

Protecting trade secrets as a part of a successful business strategy

Kalle Aakula
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I will concentrate on comparing the trade secret laws of the United States and the European Union between each other in the research. More specifically comparisons will be made between the laws of the state of California and Finland in relation to trade secret laws. The purpose of the research is to point out differences and also to find out similarities between the respective judicial systems. The main analysis of trade secret laws will be made from the perspective of companies but aspects that relate to employee mobility will also be considered when deemed appropriate to reflect the different interests that relate to trade secret laws.

The objective of the research is to create value for companies that aim at protecting their trade secrets as a part of a successful business strategy. Primarily it will be evaluated that how companies can avoid situations where trade secret protection is not granted to them and how companies can avoid situations where their trade secrets are misappropriated. Plenty of court cases will be considered as a part of this research and the relevance of those cases will be analyzed. The enforceability of contracts is also one of the fundamental aspects that will be considered in this research because the respective jurisdictions have differences that have an impact on trade secret protection strategies.

I conclude my research by comparing the most important aspects of the trade secret laws between these judicial systems. Additionally, the conclusion chapter will be dedicated to analyzing ways that how trade secret legislation could evolve in the future in order to advance cross-border innovation and dissemination of information further.

Index terms: Trade secret– non-disclosure agreement – non-compete agreement – skills and knowledge of employees– loyalty obligation – reasonable steps

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Keskityn tutkielmassani vertailemaan Yhdysvaltojen ja Euroopan Unionin liikesalaisuuslainsäädäntöjä keskenään. Tutkielmassa keskitytään etenkin vertailemaan Suomen ja Kalifornian osavaltion lainsäädäntöjä. Tarkoituksena on primäärisesti arvioida vallitsevia eroja mutta myös yhtäläisyyksiä oikeusjärjestelmien välillä. Liikesalaisuuslakeja vertaillaan pääasiassa yritysten näkökulmat huomioon ottaen. Työssä pohditaan myös aiheellisilta osin työntekijöiden vapaan liikkuvuuden turvaamiseen tarvittavia intressejä liikesalaisuuskien turvaamiseksi, jotta liikesalaisuuslakien eri näkökulmat tulevat huomioon otetuksi.

Työn tarkoituksena on tuottaa lisäarvoa yrityksille, jotka pyrkivät suojaamaan liikesalaisuuksiaan mahdollisimman tehokkaasti osana menestyksestä yritysstrategiaa. Työssä keskitytään pääasiassa osoittamaan millä keinoin yritykset pystyvät suojaamaan liikesalaisuuksiaan ja välttämään aiheettomia liikesalaisuuksiin liittyviä loukkauksia, joita työntekijät taikka kolmannet osapuolet saattavat aiheuttaa. Tutkielmassa analysoidaan lukuisia oikeustapauksia ja arvioidaan niiden merkitystä. Sopimusten täytäntöönpano on myös fundamentaalinen aspekti, jota analysoidaan, sillä analysoitavien oikeusjärjestelmien välillä on eroja, joilla on vaikutuksia liikesalaisuuksien suojaamiseen liittyen.

Päätän tutkielmani esittämällä yhteenvedon työssä käymistäni asioista vertaamalla oikeusjärjestelmiä keskenään. Tutkielman lopussa pohditaan, miten liikesalaisuuslakeja voitaisiin edelleen kehittää siten, että innovaatiohankkeet ja tiedon välittäminen lisääntyisivät maiden välillä.

Avainsanat: Liikesalaisuus – salassapitosopimus – kilpailukieltosopimus – työntekijöiden ammattitaito – lojaliteettivelvoite – kohtuullisiksi katsottavat toimenpiteet

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Abbreviations

EU= The European Union

TRIPS Agreement = The Agreement on Trade-Related Aspects of Intellectual Property Rights

ECHR= The European Court of Human Rights

1. Introduction

1.1 About trade secrets

Nowadays companies possess a massive amount of information that is crucial to their existence. Almost every single company has information that it categorizes as confidential and as something that it would not like to disclose to others outside of the company structure.¹ One of the major concerns of corporations is that how they can keep their competitive advantage by securing their secret processes and strategies from competitors. It is in the legitimate interests of companies to protect their trade secrets from the disclosure to competitors.² The world's most known trade secret is presumably the recipe of Coca-Cola that has been protected already over 100 years. Other famously known trade secrets are for example Google's and Facebook's algorithms.³ In addition, Microsoft protects the source code of the Windows operating systems relying on trade secret laws as well.⁴ The primary purpose of trade secret laws is to make sure that markets function efficiently, and companies are not deprived from the benefits that belong to them.⁵ Even though the purpose of trade secrets is to grant legal protection, the factor of secrecy, as such, can give competitive advantage to companies because consumers get interested in the products due to their uniqueness that derives from the secrecy.⁶

Trade secrets are nowadays considered as a type of intellectual property right, in the minority of EU countries and in the United States, even though they are not typical intellectual property rights due to their special nature.⁷ The specialty of trade secrets is that, according to the

¹ Vapaavuori 2019, p.23

² Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (18.12.2105, 15382/1/15 REV 1), p.2

³ Vapaavuori 2019, p.58

⁴ Vapaavuori 2019, p.52

⁵ Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (18.12.2105, 15382/1/15 REV 1), pp.2-3

⁶ Vapaavuori 2019, p.59

⁷ HE 49/2018 vp, p.22 and 114th Congress Senate Report 114-220 Defend Trade Secrets Act 2016 p.1 and Aplin 2015, p.425

applicable legislation, they must be kept secret because otherwise they lose their trade secret status while patents, for example, must be disclosed to the public in order to receive protection.⁸ Another special factor of trade secret protection is that the period of protection is unlimited and the information that can receive trade secret protection is not restricted to any certain industry.⁹ Therefore, in many cases it is possible to consider alternative protection options between trade secrets and other intellectual property rights because trade secrets reach in to the fields that can be e.g. patented and subject to copyright protection.¹⁰ Additionally, in some circumstances these rights can coexist at least to some extent.¹¹ Basically, any information can receive trade secret protection whether it is of technical or economic nature. In other words, company's discount percentages can, for example, be trade secrets if they otherwise fulfil the criteria of a trade secret.¹²

Relying on trade secret laws may sometimes be more useful because as an option it is cheaper than trying to protect a certain object through, for example, a patent.¹³ What must also be born in mind in relation to trade secrets is that trade secrets can be an object that is modified constantly. The algorithms that are protected by trade secrets are for example in constant change, but it does not deprive the respective companies that use these algorithms from trade secret protection.¹⁴ However, as far as patents are concerned the scope of protection is limited to the one of the patent application, where the object that is subject to patentability has to be described extensively.¹⁵

Trade secret protection is especially useful for innovators who do not have the resources to invest in protecting their inventions with other intellectual property rights that can be very expensive to apply for and very expensive to defend and maintain.¹⁶ Trade secrets also come into play in the patent process because trade secrets protect the patentable objects before they receive patent protection. In other words, trade secrets can protect inventions, without any registration procedure, that are going to be patented as long as the secrets are not

⁸ Vapaavuori 2019, p.48

⁹ Vapaavuori 2019, pp.41-42

¹⁰ Friedman – Landes – Posner 1991, p.63 and Vapaavuori 2019, p.51

¹¹ Vapaavuori 2019, p.48 and 51

¹² Vapaavuori 2019, pp. 60-62

¹³ Friedman – Landes – Posner 1991, p.63-64

¹⁴ Pasquale 2011, pp.381-382 and 386

¹⁵ Vapaavuori 2019, p.43

¹⁶ Vapaavuori 2019, p.42

disclosed to the public. What must be born in mind is that patents and trade secrets cannot coexist because in order to receive patent protection the invention must be disclosed which makes the invention fall outside of the regime of trade secret protection.¹⁷ However, there might be some information that is not disclosed during the patent application process that relates to the invention and therefore that information can still be considered as a trade secret if it fulfils the criteria of a trade secret.¹⁸ Additionally, trade secret protection is especially useful for inventors because it guarantees an international protection in those countries where trade secrets are recognized in the spirit of the Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS agreement).¹⁹ However, possible problems that relate to trade secret protection appear when a company claims that another company or an individual has violated trade secret laws because it may be difficult to prove it due to the fact that trade secrets are not exclusive rights. Therefore, it may be easier for a right holder to prove that someone has violated the rights that relate to an object that is e.g. patented.²⁰

1.2 Research question and the scope of research

The research concentrates on evaluating similarities and differences between the trade secret laws of the United States and the trade secret laws of the European Union. The research will especially focus on evaluating differences between the Californian state law and the Finnish law in order to evaluate special aspects that relate to trade secret protection. The primary research question is that how companies can preserve and protect their trade secrets as a part of a successful business strategy. Firstly, it will be analyzed that how companies can protect their trade secrets from former and current employees. Secondly, it will be analyzed that how companies can preserve their trade secrets when engaging in commercial activities with third parties. Based on the findings of the research, advantages and disadvantages of the respective legal systems will be considered and compared with each other. At the end of the research, it will be considered that how the current legal framework of trade secret laws could be improved in the respective judicial systems in a way that would advance cross-border

¹⁷ Vapaavuori 2019, pp.47-49

¹⁸ Vapaavuori 2019, p.48

¹⁹ Vapaavuori 2019, p.42

²⁰ Vapaavuori 2019, p.44

innovation even more. The research will be conducted from the perspective of companies taking their interests primarily into account.

The method used in the research is based on comparative law.²¹ Comparative law as a method is typically used to compare two different judicial systems between each other in order to point out differences and similarities between the selected judicial systems.²² In this research the Californian system will be reflected against the Finnish system and based on the findings of the research similarities and differences will be analyzed. The reason why these specific areas have been chosen as a subject to this research is that the respective judicial systems have such outstanding differences that the comparison will be useful to conduct. The second reason why the state of California was chosen to be part of this research is that a lot of major companies reside in the state of California that do business in the European Union and therefore there is a clear connection between California and the European Union. Thus, this research might create value for some companies that consider the aspects of trade secret laws in an international environment. The sources consist mainly of relevant legal literature. Additionally, court cases of the Supreme Court of Finland will be analyzed thoroughly, and a few appellate court cases are also included to the research. In the context of Californian law relevant case law will be analyzed that includes both state and federal court cases mainly from the Californian courts but also from other states. On top of the aforementioned, Finland's government proposals and reports from the European Union and US congress have also been an integral part of this research.

