

**Should trade secrets be considered  
as property rights of the owner,  
or as relational obligations?**

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## Preface

Trade secrets are a riddle. For over a century, courts, scholars, and lawyers have grappled over how to fit this relatively new legal dimension into the broader structure of legal doctrine.<sup>1</sup> While trade secret law qualifies as a species of intellectual property (I.P.), critics have argued that the differences with copyrights, trademarks, and patents seem to be far more overwhelming than their similarities. Specifically, it has been suggested that its relational focus fits poorly within the dimension of I.P. rights, begging the question of whether trade secrets may be better understood through the lens of personal obligations defined by contract or tort law. To make sense of this identity crisis, it is important to take a step back and remind ourselves what the purpose of trade secret law is and why this legal dimension was created in the first place. Taking a utilitarian stance, this paper will assume from the outset that the broadly stated objectives for trade secret law include commercial morality regulation, incentivising innovation, as hinted at in the case of *Kewanee Oil Co. v Bicorn Corp.*,<sup>2</sup> and ensuring employee mobility. Ultimately, the question must be approached by asking what understanding of trade secret law will enable it to best achieve these overarching policy goals compared to the alternative mechanism.

The central argument advanced by this paper is that a property rights approach must be favoured as it stresses the centrality and instrumentality of secrecy and ownership to trade secret law. Solely by acknowledging these two aspects is it possible to serve its policy objectives and limit common law claims that

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<sup>1</sup> Mark A Lemley, 'The Surprising Virtues of Treating Trade Secrets as IP Rights' (2008) vol. 61, issue 2, *Stanford Law Review*, 311,312.

<sup>2</sup> See *Kewanee Oil Co. v. Bicorn Corp.*, 416 U.S. 470 (1974).

undermine the purpose of this legal dimension.<sup>3</sup> To be certain that this conclusion is the correct one, it is nonetheless essential to acknowledge and evaluate the apparent benefits of conceiving trade secrets under the relational obligations approach. The purpose of this discussion is therefore three-fold. The first section will refute the idea that relational obligations seem to lie at the heart of trade secret law, arguing instead that a relational duty stems from the need to acquire control and ownership over secret information. Having determined this, the purpose of the second section is to analyse the apparent effectiveness of the evidentiary role of contracts for procedural purposes. This is followed by a negative thesis arguing that a complete reliance on the probative value of relationally specific duties does not cover the full extent of the scope of trade secret law, which often concerns improper-means cases and covers the relations between strangers. Finally, the third section of this paper will conclude by evaluating which approach seems to best balance the protection of trade secrets with trade secret law's policy goals. Ultimately, the benefits of a relational understanding of trade secrets seem to be minimised, if not eliminated, when employers take advantage of contractual duties to advance their subjective understanding of trade secrets. On the other hand, a property rights approach must be favoured due to its instrumentality to trade secret law: by stressing the centrality of secrecy and ownership of this legal doctrine, it is possible to encourage innovation, generate a non-hierarchical balance between the rights of employers and employees, and promote overall commercial morality by preventing unfair competition.

Before closely studying the relative advantages and disadvantages of employing one conception of trade secrets compared to the other, a few clarifications are necessary to fully comprehend the approach and purpose of this paper. Firstly, this discussion is contingent on an understanding of trade secrets as information that is likely to generate a competitive advantage for rival companies or individuals when it is undisclosed to the

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<sup>3</sup> Lemley (n1) 347.

public.<sup>4</sup> Secondly, the arguments in this study are supported by U.S. case law and legislation, specifically, the 2016 U.S. Defend Trade Secrets Act (DTSA)<sup>5</sup> – the most recent treaty that finalised the U.S. regulatory framework with a federal private action for trade secret misappropriation. In this context, this paper will refer to relational obligations as those that fall within the duties imposed by contracts, employment statuses, or fiduciary duties. On the other hand, property rights are understood explicitly as those that govern intangible rather than tangible information.<sup>6</sup> Lastly, while this paper does acknowledge that there are multiple scenarios in which trade secrets emerge, including competitive intelligence and business transactions, for a matter of consistency and clarity, it will explain the practical differences between the two approaches predominantly by referring to the traditional employer-employee model.

