

LAW JOURNAL
FOR SOCIAL JUSTICE
SANDRA DAY O’CONNOR COLLEGE OF LAW
ARIZONA STATE UNIVERSITY

Volume 6 **Spring** **2016**

CONTENTS

Zoning and Regulating for Obesity Prevention and Healthier Diets: What Does the South Los Angeles Fast Food Ban Mean for Future Regulation?..... <i>Kim Weidenaar</i>	1
Eating Mascots for Breakfast: How Keeping Native Faces off Labels Can Grow Tribal Economies <i>Leah K. Jurss</i>	27
Utilizing Electronic Monitoring to Enhance Domestic Violence Victim Safety..... <i>Alex D. Ivan</i>	47
Constitutional Protection of Domestic Violence Victims Reinforced by International Law..... <i>Marina Kovacevic</i>	69
Devastating Effects of the International Failure to Recognize Refugees of Gender Based Persecution..... <i>Sara Movahed</i>	87
Kennedy’s Law: The Hidden Constitutionally-Protected Classification <i>Nicole Fries</i>	111
My Nurse is a Pornstar: Should Discrimination Law Protect Moonlighting in the Adult Industry? <i>Erin Iungerich</i>	137
Secrecy, Espionage, and Reasonable Efforts Under the Uniform Trade Secrets Act – An Unbalanced Mass <i>Peter L. Krehbiel</i>	151



Law Journal for Social Justice is supported by the Sandra Day O'Connor College of Law at Arizona State University. The *Law Journal for Social Justice* mailing address is: Law Journal for Social Justice, P.O. Box 877906, 1100 S. McAllister Ave., Tempe, AZ 85287. The *Law Journal for Social Justice* email address is: LawJSocJust@gmail.com

Subscription: *Law Journal for Social Justice* is an online journal. Editions are accessible through the URL: <http://www.law.asu.edu/ljsj/>, and <http://www.ljsj.wordpress.com/journal>

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Cite as 6 LAW J. SOC. JUST. __ (2016).

LAW JOURNAL FOR SOCIAL JUSTICE

SANDRA DAY O'CONNOR COLLEGE OF LAW
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Volume 6

Spring

2016

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EDITOR INTRODUCTION

The 2016 Law Journal for Social Justice Symposium, “Promising Practices in Criminal Justice” focused on current programs regarding re-entry and rehabilitation. Discussions ranged from specialty court programs like the Veteran’s Court and Homeless Court, victim-oriented rehabilitation for trafficking victims, and re-entry programs. Panelists included judges, practicing attorneys, and community organizers.

Social justice is an evolving, broadening concept, finding new meaning throughout the academic community. This journal, and the articles found herein, is designed to present these emerging concepts in a manner that allows both the jurist and the layperson to engage them. The issue begins with *Zoning and Regulating for Obesity Prevention and Healthier Diets: What Does the South Los Angeles Fast Food Ban Mean for Future Regulation?*, written by Kim Weidenaar, an article commenting on local zoning ordinances as tools for preventing obesity in disproportionately affected populations. However, with the second article, *Eating Mascots for Breakfast: How Keeping Native Faces off Labels Can Grow Tribal Economies*, Leah K. Jurss concentrates on food sovereignty in tribal communities and labeling of Native food products. Alex D. Ivan then shifts the focus by studying how electronic monitoring may be used to empower victims while reducing burdens of imprisonment spending in *Utilizing Electronic Monitoring to Enhance Domestic Violence Victim Safety*. Next, in *Constitutional Protection of Domestic Violence Victims Reinforced by International Law* Marina Kovacevic argues ratification of the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) in the United States. Sara Movahed, in *Devastating Effects of the International Failure to Recognize Refugees of Gender Based Persecution*, then examines legal shortcomings resulting when asylum based solely on a history of gender-based persecution is not considered. Through *Kennedy’s Law: The Hidden Constitutionally-Protected Classification*, Nicole Fries explores the necessity of Supreme Court action to provide lower courts the ability “to apply a suspect class framework to non-marriage sexual orientation laws.” Next, Erin Iungerich, in *My Nurse is a Pornstar: Should Discrimination Law Protect Moonlighting in the Adult Industry?*, considers protections for at-will employees participating in adult industry activities after-hours. Finally, *Secrecy, Espionage, and Reasonable Efforts Under the Uniform Trade Secrets Act – An Unbalanced Mass* by Peter L. Krehbiel concludes the issue by analyzes concerns that shifting costs related to trade secrets may undermine public policy and society at large. Collectively, the unique perspectives of these articles present important domestic and international issues that must be examined in today’s changing landscape.

Special thanks to the Law Journal for Social Justice Editorial Board for their hard work and dedication.

Asha McManimon
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SECRECY, ESPIONAGE, AND REASONABLE EFFORTS UNDER THE UNIFORM TRADE SECRETS ACT – AN UNBALANCED MASS

Peter L. Krehbiel, JD*

INTRODUCTION

*“A secret’s worth depends on the people from whom it must be kept.”*¹

This paper deals with secrets and the cost of secrecy, specifically how judicial interpretations of the Uniform Trade Secret Act in connection with the Economic Espionage Act are shifting costs to the disadvantage of society and the detriment of the American economy. To this end, this article takes a brief look at the history of intellectual property culminating in the current legal regime, the policy underlying state protection for intellectual property, how judicial decisions and political tinkering have skewed the landscape, and the economic effects of these decisions in general terms. The conclusion of this analysis is that the creeping expansion of civil and criminal protections afforded to trade secrets has tilted the balance of benefit in favor of private corporate interest at a quantifiable expense to the public, thereby undermining the policy goals for intellectual property protection.

I. THE ORIGINS OF INTELLECTUAL PROPERTY AND THE BASIS OF THE BARGAIN

Intellectual property and other intangible assets can make up a significant portion of the value in contemporary business. Recognition of this value has been an evolutionary endeavor between businesses and the policymakers of the state, arguably begun by ancient Egyptian craftsmen affixing their mark to religious iconography.² By the middle ages, the process of affixing a mark to durable goods produced by smiths was

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¹ CARLOS RUIZ ZAFÓN, *THE SHADOW OF THE WIND* 11 (Lucia Graves Trans., 1st ed. 2004).