1.3. The structure of the research

In the following paragraphs historical and theoretical aspects of trade secret laws will be considered. The reason why the aforementioned topics are analyzed is that those aspects will be used as a constructive assistance later in this research when evaluating the specific aspects of trade secret laws. It will be analyzed as well that what type of a role have technological advancements had on the development of trade secret laws and why countries, generally speaking, have decided to strengthen trade secret protection overall.

²¹ Husa LM 7-8/2017, pp.1090

²² Husa LM 7-8/2017, p.1090 and 1092-1093

Then the research will move on to analyze the current legislation in the European Union, in the United States and on an international level. These paragraphs are supposed to give the reader a good perception of the trade secret laws in order to be able to grasp the essence of the respective legal field in a way that it is easier to follow the research.

Paragraphs 6,7 and 8 will deep dive to the trade secret laws of Finland and California. Plenty of case law will be analyzed as a part of the research and based on these findings similarities and differences will be evaluated. The purpose is to lay down specific aspects of trade secret laws and to compare the aforementioned judicial systems with each other. In paragraph 7 aspects that relate to employment law will be evaluated while in paragraph 8 aspects that relate to conducting business with third parties will be analyzed. Finally, based on the findings of the research conclusions will be made about how trade secret laws could be developed in the future. Additionally, it will be considered that what kind of advantages and disadvantages the respective systems have when compared with each other.

2. The origins and justification of trade secret protection

2.1. The history of trade secret laws

There is some debate about the historical background of trade secret laws.²³ Schiller claims that trade secrets were already a part of the Roman law in the days of the Roman empire. Even though trade secrets were not defined explicitly in a commercial law but rather were indirectly covered by the private law, Schiller considers this as the earliest form of trade secret protection. Regardless of the fact that the times of that time were completely different, at least some form of trade secret protection can be found from those ages according to Schiller.²⁴

According to Watson Schiller's conclusions are only an artificial means to derive legitimacy for the current modern trade secret legislation.²⁵ The notion that trade secrets were protected already in the Roman law is not well based and trade secrets were only protected indirectly

²³ Lemley 2011, p.109

²⁴ Schiller 1930, pp.844-845

²⁵ Watson 1996, p.25

by accident. Additionally, Watson is of the opinion that there is no evidence of any facts that would support that any claims would have been asserted against a third party that had allured a slave to acquire trade secrets from anybody.²⁶

Whether or not the Romans did actually protect trade secrets or not remains subject to debate, but it can be deemed that the forms of modern trade secret laws were established later. The trade secrets that we consider as trade secrets in the modern law originate from Anglo-American jurisprudence. The common law courts recognized trade secrets as objects subject to protection in the cases that stem from 19th hundreds.²⁷ Consequently, the modern trade secret laws originate from common law courts that recognized trade secrets as such rights that should be protected. However, it was until very recently that a lot of countries in Europe started to develop new legislation that protects trade secrets in an extensive manner due to the emergence of the European Union's trade secret directive.²⁸ However, the TRIPS agreement, eagerly endorsed by the United States, provided some form of common frame for the signatory countries.²⁹ Regardless of the introduction of the TRIPS agreement there did not exist extensive legislation in relation to trade secrets for a very long period of time and various national interpretations existed on how trade secrets are protected.³⁰ Judging by the latest amendments that have been made to the legislation in the United States and in the European Union, the strengthening of trade secret laws has been trending.

2.2. Theoretical aspects of trade secret laws

Throughout the history of trade secret protection, it has not been clear that how trade secrets should be considered on a theoretical level.³¹ One of the main questions is that should trade secrets be categorized under tort law or some other regime or does it constitute a legal entity on its own.³² Trade secrets were mostly conceived as property rights in the 19th century and

²⁶ Watson 1996, p.19

²⁷ Lemley 2011, p.111

²⁸ HE 49/2018 vp, p.11

²⁹ Sandeen 2011, pp.537-538

³⁰ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) *//, p.5

³¹ Lemley 2011, p.111

³² Deutch 1997, p.316

early 20th century in the United States.³³ Nonetheless, the unfair competition theory gained more relevance before courts and started to dominate the field from the beginning of 1940's all the way until the emergence of the Uniform Trade Secrets Act.³⁴ There is still some controversy in relation to the theoretical aspects of trade secret laws and not all jurisdictions consider trade secrets as a form of intellectual property rights.³⁵ Trade secrets have also been considered, among others, as a form of unfair competition law, tort law and contract law.³⁶ Regardless of the fact that should trade secrets be considered as a form of intellectual property right that constitutes an own legal entity or not it remains undisputed that information that is of sensitive nature and fulfils certain criteria forms an object that is subject to legal protection in one form or the other in the western societies.³⁷

It has also been suggested that trade secret legislation serves as a standard of commercial morality which excludes unwanted behavior from the markets.³⁸ Morality as a term, however, is difficult to define and it may vary among different judicial systems. For example, the morality aspects that relate to the patentability of biotechnological inventions variate between the United States and the European Union.³⁹ The adaption of commercial morality brings its own challenges because the moral aspects are not only different on an industry basis but also are very subjective. In other words, the commercial morality aspect of trade secret protection does not provide a consistent unifying theoretical solution.

Simultaneously, Lemley points out that contract law is not suitable to cover the scope of trade secrets because trade secret protection extends outside the contractual relationships and protects a trade secret owner from third parties with whom no contract is concluded.⁴⁰ Additionally, the fact that criminal procedures may be started, before a court, against a party who acquires, uses or discloses trade secrets in an unauthorized manner do not fit well to the contractual theory.⁴¹

³³ Bone 2011, pp.49 and 51

³⁴ Bone 2011, pp. 55-56

³⁵ Entwurf eines Gesetzes zur Umsetzung der Richtlinie (EU) 2016/943 zum Schutz von Geschäftsgeheimnissen vor rechtswidrigem Erwerb sowie rechtswidriger Nutzung und Offenlegung, p.17

³⁶ Deutch 1997, p.316

³⁷ Lemley 2011, p.109

³⁸ E.I. duPont deNemours Co. v. Christopher and Lemley 2011, p.120

³⁹ Stazi 2015, pp.36-38

⁴⁰ Lemley 2011, p.118

⁴¹ Lemley 2011, p.118

The goals of trade secret protection lie partly in the same functions as those of patents, copyrights and trademarks. The purpose of all the intellectual property rights is to provide incentives for innovation.⁴² Additionally, the purpose of trade secret laws is to reduce risks that relate to the dissemination of information.⁴³ However, this view has been also challenged and some scholars consider that open revealing can also bring benefits for inventors regardless of the fact that the inventions are not protected by any intellectual property rights.⁴⁴ Even though trade secrets are considered as intellectual property rights in some jurisdictions it can be clearly seen that the lawfulness of the acquisition and use has a lot to do with fairness. The actual protection is not against the information as such but rather against the manner by which it is acquired. Unlike in the context of patents, it is prohibited to use the patented object as long as the protection period lasts regardless of the manner by which it is acquired.⁴⁵

The trade secret protection that is granted for trade secrets is not absolute in the sense that they would get exclusive protection.⁴⁶ According to Lemley trade secrets receive exclusivity like the other intellectual property rights as well. He points out that the exclusivity does not necessarily have to be absolute and in fact copyright law does neither grant absolute protection.⁴⁷ There are exceptions, for example, that relate to the private use of the work and that relate to research purposes according to sections 12§ and 14§ of the Finnish Copyright Act.

The functions of the intellectual property rights are typically deemed to be the following: a) further innovation by granting some form of exclusivity for the inventor; and b) to share the invention with the society so others can use the invention.⁴⁸ Hence, the private needs and the

⁴² Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) */, p.2

⁴³ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) */, p.7

⁴⁴ Von Hippel and von Krogh 2011, pp.206-207

⁴⁵ Vapaavuori 2019, p.43

⁴⁶ Vapaavuori 2019, p.75 and Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) */, p.3

⁴⁷ Lemley 2011, p. 122

⁴⁸ Lemley 2011, pp.123-124

societal needs are balanced by intellectual property rights. Lemley even gives arguments that trade secrets indeed serve the society's benefits by disclosure like patents and copyrights. Lemley provides reasoning that if trade secrets were not protected by law companies would need to invest more in keeping their valuable information secret because they would not be able to receive protection from courts.⁴⁹ He further provides evidence based on the survey that Robert Sherwood concluded in the developing countries where trade secret protection is not granted that companies cannot innovate effectively due to the lack of trade secret laws.⁵⁰ In other words, trade secrets serve the society's needs in a way that companies do not have to protect their innovations that closely and they can disseminate their inventions/knowledge in a more extensive manner than without trade secret legislation. However, even in the absence of trade secret protection companies would conclude most likely similar types of non-disclosure agreements where they restrict the use and dissemination of trade secrets as currently. This, however, requires that contractual terms are enforced before a court in the respective jurisdiction. Problems arise in the absence of trade secret laws, nevertheless, if protection is not granted against malicious behavior where the purpose is to acquire trade secrets through improper means. Simultaneously, problems would arise if employees would not be subjected to the loyalty obligation that arises from employment law to act in the best interest of their employer and if criminal law would not prevent employees from misappropriating their employers' trade secrets. It would not be advantageous for the society if employers should always enter into confidentiality agreements with their own employees and no protection would be granted in case that employees would not be subjected to strict confidentiality agreements.