### *Placing property at the heart of trade secret law*

At the beginning of the twentieth century, in the well-known case of *E.I. Du Pont de Nemours Powder Co. v. Masland*,<sup>7</sup> the Supreme Court rejected the nineteenth-century conception of possession and ownership that had been traditionally employed to approach trade secret law cases. Instead, the judges shifted their consideration towards the breach of duty between the two parties. In a frequently quoted passage, Justice Holmes claimed: ‘Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be.’<sup>8</sup> This tort-based view, also supported

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<sup>4</sup> Smriti Tripathi, ‘Treating trade secrets as property: a jurisprudential inquiry in search of coherency’ (2016) vol. 11, issue 11, *Journal of Intellectual Property Law & Practice*, 841, 843.

<sup>5</sup> Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 (2016).

<sup>6</sup> Eric Goldman, ‘The Defend Trade Secrets Act isn’t an “Intellectual Property” Law’ (2017) vol. 33, fasc. 4, *Santa Clara High Technology Law Journal*, 541, 542.

<sup>7</sup> *E. I. Du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917).

<sup>8</sup> *Ibid.*

by The Restatement of Torts,<sup>9</sup> firmly upholds the idea that the breach of confidentiality between the plaintiff and defendant is what warrants legal protection, not the act of mimicking or disclosing secret intangible information. From this perspective, trade secret law seems to rather represent a legal hybrid between contract and tort law; as voiced by Robert Bone, trade secret law is ‘parasitic’<sup>10</sup> on these legal norms. Indeed, it is arguable that the judges in *Masland* were unwilling to expand trade secret law beyond the confines of these ‘host theories’<sup>11</sup> as it was unable to stand as a normatively autonomous legal body.

On the other hand, this paper argues that relying solely on a relational conception of trade secrets essentially disregards the instrumentality of secrecy and ownership when evaluating legal and social problems. As explained by Mark Lemley, a purely duty-based view is void and does not provide any explanation of the wrong other than that it arose from a contractual obligation.<sup>12</sup> In this way, trade secret law is limited to a conceptual structure that focuses on punishing wrongful behaviour rather than on the pursuit of its overarching policy and social purposes.<sup>13</sup> Moreover, contrary to Justice Holmes’ and Bone’s understanding, it is interesting to consider whether it could actually be the possession of information that drives the need for relational obligations, not vice versa.<sup>14</sup> Arguably, only in the existence of something worth protecting is there a mutual intent and need to be bound. Therefore, a relational duty emerges *as a consequence* of the owner’s informed decision to share his intellectual property knowingly and willingly with a third

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<sup>9</sup> Restatement (First) of Torts § 757 cmt. b (1939).

<sup>10</sup> Robert G Bone, ‘A New Look at Trade Secret Law: Doctrine in Search of Justification’ (1998) vol. 86, issue 2, *California Law Review*, 241, 245.

<sup>11</sup> *Ibid*, 247.

<sup>12</sup> Lemley (n 1) 321.

<sup>13</sup> Mark A Lemley, Peter S. Menell and Robert P. Merges, ‘Intellectual Property in the New Technological Age: 2019’ (2019), 1, 46, available at SSRN: <https://ssrn.com/abstract=3415161>, accessed: 21<sup>st</sup> March 2021.

<sup>14</sup> Eric R Claeys, ‘Private Law Theory and Corrective Justice in Trade Secrecy’ (2011) vol. 4, issue 2, *Journal of Tort Law, George Mason Law & Economics Research Paper Series*, 1, 15, available at SSRN: <https://ssrn.com/abstract=1799554>, accessed: 16<sup>th</sup> April 2021.

party; the obligation not to breach some information's secrecy stems from the owner's need to ensure control over it for commercial purposes.<sup>15</sup> This consideration suggests that trade secret law adjusts and shapes social relations that arise from the production and communication of secret information,<sup>16</sup> thus placing the idea of property at the core of trade secrets. If this claim stands, then either the outcome of the *Masland* case is significantly outdated and should be reversed,<sup>17</sup> or the idea of property was merely irrelevant to its resolution. Indeed, addressing the issue over sixty years later in the case of *Ruckelshaus v. Monsanto*,<sup>18</sup> the Supreme Court resurrected the property view by concluding that trade secrets constituted a form of property within the meaning of the Fifth Amendment to the Constitution.

