider whether the information qualifies as a trade secret.¹⁸³ While some courts consider the purpose for which the information is sought,¹⁸⁴ others consider relevance, necessity, and whether potential harm outweighs the need for the information.¹⁸⁵ The courts will often balance the requesting party's need for the information against the injury that might result if disclosure is permitted.¹⁸⁶ Generally, unless the risk of harm to the trade-secret owner outweighs the need for discovery (an unlikely event given the liberal discovery rules), the court will compel disclosure.¹⁸⁷ Pursuant to Rule 26(c)(7), the court will then craft a protective order with appropriate safeguards to govern the scope and manner of the disclosure.¹⁸⁸

2. Government Cases

Like the private-party cases, this category of cases sheds light on some courts' approaches in discovery-type disputes between the government and a company (outside of a FOIA request). The courts in these cases tend to focus more on relevance than on the trade-secret status of the information sought. They almost always rule in favor of disclosure. For example, in *Kleinerman v. United States Postal Service*, the court granted a government contractor's motion to compel production of documents that included confidential technical reports and proposals.¹⁸⁹ Without actually engaging in an analysis of whether these documents are trade secrets, the court

182. *Id.*

183. *See State ex rel. Johnson v. Tsapis*, 419 S.E.2d 1, 3 (W. Va. 1992) (applying the Restatement of Torts's six-factor test to determine whether there is good cause under Rule 26(c)(7) of the Federal Rules of Civil Procedure).

184. *Id.*

185. *See, e.g., Snowden ex rel. Victor v. Connaught Labs., Inc.*, 136 F.R.D. 694, 698 (D. Kan. 1991); *Premier Election Solutions, Inc. v. SysTest Labs Inc.*, Civil Action No. 09-cv-01822-WDM-KMT, 2009 WL 3075597, at *8 (D. Colo. Sept. 22, 2009).

186. *Pochat v. State Farm Mut. Auto. Ins. Co.*, No. Civ. 08-5015-KES, 2008 WL 5192427, at *3-4 (D.S.D. Dec. 11, 2008).

187. *Id.* at *10-11.

188. *Centurion Indus., Inc. v. Warren Steurer & Assocs.*, 665 F.2d 323, 326 (10th Cir. 1981); *see Pochat*, 2008 WL 5192427, at *4.

189. 100 F.R.D. 66 (D. Mass. 1983).

collapsed the trade-secret analysis into the determination of relevancy.¹⁹⁰ Additionally, the court stated that the defendants had not provided adequate proof of harm from disclosure.¹⁹¹

In the government cases, the analysis tends to focus very little, if at all, on whether the information at issue qualifies as a trade secret. While recommending consideration of a host of factors,¹⁹² one court recognized the importance of a threshold determination of trade secrecy in analyzing whether to permit disclosure. In *Chevron*, the plaintiff sued for declaratory and injunctive relief against the threatened disclosure of test data on fungicides and insecticides submitted to the EPA.¹⁹³ Chevron claimed that the test data constituted trade secrets.¹⁹⁴ In deciding to release the data, the EPA had not made a determination of whether the information qualified for trade-secret protection.¹⁹⁵ The court held that the EPA should have determined the trade-secret status of the data, and the agency's failure to do so was an arbitrary and capricious exercise of its judgment.¹⁹⁶ Similarly, in *Mobay Chemical Corp. v. Costle*, the court remanded the case back to the EPA to determine whether the environmental safety data submitted by the plaintiff is a "trade secret" according to the Restatement of Torts definition.¹⁹⁷ In another case where the government sought an order to allow it to inspect defendants' business premises, the court engaged in balancing between the government-plaintiff's need for information and the harms that could come from disclosure of defendant's trade secrets.¹⁹⁸ The court allowed inspection of the process but did not analyze whether a trade secret existed.¹⁹⁹ It was satisfied that the government's stipulation not to reveal the trade secrets was adequate protection.²⁰⁰

190. *Id.* at 69-70.

191. *See id.* at 70.

192. Among the factors were "the various policies underlying the [Federal Environmental Pesticide Control Act], such as the promotion of research, the interest in competition, the protection of public health and the environment, and the improvement of pesticides, as well as other governmental interests." *Chevron Chem. Co. v. Costle*, 443 F. Supp. 1024, 1032 (N.D. Cal. 1978).

193. *Id.* at 1025.

194. *Id.*

195. *Id.* at 1032.

196. *Id.*

197. 447 F. Supp. 811, 835 (W.D. Mo. 1978); *see also* *Dow Chem. Co. v. Costle*, 464 F. Supp. 395 (E.D. Mich. 1978) (remanding to the agency to determine whether trade secrets existed according to the Restatement of Torts's definition).