Even though trade secrets are nowadays a well-defined concept, especially in the European Union and in the United States, there exists different opinions about the theoretical aspects of trade secrets. Some consider them as intellectual proprietary rights, e.g. Finland, while others, e.g. Germany, do not recognize trade secrets as intellectual property rights.⁵¹ Consequently, as a field of law trade secrets do not have a coherent base of which theoretical aspects would be undisputed. The theoretical aspects may seem to be a debate only of

⁴⁹ Lemley 2011, pp.124-125

⁵⁰ Lemley 2011, p.125

⁵¹ HE 49/2018 vp, p.22 and 131 and Entwurf eines Gesetzes zur Umsetzung der Richtlinie (EU) 2016/943 zum Schutz von Geschäftsgeheimnissen vor rechtswidrigem Erwerb sowie rechtswidriger Nutzung und Offenlegung, p.17

importance for academic scholars, but it indeed has practical importance as well for the companies when they enter into agreements with each other. When the companies stipulate about intellectual property rights it is important to know whether trade secrets are included in the definition of intellectual property rights. This distinction may have major consequences for the companies if the parties later have different views of the interpretation. If a company wants that trade secrets are not included to the definition of intellectual property rights it would be wise to state this separately in the agreement in order to avoid any disputes about the interpretation of the agreement especially in cross-border situations and in international contexts where the conception of trade secrets varies on a theoretical level.⁵²

2.3. Motives in the society to strengthen trade secret legislation

Trade secret legislation has developed little by little to its current state starting from the incentive to exclude unethical business behavior and unfair competition from the market ending up being an intellectual property right, in the United States and in some European Union countries, that protects information that fulfils certain criteria.⁵³ It could be argued that the motives behind the development of trade secret laws can be explained by the fact that data which cannot be protected by traditional intellectual property rights is a crucial and necessary part for creating more innovation and advancing business.⁵⁴ Since all the data, which especially nowadays is extremely valuable in monetary terms, cannot be protected by patents and copyrights etc. there has been a constant need to develop something that can protect such information that does not fall under other intellectual property schemes.

Trade secrets are not that restrictive in the sense that a variety of information can fall under the scope of trade secret protection while other intellectual property rights are more restrictive.⁵⁵ The amount of knowledge and data that companies have is worth of a considerable

⁵² Vapaavuori 2019, p.39

⁵³ Lemley 2011, p.112, 114th Congress Senate Report 114-220 Defend Trade Secrets Act 2016 p.1 and Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */, p.3

⁵⁴ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */, p.3

⁵⁵ Vapaavuori 2019, pp.38, 40-45, 51 and 54

amount of money and companies have an interest to protect their data from unauthorized disclosures.⁵⁶ Some form of legal protection for trade secrets is necessary because otherwise companies could not work that efficiently and they should put a lot of resources in order to create such contractual arrangements that secure the confidentiality of the information in the employment and business context.⁵⁷ Simultaneously, the role of the trade secret laws is to foster employee mobility and that is why certain criteria have to be fulfilled to receive trade secret protection. These criteria create a balance between the interests to grant protection for valuable information and the interests that are necessary for the effective functioning of the employment markets.⁵⁸

However, it is subject to debate that what role do intellectual property rights generally speaking serve in creating economic growth. There is evidence that plenty of countries have been able to tremendously advance economic growth without a strong legislative protection of intellectual property rights. The intellectual property rights have, in many cases, deserved attention once the major economic growth has been already concluded.⁵⁹ Despite the fact, the reason for quick economic development can be at least partly explained because these newly industrialized countries could have taken advantage of the existing inventions that existed already in more developed countries.

⁵⁶ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) *//, p.2-3

⁵⁷ Lemley 2011, pp.124-126

⁵⁸ Kolasa 2018, p.14

⁵⁹ Mercurio 2010, p. 65

3. International trade secret laws

The TRIPS agreement stipulates about the protection of undisclosed information on an international level. The TRIPS agreement has been in force since 1995 and it provides protection for trade secrets in its Article 39.⁶⁰ Article 39 of the TRIPS agreement grants protection for “undisclosed information” which can be deemed to cover trade secrets as well.⁶¹ Undisclosed information can be deemed to cover a wider amount of information than only trade secrets.⁶² Prior to the respective agreement the Paris Convention did stipulate about unfair competition, but it did not directly stipulate about trade secret protection.⁶³ The definition for information that receives protection under TRIPS is laid down in the Article 39 of TRIPS but there are still major differences between the countries that have signed the treaty.⁶⁴ For example, some countries have introduced criminal liability while others settle in civil liability. Other important variations relate to information that can be protected and in which circumstances. Remedies and the evidence gathering also vary among different countries that have implemented TRIPS.⁶⁵ The TRIPS agreement did not provide a solution that would unify the laws across the signatory countries, but it helped to create a common base.⁶⁶ Nevertheless, the problems that related to inconsistency and coherency were not solely problems on an international level, but the problems also existed on national levels. For example, the legislation in Finland was fractioned and the clarity and the improved transparency were considered as positive effects that the new trade secret law introduced when implementing the trade secret directive of the European Union.⁶⁷

⁶⁰ WTO, Overview: the TRIPS Agreement (Accessed 10.4.2020)

⁶¹ Kolasa 2018, p.38

⁶² Kolasa 2018, p.38

⁶³ OECD, Approaches to the protection of trade secrets p.133 (Accessed 10.4.2020)

⁶⁴ OECD, Approaches to the protection of trade secrets p.132 (Accessed 10.4.2020)

⁶⁵ OECD, Approaches to the protection of trade secrets pp.139-140 (Accessed 10.4.2020)

⁶⁶ OECD, Approaches to the protection of trade secrets pp.130-132 (Accessed 10.4.2020) and Sandeen 2011, p.538

⁶⁷ HE 49/2018 vp, pp.69 and 78

4. Trade secrets in the European Union

4.1. Background of the new trade secret directive (EU)

Trade secrets were defined under national law, largely based on national interests, until the emergence of the trade secret directive of the European Union. The directive is a big development in the European framework since it unifies the legal framework on a European level to a high extent. Plenty of member states did not have any coherent trade secret laws in place prior to the introduction of the trade secret directive.⁶⁸ At the same time the directive does not dramatically change the status quo that much in some of the member states that already granted good protection for trade secrets under national laws before the issuance of the directive. For example, in Sweden there was already a separate trade secret law that provided an extensive protective frame for trade secrets.⁶⁹ Additionally, in Finland the level of protection remains unchanged to a high extent e.g. technical instructions continue to receive protection like before.⁷⁰ Therefore, the impacts that the directive introduced varied among the member states.

The trade secret directive came into force in 2016 and it provided, in its Article 19, a two-year implementation period for the member states to implement the relevant provisions to their national legislation. The reason why the directive was introduced can be clearly seen from *“the Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure”* which was published in 2013. According to the proposal the national laws did not provide sufficient incentives for companies to innovate efficiently inside the European Union.⁷¹ Research and development programs were not initiated in the same pace as in some other countries and Europe was falling behind in innovation projects. The

⁶⁸ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */ p. 5

⁶⁹ HE 49/2018 vp, p.47

⁷⁰ HE 49/2018 vp, p.53

⁷¹ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */ p.2

inconsistent national laws were seen as an obstacle for cross-border innovation.⁷² Consequently, there were not enough of incentives to innovate among companies that resided in different member states because companies were afraid to lose their trade secrets.⁷³ Hence, the risks of a company, which was located in a country where the protection level was extensive, increased a lot when it started to operate in an European Union country that granted weaker protection.⁷⁴ The directive will most likely benefit those companies in countries within the European Union that had weak trade secret protection.⁷⁵ The new legislative amendments are making countries that offered weaker protection more attractive for companies when conducting cross-border initiatives.⁷⁶

However, it must be born in mind that the directive only serves as a minimum standard and member states are allowed to implement legislation that protects trade secrets in a more extensive manner.⁷⁷ Another important factor is that the directive stipulates only about civil remedies and therefore countries have different variations relating to trade secret protection as far as e.g. criminal and employment law are concerned.⁷⁸ The fact that the directive serves as a minimum protection level may lead to a situation where the trade secret laws are again at least partly inconsistent among different member states. When other member states provide better protection for innovation the research and development projects will most likely flow in those areas. Possible inconsistencies may cause problems among companies even though the minimum level of protection is now guaranteed by the trade secret directive. Conversely, Article 1 (1) of the trade secret directive stipulates that there are Articles that member states must implement as such and they are not permitted to do any variations to one way or the other regarding those specific Articles. Among other things the manner by which it is permitted to acquire a trade secret lawfully according to Article 3 and the exceptions of Article 5

⁷² Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */ pp.2 and 5

⁷³ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */ pp.3 and 5

⁷⁴ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */ p.6

⁷⁵ Työ- ja elinkeinoministeriön julkaisu 2/2018, p. 103

⁷⁶ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */ pp.2 and 5-6

⁷⁷ HE 49/2018 vp, p.12

⁷⁸ HE 49/2018 vp, p.11

are fully harmonized on an EU level and no variations are allowed to the respective Articles. However, Article 3 (2) provides leeway for member states to adapt national laws that stipulate about the lawful acquisition, use and disclosure in a different way.⁷⁹ In other words, the aforementioned Article makes it possible for member states to implement laws that make it possible to acquire, use and disclose trade secrets in some other manner than stipulated in the Article 3 (1). This leeway may lead to inconsistencies between different member states and disrupt the coherence of trade secret laws within the European Union.

4.2. Implementation of the directive to national legislation

The member states of the European Union had time until 9.6.2018 to implement the directive to their national legislation to correspond the level of trade secret protection that is mandatory according the directive. Due to the fact that the legislation was not on the same level in all of the member states⁸⁰ different member states took different actions to implement the new directive into force. The implementation processes of some of the member states will be considered below by comparing the implementation processes of different member states.