² SHOEN ONO, *OVERVIEW OF JAPANESE TRADEMARK LAW §1(I)* (Yuhikaku, 2nd ed. 1999), <https://www.iip.or.jp/translation/ono/ch2.pdf>.

commonplace as was the issue of counterfeit products because there was little control available for local producers or guilds when their products were likely to end up in foreign markets.³ Generally, the cost of producing accurate counterfeits was high enough to keep the problem in check, but beginning with the age of enlightenment, costs began to fall and governments faced increasing pressures from old manufacturers grappling with copied products and a new class, the inventor, who at great personal expense, was remaking the world.⁴ Responding to these pressures and acknowledging the costs associated with invention, the Venetian government began to recognize and grant legal monopolies in new and inventive devices in 1450.⁵

The creation of an exclusive right in intangible property was revolutionary, and similar statutes began to spread along the web of trade throughout the old world. It was not long before governments recognized that a system of monopolies had utility beyond facilitating invention and industry: granting monopolies could be a wonderful source of revenue for the state. Due to a struggling treasury, the English Crown granted patents on commoditized goods, like salt, in exchange for fees from the patent holder.⁶ Expanding the system for patents far beyond protecting inventors and fostering new industries had profound negative economic effects leading to civil unrest and ultimately the passage of the Statute of Monopolies in 1624.⁷ The Statute of Monopolies laid the foundation of the modern system of intellectual property and underpins the basis of the bargain between society and developers of intellectual property.

Creators require some economic incentive to create an ideation, which provides a great benefit to society. In a properly functioning system of intellectual property, this incentive must not exceed the total value that the ideas generate for society less the system costs in protecting the intellectual property. In other words, society must always receive the surplus of the benefit.

Thus, creators are given a monopoly in their creations, but, given the extreme cost to society generated by a monopoly, limitations are placed upon the nature of the monopoly to ensure that the holder of the monopoly internalizes the bulk of the cost⁸. First, only new, or novel creations can

³ Gary Richardson, *Brand Names Before the Industrial Revolution* 2–4 (Nat'l Bureau of Econ. Research, Working Paper No. 13930, 2008).

⁴ E.g. Lev. Grossman and Harry Mcracken, *The Inventor of the Future*, TIME (Oct. 17, 2011), <http://content.time.com/time/magazine/article/0,9171,2096294,00.html>.

⁵ Giulio Mandich, *Venetian Patents (1450–1550)*, 30 J. PAT. OFF. SOC'Y 166 (1948).

⁶ *Id.* at 168.

⁷ *Id.*

⁸ Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 265 (1998).

lay claim to this monopoly – ideas or things already understood or in use are not subject to grants of monopoly.⁹ Second, the creator is given a monopoly which expires after a term of years – this ensures that eventually all society may benefit from the creation.¹⁰ The third limitation, evolved after the Statute of Monopolies, is disclosure. Disclosure generally requires that the creator make the public aware of the creation and, in the case of invention, teach its use so that others might improve upon it.¹¹ Disclosure is of particular importance in assuring that society receives the surplus of the benefit because it guarantees that society may put the invention to use, and it stimulates development of new beneficial inventions by lowering the cost of invention and by promoting licensing.¹²

These three limitations are the safeguards demanded to prevent a return of the economic nightmare brought on by an out-of-control system of monopolies, and serve to ensure society retains the surplus of the benefit. As each new genera of intellectual property was recognized, beginning with copyright at the invention of the press and later trademarks, the general limitations of novelty, statutory expiration, and disclosure have been applied to the degree necessary to balance the incentives and with a legal framework homogenized at the national level. It should therefore be puzzling and concerning that the newest form of intellectual property lacks the operation of these well-reasoned safeguards.

II. TRADE SECRETS AND THEIR ORIGIN

Trade secret is the odd man of intellectual property. It is perhaps the youngest of the genera emerging in the 19th century, well after the establishment of patent, trademark, and copyright protections.¹³ Unlike the other genera of intellectual property, which attribute their origin to landmark legislation such as the Statute of Monopolies regarding patents or the Licensing of the Press Act 1662 establishing copyright, trade secret has no great debated legislative act calling it into existence. Rather, it is a doctrine emergent from the common law of torts and contract.¹⁴

This difference in origin is of critical importance to understanding the problems with the doctrine of trade secrets. Legislators and policymakers

⁹ *E.g.* 35 U.S.C. § 102 (2012).

¹⁰ *E.g.* 35 U.S.C. § 154(a)(2) (2012).

¹¹ *E.g.* 35 U.S.C. § 112 (2012).

¹² Alan Devlin, *The Misunderstood Function of Disclosure in Patent Law*, 23 HARV. J. L. TECH. 402 (2010).

¹³ Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV 315, 315–16 (2008).

¹⁴ *Id.* at 311.

were free to consider the entire system of law and incentives that were currently in place when they laid down the foundations of patent, copyright, and trademark to ensure that the articulation of these new rules did not impinge upon the existing regime to such an extent as to cause a systemic imbalance. They had access to the tools of debate and shaped or altered the law when it was required to achieve their policy objective with the least cost to society. The doctrine of trade secret was not afforded such a reasoned birth. It is instead a creation of judges considering issues in isolation through the lens of contract and tort law as disagreements between individual suits for disclosure of secret information brought to them on the bench.¹⁵

It is perhaps unsurprising that trade secret only holds sway in Anglo-American systems of common law and that the attempt to homogenize trade secret doctrine at the national level is a recent endeavor.¹⁶ These efforts began in 1939 when trade secret was included in the Restatement of Torts; New York still uses that same definition today.¹⁷ Eventually the Uniform Trade Secrets Act (UTSA) was developed and has been successfully adopted by nearly all United States jurisdictions.¹⁸

III. THE PROBLEMATIC FORMULATION OF LIABILITY IN TRADE SECRET AND MISAPPROPRIATION

The UTSA and the Restatement are generally congruent in their requirement that liability lies where information is a ‘trade secret’ and the defendant has gained the trade secret information through breach of

¹⁵ See Bone, *supra* note 8, at 244–45.

¹⁶ The ABA began promoting the UTSA in 1979. James W. Hill, *Trade Secrets, Unjust Enrichment, and the Classification of Obligations*, 4 VA. J.L. & TECH. 13 (1999).