198. *United States v. Nat'l Steel Corp.*, 26 F.R.D. 603 (S.D. Tex. 1960).

199. *See id.*

200. *See id.*

3. Reverse-FOIA Cases

Trade-secret litigation filed to prevent the government from releasing information pursuant to a FOIA request is known as a “reverse FOIA” action.²⁰¹ Thus, if an agency makes a final determination that the information does not fall within Exemption 4 of FOIA, and thus must be disclosed, the submitter may sue the agency in federal court under the APA.²⁰² In reviewing the agency’s action under the APA, the court will examine the record developed by the agency to determine whether the agency’s actions were arbitrary and capricious.²⁰³ The court must first establish that the threshold requirements of Exemption 4 are present²⁰⁴ by establishing that the information was obtained from a person²⁰⁵ and that the information is financial in character.²⁰⁶ If these threshold requirements are met, the court must next determine whether the information was required or voluntarily submitted.²⁰⁷

The determination whether information was voluntarily submitted is the most important analytical step in a reverse-FOIA case. The required voluntary finding establishes which test will be applied for the finding of confidentiality under Exemption 4.²⁰⁸ There are no clear rules for distinguishing what was voluntary from what was required.²⁰⁹ A court order to compel production would seem to fall under the “required” category.²¹⁰ However, submissions in response to an agency subpoena are not necessarily compulsory.²¹¹ Court enforcement of the subpoena, if granted, would make it required.²¹² Some agencies’ regulations take on the task of defining a voluntary submission. The EPA, for example, defines “voluntarily submitted information” as:

201. See *Chrysler Corp. v. Brown*, 441 U.S. 281, 285 (1979) (“This case belongs to a class that has been popularly denominated ‘reverse-FOIA’ suits.”).

202. 5 U.S.C. §§ 701–706 (2006); see cases cited *supra* note 89.

203. See cases cited *supra* note 91.

204. 5 U.S.C. § 552(b)(4) (2006), amended by OPEN Government Act of 2007, Pub. L. No. 110-175, 121 Stat. 2524.

205. See, e.g., *Buffalo Evening News, Inc. v. Small Bus. Ass’n*, 666 F. Supp. 467, 469 (W.D.N.Y. 1987).

206. See, e.g., *Am. Airlines, Inc. v. Nat’l Mediation Bd.*, 588 F.2d 863, 870 (2d Cir. 1978).

207. See *Critical Mass Energy Project v. Nuclear Regulatory Comm’n*, 975 F.2d 871 (D.C. Cir. 1992) (en banc) (holding that voluntarily submitted information to the government will be treated as confidential if it is not ordinarily public).

208. *Parker v. Bureau of Land Mgmt.*, 141 F. Supp. 2d 71, 77 (D.D.C. 2001).

209. Some courts have held that the government must actually exercise its authority to compel submission of the information beyond the issuance of a subpoena in order to be considered mandatory under *National Parks & Conservation Ass’n v. Morton*, 498 F.2d 765 (D.C. Cir. 1974). See *Inner City Press/Cmty. on the Move v. Bd. of Governors of the Fed. Reserve Sys.*, 463 F.3d 239, 246 (2d Cir. 2006); *Parker*, 141 F. Supp. 2d at 78 n.6.

210. *McDonnell Douglas Corp. v. EEOC*, 922 F. Supp. 235, 242 (E.D. Mo. 1996).

211. *Id.*

212. *Id.*

[B]usiness information in the EPA's possession—

(1) [T]he submission of which [the] EPA had no statutory or contractual authority to require; and

(2) The submission of which was not prescribed by statute or regulation as a condition of obtaining some benefit (or avoiding some disadvantage) under a regulatory program of general applicability, including such regulatory programs as permit, licensing, registration, or certification programs, but excluding programs concerned solely or primarily with the award or administration by [the] EPA of contracts or grants.²¹³

If the court determines that the information was required, the court applies the *National Parks* analysis to determine whether the information is confidential.²¹⁴ This test provides that material is only protected by Exemption 4 from disclosure if either (1) disclosure would “impair the Government’s ability to obtain necessary information in the future,” or (2) disclosure would “cause substantial harm to the competitive position of the person from whom the information was obtained.”²¹⁵ If the court determines that the information was voluntarily submitted, then it applies the *Critical Mass* analysis to determine whether the information is confidential.²¹⁶ This is an easier standard that calls for protection from disclosure under Exemption 4 as long as the information is (1) commercial or financial and (2) “not customarily [made] available to the public.”²¹⁷ If the court determines that the information is confidential under *Critical Mass*, it does not disclose the information.²¹⁸ As then-Judge Ginsburg observed, this test removes an “independent judicial check on the reasonableness of the provider’s custom” and is subject to abuse.²¹⁹

Neither test requires proof of trade secrecy. Confidentiality is enough. The *National Parks* test, however, has a substantial competitive-harm requirement, which has some semblance of a trade-secret test. However, the precise contours of that test are not entirely clear, and a party opposing disclosure need not show actual competitive harm; instead, only a likelihood of such harm would be sufficient.²²⁰ The harm is limited to business harm

213. 40 C.F.R. § 2.201(i) (2010).

