

The Surprising Virtues of Treating Trade Secrets as IP Rights¹

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Trade secret law is a puzzle. Courts and scholars have struggled for over a century to figure out why we protect trade secrets. The puzzle is not in understanding what trade secret law covers; there seems to be widespread agreement on the basic contours of the law. Nor is the problem that people object to the *effects* of the law. While scholars periodically disagree over the purposes of the law, and have for almost a century, they seem to agree that misappropriation of trade secrets is a bad thing that the law should punish. Rather, the puzzle is a theoretical one: no one can seem to agree where trade secret law comes from or how to fit it into the broader framework of legal doctrine. Courts, lawyers, scholars, and treatise writers argue over whether trade secrets are a creature of contract, of tort, of property, or even of criminal law. None of these different justifications have proven entirely persuasive. Worse, they have contributed to inconsistent treatment of the basic elements of a trade secret cause of action, and uncertainty as to the relationship between trade secret laws and other causes of action. Robert Bone has gone so far as to suggest that this theoretical incoherence suggests that there is no need for trade secret law as a separate doctrine at all. He reasons that whatever purposes are served by trade secret law can be served just as well by the common law doctrines that underlie it, whichever those turn out to be.

In this article, I suggest that trade secrets can be justified as a form, not of

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traditional property, but of *intellectual* property (IP). The incentive justification for encouraging new inventions is straightforward. Granting legal protection for those new inventions not only encourages their creation, but enables an inventor to sell her idea. And while we have other laws that encourage inventions, notably patent law, trade secrecy offers some significant advantages for inventors over patent protection. It is cheaper and quicker to obtain, since it doesn't require government approval, and it extends to protection of types of business and process information that likely wouldn't be patentable.

It seems odd, though, for the law to encourage secrets, or to encourage only those inventions that are kept secret. I argue that, paradoxically, trade secret law is actually designed to encourage disclosure, not secrecy. Without legal protection, companies in certain industries would invest *too much* in keeping secrets. Trade secret law develops as a substitute for the physical and contractual restrictions those companies would otherwise impose in an effort to prevent a competitor from acquiring their information.

The puzzle then becomes why the law would require secrecy as an element of the cause of action if its goal is to reduce secrecy. I argue that the secrecy requirement serves a channeling function. Only the developers of some kinds of inventions have the option to over-invest in physical secrecy in the absence of legal protection. For products that are inherently self-disclosing (the wheel, say, or the paper clip), trying to keep the idea secret is a lost cause. We don't need trade secret law to encourage disclosure of inherently self-disclosing products – inventors of such products will get patent protection or nothing. But if trade secret law prevented the use of ideas whether or not they were secret, the result would be less, not more, diffusion of valuable information. The secrecy

requirement therefore serves a gatekeeper function, ensuring that the law encourages disclosure of information that would otherwise be kept secret, while channeling inventors of self-disclosing products to the patent system.

My argument has a number of implications for trade secret policy. First, the theory works only if we treat trade secrets as an IP right, requiring proof of secrecy as an element of protection. If we give the protection to things that are public, we defeat the purpose and give windfalls to people who may not be inventors (what we might call “trade secret trolls”). Courts that think of trade secret law as a common law tort rather than an IP right are apt to overlook the secrecy requirement in their zeal to reach “bad actors.” But it is the courts that emphasize secrecy, not appropriation, as the key element of the cause of action that have it right. Second, an IP theory of trade secrets also encourages preemption of “unjust enrichment” theories and other common-law ways courts are tempted to give private parties legal control over information in the public domain. Thus, an IP theory of trade secrets is in part a “negative” one: the value of trade secret law lies in part in defining the boundaries of the cause of action and preempting others that might reach too far. Analyzing trade secret cases as IP rights rather than common law contract or tort claims requires courts to focus on what the law is protecting, how, and why, something the common law did not do. As a result, the unified trade secret approach does not expand, but rather cabins, the overbroad reach of the common law. Understanding trade secrets in this negative way – as imposing a consistent set of standards on claims that would otherwise be based on disparate legal theories and claims of entitlement or free riding – advances the goals of innovation and promotes responsible business conduct without limiting the vigorous competition on which a market economy

is based.

Finally, treating trade secrets as IP rights helps secure their place in the pantheon of legal protection for inventions. The traditional conception of the tradeoff between patents and trade secrets views the disclosure function of the patent system as one of its great advantages over trade secret law. And indeed the law operates in various ways to encourage inventors to choose patent over trade secret protection where both are possible. But for certain types of inventions we may actually get more useful “disclosure” at less cost from trade secret than from patent law.