¹⁷ RESTATEMENT (FIRST) OF TORTS § 757 (AM. LAW INST. 1939); *Ashland Mgmt. Inc. v. Janien*, 82 N.E.2d 395, 407 (N.Y. 1993) (quoting Restatement (First) of Torts, § 757, cmt. b).

¹⁸ As of 2016 the following states and territories have enacted the UTSA: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, U.S. Virgin Islands, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming. Both New York and Massachusetts have introduced legislation to adopt the UTSA. *Legislative Fact Sheet – Trade Secrets Act*, UNIFORM LAW COMMISSION (2016), <http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act>.

confidence or some other improper means.¹⁹ The UTSA defines a trade secret as:

. . . information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.²⁰

Generally, a trade secret is any information that derives value from its secrecy and is protected from discovery or disclosure by the keeper of the secret.²¹ Notably absent from this formulation are any of the protections which reserve to society the balance of the benefit generated by innovation.

Any information may be protected if some value may be attached to it in secrecy. There is no limitation requiring that the information be novel, or non-obvious as in the case of patents.²² There are no limits on the duration of time during which trade secrets may receive protection.²³ Absent is a requirement that the offender who misappropriates actually use the trade secret, unlike in patent, copyright, or trademark infringement where the infringer must put the protected property to use. In fact, a merely threatened misappropriation of a trade secret may be sufficient for liability in some cases.²⁴ There is no requirement for disclosure at any time. Indeed, a disclosure may lead to both civil and criminal liability depending on the facts surrounding the disclosure.²⁵ Attorney's fees are available where misappropriation is willful and malicious, as are exemplary damages up to twice the total value of all other damages awarded.²⁶ Clearly this formulation of trade secret extends a monopoly on information. Why then is trade secret doctrine so lacking in the

¹⁹ ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01.

²⁰ Uniform Trade Secrets Act § 1 (1985).

²¹ *Id.*

²² *See* 35 U.S.C. § 101, 102 (2012).

²³ *Compare* Uniform Trade Secrets Act § 1, 2(a) (protecting a trade secret so long as reasonable efforts to maintain secrecy are undertaken) *with* 35 U.S.C. § 154(a)(2) (2012) (defining the 20 year lifetime of granted patents).

²⁴ Ryan M. Wiesner, *A State-By-State Analysis of Inevitable Disclosure: A Need for Uniformity and A Workable Standard*, 16 MARQ. INTELL. PROP. L. REV. 211 (2012) (referring generally to the doctrine of Inevitable Disclosure, which raises considerable issues of policy and damage to innovation, is a topic reserved for other authors).

²⁵ Theft of Trade Secrets, 18 U.S.C.A. § 1832 (2012).

²⁶ Uniform Trade Secrets Act § 3(b), 4.

safeguards typically associated with the traditional systems of intellectual property?

IV. LEGAL THEORY UNDERLYING TRADE SECRET

Trade secret is wanting of safeguards because of its aforementioned origin in 19th century common law. Underpinning the doctrine of trade secrets is the 19th century understanding of property now lost to modern jurisprudence.²⁷ Conceptualizing trade secrets as property was a necessary step to achieve remedy desired by the court in *Peabody v. Norfolk*, which recognized a property right in trade secret.²⁸ A basis in property allowed the court to overcome various legal obstacles, particularly how to enjoin a party not in privity to a contract from disclosing the trade secret.

While Justice Gray does not describe the logic leading him to define a property right in a trade secret, Professor Bone summarizes the reasoning:

At common law, property rights depended on possession. Possession was a prerequisite to ownership, and ownership was necessary for common law rights. Moreover, possession required clear acts manifesting intent to bring the thing under exclusive control and to appropriate it to individual use. A person obtained exclusive property rights by exercising actual control over things in the world.

. . .

Ideas were like wild animals *ferae naturae*, common property free for all to enjoy until captured. An idea could be captured by “discovering” it, and then excluding others through secrecy. Secrecy required constant vigilance, however, since ideas, like wild animals, had a tendency to escape. Once gone, they returned to the commons as public property.²⁹

Given this context, the requirements of the UTSA make sense. If information may be property, then secrecy is the hallmark of possession, thus establishing ownership with rights inherent to property. These

²⁷ Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 U. RICH. L. REV. 313, 317-18 (1997).

²⁸ *Peabody v. Norfolk*, 98 Mass. 452, 458 (1868) (“If he invents or discovers, and keeps secret, a process . . . he has a property in it . . .”).

²⁹ See Bone, *supra* note 8, at 254-55 (footnotes omitted).

property rights were necessary to remedy the perceived injustice of a breach of duty in a contract for non-disclosure.³⁰

Unlike copyright, patent, and trademark, the trade secret doctrine was never designed or intended as a system to provide incentive to inventors.³¹ Trade secret doctrine was necessary as a deterrent against violation of an inherent property right; therefore remedy was only available where there was some breach of duty or criminal wrong like theft.³² This was a distinction well understood by jurists of the 19th century given their firm foundation in natural law and the common law of property.

Trade secret doctrine was discovery of the natural law governing property, not a legislative creation designed to foster policy. Trade secret could therefore never extend a monopoly because ideas are a common good and the monopoly is not a creature of natural law. A monopoly is an artificial creation of the state, society may extend a monopoly on a good to further some policy goal, but this grant of right remained subservient to natural law discovered by jurists.³³ Unfortunately, the distinction between trade secret doctrine and intellectual property was lost on the jurists of the early 20th century embracing the teaching of legal realism. The legal realists sought drivers in policy to underpin law. Failing to comprehend the carefully constructed legal theory behind trade secrets and the nature of the inherent property rights, the realists chose to back the doctrine of trade secrets with the policy goals of intellectual property. In doing so, the realists opened the way for jurists, not legislators, to create a monopoly unbounded by controls reserving the surplus of the benefit to society.

V. THE DOCTRINE UNHINGED: IMPROPER MEANS

The tool seized upon by the legal realist followers of policy is the notion of ‘improper means’. According to the UTSA:

“Misappropriation” means: (i) acquisition of a trade secret . . . by improper means; or (ii) disclosure or use of a trade secret . . . by a person who (A) used improper means to acquire knowledge of the trade secret; or (B) . . . knew or

³⁰ See *Peabody*, 98 Mass. at 461.