### *The evidentiary role of contracts in trade secret law*

This section of the paper now turns to evaluate the idea that trade secret law is not only dependent on relationally specific duties for normative support but also on their evidentiary role. Most commonly, the relational obligations approach regulates the interactions between parties involved in business transactions and between employers and employees in departing employee cases. In these contexts, contract law governs the disposition of trade secrets through employment, non-disclosure, and non-competition agreements, which become valuable evidence of the plaintiffs' compliance with the requirements that ought to be fulfilled to advance a successful trade secret misappropriation claim. Indeed, the DTSA requires that the plaintiff demonstrate he took 'reasonable secrecy precautions'<sup>19</sup> to

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<sup>15</sup> Steven Wilf, 'Trade Secrets, Property, and Social Relations' [2002] University of Connecticut School of Law, Faculty Articles and Papers, 787, 794.

<sup>16</sup> Joseph W Singer, *Entitlement: The Paradoxes of Property* (New Haven: Yale University Press, 2015), 10.

<sup>17</sup> Lemley (n 1) 344.

<sup>18</sup> *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984)

<sup>19</sup> See 18 U.S.C. § 1839(3); Unif. Trade Secrets Act § 1(4) (2016).

prevent the disclosure of the information to the broader public. For example, in a 2019 case, the Northern District of Illinois Court determined that if the plaintiff had not required the defendant to sign a non-disclosure agreement and had not established the confidentiality of the information, then the 'reasonable measures' condition would not be achieved.<sup>20</sup> For this reason, scholars such as David Almeling and his colleagues have argued that confidentiality agreements act as the most crucial element when courts determine the cogency of trade secret disputes.<sup>21</sup>

Furthermore, it is essential to note that the DTSA has failed to clarify and expand on what necessary steps have been taken to ensure the information retains its confidential quality. Consequently, its vague nature may imply that so long as a loose commercial definitional requirement is met, there is no limit to what can qualify and be protected as a trade secret. Critics have argued that this stretches the confines of trade secret law excessively and that the conception of trade secrets must be narrowed and managed through a contractual approach.<sup>22</sup> This will help stir courts away from vague, set-in-stone notions and standards of commercial morality.

Nevertheless, while this paper does agree that contracts have significant evidentiary value, the objectives of trade secret law necessitate an approach that allows it to reach where relationally specific duties alone cannot. For instance, contract law is unable to cover 'improper means'<sup>23</sup> cases and those situations where strangers acquire the secret by accident or mistake. This loophole is too important to disregard when

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<sup>20</sup> Steven Grimes and Shannon T Murphy, 'Trade Secrets 2019 Year in Review' (2020) vol. 32, issue 3, *Intellectual Property & Technology Law*, 1, 3 *citing* *Abrasic 90 Inc. v. Weldcote Metals, Inc.*, 364 F.Supp.3d 888, 898-99 (N.D. Ill. Mar. 4, 2019).

<sup>21</sup> David S Almeling and others, 'A Statistical Analysis of Trade Secret Litigation in Federal Courts' (2010) vol. 46, issue 1, *Gonzaga Law Review*.

<sup>22</sup> Bone (n 10) 304.