214. See *Nat'l Parks*, 498 F.2d 765.

215. *Id.* at 770; *McDonnell Douglas*, 922 F. Supp. at 241.

216. *Critical Mass Energy Project v. Nuclear Regulatory Comm'n*, 975 F.2d 871 (D.C. Cir. 1992) (en banc).

217. *Id.* at 872; *McDonnell Douglas*, 922 F. Supp. at 241.

218. *McDonnell Douglas*, 922 F. Supp. at 241.

219. *Critical Mass*, 975 F.2d at 883 (Ginsburg, J., dissenting).

220. *Pub. Citizen Health Research Grp. v. FDA*, 704 F.2d 1280, 1291 (D.C. Cir. 1983).

caused by competitors rather than harm resulting from other reasons, such as negative information about the company.²²¹

The voluntary-required test does, however, reflect certain policy choices and values that seek to balance the governmental interests and business' proprietary interests. When the government obtains information by force, it needs to ensure that the information is nonetheless reliable; when, however, the information is voluntarily provided, the government needs to ensure its continued availability.²²² As the court noted in *Critical Mass*, "the disclosure of information the Government has secured from voluntary sources on a confidential basis will both jeopardize its continuing ability to secure such data on a cooperative basis and injure the provider's interest in preventing its unauthorized release."²²³

B. UNSUITABILITY OF EXISTING APPROACHES

The courts' analytical approaches to determine when trade secrets should be produced are varied and inconsistent. Thus, a wholesale adoption of any of the existing approaches would not be suitable for the refusal-to-submit cases. In the private-party discovery cases, the courts appear to rely mostly on the definition of trade secrets provided in the UTSA and on the discovery rules in deciding when to compel disclosure of an alleged trade secret. The fact that the discovery rules are generally interpreted liberally in favor of disclosure means that the outcomes in those cases tend to favor disclosure. Even in the private-party discovery disputes, the courts are more protective toward permitting discovery of third parties who are not a party to the litigation and are far less likely to compel disclosure of their trade secrets.²²⁴ Often there is a confidentiality agreement or other agreement between the third party and one of the parties, and the courts would not permit the party in litigation to violate that agreement for the benefit of another party to the litigation.²²⁵ This practice therefore leans toward and supports a more restrictive, rather than permissive, approach to ordering production of trade secrets to the government.

The government cases follow closely the private-party discovery cases in that the courts tend to order disclosure. However, the analysis in the

221. See, e.g., Connelly, *supra* note 49, at 235. In one case, the court stated that the ease-of-reverse-engineering factor from the Restatement of Torts will have bearing on the "substantial competitive harm" test. See *Worthington Compressors, Inc. v. Costle*, 662 F.2d 45, 52-53 (D.C. Cir. 1981).

222. *Critical Mass*, 975 F.2d at 878.

223. *Id.* at 879.

224. *Snowden ex rel. Victor v. Connaught Labs., Inc.*, 136 F.R.D. 694, 699-700 (D. Kan. 1991); *Premier Election Solutions, Inc. v. SysTest Labs Inc.*, Civil Action No. 09-cv-01822-WDM-KMT, 2009 WL 3075597, at *10 (D. Colo. Sept. 22, 2009) (denying motion to compel nonparty to produce trade-secret information).

225. See, e.g., *Premier Election Solutions*, 2009 WL 3075597, at *10.

government cases tends to focus very little, if at all, on whether the information at issue qualifies as a trade secret.²²⁶ Rather, the focus appears to be on relevance. If the court deemed the alleged trade-secret information relevant to the government's request, then disclosure was ordered or condoned without paying much attention to its trade-secret status.²²⁷ Finally, the focus in the FOIA cases tends to be on the government agency's actions and on whether the agency created the appropriate record rather than on a trade-secret analysis.²²⁸ The substantive analysis is driven by whether the information was required or submitted voluntarily to the government.²²⁹ Accordingly, the trade-secret status of the information carries almost no relevance.