³¹ See Bone, *supra* note 8, at 262 n. 94 (pointing to several sources, including the Restatement, which explicitly reject the idea that trade secret is intended to reward invention).

³² Michael J. Hutter, *Trade Secret Misappropriation: A Lawyer’s Practical Approach to the Case Law*, 1 W. NEW ENG. L. REV. 1, 22 (1978); see also Bone, *supra* note 8, at 250.

³³ Letter from Thomas Jefferson, to Isaac McPherson (Aug. 13, 1813), http://press-pubs.uchicago.edu/founders/documents/a1_8_8s12.html.

had reason to know that his knowledge of the trade secret was (I) derived from or through a person who had utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use. . . .³⁴

“Improper means” is language not present in the *Norfolk* decision. Improper means encompasses the breach of duty and criminal wrong contemplated by *Norfolk* and the earlier jurists, but it allows the realist justice to extend the cause of action as desired to support any particular policy. This corrosion of the trade secret doctrine was well underway by 1939 when “improper means” was incorporated into the first Restatement of Torts.³⁵ Clearly the brakes were off as courts accelerated their expansion of protection through mid-century with the doctrine finally departing the rails in the case of *E.I. DuPont deNemours & Co., Inc. v. Christopher*.³⁶

In *Christopher*, the brothers Rolf and Grey Christopher engaged in the business of taking aerial photographs and were hired by an undisclosed third party to photograph a DuPont facility in Beaumont, Texas from the air.³⁷ In March of 1969, when the photos were taken, the DuPont plant was still under construction.³⁸ Upon completing their flight, the brothers developed the photographs and delivered them to their client.³⁹ While photographing the plant, their aircraft was noticed by DuPont employees.⁴⁰ Within hours of wheel stop, DuPont tracked down the aircraft, identified the brothers as photographers, and demanded to know who had purchased the photographs.⁴¹ The brothers declined to provide DuPont with information regarding their client.⁴²

DuPont promptly filed suit against the brothers Christopher claiming misappropriation of trade secrets.⁴³ DuPont claimed that the photographs revealed the configuration of a section of the plant producing methanol and that this configuration was an element of a trade secret process

³⁴ Uniform Trade Secrets Act § 1(2).

³⁵ RESTATEMENT (FIRST) OF TORTS § 757 (AM. LAW INST. 1939).

³⁶ *E.I. DuPont deNemours & Co. v. Christopher*, 431 F.2d 1012, 1013 (5th Cir. 1970).

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ *Christopher*, 431 F.2d at 1013.

⁴² *Id.*

⁴³ *Id.*

developed at some cost in research and expenditure in effort to keep secret.⁴⁴ DuPont further claimed that an artisan analyzing photographs of the section of the plant exposed during construction would discern this trade secret process.⁴⁵ According to DuPont, the brothers had wrongfully obtained the photographs and thus wrongfully appropriated DuPont's trade secret by passing the photos on to their undisclosed client.⁴⁶

Quite sensibly, the brothers Christopher argued that there was no cause of action for misappropriation because "they conducted all of their activities in public airspace, violated no government aviation standard, did not breach any confidential relation, and did not engage in any fraudulent or illegal conduct."⁴⁷ The *Christopher* court chose to ignore this argument and prior precedent, which held there was no wrong where there was no breach of duty and instead applied the improper means language of the Restatement, thus shifting the basis of the brothers' liability from violation of an inherent right in property to some arbitrary measure of *wrongfulness* in their conduct.⁴⁸

The court held that the brothers' use of the aircraft was improper and therefore a cause of action was established. The court reasoned that:

One may use his competitor's secret process if he discovers the process by reverse engineering applied to the finished product; one may use a competitor's process if he discovers it by his own independent research; but one may not avoid these labors by taking the process from the discoverer without his permission at a time when he is taking reasonable precautions to maintain its secrecy. To obtain knowledge of a process without spending the time and money to discover it independently is improper unless the holder voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy.⁴⁹

Pontificating for the majority, Justice Goldberg wrote, "our ethos has never given moral sanction to piracy."⁵⁰ Further, "free wheeling industrial competition must not force us into accepting the law of the jungle as the standard of morality . . ."⁵¹ Thus, the court premised its holding on several conclusions: 1) the precautionary measures taken by DuPont were

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ *Christopher*, 431 F.2d at 1014.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.* at 1015-16

⁵⁰ *Id.* at 1017.

⁵¹ *Christopher*, 431 F.2d at 1016.

reasonable under the circumstances, 2) ‘sweat of the brow’ should be protected, and 3) a moral standard attached to the alleged offender is an appropriate basis for liability. We undertake a closer analysis of these conclusions below.

VI. UNREASONABLE PRECAUTIONS AND UNFOUNDED CONCLUSIONS

In determining that DuPont’s precautionary measures were reasonable, the court advanced two arguments. First, the court reasoned that industry should not be required to “guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available.”⁵² Second, the court reasoned that protecting a secret with an ‘impenetrable fortress’ is *per se* an unreasonable duty to impose in finding that reasonable efforts to preserve secrecy were undertaken.⁵³

The first argument is an unpersuasive straw man because the method of ‘espionage’ employed by the Christophers, aerial surveillance, was anticipated, detected, and preventable. Aerial surveillance is a technique that has been in use since the Battle of Fleurus in 1794.⁵⁴ By 1969, aerial surveillance as an industry was so well established as to be ubiquitous in use and attract global attention.⁵⁵ Clearly, there was enough demand to support a local industry in Texas. The court recognized that, “industrial espionage of the sort here perpetrated has become a popular sport.”⁵⁶ Thus, the brothers’ acts could not be unanticipated. Nor were they undetectable, given that the Christophers were discovered and located within the day of their flight.⁵⁷ Finally, the techniques to prevent such surveillance were well known, well established, and scalable far beyond DuPont’s need.⁵⁸ DuPont was hardly ignorant of these techniques, given its critical war work and that it was and still is a manufacturer of fabrics and camouflage netting.⁵⁹

⁵² *Id.*

⁵³ *Id.* at 1016-17.

⁵⁴ F. STANSBURY HAYDON, *MILITARY BALLOONING DURING THE EARLY CIVIL WAR* 5-15 (1941).