<sup>23</sup> *See* Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 381 (2016).

considering the question at hand. At best, contractual relations only can serve a limited, evidentiary role when determining the existence of an explicitly legal confidential relationship between the owner of the information and a third party with whom he shares that information. On the other hand, extending beyond the privity of contract to all subjects who “knew or had reason to know”<sup>24</sup> the information was improperly obtained provides greater flexibility for courts to stress that the breach is related to the commercial value of secrecy of the information rather than to an abuse of trust. A similar reasoning also applies to tort law. In interpreting the wording of the DTSA, it would seem somewhat odd if by ‘improper’ the courts had intended to exclusively refer to acts that are already governed by tort law, including trespass and theft, as this would make the existence of trade secret law essentially redundant. Instead, this term seems to cover a more comprehensive array of situations, such as accidental disclosures, that only a property approach to trade secret law has the necessary tools and underlying rationale to handle.

This argument is best exemplified through the case of *E.I. Du Pont de Nemours & Co. v. Christopher*,<sup>25</sup> where the defendants misappropriated a trade secret by photographing the plaintiff’s chemical engineering plant while under construction. This act of industrial espionage was understood as an improper ‘school boy’s trick’<sup>26</sup> that threatened commercial morality and hindered healthy industrial competition. Given the absence of a pre-existing relationship between the two parties and considering that no law had effectively been broken, this case does not seem to fit very well within the framework of either contract or tort law. Instead, understanding this misappropriation through the lens of a property rights approach helps determine the existence of a breach arising from the claimant’s fundamental right to exclude and impose an in rem duty on strangers not to improperly steal

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<sup>24</sup> Ibid.

<sup>25</sup> *E. I. Du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

<sup>26</sup> Ibid.



his secret intellectual work to gain a competitive advantage.<sup>27</sup> Furthermore, David Friedman suggested that in such cases, trade secret law provides a more affordable alternative compared to a more substantial investment in physical secrecy that the claimants might have otherwise had to undertake.<sup>28</sup>

### *Balancing the protection of secrets and policy goals*

Having elucidated the limited usefulness of the evidentiary role of contract and tort law for the scope of trade secret law, this final section turns to the employer-employee model to explain the critical fairness and equity grounds to limit the relational model. Indeed, relational duties play a conflicting role in trade secret law, as they can be used to evade and circumvent the limitations imposed by this legal theory.<sup>29</sup> To avoid and limit the court's objective reasoning to determine the existence of trade secret misappropriation, employers often provide broadly worded contracts that enlarge the protectable subject matter, avoid secrecy precautions, and lack a clearly defined public domain exception. In this way, it is possible to restrict the former employee's rights to the employer's entirely subjective definitions of trade secrets that will most likely serve their own or their firm's goals.

Furthermore, trade secret owners seek to curb their employees' actions by taking advantage of their lack of negotiating power. By formulating non-competition contracts masked strategically as trade secrets, they are able to devise 'pre-emptive strikes'<sup>30</sup> against the risk of the misuse of information.

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<sup>27</sup> Claeys (n 14) 48.

<sup>28</sup> David D Friedman, 'Trade Secret', in: P. Newman (eds), *The New Palgrave Dictionary of Economics and the Law*, Volume 3, (London, New York: Palgrave MacMillan 1998), 604.

<sup>29</sup> Deepa Varadarajan, 'The Trade Secret-Contract Interface' (2018) vol. 103, issue 4, *Iowa Law Review*, 1543, 1563-1564.

<sup>30</sup> *Ibid*, 1572, citing Charles T Graves, 'Trade Secrecy and Common Law Confidentiality: The Problem of Multiple Regimes', in: Rochelle C. Dreyfuss & Katherine J. Strandburg (eds.), *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research* (Cheltenham: Edward Elgar Publishing Limited 2011) 85.

Recent empirical studies have also demonstrated that many employees are not even granted access to the secrets covered by such contracts,<sup>31</sup> further weakening the connection between non-competes and their trade-secret protection justification. From this perspective, if the breach of a relational duty becomes the central justification for trade secret law, the potential for enforcement abuse significantly invalidates the countervailing benefits of trade secret law. Employing a relational approach fails to balance the trade secret owner's interest to protect confidential information against the promotion of employee mobility and innovation. Arguably, this approach is unsettling and does not sit comfortably with notions of commercial morality. To resolve this tension, the contract should aim to explicitly define what constitutes a trade secret and what instead is mere confidential information, in this way becoming not only evidentiary but co-extensive and consistent with the policy objectives of trade secret law.