It is also interesting that the approach to resolve reverse-FOIA cases applies a standard that is in some ways inconsistent with the agencies' regulatory standards for protecting trade secret and confidential information. That is because the FOIA standard exempts a class of proprietary information much broader than what would be defined as a "trade secret" under the common law.²³⁰ This is ironic because since FOIA is a disclosure statute, one would expect that a narrower definition of a trade secret would be more in keeping with its legislative mandate.²³¹ When, however, the agencies are applying their regulations to determine whether information should be protected from disclosure, they are likely using a more restrictive test. Thus, where an agency defines a trade secret based on the Restatement of Torts, a submitter may not be able to persuade the agency that its data meet that standard. However, under FOIA, which does not use a Restatement of Torts definition for Exemption 4 status, the data could be protected. This inconsistency begs the question whether agencies should just incorporate the FOIA standard as interpreted by the courts, rather than having a complicated body of regulations governing confidentiality that ultimately is not consistent with the FOIA case law.²³²

IV. STRIKING THE BALANCE IN DISCLOSING TO THE GOVERNMENT

The unique nature of trade secrets—that they exist only so long as they are not disclosed or disclosed in confidence—requires an arrangement that

226. See discussion *supra* Part III.A.2.

227. See discussion *supra* Part III.A.2.

228. See *supra* note 203 and accompanying text.

229. See discussion *supra* Part III.A.3.

230. See *supra* notes 214–20 and accompanying text.

231. See, e.g., Connelly, *supra* note 49, at 235. This broad exemption for trade secret and confidential information is probably further motivation for the Obama Administration's push to encourage a policy in favor of greater disclosure under FOIA. Memorandum on the Freedom of Information Act, 2009 DAILY COMP. PRES. DOC. 9 (Jan. 21, 2009).

232. The EPA, for instance, has incorporated the FOIA test in its regulations. See *infra* text accompanying note 244.

ensures against accidental, unauthorized, or other improper disclosure.²³³ The owner of trade-secret information should never make a disclosure, either voluntary or involuntary, without enforceable restrictions against general disclosure. However, when it is determined that it is in the public's interest that the information be disclosed to the government, a delicate balance must be observed. In some cases, the need for the information is not so important as to warrant disclosure of the trade secret. In those cases it may be fair and adequate to withhold disclosure. In other cases, the trade-secret information is necessary and vital, and thus, disclosure is justified if sufficient safeguards are in place to protect the information and limit dissemination. This serves the needs of the government (and the underlying regulation or proceeding) while protecting the interests of the trade-secret owner.

To achieve the above goals, a clear model is needed to determine when trade-secret information should be submitted to the government in the first place.²³⁴ This model therefore addresses disclosure to the government, not the subsequent and separate step of disclosure by the government to the public. The latter is already addressed, albeit not perfectly, in the elaborate regulatory scheme of agency rules and regulations, as well as in the reverse-FOIA case law.²³⁵ Thus, once the government has the information in its possession, whether received voluntarily or through compliance mandates, the current regulations are applicable to protecting them.

A. THE SHIELD-OR-DISCLOSE MODEL

The shield-or-disclose proposal focuses on why and when the government should obtain a company's trade secrets. The body of law that would allow corporations to refuse to submit proprietary information to the government is trade-secret law, which protects trade secrets—not the broader category of confidential information. Because of the dearth of case law and other guidance specifically relevant to refusal-to-submit cases, I have considered a wider body of cases that implicate disclosures of trade secret by the government as well as disclosures made in the context of pending

²³³. See *supra* notes 39–43 and accompanying text.

²³⁴. Of course, this Article assumes the difficult circumstance where a government regulation does not require that the information in question be produced. Indeed, in the real-life Toyota situation, the NHTSA had issued a rule requiring that manufacturers who included black boxes in vehicles must make tools available to these vehicle owners to download and read the data recorded in the boxes. However, the rule will not be implemented until 2012. See Dionne Searcey & Kate Linebaugh, *Toyota Woes Put Focus on Black Box*, WALL ST. J., Feb. 14, 2010, <http://online.wsj.com/article/SB10001424052748703562404575067680423734178.html>. Even if it had been in effect, it is unclear whether such a regulation granting access to individual vehicle owners would affect Toyota's obligation to produce the data to the government.

²³⁵. See *supra* Parts II.C, III.A.3.

litigation. The end result is what I will refer to as the “shield-or-disclose” model.

The shield-or-disclose model is inspired by the general approach that has been adapted in the private-party and government discovery cases. It is further infused with greater specificity and detail that is best suited for the kinds of considerations that are present in trade-secret cases. It also makes clear the roles and burdens to be assumed by the various players. It requires a threshold determination that the information in question qualifies for trade-secret protection under the common law. This helps reduce potential abuses by companies that may seek protection for information that is merely confidential but does not meet the requisite criteria for trade secrecy.²³⁶ However, mindful of the risk that trade-secret information submitted to the government could be disclosed to the public, and thus have its secrecy be destroyed, the shield-or-disclose model requires evidence of need, relevance, and potential harm before a court could order disclosure.