⁵⁵ Office of the Historian, *U-2 Overflights and the Capture of Francis Gary Powers, 1960*, U.S. DEP’T OF STATE (2016). <https://history.state.gov/milestones/1953-1960/u2-incident>.

⁵⁶ *Christopher*, 431 F.2d at 1016.

⁵⁷ *Id.* at 1013.

⁵⁸ *E.g.*, WILLIAM B. BREUER, *DECEPTIONS OF WORLD WAR II* 116-20 (2001); *see also Lockheed During World War II: Operation Camouflage*, LOCKHEED MARTIN (2016), <http://www.lockheedmartin.com/us/100years/stories/camouflage.html>.

⁵⁹ *DuPont Heritage Timeline*, DUPONT (2014), http://www2.dupont.com/Phoenix_Heritage/en_US/; Other Uses for Tyvek® Protective

The second argument goes to the costs of precautionary measures in that “an impenetrable fortress is an unreasonable requirement” and “a roof over the plant to guard its secret would impose an enormous expense.”⁶⁰ This implies that there is some relationship between the value of the secret and the cost of protection, and that some analysis need be undertaken to determine a reasonable ratio of protective expense to value. There are many instances where government and industry have found it reasonable from a cost-benefit standpoint to build and employ an impenetrable fortress to keep secrets.⁶¹ Requiring a roof may be an enormous expense, it may even be unreasonable, but without a comparative analysis there is no basis for such a determination. Unfortunately, the *Christopher* court simply suggests that where expenses are enormous, those precautions are unreasonable. Furthermore, in reaching this conclusion the *Christopher* court does not consider the existence of known alternative methods of protection, like the aforementioned camouflage netting, where the costs are low. Without engaging in any analysis and discussion of costs itself or suggesting some deference to objective evidence of reasonable business judgment with regard to cost benefit on the part of DuPont, the *Christopher* court has offered little to support its position beyond its own outrage.

The *Christopher* court suggests that it is improper to acquire knowledge without spending time and effort to discover it independently. It seems to imply that those who have expended effort in developing an idea and keeping it secret deserve protection of their ‘sweat equity,’ an idea roundly rejected by the other intellectual property doctrines.⁶² The *Christopher* court takes a one-sided view, analogizing the brothers’ acts to a “school boy’s trick” without considering the consequences of enforcing DuPont’s position.⁶³ Real harms attach to DuPont’s actions in enforcement because keeping the secret forces a monopoly price on consumers and retards development of beneficial industry and invention;

Covers, DU PONT (2014), http://www2.dupont.com/Tyvek/en_US/uses_apps/covers/other.html.

⁶⁰ *Christopher*, 431 F.2d at 1016..

⁶¹ *E.g.* IRON MOUNTAIN, SECURITY WITHOUT COMPROMISE 3 (2012), [http://www.ironmountain.com/~media/Files/Iron%20Mountain/Knowledge%20Center/Reference%20Library/White%20Paper/S/Security%20Without%20Compromise.pdf?dmc=1&ts=20160307T1746427209\(armed guards and access controls are prevalent at national laboratories, engineering contractors, and secure information storage sites such as Iron Mountain or Underground Vaults & Storage\)](http://www.ironmountain.com/~media/Files/Iron%20Mountain/Knowledge%20Center/Reference%20Library/White%20Paper/S/Security%20Without%20Compromise.pdf?dmc=1&ts=20160307T1746427209(armed%20guards%20and%20access%20controls%20are%20prevalent%20at%20national%20laboratories%20engineering%20contractors%20and%20secure%20information%20storage%20sites%20such%20as%20Iron%20Mountain%20or%20Underground%20Vaults%20&%20Storage)).

⁶² *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 359-60 (1991) (“originality, not ‘sweat of the brow,’ is the touchstone of copyright protection.”); *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2118 (holding extensive effort alone is insufficient to satisfy the demands of patent eligibility).

⁶³ *Christopher*, 431 F.2d at 1016.

information may need protection, but it is also a prerequisite for invention.⁶⁴ The brothers' act thus provides real benefit to society in eroding a monopoly. Furthermore, can the court be justified in applying an arbitrary standard external to the industry when it appears the industry has already adopted a position acceptable to participants and unchallenged by shareholders or policy makers?⁶⁵ DuPont was and is a willing participant in an industry known to engage in industrial espionage and should have been prepared to defend its secrets against such actions.

VII. COST MECHANISMS AND DEADWEIGHT LOSS

Societal costs of monopoly in patent, trademark, and copyright have emplaced migratory measures, though their effects have been weakened by ever more protective acts.⁶⁶ The unfortunate reality is that trade secret doctrine lacks the basic mechanisms to remove societal costs of secrecy by internalizing them to the industry. The inability to internalize the costs results in a deadweight loss for society. It may be argued that such protections are not necessary; there is no statutory provision for an exclusive right under trade secret and hence no true monopoly.⁶⁷ Under the other doctrines of intellectual property, the right holder may exclude all others from encroaching upon the right. For example, the holder of a patent may prevent others from practicing the patented invention even if the infringing user has independently created the patented invention. In trade secret, independent invention or reverse engineering are sufficient defenses.⁶⁸

This argument fails because it does not consider the exclusive nature of the secrecy itself. The holder of the secret receives the monopoly value of the information. Should an inventor independently develop or reverse engineer the information, the inventor then receives the diluted monopoly value. This value is retained as long as the secret is maintained with the balance only transferring to society at disclosure. However, with current trade secret doctrine, the secret may be maintained indefinitely – thereby resulting in a permanent deadweight loss. If the public wealth is to be

⁶⁴ Bone, *supra* note 8, at 284.

⁶⁵ See *Christopher*, 431 F.2d at 1016.

⁶⁶ *E.g.* Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, § 102, 112 Stat. 2827 (1998) (codified at 17 U.S.C. §§ 301-304 (2012)). This shows the expansion of copyright protection term from a period of 30 years to more than 100 through the series of Copyright Acts from 1831 to the Copyright Term Extension act of 1998.

⁶⁷ Bone, *supra* note 8, at 267 n. 116.

⁶⁸ UTSA, *supra* note 20, § 1 cmt. (citing proper means as including both independent invention and reverse engineering).

preserved, this loss must be mitigated or minimized. What mechanisms can be put in place to accomplish this cost reduction?