In light of the arguments that have been considered, this paper suggests that a property rights approach is more prone and better equipped to fulfil the broader functions and scope of trade secret law and I.P. law. Firstly, a property rights understanding of trade secrets provides a more balanced relationship between the plaintiff and the defendant, thus safeguarding commercial morality by avoiding the 'catch-all'<sup>32</sup> trap that protects any and all information the employer subjectively claims to be confidential. While a relational approach would begin by asking whether the former employee accessed the information via the employer, a property approach would instead start by objectively assessing whether the information is secretive and protectable in the first place, regardless of how the employee

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<sup>31</sup> Evan Starr, JJ Prescott and Norman Bishara, 'Noncompete Agreements in the US Labor Force' [2020] *Journal of Law and Economics*, available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2625714](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714), accessed: 22nd March 2021.

<sup>32</sup> Charles T Graves, 'Trade Secrets as Property: Theory and Consequences' (2007) vol. 15, issue 1, *Journal of Intellectual Property Law*, 39, 60.

learned it.<sup>33</sup> If the information objectively fails to qualify as a secret, a property-based approach would disregard whether and why the employer subjectively perceived it to be confidential, treating the information under a more expansive view as the general baggage of skills, knowledge, and experience that the employee can transfer from one job to the other in the pursuit of innovation. In this way, the emphasis is placed on the commercial value of the secrecy of the information and does not contribute to reinforcing the hierarchical relationship between employer and employee. Hence, by framing trade secrets as property rights, courts are compelled to base their judgement on what the law is attempting to protect, and most importantly, for what reasons it requires protection, something that the relational obligations approach fails to consider.<sup>34</sup>

Secondly, there also seems to be a reward-like function in attributing an ownership right to the discovery or creation of new information, which – as originally argued by John Locke – comes in the form of a prima facie right to use and control the fruits of one’s labour to their own commercial advantage.<sup>35</sup> Granting this type of ownership protection provides even more incentive for the holder of a secret to disclose information that he would have otherwise been reluctant to reveal, thus encouraging the creation of inventions by promoting more regulated business negotiations. By imposing a single, clear standard on claims that would otherwise be supported by a multitude of different, conflicting legal theories and claims of free-riding, a property rights approach advances the goal of innovation without having to curtail the competition that is integral to a functioning market economy.<sup>36</sup>

### *Final remarks*

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<sup>33</sup> Ibid, 48.

<sup>34</sup> Lemley (n 1) 314.

<sup>35</sup> John Locke, *The Second Treatise of Civil Government* (Indianapolis: Bobbs-Merrill, 1690), chap. 5.

<sup>36</sup> Lemley (n 34).

Ultimately, the answer to this question must be instrumental to considerations of social and legal utility. This paper has argued that trade secret law must be developed and understood beyond the confines of a theory of relational obligations because this approach fails to achieve its underlying policy objectives. To pursue this argument, the purpose of this paper has been three-fold. In the first section, property rights were placed at the heart of trade secret law by reversing the common conception that a trade secret misappropriated is only in the light of a special confidence. Instead, this paper argued that a relationally specific duty arises from the owner's need to control the information. The second section turned to evaluate the suitability of the evidentiary role of contract and tort for the scope of trade secret law, concluding that a relational obligations approach is limited and does not cover the full scope of trade secret law, including the 'improper means' cases. The purpose of this paper's final section was to demonstrate that in the employer-employee context, a relational obligations approach to trade secrets fails to balance the employer's desire to protect his trade secrets with the overarching purpose of trade secret law. On the other hand, treating trade secrets as a property right dependent on proof of secrecy and ownership ensures that courts are focused on protecting and advancing the policy stakes of trade secret law. As trade secret law continues to expand in scope and importance, it will be interesting to examine what approach U.S. judges will opt for when deciding upon future cases and evaluate whether an analogy can be drawn between their reasonings and the arguments presented in this paper.

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