If the trade-secret owner is able to meet its burden and establish the trade-secret status of the information, then many other questions follow. Ultimately, the proposal creates a procedural and substantive path to identify the circumstances under which a court should compel a trade-secret holder to produce its trade secret to the government. As a general policy matter, when the public interest in the disclosure outweighs the harm to the company from disclosure, the court may justifiably compel disclosure. What does that mean, however? How is it determined? These are the questions for which this framework aims to provide guidance. It is, admittedly, not the sole answer, but rather a modest step in the direction of achieving a more principled approach to refusal-to-submit cases, a step that is grounded in trade-secret law and consistent with the policy considerations that underlie governmental access and disclosure.

1. Company Establishes Trade-Secret Status and Harm

The first step of the process, having both procedural and substantive significance, requires that the trade-secret owner establish that the requested information qualifies for trade-secret protection and that harm will result from disclosure of the trade secret to the government. Whether the information in question meets the status of a “trade secret” should always be the threshold question, and it is the trade-secret owner’s burden to make that showing.²³⁷ While companies often try to claim protection for confidential and proprietary business information, trade-secret protection applies only to the smaller subset of information that qualifies as an actual

²³⁶. See *VSL Corp. v. Gen. Techs. Inc.*, 46 U.S.P.Q.2d (BNA) 1356, 1360 (N.D. Cal. 1998) (finding plaintiff’s trade-secret claim to be specious where it had been careless about guarding the alleged secret).

²³⁷. See *Rowe*, *supra* note 24, at 1447 (discussing the substantive legal standard for a plaintiff in a trade-secret action).

trade secret.²³⁸ Therefore, in most cases, this first question could be determinative of the entire issue of disclosure because if the information is not a trade secret, then that significantly weakens the argument against disclosure.²³⁹ If the trade-secret owner is unable to establish trade-secret status, then the inquiry likely ends in favor of the government.²⁴⁰

Returning to the Toyota hypothetical, assume that Toyota refuses to produce the black box encryption code and the data in the black box to the government. Toyota would need to prove that the encryption code and information each separately are protectable trade secrets. The company might have an easier time proving that the encryption code is a trade secret, assuming that it never released the code to anyone outside of the company. However, there might be some debate about whether Toyota can claim as a trade secret the information in the black box, which was sold to the consumer as part of the vehicle.²⁴¹ Furthermore, to the extent any of the information was already revealed publicly elsewhere, it would not continue to qualify for trade-secret protection.²⁴² Accordingly, much more clarification and evidence would be needed to determine precisely what Toyota claims as a trade secret.

The trade-secret owner must then articulate the competitive harm that would be caused from disclosure of the information to the government. This is in keeping with trade-secret law's focus on protecting against unfair competition and the existing articulation of harm in some of the regulations as competitive harm. For example, SEC regulations require that a business provide information regarding the adverse consequences that could result from disclosure of confidential information, including any adverse effect on

238. To create a protectable trade secret, it is essential that a plaintiff take affirmative steps to preserve the confidentiality of the alleged secret information. *See, e.g.,* *Niemi v. Am. Axle Mfg. & Holding, Inc.*, No. 269155, 2007 WL 29383, at *4 (Mich. Ct. App. Jan. 4, 2007); *Dicks v. Jensen*, 768 A.2d 1279, 1284 (Vt. 2001) (granting summary judgment in favor of defendant where there was "no evidence in the record that plaintiff took any measures to indicate that the customer list was confidential").

239. *See Zotos Int'l, Inc. v. Young*, 830 F.2d 350, 352 (D.C. Cir. 1987) (using Restatement of Torts's six factors to determine whether the information qualified as trade secret).

240. While the default rule could be a presumption in favor of disclosure for non-trade-secret confidential information, it could be a rebuttable presumption. Courts could use their discretion to do otherwise depending on the compelling nature of the remaining proof of harm, relevance, and need.

241. *See Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1203-04 (Fed. Cir. 2004) (finding that customers who purchased garage door openers were authorized under the copyright laws to use the copy of the embedded software that they purchased). In addition, some state laws make data from event data recorders the property of the vehicle owner. *See* Tim Sramcik, 'Black Box' Information Driving Convictions, ABRN (Oct. 3, 2005), <http://www.searchautoparts.com/searchautoparts/article/articleDetail.jsp?id=184135>.