Given the original theory underpinning trade secret doctrine, it seems inappropriate to apply new legislation cribbing the traditionally recognized measures of novelty and disclosure. An assessment of novelty would require some initial disclosure, and disclosure generally would defeat the purpose of secrecy. However, a statutory expiration and disclosure scheme could become a workable solution, as evidenced by the current national security policy outlined under Executive Order 13526, which defines the schema for managing United States government classified information.⁶⁹ Under this schema, information is prohibited from remaining secret for an indefinite period. All information must have a determined release date, generally a period of ten or twenty-five years from origination, depending upon the sensitivity of the information.⁷⁰

While limiting the temporal protections of the secret would insure an eventual return of value to the public, the system presents its own issues in terms of cost. Specifically, new legislation of this type would impose additional management and enforcement costs beyond the current costs associated with trade secret. Undoubtedly this scheme would require formation of some classification authority to manage the release of trade secret information.⁷¹ Practically, such authorities would have to rest within each particular company or the risk of destroying the secret would become unacceptable. Inevitably, such a system would be subject to abuse at the hands of managers seeking to extend the duration or the scope of protection.⁷² Curtailing such abuse would require a vast expansion of oversight and policing from the system currently employed for the doctrine of trade secrets. Necessarily, the enforcement costs would rest on the public and in all likelihood outstrip the benefit received for disclosure. The difficulties and complexities of attempting a new legislative solution of this type militate against its implementation. Fortunately, there is an alternative: trade secret law already contains the required tools to internalize the deadweight losses through the requirement that the keeper make efforts to maintain secrecy.

The tools to externalize the benefit of secrets in constructing an economic model describing the behavior of trade secret owners and

⁶⁹ Exec. Order No. 13526, § 1.5(d) (2009).

⁷⁰ *Id.* at § 1.5(b).

⁷¹ *See id.* § 1.3.

⁷² *See, e.g.,* Steven Aftergood, *Classified Documents: Secrecy vs. Citizenship*, NIEMANREPORTS.ORG (Mar. 15, 2008), <http://niemanreports.org/articles/classified-documents-secrecy-vs-citizenship/>. Such is the case in government, where criticism of abuse and misuse of the national classification system is commonplace.

seekers.⁷³ The relevant parameters are the costs of: precaution, detection, litigation, and enforcement. If the owner wishes to retain the secret's value, the owner must invest in precautionary measures to protect the secret and detection methods to enable recovery in litigation. The choice to invest in precaution or detection is influenced by the expected value of recovery through litigation.⁷⁴ The owner's investments in precaution and detection externalize a portion of the monopoly value because increasing expenditures in these parameters generate new economic activity, for example hiring new guards or building new security equipment. Litigation also helps externalize the benefit, but imposes a reciprocal cost in enforcement on society, including filing fees, attorney's fees, and discovery fees, among others.⁷⁵ Sadly neither method will allow society to capture the value added in innovation the way disclosure can.⁷⁶ Therefore, we must accept some deadweight loss along with the protections offered under trade secret doctrine, but we can mitigate these losses by ensuring companies make reasonable investments in precautionary measures and methods of detection. Critically, the investments in precaution and detection must exceed the costs of enforcement in order to return the balance of the benefit to the public.

VIII. MARKET DISTORTIONS

To ensure that the costs of precautionary measures and detection are internalized requires that the law not act to manipulate the parameters affecting the investment decisions of the industry in a way that would reduce these costs without an equal reduction in enforcement. Put succinctly, the market for industrial intelligence should be relatively unregulated. In the early years when trade secret doctrine was underpinned by property theory, an unregulated market was *de rigueur*.⁷⁷ Furthermore, the underlying property theory served as a check on decisions with cost consequences that were detrimental to the public

⁷³ Bone, *supra* note 8, at 305.

⁷⁴ *Id.* at 307.

⁷⁵ *E.g.*, salary for trade secret lawyers.

⁷⁶ Bone, *supra* note 8, at 266 n. 115; Rochelle Cooper Dreyfuss, *Trade Secrets: How Well Should We Be Allowed to Hide Them? The Economic Espionage Act of 1996*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1, 2 (1998).

⁷⁷ Robert G. Bone, *The (Still) Shaky Foundations of Trade Secret Law*, 92 TEXAS L. REV 1803, 1804, n.6 (2014); *c.f.* Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. R. 1839, 1874-80 (2007) (discussing early trademark doctrine as being underpinned by a natural rights understanding of property).

wealth.⁷⁸ Modern jurisprudence, however, has altered the calculus in several important and related ways.

The primary way the market is altered is rulings where a court extends trade secret protection beyond traditional areas; this is a first order problem. This alters the probability of recovery and therefore the expected value of litigation. Losses of value that initially could only have been mitigated through investment in precaution might now be recoverable in litigation without a necessary shift in investment in detection. Expanding the scope of the definition of “trade secret,” however, leads to increases in the cost of enforcement as the rate of suits increases commiserate with the scope. Given that the aggregate costs of litigation are lower than precaution, the result emerges that expansions in scope shift costs onto the public, increasing deadweight loss. This is the trend evidenced by *Christopher* and continued through cases like *Fujitsu Limited v. Tellabs Operations Inc.*⁷⁹

The *Christopher* line of rulings expanding the protection of trade secret creates a second order problem in that it affects the cost of precaution. In expanding protection, courts focus on a subjective standard of moral culpability vis-à-vis the improper means language in the UTSA when determining fault. Therefore, they fail to reach the economic issues surrounding reasonable precaution. Indeed, where the seeker appears morally culpable, courts seem generally unwilling to consider clear evidence of unreasonable lax precaution as destructive to ownership.⁸⁰ By failing to impose economic consequences for lax precaution, industry is given incentive to under invest in precaution, which increases the likelihood of success in seeking. Assuming a fixed detection rate, this

⁷⁸ Bone, *supra* note 79, at 1804; *c.f.* McKenna, *supra* note 79, at 1848 (describing the extent of trademark protections as being “considerably narrower than those recognized today”).