In Finland a special working group was assigned, by the Ministry of Economic Affairs and Employment of Finland, to take care of the modifications that were needed in the legislation in order to fulfil the necessary protection level of the trade secret directive.⁸¹ The working group was of the opinion that a separate law would be useful in the context of trade secrets because it would make companies and employees more aware of applicable trade secret legislation.⁸² In Finland the protection level was already better than decent prior to the emergence of the directive.⁸³ In fact in Finland the law gives broader protection while it protects technical instructions in accordance with section 7§ of the trade secret act. Technical instructions received extensive protection before the emergence of the trade secret directive and continue to receive protection after the implementation as well.⁸⁴ A new separate law was introduced

⁷⁹ Kolasa 2018, p.155

⁸⁰ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */, p.5

⁸¹ Työ- ja elinkeinoministeriön julkaisu 2/2018, p.10

⁸² Työ- ja elinkeinoministeriön julkaisu 2/2018, pp. 105 and 110

⁸³ HE 49/2018 vp, p.53

⁸⁴ HE 49/2018 vp, p.53

with the intention to create clarity and transparency in the legal framework.⁸⁵ Before the existence of the trade secret directive there were plenty of different national laws in Finland that stipulated about trade secret protection, but the terminology was not coherent, and the interpretations were also inconsistent due to the fact that different laws had different aims and legislative history.⁸⁶ According to the government proposal of Finland the new law will add the amount of innovation initiatives that may lead to positive economic growth in the future.⁸⁷ On top of this companies can now collaborate and do business more easily among different member states because the legislation is more predictable and coherent.⁸⁸ The fact that the terminology of trade secrets is unified and more transparent will facilitate employers and employees to understand the legislation in a better manner.⁸⁹

Denmark and Sweden both decided to implement a special law that addresses the questions relating to trade secrets.⁹⁰ Prior to the directive, Denmark did not have a separate law for trade secrets and the definition of a trade secret was not written in the law, but it was defined through case law. Additionally, trade secrets were/are not considered as part of intellectual property rights in Denmark. Trade secrets are rather seen as a form of fight against unfair commercial practices in Denmark.⁹¹ Oppositely, Sweden was the only country in the European Union to have a separate trade secret law before the issuance of the trade secret directive. Regardless of the fact that Sweden already had a separate trade secret law they had to implement new measures and therefore the legislator decided to implement a new trade secret law to fulfil the protection level of the new directive.⁹² In other words, a lot of the Nordic countries decided to implement a separate law that stipulates about trade secrets. In Norway the legislator determined to implement the necessary measures to existing laws that stipulate about the protection of trade secrets. Before the directive trade secrets were not specifically defined in national legislation in Norway.⁹³

⁸⁵ Työ- ja elinkeinoministeriön julkaisu 2/2018, pp. 105 and 110

⁸⁶ HE 49/2018 vp, p.33

⁸⁷ HE 49/2018 vp, p.67

⁸⁸ HE 49/2018 vp, p.68

⁸⁹ Työ- ja elinkeinoministeriön julkaisu 2/2018, pp. 105 and 110

⁹⁰ HE 49/2018 vp, pp.47-48

⁹¹ HE 49/2018 vp, p.48

⁹² HE 49/2018 vp, pp.47-48

⁹³ HE 49/2018 vp, p.49

The new trade secret law of Germany (*Geschäftsgeheimnisgesetz*) introduces the definition for a trade secret that was not defined earlier in Germany. Prior to the directive trade secrets were defined by case-law but there was no written law that would define trade secrets as a concept.⁹⁴ One of the most important changes is that the trade secret holder has to now protect its trade secrets with appropriate measures unlike before when it was enough that the right holder had the willingness to keep the information secret without taking any protective measures. Additionally, the conditions on how to acquire a trade secret have changed among other things.⁹⁵ In the government proposal of Germany it was stated that there is no other opportunity than to create a separate law for trade secrets because the regulation regarding trade secrets does not fit well in the law of unfair competition (*Gesetz gegen den unlauteren Wettbewerb (UWG)*). Simultaneously, it was stated in the proposal that the provisions should not be implemented to other intellectual property right laws because trade secret legislation rather protects the manner by which the information is acquired, and no specific quality is needed for the information. It was stated in the government proposal that if the necessary modifications were made to the unfair competition law it would change the nature of the law so dramatically that it would not serve a purpose.⁹⁶ However, surprisingly Austria decided to act differently than its neighboring country and it implemented the necessary modifications to the unfair competition law (*Bundesgesetz gegen den unlauteren Wettbewerb 1984 (UWG)*).⁹⁷ In France the legislator implemented a separate trade secret law in order to implement the necessary provisions to national legislation. The law was integrated to the Commercial Code.⁹⁸ Simultaneously, Italy decided to implement the modifications to their Industrial Property Code and they even modified their Penal Code to introduce harder penalties on an infringer.⁹⁹

The countries within Europe reacted differently to the implementation of the directive and others decided to create a new separate law while others determined to implement the necessary provisions into existing laws. It must also be noted that neighboring countries decided

⁹⁴ Bundesministerium der Justiz und für Verbraucherschutz, Aktuelle Gesetzgebungsverfahren (Accessed 10.4.2020)

⁹⁵ DLA Piper, Das neue Geschäftsgeheimnisgesetz (Accessed 10.4.2020)

⁹⁶ Entwurf eines Gesetzes zur Umsetzung der Richtlinie (EU) 2016/943 zum Schutz von Geschäftsgeheimnissen vor rechtswidrigem Erwerb sowie rechtswidriger Nutzung und Offenlegung, p.17

⁹⁷ Republik Österreich Parlament, UWG-Novelle 2018, Vorblatt und WFA p.1

⁹⁸ Gouge and Truchot-Bothner 2019, p.187

⁹⁹ World Intellectual Property Organization Italy: Legislative Decree No. 63 of May 11, 2018, on the Implementation of Directive (EU) 2016/943 [...] (Accessed 10.4.2020)

to act differently upon the matter. Italy and France introduced different measures as did Germany and Austria. It is clear that the perception of the theoretical aspects that relate to trade secrets are not unified among the member states. In Germany trade secrets are, according to the government proposal, somewhere between intellectual property rights and competition law.¹⁰⁰ Conversely, Finland rather considers trade secrets as a form of intellectual property rights.¹⁰¹ There are a lot more countries within the European Union that do not recognize trade secrets as intellectual property rights as those that recognize.¹⁰² Aplin has also interpreted that the wording of the trade secret directive that refers to “trade secret holders” does not encourage the intellectual property view.¹⁰³ What is also worth noting is that the European Union’s proposal considers trade secrets as closely related to intellectual property rights but does not recognize them as such. Conversely, it is stated in the proposal that the proposal is “one further deliverable on the commitment of creating a single market for intellectual property” which contradicts the aforementioned views.¹⁰⁴

4.3. Scope of protection according to the trade secret directive

The definition of a trade secret is laid down in Article 2 of the trade secret directive. All of the following criteria have to be fulfilled in order for information to be considered as a trade secret according to Article 2: *“(a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) it has commercial value because it is secret; (c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;”*

The directive does not only define what are considered as trade secrets, but it also lays down how a trade secret may be acquired lawfully, and it also stipulates about when an acquisition is considered as unlawful. Conversely, the TRIPS agreement left a lot of room for the countries

¹⁰⁰ Entwurf eines Gesetzes zur Umsetzung der Richtlinie (EU) 2016/943 zum Schutz von Geschäftsgeheimnissen vor rechtswidrigem Erwerb sowie rechtswidriger Nutzung und Offenlegung, p.17

¹⁰¹ HE 49/2018 vp, p.22

¹⁰² Aplin 2015, p.425

¹⁰³ Aplin 2014, pp.8 and 15

¹⁰⁴ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */, p.3

to implement their trade secret legislation.¹⁰⁵ Even though the TRIPS agreement left a lot of room for the signatory countries to implement their laws the definition of a trade secret of the Article 39 corresponds the definition of the Article 2 of the European Union's trade secret directive. Now the member states of the European Union do not have that much of room to stipulate differently and current legislation is built on a more secure base as the one that existed under national laws. The new trade secret directive addresses the questions that were never addressed on a European Union level before and therefore the development is a major one towards a unifying framework of trade secret protection.¹⁰⁶

The trade secret directive states in Article 3 under which circumstances it is allowed to acquire a trade secret as follows: *"The acquisition of a trade secret shall be considered lawful when the trade secret is obtained by any of the following means: (a) independent discovery or creation; (b) observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret; (c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices; (d) any other practice which, under the circumstances, is in conformity with honest commercial practices."*

Simultaneously, the trade secret directive stipulates in a detailed manner in Article 4 about the ways that how it is illegal to acquire trade secrets. According to Article 4 (2) of the trade secret directive it is unlawful to acquire a trade secret in the following circumstances if the acquirer does not have the consent of the right holder: *"(a) unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced; (b) any other conduct which, under the circumstances, is considered contrary to honest commercial practices."*

Additionally, according to Article 4 (3) the use and disclosure of a trade secret shall be considered as unlawful when a) a trade secret was unlawfully acquired; b) being in breach of a

¹⁰⁵ Oesch – Eloranta – Heino – Kokko 2017, p.245

¹⁰⁶ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */, pp.2 and 5

confidentiality agreement or any other duty not to disclose the trade secret; c) being in breach of a contractual or any other duty to limit the use of the trade secret. The aforementioned section rather describes in which kind of a position the person has to be in order to violate the directive while the Article 4 (2) rather defines the action that is considered, per se, as unlawful. On top of that, Article 4 (4) states that when a person should have known at the time of the acquisition that the trade secret derives from a source that has unlawfully acquired it s/he cannot use the trade secret. Article 5 of the trade secret directive goes further and stipulates about exceptions which provides leeway for whistleblowing, legitimate interests, freedom of speech, legitimate exercise of functions by workers' representatives. What must be also born in mind is that according to Article 13 (3) a person who is completely innocent of any misappropriation can be condemned to pay damages to the injured party. The Article 13 (3) states as follows:

“Member States shall provide that, at the request of the person liable to be subject to the measures provided for in Article 12, the competent judicial authority may order pecuniary compensation to be paid to the injured party instead of applying those measures if all the following conditions are met: (a) the person concerned at the time of use or disclosure neither knew nor ought, under the circumstances, to have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully; (b) execution of the measures in question would cause that person disproportionate harm; and (c) pecuniary compensation to the injured party appears reasonably satisfactory.”

Article 13 (3) seems to protect strongly the trade secret holder while at the same time it subjects actors that are operating a business with completely honest manners to liability in a way that raises questions about proportionality. Even though a company may successfully claim that it did not know about the restrictions that related to the use of information it may be held liable in accordance with Article 13 (3).