242. *See Underwater Storage v. U.S. Rubber Co.*, 371 F.2d 950, 955 (D.C. Cir. 1966) ("Once the secret is published to the 'whole world,' . . . it loses its protected status and becomes available to others for use and copying without fear of legal reprisal from the original possessor."); *Lockridge v. Tweco Prods., Inc.*, 497 P.2d 131, 134 (Kan. 1972).

its competitive position.²⁴³ Similarly, on the likelihood that the disclosure would result in harm, EPA regulations require a showing of “substantial harmful effects to the business’ competitive position” and “an explanation of the causal relationship between disclosure” and the harm.²⁴⁴ Moreover, in the FOIA context, competitive harm has been interpreted to mean that the harm flows directly from a competitor rather than from a customer or employee or other source.²⁴⁵ Thus, a trade-secret owner would need to establish the likelihood that such harm would occur if the information it produced to the government were to be obtained by its competitors.

2. Government Establishes Relevance and Need

Once the trade-secret owner has established the trade-secret status of the information and the harm that is likely to result from its disclosure, the burden then shifts to the party requesting the information (i.e., the government) to prove relevance and need for the information. This is similar to the good-cause burden under the discovery rules.²⁴⁶ Given the unique nature of a protectable trade secret and the devastating harm that could result from its disclosure,²⁴⁷ the better policy is that a trade secret should not be ordered produced unless the actual trade secret (as opposed to some other information related to the trade secret) is directly relevant to the inquiry for which it is sought.²⁴⁸ In the Toyota hypothetical, for instance, if the government requested the encryption code in an effort to determine whether the cars subject to recall were all equipped with black boxes, a court could find insufficient relevance.

Relevance, for the purposes of this proposal, is similar to the standard that has been used in the discovery cases.²⁴⁹ However, relevance should probably not be interpreted as broadly for trade-secret purposes as it is under the discovery rules. Whereas the underlying rules and policies in the discovery context favor greater disclosure between the parties, trade-secret law, on the other hand, is grounded in secrecy and the requirement that trade secrets should not be disclosed without appropriate assurances of

243. 17 C.F.R. § 200.83(d)(2)(iv) (2010).

244. 40 C.F.R. § 2.204(e)(4)(viii) (2010).

245. See *Pub. Citizen Health Research Grp. v. FDA*, 704 F.2d 1280, 1291 (D.C. Cir. 1983).

246. See *Premier Election Solutions, Inc. v. SysTest Labs Inc.*, Civil Action No. 09-cv-01822-WDM-KMT, 2009 WL 3075597, at *7–8 (D. Colo. Sept. 22, 2009) (discussing a burden shift to the party seeking discovery to establish that disclosure of a trade secret is relevant and necessary).

247. See Elizabeth A. Rowe, *Introducing a Takedown for Trade Secrets on the Internet*, 2007 WIS. L. REV. 1041, 1049–50 (discussing the importance of trade secrets to the economy and the harm from disclosure).

248. See *Premier Election Solutions*, 2009 WL 3075597, at *109 (refusing to order production of trade-secret information “in light of the minimal relevancy of the information . . . to the underlying case”).

249. See *supra* notes 180–82 and accompanying text.

confidentiality by the receiver.²⁵⁰ Accordingly, this might suggest that the relevance standard should be interpreted narrower than under the discovery rules. The current FOIA rules and cases do not require that the party requesting information from the governmental agency establish relevance.²⁵¹ However, given the higher scrutiny that should be given to the disclosure of trade secrets, it makes sense to require a showing of relevance.

While the FOIA rules do not require a showing of need either, evidence of need is required under my proposal. The government requestor should demonstrate need for the information separate and apart from relevance.²⁵² This inquiry would focus on such considerations as: (1) whether the information sought is available elsewhere; (2) whether acceptable substitutes for the information can be found from other sources; (3) whether the public interest in receiving the information can only be protected via receipt of the trade-secret information; and (4) whether the public could suffer injury to their health or safety if the information is not released to the government. This could mean, for instance, that the black box encryption code may not be deemed necessary if there are other means to determine which vehicles contained black boxes independent of providing the encryption code to the government.

3. Court Balances Need Versus Potential Injury

Satisfied that the requested information qualifies for trade-secret protection, the court must ultimately balance the government's showing of relevance and need against the trade-secret owner's claim of injury that could result if disclosure is compelled.²⁵³ In considering the government's need for the information, the court could factor in who the requestor is and the purpose for which the information is sought. None of the existing approaches pay particular attention to these questions, but they could add value when dealing with trade-secret cases. Assume the NHTSA requests Toyota's black box because it believes the electronic components of the black box are interfering with the electronic sensors of the gas pedals and causing uncontrolled acceleration of the vehicles.²⁵⁴ This may suggest that the potential harm to the public from not identifying and correcting the

250. See *supra* note 43 and accompanying text.

251. See *supra* note 68 and accompanying text.

252. See, e.g., *Snowden ex rel. Victor v. Connaught Labs., Inc.*, 136 F.R.D. 694, 698 (D. Kan. 1991) (assessing necessity and considering whether the information sought is available elsewhere).