⁷⁹ No. 12 C 3229, 2013 WL 5587086 (N.D. Ill. Oct. 10, 2013). In *Tellabs*, the accused offender was a competitor who legally purchased salvaged products including technical documentation from a vendor through a wholly owned subsidiary corporation. The subsidiary did not disclose that the parent corporation wanted the products in order to attempt to reverse engineer them. The *Tellabs* court found such actions improper and ruled that such accusation was a plausible claim for relief to proceed with the suit. *Id.* at *5.

⁸⁰ *See id.*; *see also SKF USA, Inc. v. Bjerkness*, 636 F.Supp.2d 696, 713 (N.D. Ill. 2009) (reasoning that the owner’s failure to safeguard information is irrelevant when seeker is not ‘entitled’ to access the information); *Christopher*, 431 F.2d at 1016; Jessica L. Cole, *Can You Keep A Secret? An Analysis of Methods Competitors Should Use to Protect Trade Secrets Before Liability for Misappropriation Attaches*, 38 BRANDEIS L.J. 437, 448 (noting that “[c]ourts become consumed by the apparent improper behavior of the competitor when they should encourage competition by requiring an owner to adequately protect its secrets”).

increases reliance on litigation; thereby further shifting cost onto the public through enforcement.

Lawmakers too have the ability to distort the market. Perhaps the largest distortion is that created by the Economic Espionage Act of 1996 (EEA). The act imposes criminal penalties on anyone who:

- (1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains [a trade secret];
- (2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys [a trade secret];
- (3) receives, buys, or possesses [a trade secret], knowing the same to have been stolen or appropriated, obtained, or converted without authorization;
- (4) attempts to commit any offense described in paragraphs (1) through (3) . . .⁸¹

This language extends criminal liability beyond the activities contemplated by the UTSA and the Restatement. For example, it may be interpreted to criminalize activity once considered lawful such as particular methods of reverse engineering or employees' memorization and learning of information.⁸² Furthermore, by criminalizing attempts, the EEA creates an opportunity to punish individuals even when information is not actually secret – an interpretation rejected by the UTSA and the Restatement.⁸³ The EEA would thus make trade secret the only doctrine of intellectual property where, “the defendant could not defend on the ground that the right itself is invalid.”⁸⁴ The third circuit agreed with this interpretation in *United States v. Hsu*, holding that “legal impossibility is not a defense to a charge of attempted misappropriation of trade secrets in violation of [the EEA].”⁸⁵

Under the EEA, violators may be imprisoned for up to ten years.⁸⁶ The EEA therefore poses first order problems by expanding the enforcement burden onto both the criminal justice system and the penal system. More seriously however, the EEA amplifies the second order

⁸¹ 18 U.S.C. § 1832(a)(1)-(4) (2012).

⁸² Dreyfuss, *supra* note 78, at 14-16 (pointing out that actions held lawful and necessary to create a competitive market for software in *Sega Enterprises, Ltd. v. Accolade, Inc.* appear to be prohibited by the Act).

⁸³ Uniform Trade Secrets Act § 1 cmt. (1985).

⁸⁴ Dreyfuss, *supra* note 78, at 18.

⁸⁵ *United States v. Hsu*, 155 F.3d 189, 202 (3d Cir. 1998).

⁸⁶ 18 U.S.C. § 1832(a)(5) (2012).

effects by altering the decision to invest in precaution. If the current interpretation of trade secret doctrine only requires owners to implement relatively inexpensive precautions, scholars argue that by criminalizing relatively mundane activities the EEA makes even inexpensive precautions seem unreasonable and unnecessary to maintain ownership.⁸⁷ Furthermore, the strong criminal penalties provide a disincentive to seeking, leading to further reduction in precautionary spending, and subsequently increasing deadweight loss. The additional public expenses associated with EEA enforcement compound this loss.

More serious second order effects of the EEA include the chilling effect on innovation. Industry can gain great benefit in the cross pollination of ideas as employees move from firm to firm. Some industries, such as high tech firms in Silicon Valley, appear to depend upon this kind of information transfer for growth to such an extent that they rarely, if ever, enforce trade secret claims.⁸⁸ Under the EEA, both employers and employees are exposed to the risk of serious criminal penalties and crippling fines for transfers of this type. This kind of criminal prohibition, subject only to prosecutorial discretion, slows information transfer, which depresses the pace of innovation and economic development, lowers wages, and inhibits efficient corporate structures.⁸⁹ The EEA therefore magnifies the existing deadweight losses associated with broad application of the trade secret doctrine.

Finally, the EEA may actually encourage the kind of behavior it was designed to prohibit. The EEA is not the work of intellectual property lawyers or Congressional committees with understanding of those systems. Rather the genesis of the EEA lies in Congressional concerns over international industrial espionage, particularly fears that foreign intelligence services dispossessed of their Cold War missions would be turned on American national industry.⁹⁰ These concerns are well founded.⁹¹ For example, Chinese intelligence services routinely attempt and succeed in appropriating trade secrets and technical information for the benefit of their national industry.⁹² Foreign national intelligence

⁸⁷ Dreyfuss, *supra* note 78, at 14.

⁸⁸ Bone, *supra* note 8, at 266 n. 115; Dreyfuss, *supra* note 78, at 40.

⁸⁹ Dreyfuss, *supra* note 78, at 38-41.

⁹⁰ Dreyfuss, *supra* note 78, at 5.

⁹¹ *E.g.*, John Markoff & David Barboza, *2 China Schools Said to be Tied to Online Attacks*, N.Y. TIMES (Feb. 18, 2010), http://www.nytimes.com/2010/02/19/technology/19china.html?_r=0.

⁹² James Warren, *U.S. Accuses China of Cyber-spying in Theft of Trade Secrets from Companies*, NEW YORK DAILY NEWS (May 19, 2014), <http://www.nydailynews.com/news/world/u-s-accuses-china-cyber-spying-theft-trade-secrets-u-s-companies-article-1.1797969>.

apparatuses and their spies are not deterred by criminal penalties nor are their domestic sources.⁹³ This lack of deterrent, coupled with the reductions in industrial precautionary investment engendered by the EEA, leaves American industry in a more vulnerable position than if the costs of secrecy were internalized. Furthermore, unlike the case of a domestic misappropriation where the public will benefit from the shared information, the American market receives little benefit from misappropriations of foreign actors, but must still bear all the associated cost of enforcement and secondary effects. Thus, the EEA in effect encourages the transfer of wealth and information from American industry to foreign economies at the expense of the American public.