5. Current legislation in the United States

5.1. The Defend Trade Secrets Act

The Defend Trade Secrets Act is the first piece of legislation that regulates about civil remedies on a federal level in the United States. What is worth noting here is that the Defend Trade Secret Act was passed by the Congress without of almost any opposition.¹⁰⁷ Regardless of the fact that the Defend Trade Secrets Act was passed by the Congress in a bipartisan manner, there were critics in the academical field that were concerned of the protection level that the new federal law would offer for trade secret holders. The critics were firstly concerned that employee mobility would decline and that the proposal included other major negative risks for the proper functioning of the markets.¹⁰⁸

The Defend Trade Secrets Act provides a possibility to sue infringers and seek for civil remedies in a federal court. Additionally, the Defend Trade Secrets Act changed the definition of a trade secret that is defined in the Economic Espionage Act of 1996.¹⁰⁹ The Senate's report explicitly notes that trade secrets are to be deemed as a form of intellectual property.¹¹⁰ Already in the 1990s there were scholars that suggested that a federal law should be drafted that covers the aspects of trade secret protection explicitly.¹¹¹

Prior to the Defend Trade Secrets Act of 2016 federal law protected trade secrets from theft and other similar criminal acts in the spirit of Economic Espionage Act of 1996. However, these measures were measures that protected against criminal behavior and the civil remedies were not protected by a federal law before the newly passed law.¹¹² The Economic Espionage Act was found as problematic due to the fact that it only protected the trade secret owner from criminal behavior and secondly, the law enforcement authorities did not have enough of resources to investigate all the felonies that occurred in relation to trade secret violations.¹¹³

¹⁰⁷ Final Vote Results for Roll Call 172, HoUSE.GOV (Accessed 10.4.2020)

¹⁰⁸ Pooley 2016, p.1046. see Letter from Professor Brook K. Baker et al. to the Sponsors of the Defend Trade Secrets Act of 2014 (S. 2267) and the Trade Secrets Protection Act of 2014 (H.R. 5233) (Aug. 26, 2014),

¹⁰⁹ 114th Congress House of Representatives Report 114-529, pp.1-2

¹¹⁰ 114th Congress Senate Report 114-220, p.1

¹¹¹ Pace 1995, pp.448 and 456

¹¹² 114th Congress House of Representatives Report 114-529, p.3

¹¹³ 114th Congress House of Representatives Report 114-529, p.4

The civil remedies that the state courts offer were also found ineffective because the laws vary among different states too much and on top of this trade secret violations occur on an inter-state level which pinpoints that a federal law would be a more suitable platform to address the legal issues in relation to trade secret disputes.¹¹⁴ According to recent studies the courts in the United States have awarded more damages per case in trade secret disputes than in trademark disputes lately.¹¹⁵ The state of California ranks in the top seven states where the amount of total awarded damages is the highest during the period of study.¹¹⁶

The US Criminal Code 18 §1839 defines a trade secret as follows: *“all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—(A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information;”*

The definition of *“misappropriation”* under the Defend Trade Secrets Act is in line with the one of the Uniform Trade Secrets Act that has been adopted by many of the states at least in some form. The legislator’s purpose was to make sure that the interpretation of misappropriation remains the same after the adoption of the new federal law.¹¹⁷ According to US Criminal Code 18 §1839 the term *“misappropriation”* is defined as follows:

“(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (B) disclosure or use of a trade secret of another without express or implied consent by a person who— “(i) used improper means to acquire knowledge of the trade secret; “(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was— “(I) derived from or through a person

¹¹⁴ 114th Congress House of Representatives Report 114-529, p.4

¹¹⁵ Rowe 2017, p.170

¹¹⁶ Rowe 2017, p.175

¹¹⁷ 114th Congress House of Representatives Report 114-529, p.14

who had used improper means to acquire the trade secret; “(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or “(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or “(iii) before a material change of the position of the person, knew or had reason to know that— “(I) the trade secret was a trade secret; and “(II) knowledge of the trade secret had been acquired by accident or mistake;”

The Criminal Code additionally defines the lawful and unlawful ways to acquire a trade secret by defining the term “*improper means*” as follows: “(A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and (B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition;”

The Defend Trade Secrets Act was introduced with an intention to provide consistency and also predictability to the landscape of the United States as far as trade secret protection is concerned. Simultaneously, the federal legislator wanted to refrain from disturbing the applicability of state laws by stating that the federal trade secret law does not pre-empt state law.¹¹⁸ If the federal law would pre-empt the state law, it would mean that the contradicting state law would not be applied on that relevant part and the federal law would prevail. In other words, individual states are not allowed to enact laws that contradict the federal law according to the pre-emption doctrine.¹¹⁹ It remains to be seen that what is going to be the relationship between the Uniform Trade Secrets Act and the federal law in the long term considering that the latter does not pre-empt the former. What must be born in mind is that according to the 18 USC §1836 the Defend Trade Secrets Act becomes applicable only then when the violation occurs on an inter-state level or when the violation has a linkage on foreign commerce.

¹¹⁸ 114th Congress House of Representatives Report 114-529, p.6

¹¹⁹ USLegal, Preemption Law and Legal Definition (Accessed on 10.4.2020)

5.2. The Uniform Trade Secrets Act

The first version of the Uniform Trade Secrets Act was drafted in 1979 by the Uniform Law Commission.¹²⁰ Uniform Law Commission, established already in 1892, is a non-profit association which works independently with the aim to unify state laws.¹²¹ One of its established model laws is the Uniform Trade Secrets Act which it introduced as an exemplary law that it recommended states to enact in their state legislations in order to make the protection regime of trade secret legislation consistent throughout the United States. The Uniform Trade Secrets Act was further amended in 1985 to its form where it currently stands.¹²² The Uniform Trade Secrets Act is a model law and therefore different states have implemented the law differently and some states have chosen not to implement the Act. The Uniform Trade Secrets Act has been implemented in 48 states excluding New York and North Carolina. Additionally, the respective Act has been implemented in other US territories including Puerto Rico, District of Columbia and US Virgin Islands.¹²³ Alternatively, trade secrets are protected by the Restatement of Torts in those states that have not implemented the Uniform Trade Secret Act.¹²⁴

Plenty of states have made minor modifications to the model law once they implemented the act.¹²⁵ As an example, in the state of California the legislator decided to modify the definition of the trade secret. According to the model law a trade secret *“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 is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”*¹²⁶ However, as can be seen from the Californian Civil code 5 §3246.1 the Californian legislator determined to remove the criterion *“and not being readily ascertainable by proper means by”*. The amended wording suggests that in the state of California information may

¹²⁰ World Intellectual Property Organization, Uniform Trade Secrets Act with 1985 amendments p.4 (Accessed on 10.4.2020)

¹²¹ Uniform Law Commission, About Us (Accessed on 10.4.2020)

¹²² World Intellectual Property Organization, Uniform Trade Secrets Act with 1985 amendments p.4 (Accessed on 10.4.2020)

¹²³ Uniform Law Commission, Trade Secrets Act (Accessed on 10.4.2020)

¹²⁴ Pace 1995, p.430

¹²⁵ Pace 1995, p.443

¹²⁶ World Intellectual Property Organization, Uniform Trade Secrets Act with 1985 amendments p.6 (Accessed on 10.4.2020)

receive trade secret protection easier than in those states that have implemented the “*and not being readily ascertainable by proper means by*” wording.

The fact that states can make modifications to the Uniform Trade Secret Act can be considered as one of the weaknesses of the Act.¹²⁷ According to Pace, there are various reasons why the Uniform Trade Secret Act is insufficient to guarantee an appropriate level of trade secret protection. Firstly, the modifications that the states have made to the model law, when implementing it, endangers the uniformity of the law throughout the country. Another problem is that there are two versions of the Uniform Trade Secrets Act simultaneously in circulation and some states have not implemented either of them. The third problem arises from the fact that state courts may interpret the legislation of a particular state contradictorily.¹²⁸ On top of that the problem of the varying state laws comes into question when considering that the USA has signed the TRIPS agreement. When the power to legislate is given to states that have different values and judicial histories compliance with the requirements that international law sets on the United States becomes difficult.¹²⁹ For these aforementioned reasons Pace suggested already in 1995 that states are not the appropriate level to regulate about trade secret laws and there should be a federal law that guarantees a high level of predictability for US based companies that operate within the United States and companies established outside the United States that do business in the United States.¹³⁰

According to the Uniform Trade Secrets Act the definition of a trade secret is slightly differently expressed as in the US Criminal Code. The list of examples that may receive trade secret protection is a lot longer in the US Criminal Code 18 §1839 than in the Uniform Trade Secrets Act.¹³¹ In practice, nevertheless, these minor variations do not have any practical relevance because the information that can receive trade secret protection is not limited to any specific type of information nor form of information.

¹²⁷ Pace 1995, p.443

¹²⁸ Pace 1995, pp.443-445

¹²⁹ Pace 1995, pp.454-455

¹³⁰ Pace 1995, p.454 and 456

¹³¹ World Intellectual Property Organization, Uniform Trade Secrets Act with 1985 amendments p.6 (Accessed 10.4.2020)

Currently the Defend Trade Secrets Act and the Uniform Trade Secrets Act are parallelly applied.¹³² Even though the Defend Trade Secrets Act was supposed to unify the trade secrets laws throughout the states the Uniform Trade Secrets Act has still a continuous important role as a part of legislation. The Defend Trade Secrets Act only solves disputes that have a state overarching linkage and therefore, trade secret disputes that arise between a defendant and a claimant inside one state will be processed in the light of the Uniform Trade Secret Act when there is no inter-state linkage.¹³³

Differences between individual states oblige interstate companies to design separate agreements that take different perspectives into account with individual states or then the respective company has to identify the state that grants the least of protection and use that as a standard version.¹³⁴ It remains to be seen that how the federal law is going to have an impact in relation to creating predictability and coherency in the long term since it does not pre-empt state laws. The lack of clarity deprives companies from concentrating on matters that are important for the actual business because they have to allocate resources to areas where unclarity is created by the legislation.

5.3. Important case law prior to the Acts

The case law has played a major role in defining trade secrets in the United States. Two important decisions will be analyzed below that have had an impact on the development of trade secret laws in the United States.