253. See *Echostar Commc'ns Corp. v. News Corp.*, 180 F.R.D. 391, 394 (D. Colo. 1998) (finding that in discovery matter courts must balance need for disclosure of the trade secret against potential injury from disclosure).

254. This could contrast with a situation where the information is sought by an agency for a purpose that could directly benefit the company's competitor or another party who has no incentive to protect the secrecy of the information.

situation is so grave that disclosure would serve the public interest. A further consideration may be whether the trade-secret information is critical to the government or the public. If not, perhaps the company can comply without disclosing the specific trade secret. If yes, then disclosure with greater assurance of protection might be advisable, possibly ordering, for instance, that the information is outside the agency's discretion to disclose or that it be "sealed."

Moreover, the court could also consider the nature of the trade secret in evaluating need and risk of injury. Because trade secrets can be virtually any kind of business information,²⁵⁵ it may matter whether the information sought is the secret formula to the company's core product, or a list of the company's customers; the encryption code to the black box, or the record of drivers' braking patterns during an unintended-acceleration incident.

The shelf life of the information could also be considered to determine whether the nature of the information is such that it will no longer be secret after a short period of time. It could, for instance, be a marketing-related secret that will be divulged or reverse-engineered after a product is released.²⁵⁶ In that situation, the court may lean toward not ordering disclosure, since the requestor will likely have access to the information by legitimate means in a relatively short period of time. This assumes, however, that there is no immediate critical need for the information.

Whether the trade-secret owner can persuade the court of the harm that could result if the trade secret is ordered disclosed is a very important part of the balance that the court must aim to achieve. The scope of harm, whether limited to that by a competitor, for instance, compared to a more widespread public harm, may matter. However, defining harm can be difficult. The risk of harm is an important component of this evaluation and could be influenced by the government's assurances of safeguarding the trade secret. This would also be consistent with the *National Parks* analysis in the reverse-FOIA cases that requires consideration of whether disclosure would cause substantial harm to the submitter's competitive position.²⁵⁷

Besides harm to the company, the court may also consider harm to the public if the information is not produced to the government. This would therefore allow for those circumstances where the health and safety of the public are so threatened that disclosure should be compelled. In other words, the harm to the public would outweigh any competitive harm that

255. See UNIF. TRADE SECRETS ACT § 1(4) (amended 1985), 14 U.L.A. 538 (2005); RESTATEMENT OF TORTS § 757 cmt. b (1939).

256. See, e.g., *Dorel Juvenile Grp., Inc. v. DiMartinis*, 495 F.3d 500, 502 (7th Cir. 2007) (discussing brand positioning strategies that change, evolve, and tied to products that would become public as having a short shelf life as a trade secret).

257. See *Nat'l Parks & Conservation Ass'n v. Morton*, 498 F.2d 765, 770 (D.C. Cir. 1974).

the proprietor of the trade secret may suffer.²⁵⁸ As recognized under the takings principles, the government's use of information for the public good (with adequate compensation) would not likely violate constitutional norms.²⁵⁹ Accordingly, a court in its discretion could order disclosure in those circumstances.

4. Court Determines Scope of Order

After weighing the various considerations, a court could find that production of the trade secret should not be ordered. This will end the inquiry and the trade-secret owner prevails. On the other hand, if the court determines that production should be compelled, then the delicate task of crafting an appropriate protective order will remain.²⁶⁰ A court should not compel production of a trade secret without a protective order and appropriate safeguards for protection of the secret.²⁶¹

The court could choose from a range of options, depending on the particular case, to determine the appropriate scope of the order. For instance, limited disclosure could be ordered, such that the government may not receive the entire trade secret, but part of it. This does not appear to be the current scheme under FOIA, which is an all-or-nothing approach.²⁶² Thus, there could be a middle-ground approach, one that would meet the requestor's need for the information while still protecting the trade-secret owner's interests. A mosaic approach might also work, where the trade-secret information is disaggregated such that the disaggregated form does not reveal the trade secret, yet it remains valuable information to the requestor. The FTC rules, for instance, provide for the disclosure of disaggregated information to other agencies,²⁶³ and to the extent the secret information can be segregated from the nonsecret information, a portion of

258. See Lyndon, *supra* note 7, at 44 ("While one is entitled to the fruits of one's labors, one is not entitled to injure others with them.").

259. Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1020 (1984) (holding that trade secrets are property under state law and are protected from uncompensated disclosure by the Takings Clause of the Fifth Amendment); see also Philip Morris, Inc. v. Reilly, 312 F.3d 24, 45-46 (1st Cir. 2002) (citing *Monsanto* to conclude that a Massachusetts statute effected a taking of tobacco companies' trade secrets); Janka, *supra* note 51, at 338-39, 343-44 (discussing *Monsanto* and public use).