IX. RIGHTING THE BALANCE

Several solutions are available to help rationalize trade secret doctrine with the appropriate scope of intellectual property protection. The most obvious solution is refocusing on the reasonability of precautionary measures taken by the holder of a secret, rather than on the perceived improper behavior of the seeker. Though not widely recognized, this solution finds support with some scholars and jurists.⁹⁴ A rigorous and narrow interpretation of reasonability provides for competition beneficial to the public. Reasonability must be allowed to evolve with technology, and courts must resist the temptation to apply particular precautionary thresholds. The relevant players must analyze the reasonability of protective measures in terms of the likelihood of defeat.

⁹³ Spies are generally motivated by any one or combination of money, ideology, compromise, coercion, ego, and extortion. Randy Burkett, *An Alternative Framework for Agent Recruitment: From MICE to RASCLS*, 57 *STUDIES IN INTELLIGENCE* 7 (2013), <https://www.cia.gov/library/center-for-the-study-of-intelligence/csi-publications/csi-studies/studies/vol.-57-no.-1-a/vol.-57-no.-1-a-pdfs/Burkett-MICE%20to%20RASCALS.pdf>. Ideology and ego in particular are powerful motivations unsusceptible to criminal deterrence and were used to great effect by the Soviet Union in penetrating virtually all levels of western intelligence and industry and recruiting such assets as Klaus Fuchs, Christopher Cooke, and Robert Hanssen. Gabriel Margolis, *The Lack of HUMINT: A recurring Intelligence Problem*, 4 *GLOB. SECURITY STUD.* 43, 43 (2013); RICHARD RHODES, *DARK SUN: THE MAKING OF THE HYDROGEN BOMB* (1st ed. 2005); Christina Beasley, *A Comparative Study of US and Soviet HUMINT Tradecraft During the Cold War* (July 17, 2013) (unpublished thesis, University of Cambridge), <http://www.pem.cam.ac.uk/wp-content/uploads/2013/04/Cambridge-Paper-CBeasley.pdf>.

⁹⁴ Cole advances the idea of narrowing and points to language in Justice Brandeis's dissent in the case of *Int'l News Serv. v. Associated Press*, 248 U.S. 215 (1918), as evidence of support. While Justice Brandeis makes cogent arguments, his dissent seemed to have little bearing on the *Christopher* court and subsequent decisions. See Cole, *supra* note 82, at 448.

Bone advocates a more comprehensive solution to the troublesome expansion of trade secret doctrine by suggesting that it be returned to its contractual basis.⁹⁵ Thus, trade secret doctrine would apply only to those instances where there was a contractual breach of duty, thereby eliminating entirely those cases of ‘other improper means’.⁹⁶ This application may be supplemented by use where there is a violation of an independent legal norm, such as theft, but only where there is “a close fit between the trade secret remedy and the norm.”⁹⁷ Under this requirement, trade secret doctrine would not apply even if the brothers in *Christopher* violated FAA regulations during their flight because trade secret doctrine does not “serve the same goals that support the independent legal norm” of FAA regulations.⁹⁸ While curtailing applications of trade secret doctrine to this level may seem extreme, secret keepers still benefit from the often-overlooked tortious interference with contract. Tortious interference “is nearly coextensive with trade secret law and provides almost identical relief,” but suffers from none of the infirmity that results from attempting to substitute intellectual property policy as a basis for application.⁹⁹

Squaring trade secret with the EEA is a more challenging problem. The task of reigning in the EEA is currently in the hands of federal prosecutors and judges, which creates uncertainty in the market.¹⁰⁰ The best solution is for Congress to weigh in and provide clear guidance. While a complete repeal of the EEA may be politically impracticable, a set of well-defined exceptions would do much to restore certainty and eliminate market distortions. At a minimum, this would allow for reverse engineering and an express impossibility defense. Ideally there would be immunity from prosecution where civil misappropriation could not be established. Ultimately, Congress needs to rethink the EEA and account for the impact of criminal liability on what are fundamentally civil issues of intellectual property.

CONCLUSION

Trade secret doctrine forms a part of the contemporary intellectual property landscape, but its origin lies outside traditional intellectual property. This unique origin has led to systemic problems as courts, which have lost sight of how trade secret doctrine was limited by its birth,

⁹⁵ Bone, *supra* note 8, at 297.

⁹⁶ *Id.*

⁹⁷ *Id.* at 299.

⁹⁸ *Id.*

⁹⁹ *Id.* at 303.

¹⁰⁰ Dreyfuss, *supra* note 78, at 75.

search for and apply intellectual property based justifications to prop it up. In the process, jurists have unduly burdened the process of innovation and injured the public wealth. These problems are compounded by Congress's attempt to solve the unrelated problem of international industrial espionage by poaching trade secret tools without consideration of the systemic effects of the legislation on intellectual property and the market for information. The combination of judicial expansion and the EEA has put trade secret doctrine so out of balance with its proffered benefits that a revaluation of trade secret doctrine and its proper use is in order. Jurists and legislatures must work together to rebalance trade secret doctrine bearing in mind the public bargain underlying intellectual property.

Several scholars have offered solutions which may appropriately shift costs and restore the balance, but it remains to be seen if any will be implemented. Generally, a narrowing is in order with the focus being strictly curtailed to eliminate the *Christopher* approach. Bone suggests that, barring specific exceptions where cost benefit is clear, trade secrets should be restricted to contract principles.¹⁰¹ Cole does not discuss the contract basis but does look to ownership in the suggestion that a clear focus on reasonable precaution before bad acts can ensure cost beneficial outcomes by determining whether information is in fact secret.¹⁰² Finally, Dreyfuss opines that only Congressional action may correct the “mongrel nature” of the EEA.¹⁰³ Given the nature of the political process and that trade secret doctrine is a creation of the common law, it is perhaps best that reanalysis by the judiciary should be the tool used to right the balance – jurists only need pay heed to reasoning of their learned predecessors.

¹⁰¹ See Bone, *supra* note 8, at 304.

¹⁰² See Cole, *supra* note 82, at 449-50.

¹⁰³ See Dreyfuss, *supra* note 78, at 42-43.