One of the most important cases in the US history is E.I. du Pont Nemours & Christopher which was ruled on United States Court of Appeals 5th circuit August 25, 1970.¹³⁵ In the respective case a company had hired a photographer to take pictures of the plaintiff's plants when flying on an airplane. The plaintiff had not patented or protected its inventions with any intellectual property rights and he had not built a roof to protect the inventions from disclosure if somebody decided to fly over the plantation. The court found that even though the action of the defendant did not constitute trespass, nor did it violate any intellectual property

¹³² 114th Congress House of Representatives Report 114-529, p.5

¹³³ 114th Congress House of Representatives Report 114-529, p.5

¹³⁴ Pace 1995, p.447

¹³⁵ E.I. duPont deNemours Co. v. Christopher 431 F.2d 1012 (5th Cir. 1970)

rights the action was to be seen as so unethical business behavior that it could not be allowed. It was seen that the plantation owner would have had to invest an unreasonable amount of money to protect the plantation from possible infringers that it would have not been in line with reasonable measures that the trade secret holder has to take in order to protect his or her trade secret. The decision was based on the fact that the court considered the way by which the defendant acquired the trade secrets as unfair business behavior.¹³⁶

Another important case that had a big impact on the concept of trade secrets was *Kewanee Oil Co. v. Bicron Corp* that was subject to the ruling of the Supreme Court of the United States in 1974.¹³⁷ In the respective case former employees of the plaintiff had disclosed trade secrets once they had started to work at a competitor. The disclosure led to the creation of identical results in the new company as in the company where the former employees had been working earlier. The employees disclosed the information even though they had signed confidentiality agreements because the defendants claimed that since the object subject to trade secret protection was also patentable the federal patent law would supersede state law. The defendants claimed that the object was no longer patentable because of the time limit had passed according to the federal law. The case was about the interpretation of the Supremacy Clause under which Federal law pre-empts state law when the state law is in contradiction of the aims that Congress has adopted based on its constitutional powers. The Supreme Court of the United States found that the federal law does not pre-empt the state trade secret laws in this context. The decision was a major development for trade secrets law because the Supreme Court noted that “*Nothing in the patent law requires that States refrain from action to prevent economic espionage*”. The Supreme Court considered that the objectives of the federal patent law and trade secret state laws are to a large extent similar.¹³⁸

¹³⁶ E.I. duPont deNemours Co. v. Christopher 431 F.2d 1012 (5th Cir. 1970)

¹³⁷ Kewanee Oil Co. v. Bicron Corp. 416 U.S. 470 (1974)

¹³⁸ Kewanee Oil Co. v. Bicron Corp. 416 U.S. 470 (1974)

6. Protecting trade secrets as a part of a successful business strategy

6.1. Introduction of the protective measures that are available

Trade secrets are a vital part of companies' business activities and it is of utmost importance that companies are able to protect their trade secrets from third parties in a secure way.¹³⁹ Simultaneously, it is as important that individuals can use information freely in a way that trade secret protection does not create an obstacle for employee mobility and new innovations.¹⁴⁰ The legislator has tried to find a balance between various important interests. Different legislators have had different views on how to achieve the perfect balance and that is why there are differences between trade secret laws.

There are two major factors that companies have control over as far as trade secret protection is concerned. Companies can control the amount of information that they disseminate, and they can decide what reasonable steps they take to protect trade secrets in order to receive trade secret protection. What can be considered as reasonable steps depends greatly on the court's perception of fairness besides the underlying facts of the case.¹⁴¹ In other words, companies have to assess it by themselves that what do they consider as reasonable steps since no strict guidelines exist.

A company does not function in isolation from other companies and thus, it has to rely on other companies, in a lot of instances, in order to execute its business strategies.¹⁴² For example, clothing companies use manufacturers from various countries where the protection level, granted by the law, is not that high.¹⁴³ Additionally, a variety of companies rely on e.g. cloud computing services which in turn can raise issues as far as trade secret protection is concerned.¹⁴⁴ Consequently, when companies use other companies as a means of executing their

¹³⁹ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure /* COM/2013/0813 final - 2013/0402 (COD) */, p.3

¹⁴⁰ Kolasa 2018, pp. 7,10 and 11

¹⁴¹ Sandeen 2011, p.557

¹⁴² Kolasa 2018, p.7, Lemley 2011, p.125 and Vapaavuori p.497

¹⁴³ Aamulehti (Accessed 10.4.2020)

¹⁴⁴ Sandeen 2014, pp.11-12

business strategies they usually need to disclose confidential information and that is why it is in the legitimate interests of a company to protect the information that they reveal. Based on the applicable legislation of the United States and the European Union companies must ensure that the secrecy criterion is still fulfilled after the disclosure because absent the fulfilment of the criterion trade secret protection is not granted. What must be born in mind is that the secrecy criterion is not absolute in the sense that it would require that no one else except the trade secret holder knows about the trade secret.¹⁴⁵

Due to the fact that trade secrets are not absolute rights and the enforceability of a trade secret claim depends on certain criteria that have to be fulfilled, companies have to pay attention to certain measures in order to receive protection for their trade secrets. According to the EU's trade secret directive and Economic Espionage Act trade secret holders have to ensure the secrecy of the information and also that they have taken reasonable steps to protect the secrets. Judging by the aforementioned requirements companies have at least to some extent control over what information can constitute trade secrets. Contracts are a common way to manifest a company's intention to take reasonable steps to maintain the secrecy of the trade secret.¹⁴⁶ Contracts are not necessarily always indispensable since the law as such protects information that falls under the scope of trade secret protection, but it is certainly always beneficial for a company to enter into a non-disclosure agreement in any case.¹⁴⁷ However, there exists dissimilarities between countries as far as what is considered as sufficient reasonable steps are concerned. Hence, the coherency of trade secret laws between different member states of the European Union can be at risk due to different practices that exist among national legislations.¹⁴⁸ Furthermore to non-disclosure agreements e.g. restricting access to certain information could be considered as reasonable measures to protect trade secrets.¹⁴⁹

Additionally, sensitive information should only be disclosed to those parties who have a need to know about the confidential information in order to perform their duties.¹⁵⁰ This is a

¹⁴⁵ Vapaavuori 2019, p.75

¹⁴⁶ Vapaavuori 2019, p.497 and Max Planck Institute for Innovation and Competition p.6

¹⁴⁷ Vapaavuori 2019, p.88 and *Seaman's Direct Buying Service, Inc. v. Standard Oil Co.* 36 Cal.3d 752, 686 P.2d 1158, 206 Cal.Rptr. 354 (1984)

¹⁴⁸ Max Planck Institute for Innovation and Competition p.6

¹⁴⁹ Max Planck Institute for Innovation and Competition p.6

¹⁵⁰ Vapaavuori 2019, p.87

manner by which companies can lessen the risks that relate to information disclosures. Another important element is to have access methods, codes of conducts and sufficient information flow inside the company in order to protect trade secrets.¹⁵¹ Additionally, when employers enter into non-disclosure agreements with their employees the contracts should be drafted in a manner where it is emphasized that the confidentiality requirement not only applies to the information of the company but also to information that is received from third parties during the employment.¹⁵² Even though the legislation and the contractual arrangements play an important role in relation to trade secret, the internal practices of a company can affect the scope of protection in relation to certain information.¹⁵³

Technological developments have plenty of positive sides, but the developments have also accredited to help infringers to steal trade secrets from right holders.¹⁵⁴ It is relatively easy to steal trade secrets¹⁵⁵ and the company may not even notice such an action happening. Consequently, there is an increasing need for companies to make sure that their trade secrets are kept in safe and there must be strict guidelines and rules that prevent employees from misappropriating trade secrets. The relevance of sufficiently clear guidelines becomes especially relevant in the context of termination of employment when an employee is about to begin employment in another competing company.¹⁵⁶

In the following sections the current trade secret legislation and its implications will be analyzed from the perspective of Finnish law and Californian state law. The research is structured in a way that one aspect of the trade secret framework is addressed first from the perspective of Finnish law and then from the perspective of Californian state law. The research is structured in the aforementioned manner in order to make it easier for the reader to follow the text.

¹⁵¹ Vapaavuori 2019, pp.662-663

¹⁵² Vapaavuori 2019, p.135

¹⁵³ Sahinoja DL 2013/6, p.998

¹⁵⁴ Vapaavuori 2019, p. 24

¹⁵⁵ Vapaavuori 2019, p. 24

¹⁵⁶ Vapaavuori 2019, p.434

6.2. The legal framework in Finland

6.2.1. Laws that regulate about trade secrets in Finland

There are various laws that have an effect on trade secrets in Finland.¹⁵⁷ In 2018 Finland implemented a separate law, that regulates about trade secret protection. The new piece of legislation adopted the measures of the European Union's trade secret directive but, yet the criminal law and the employment law continue to play an important role in Finland.¹⁵⁸ The new trade secret law of Finland defines what trade secrets are in Article 2 but, for instance, the basic idea behind the protection against violations by employees remains the same in the form of the loyalty obligation that employees have towards their employers.¹⁵⁹ The employment law is especially important to analyze in this research because former employees are in the risk group of people who may violate trade secret laws.¹⁶⁰ The trade secret directive harmonized important factors in relation to trade secrets but there still remains important variations between the member states as far as criminal and employment law, which also stipulate about trade secrets, are concerned.¹⁶¹ In Finland there are also other laws that stipulate about trade secrets in specific circumstances (e.g. Laki yrityksen saneerauksesta 1993/47 and Laki viranomaisen toiminnan julkisuudesta 1999/621).

In Finland the protection goes even further than the trade secret directive requires. According to section 7 of the trade secrets act technical instructions are also protected when they are trusted to someone for the purpose of executing an assignment. The concept covers technical instructions and models that can be used as a part of business activities.¹⁶² Technical instructions do not have to be secured by protective measures in such a way as trade secrets because the protection is based on the fact that the instructions have been given to somebody with

¹⁵⁷ HE 49/2018 vp, p.22

¹⁵⁸ HE 49/2018 vp, p.11

¹⁵⁹ Vapaavuori 2019, pp.434-435

¹⁶⁰ Kolasa 2018, pp.9-10

¹⁶¹ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) */, p.6

¹⁶² Vapaavuori 2019, p.147

the intention to give them confidentially.¹⁶³ Technical instructions, however, do not receive protection if they can be directly derived from public sources.¹⁶⁴ According to the criminal law of Finland employees are not permitted to use any trade secrets of the former employer that they have acquired in an authorized manner for 2 years after the termination of the respective employment. The specialty of technical instructions is that the criminal law does not restrict the protection period in the employment context to 2 years post-employment, but technical instructions receive protection as long as they have commercial value.¹⁶⁵ Thus, information that does not fulfil the criteria of a trade secret may fall under the scope of technical instructions and receive protection. This can be seen as problematic from the standpoint of the goal to harmonize the trade secret legislation throughout the Union. Even though the goal of the trade secret directive was to unify the concept of trade secrets it seems that there remains essential differences that may have a negative impact on the legal certainty in the Union. When individual member states begin to implement legislation that grants protection for information that does not fulfil the criteria of a trade secret uncertainties will increase, and innovation might not flow that rapidly.