260. See Pansy v. Borough of Stroudsburg, 23 F.3d 772, 787 (3d Cir. 1994) ("Courts . . . have a great deal of flexibility in crafting the contents of protective orders to minimize the negative consequences of disclosure and serve the public interest simultaneously.").

261. See Rowe, *supra* note 24, at 1451 (discussing safeguards for trade secrets in the course of litigation).

262. See Yeager v. DEA, 678 F.2d 315, 322-23 (D.C. Cir. 1982) (reasoning that FOIA does not require agency to modify exempt information so that it can be produced to requester).

263. 15 U.S.C. § 57b-2(d)(1)(D) (2006).

the record may be disclosed to a FOIA requestor.²⁶⁴ In some circumstances, a court could order disclosure contingent upon some payment to the trade-secret owner. This would be akin to a compulsory license where, for instance, the court has deemed that withholding the information from the public will have an injurious effect on the public welfare.²⁶⁵

B. BROADER IMPLICATIONS OF THE FRAMEWORK

This shield-or-disclose model can be useful, in whole or in part, to virtually all cases where a court must decide whether to compel production of trade secrets. As discussed earlier,²⁶⁶ the current approaches to the other categories of cases that often implicate trade-secret production can all be improved. For instance, in the private-party cases involving discovery disputes and in the government cases, courts ought to focus more on the threshold determination of whether a protectable trade secret exists. It seems logical that where a party is claiming trade-secret protection to shield information under the discovery rules, or any other rules, that the information in question must meet the definition of a trade secret.²⁶⁷ Otherwise, the protections of trade secrecy status should not attach. Courts should therefore pay closer attention to that threshold requirement.

In general, the cases can all benefit from courts giving greater scrutiny to trade-secret analysis in these cases, rather than overlooking it. Moreover, the model, while explored in relation to the federal government, can be used with state-government refusal-to-submit cases as well. Most states have FOIA-type disclosure statutes that would implicate the very same issues and considerations that have been addressed here, and from which the proposal was crafted.

Further research could also examine whether this model, or a modified version, should be incorporated within the agencies' regulations governing the treatment of confidential business information. This could provide greater consistency for agency evaluations of FOIA requests for trade-secret information. More generally, it may also serve to harmonize and make more uniform the current patchwork of agency regulations regarding trade secrets in the hands of the government. Finally, it may also be worth considering

264. 16 C.F.R. § 1015.19(a) (2010). The SEC regulations also provide that "any reasonably segregable portion of a record shall be provided . . . after deletion of the portions which are considered nonpublic." 17 C.F.R. 200.80(b) (2010).

265. See, e.g., Elizabeth A. Rowe, *The Experimental Use Exception to Patent Infringement: Do Universities Deserve Special Treatment?*, 57 HASTINGS L.J. 921, 953 (2006) (discussing proposed standard under which Congress may consider exemptions to patent infringement).

266. See discussion *supra* Part III.B.

267. See *Centurion Indus., Inc. v. Warren Steurer & Assocs.*, 665 F.2d 323, 325 (10th Cir. 1981) ("To resist discovery under Rule 26(c)(7), a person must first establish that the information sought is a trade secret . . .").

the value of infusing some of the elements of this model to reverse-FOIA reviews under the APA.²⁶⁸

Finally, beyond the doctrine and the courts, this Article has also identified a larger structural problem among the agencies. The lack of uniform standards among the various agencies in dealing with trade secrets also suggests that the practice on the ground in handling trade secrets on a day-to-day basis may also be unsound and inconsistent. Ultimately, both the theory and practice need to be better aligned to protect trade-secret principles. How best to achieve that feat, however, is a complicated question, the resolution of which is beyond the scope of this Article. Various options could be explored. Perhaps a trade-secret department within each agency could be one configuration or an overarching trade-secret department for all the agencies overseen by an intellectual property czar could be another. In future work, I plan to analyze how an effective scheme relating to agency practice and procedure might be structured. For now, however, the shield-or-disclose model is aimed at the courts.

V. CONCLUSION

Refusal-to-submit cases raise some delicate issues on both sides since the interests of all involved parties must be given very serious consideration. While these cases will necessarily be decided on a case-by-case basis, an approach that takes into account trade-secrecy principles, in addition to a more structured approach to government-disclosure policies, will better achieve the balance between secrecy and access. It will also allow for the crafting of more creative solutions that are better able to serve the needs of the respective parties. The shield-or-disclose model presented here helps meet those ideals by making clear the parties' burdens of proof on showing harm, relevance, and need before trade secrets are to be handed over to the government. Ultimately, it provides a more balanced, more specifically tailored approach that offers more of a middle-ground solution than currently exists.

²⁶⁸. See discussion *supra* Part III.A.3.