6.2.2. Trade secrets in the employment context in Finland

The EU's trade secret directive specifically states in Article 1 in the following manner: *“Nothing in this Directive shall be understood to offer any ground for restricting the mobility of employees. In particular, in relation to the exercise of such mobility, this Directive shall not offer any ground for: (a) limiting employees' use of information that does not constitute a trade secret as defined in point (1) of Article 2; (b) limiting employees' use of experience and skills honestly acquired in the normal course of their employment; (c) imposing any additional restrictions on employees in their employment contracts other than restrictions imposed in accordance with Union or national law.”* This provision can be construed in a manner that the relationship between trade secrets and the professional skills of employees are left for the member states to define.¹⁶⁶

¹⁶³ HE 49/2018 vp, p.96

¹⁶⁴ HE 49/2018 vp, p.96

¹⁶⁵ Vapaavuori 2019, p.146

¹⁶⁶ Oesch – Eloranta – Heino – Kokko 2017, p.251

The balancing of what constitutes a trade secret and what can be deemed as legitimately acquired information that is part of the skills and knowledge of the employee is sometimes difficult.¹⁶⁷ This relationship has been considered in various court cases, but it is impossible to draw an explicit line between the information that constitutes a trade secret and information that does not constitute a trade secret.¹⁶⁸ Part of the problem is that the evaluation is linked to the context and must be evaluated on a case-by-case basis.¹⁶⁹ The outcome of the evaluation depends on different factors, such as, the employee's general competence level and how detailed the information that is alleged as a trade secret is.¹⁷⁰ Vapaavuori has defined that there are three elements that can assist to evaluate that does a piece of information fall into the category of trade secrets or legitimately acquired know-how. These three factors are the following: a) Does the information reside in the memory of the employee or is it in written form?; b) Is the information of general nature or very detailed?; c) Does the information relate to a specific company or is it commonly known in the industry?¹⁷¹ However, what must be born in mind is that the information has to in any case fulfil the criteria of the trade secret law. Even though a former employee would have valuable information in his/her possession but if the employer had for some reason neglected his duty to take reasonable steps to protect the secret it would not fall under the trade secret protection scheme.¹⁷² The novel trade secret act's purpose is not to change and give different interpretations to information that constitutes a trade secret according to the current law.¹⁷³

There exists important case law that has addressed what constitutes a trade secret in the employment context. For example, criminal charges were brought before the appellate court of Helsinki against former employees of a company who disclosed trade secrets in a new company in which they started to work as co-owners.¹⁷⁴ The appellate court ruled that the former employees violated trade secret laws and the employer had taken reasonable steps to protect the information even though no confidentiality agreement existed between the employer and the employees. The former employees used commercially sensitive information that they had acquired as a part of their employment from the company. The information that they used

¹⁶⁷ Vapaavuori 2019, p. 97

¹⁶⁸ Vapaavuori 2019, pp.97 and 102

¹⁶⁹ HE 49/2018, p. 83

¹⁷⁰ Vapaavuori 2019, pp.103-105

¹⁷¹ Vapaavuori 2019, p.105

¹⁷² Vapaavuori 2019, p.85

¹⁷³ HE 49/2018 vp, p.58

¹⁷⁴ Helsingin HO 18.12.2017

consisted of e.g. product specific pricing information which the former employees used in the new company by setting the price a bit lower than in the former company. Additionally, the employees took advantage of the sales data by selecting the products that created the most net revenues and thus it was easy for the new company to identify which products were selling well and were profitable. The employees also used information that the company had about the suppliers. On top of this the information that the former employees were using consisted of customer information and different types of commercially sensitive information that can be considered as vital for business. The district court of Helsinki considered that the job descriptions of the employees consisted of supply and sales activities and thus that information was such as to be considered as a part of their legitimate professional skills. Additionally, the court emphasized that the company had not entered into a confidentiality agreement with the employees and thus it had not taken reasonable steps to protect its trade secrets. Consequently, the district court considered that the supply prices, product information, profitability calculations and net sales information, customer information etc. were not trade secrets which was partly due to the fact that the employer had not taken the sufficient reasonable steps to protect the information.¹⁷⁵

The appellate court of Helsinki decided to rule differently upon the matter. The appellate court considered that the new company benefitted largely of the information of the company from which the employees had departed. The court considered that the employees would have needed to put resources for independent development work of a longer time absent the use of the information. The court relied on plenty of depositions which illustrated that the information that was used was of sensitive nature and that was widely known in the field. The court also noted that it did not have any relevance in which form the information was transmitted and it relied on legal literature on that point that it could not be regarded as decisive that was the information in the memory of the employee or did it require concrete files to be transmitted.¹⁷⁶ The court also considered that the employer had taken reasonable steps to ensure the secrecy of the information because it was generally known that the information must be kept as a secret and the employer had also elaborated this to its employees.¹⁷⁷

¹⁷⁵ Helsingin HO 18.12.2017

¹⁷⁶ Helsingin HO 18.12.2017

¹⁷⁷ Helsingin HO 18.12.2017

In the respective case the defendants have systematically tried to copy and exploit the information of their former employer. Regardless of the aforementioned, the decision of the appellate court has features that can be considered partly as concerning because the appellate court indirectly states that employees who work on a specific field and start to work at a competitor have to intentionally avoid using beneficial information that they have acquired during their employment. Therefore, they cannot always act in the best interest of the new employer if they cannot use information of for example former customers that they cannot practically forget. This can also realize in the case where a company tests a procedure and notices that the procedure does not work (negative information). When an employee swaps the place of work and notices that the new employer is starting the same kind of nonfunctioning procedures as the former employer did, it would be very human like to disclose that such procedure does not work. Despite the fact that disclosing such information can be considered as part of the human nature it may be deemed as a violation of trade secret laws.¹⁷⁸ As can be seen the relationship between trade secrets and legitimately acquired know-how is tricky and a false interpretation of the relationship can lead to a very detrimental result. The former employees, of the respective appellate court case, were condemned to 6 months in jail, in the form of probation, and the business partner with whom the former employees started the business was condemned to 4 months in the form of probation. Additionally, they all had to pay 250000 euros in damages to the plaintiff.¹⁷⁹

The Supreme Court of Finland has also evaluated what constitutes a trade secret earlier in case law.¹⁸⁰ In a ruling given in 1991 a former employee of the plaintiff had disseminated instructions that he acquired in an unauthorized manner from the plaintiff to his new employer. In the respective case the defendants were not condemned of trade secret violation but of embezzlement and of using the acquired stolen information. The Supreme Court stated that since the information that the defendants were using was possible to reverse engineer from already existing products that were publicly on sale, the stolen instructions were not trade secrets but technical instructions.¹⁸¹ Nevertheless, the court did not hear any depositions in relation to this matter but concluded it by declaring it based on its own technical

¹⁷⁸ HE 49/2018 vp, p.84

¹⁷⁹ Helsingin HO 18.12.2017

¹⁸⁰ KKO 1991:11

¹⁸¹ KKO 1991:11

understanding that the information was possible to reverse engineer from the already existing products that were available to the public and thus the information did not constitute a trade secret.

What can also be considered as problematic when comparing the relationship between trade secrets and legitimate know-how of an employee, is that ideas and inventions made by employees become, usually, the property of the company.¹⁸² Even though it is easy to understand why the results that are based on the ideas of employees fall into the possession of companies, it still raises a difficult conundrum. Companies cannot naturally invent anything without their employees because a company is in its simplicity only a mark in the commercial register and it needs its employees to function overall. However, the dilemma arises from the fact that the employees that come up with the ideas can consider the ideas as their own at least when it is not clearly distinguishable that it belongs solely to the company. Employees are not necessarily aware that they are not allowed to use such information and that the work results belong solely to the company. In other words, it would be important to inform the employees of the fact that inventions become the sole property of the company in order to avoid confusions.

6.3. The legal framework in California

6.3.1. Laws that regulate about trade secrets in California

The definition of a trade secret can be found from the Californian Civil Code § 3426.1. The aforementioned section defines what is a trade secret and when trade secrets are considered to be misappropriated. For the sake of simplicity, it could be stated that a trade secret refers to information that derives independent actual or potential economic value because it is a secret and it is subject to reasonable efforts to maintain its secrecy. The definition of a trade secret in California is basically the same as in the EU's trade secret directive. The differences that relate to trade secret protection do not necessarily relate to the information that is protected but rather to the possibilities to conclude contracts that protect trade secrets and other measures that the law grants.

¹⁸² Vapaavuori 2019, p.433-434

Additionally, the section 16600 of the Californian Business and Professions Code plays a crucial role in the context of trade secrets. This section protects employee mobility and makes all agreements void and unenforceable that restrict the possibility to engage in a profession. The courts usually have to analyze this section when dealing with disputes that relate to trade secret violations. It is possible that a non-disclosure, non-solicitation or non-compete agreement is subject to this review before a court because these agreements may sometimes be considered to put a restraint on engaging in a profession.¹⁸³

Simultaneously, the Defend Trade Secrets Act is applicable as well and plaintiffs have a possibility to seek civil remedies relying on federal law.¹⁸⁴ The Economic Espionage Act covers the criminal law perspective on a federal level in relation to unauthorized acquisition, use and disclosure of trade secrets.¹⁸⁵ On top of this there exists legislation on a state level that stipulates about civil remedies and criminal remedies (California penal code § 499c and California Civil Code § 3426.1). In the context of the United States contracts are a common way to protect trade secrets. The enforceability of certain terms and agreements varies among different states and this has a major impact on trade secret protection.¹⁸⁶ The federal law unifies the legislation in some parts, but state laws remain still important and relevant.¹⁸⁷

6.3.2. Trade secrets in the employment context in California

The state of California values employee mobility to a very high extent and courts deem agreements that put a restraint on engaging in a lawful profession as unenforceable in accordance with the Californian Business and Professions Code § 16600.¹⁸⁸ Despite the fact that employee mobility is appreciated it does not indicate that employees would be free to use any knowledge they wish in their subsequent employment.¹⁸⁹ The evaluation that what constitutes a trade secret depends on the specific context of the case and therefore strict guidelines cannot be set on what constitutes a trade secret and what does not in the employment

¹⁸³ Bradford 2007, pp.12-14

¹⁸⁴ 114th Congress House of Representatives Report 114-529, pp.1-2

¹⁸⁵ 114th Congress House of Representatives Report 114-529, p.3

¹⁸⁶ Bradford 2007, pp.13-14 and 17

¹⁸⁷ Pooley 2016, p.1047

¹⁸⁸ Bradford 2007, p.13

¹⁸⁹ Bui-Eve 1997, p.993 and Cal. Civ. Code § 3426.1

context.¹⁹⁰ The experience of the employee as such can also affect the consideration before a court on whether a certain information constitutes a trade secret or not. It may be harder for an inexperienced employee to claim that the information belongs to his/her set of knowledge as opposed to a more experienced employee.¹⁹¹ Nevertheless, such a view can be considered as slightly unfair because the definition of trade secrets should not be dependent on external factors, for example the experience of the employee, but it should always be the same for all employees. Otherwise this would lead to a result that less experienced employees are not able to grow their knowledge while experts can grow it. Generally speaking, ultimate goals and general concepts do not constitute trade secrets.¹⁹² The skills and expertise of the employee and the general knowledge that the employee has acquired do not either constitute a trade secret.¹⁹³

The doctrine of inevitable disclosure is a legal doctrine in the United States. According to the Inevitable disclosure -doctrine an employer can seek for an injunction to prevent an employee from working at a competitor based on the fact that such employment would lead to the disclosure of the trade secrets of the former employer.¹⁹⁴ At the moment there does not exist any case law that would have explicitly stated that the inevitable disclosure -doctrine is not applicable in the state of California but it could be conceived that the adoption of the doctrine would contradict the primary essence of the Californian system that fosters employee mobility.¹⁹⁵ It has been argued in the legal literature that inevitable disclosure -doctrine would set a statutory prohibition to not compete if it was adopted in the state of California which contradicts clearly the purpose of the section 16600 of the Californian Business and Professions Code which basically prohibits contractual arrangements that put a restraint on employee mobility.¹⁹⁶ The inevitable disclosure -doctrine can be considered as problematic because in practice it does not only prevent the alleged misappropriation of trade secrets but it also prevents the employee from using any information at all.¹⁹⁷ The inevitable disclosure -doctrine

¹⁹⁰ Kolasa 2018, p.143

¹⁹¹ Kolasa 2018, p.146. see Friesen 'Distinguishing between an Employee's General Knowledge and Trade Secrets' 2123, 2123

¹⁹² Bui-Eve 1997, p.995

¹⁹³ Metro Traffic Control, Inc. v. Shadow Traffic Network (1994), No. B064697. Second Dist., Div. Four. Feb 17, 1994.

¹⁹⁴ LegalMatch (Accessed 10.4.2020)

¹⁹⁵ Lincicum 2002, pp. 1268-1270

¹⁹⁶ Lincicum 2002, pp. 1273-1274

¹⁹⁷ Kolasa 2018, p.148

could also make it possible for employers to engage in “*mobility prevention -trolling*” to which companies can rely on when they are dissatisfied with the fact that an employee moves to a competitor. Such claims can raise, nevertheless, competition law issues when an employer sues a former employee without any valid reason with malicious intent to prevent the employee from starting a business in a field where competition is rare.¹⁹⁸

A very well-known case of inevitable disclosure -doctrine, outside the state of California, is the case *Pepsi co, Inc. v. Redmond* in which the Court of Appeals of Seventh Circuit prevented Redmond, an employee of Pepsi co., from beginning his employment at Quaker due to the fact that Redmond would inevitably disclose trade secrets in the course of his new employment at Quaker.¹⁹⁹ This was regardless of the fact that a) Redmond had no intention to disclose trade secrets deliberately, b) Redmond had entered into a confidentiality agreement with Quaker that obliged him not to reveal any trade secrets of third parties, c) Quaker had a code of ethics in place that prohibited the disclosure of former employers’ trade secrets and d) Redmond promised to seek advice from the legal department of Quaker if he ended up being in a situation where he would need to disclose trade secrets of the former employer as a part of his duties.²⁰⁰ As can be seen the inevitable disclosure -doctrine, when applied, invades to the fundamental rights of an individual, namely the right to engage in a profession, in an excessive manner. Hence, the inevitable disclosure -doctrine undermines employee mobility and can possibly make the markets more stagnant.

7. Specific aspects of trade secret laws

7.1. Non-disclosure agreements in Finland

Non-disclosure agreements are usually enforceable according to the Finnish law as long as they are not disguised non-compete agreements.²⁰¹ Companies may deem that the legal protection is not enough and consequently, there may be a need to have confidentiality agreements among the staff.²⁰² Confidentiality agreements are also a useful way to remind

¹⁹⁸ Kolasa 2018, p.151 and *CVD, Inc. v. Raytheon Co.* 769 F.2d 842 (1st Cir. 1985)

¹⁹⁹ *PepsiCo, Inc. v. Redmond* 54 F.3d 1262 (7th Cir. 1995)

²⁰⁰ *PepsiCo, Inc. v. Redmond* 54 F.3d 1262 (7th Cir. 1995)

²⁰¹ HE 49/2018 vp, p.25 and Vapaavuori 2019, p.588

²⁰² Vapaavuori 2019, p.588 and 590

employees of a duty to restrain from using and disclosing certain types of information.²⁰³ Without such a reminder, employees may not even know that they are not allowed to use and disclose information freely. Even though employers would not want to seek more extensive protection for their trade secrets than the law offers they should enter into confidentiality agreements for the sake of reminding their staff of the duty of confidentiality. Employers are not, however, permitted to broaden the definition of a trade secret and thus employers cannot restrict the use of other types of information through contracts that would have effects once the employment relationship has ended.²⁰⁴ The general contract law principles are applied to non-disclosure agreements and they do not form an exemption to other contracts.²⁰⁵ Employers can for example make the following type of contractual clauses with their employees 1) trade secrets that the employee creates during the employment will be transferred to the employer automatically and free of charge,²⁰⁶ 2) the employee has to inform any subsequent employer of the restrictions that the employee has in relation to the prior employer's trade secrets.²⁰⁷ 3) the employee has to return all the material that the employee has gathered in the course of his/her employment back to the employer at the end of the employment²⁰⁸ and 4) information must only be stored in a certain location or that the employee is not allowed to take certain information out of the office.²⁰⁹ Some of the aforementioned contractual clauses are not, per se, inevitable from the standpoint of law but they serve an informative purpose. Relying on trade secret law may be enough before a court but courts should be the last resort where disputes are settled. It is in the interests of the employer and the employee that clarity and transparency are created so any possible disputes can be avoided without expensive litigation.

According to the criminal law of Finland trade secrets are protected for 2 years after the termination of employment. Employers can, by entering into contracts, extend this protection period when considered plausible.²¹⁰ According to Vapaavuori when the non-disclosure agreement states that the protection period is less than 2 years, which is the protection period that the criminal law grants for the post-employment time, it might be considered that the

²⁰³ Vapaavuori 2019, p.590

²⁰⁴ Vapaavuori 2019, p.589

²⁰⁵ HE 49/2018 vp, p.34

²⁰⁶ Vapaavuori 2019, p.609

²⁰⁷ Vapaavuori 2019, p.614

²⁰⁸ Vapaavuori 2019, p.448

²⁰⁹ Sahinoja DL 2013, p.997

²¹⁰ Sahinoja DL, 2013 p.997

employer has voluntarily given up on the 2-year protection period and the one of the contract applies.²¹¹ The aforementioned applies only to information that is acquired in a lawful manner because the restriction to use information that is acquired in an unlawful manner lasts forever.²¹² In any case employers should not enter into agreements that weaken the protection level from the law if they do not for some reason specifically want to enter into a contract that can be subject to multiple interpretations.²¹³ The interpretation that certain agreements would prejudice the protection period that criminal law grants may be correct but the outcome is challenging because the freedom of contract should not supersede the provisions of criminal law. This would especially be problematic in the context of smaller companies which do not necessarily have the resources to get appropriate legal consultation. At the same time bigger companies should not be deprived of the protection period that the criminal law grants only because they have resources. In other words, companies should not be deprived of the 2-year protection period that the criminal law grants solely due to the fact that the contracts were drafted by lawyers who were not aware of the 2-year protection period of the criminal law.

The Supreme Court of Finland addressed the enforceability of a non-compete agreement and non-disclosure agreement in its decision 2014:50.²¹⁴ The ruling supports the view that it is possible to extend the protection period of trade secrets from the one that the criminal law grants by entering into non-disclosure agreements. In the respective case the employer and the employee had entered into a non-disclosure agreement that restricted the use and disclosure of any trade secrets that the employee had acquired in the course of his employment for an unlimited amount of time.²¹⁵ The court did not take any stance on the matter and thus it can be considered that the court did not find the unlimited prohibition as problematic because of its complete silence on the matter.

However, the aforementioned interpretation was challenged by the appellate court of eastern Finland very recently.²¹⁶ The appellate court addressed issues relating to non-compete agreements, non-disclosure and non-solicitation agreements. The defendant worked at a company

²¹¹ Vapaavuori 2019, p.604

²¹² Vapaavuori 2019, p.604

²¹³ Vapaavuori 2019, p.461

²¹⁴ KKO 2014:50

²¹⁵ KKO 2014:50

²¹⁶ Itä-Suomen hovioikeus S 18/384

as a sales director and his role in the company was essential. After the defendant, upon his own initiative, resigned he started a competing company. The court, firstly, found that the non-compete agreement was valid and enforceable. Secondly, what can be considered as remarkable in relation to non-disclosure agreements is that the court limited the validity of the confidentiality duty from 4 years to 2 years in its decision.²¹⁷ In other words, the court did not accept the view that non-disclosure agreements could provide longer protection period than 2 years. Additionally, the court found that the non-solicitation agreement was as a matter of fact a non-compete agreement and thus limited the validity of that agreement to 6 months instead of 4 years. The non-solicitation agreement was seen to put a restraint on the employee that would in reality prejudice competition in a major way.²¹⁸

Based on the aforementioned cases it seems that the enforceability of unlimited confidentiality periods depends on the court that rules on the matter. However, it is not possible to completely exclude the possibility to conclude agreements where the use of trade secrets is restricted above the 2 year-period that criminal law grants. There are both positive and negative aspects that relate to the permissibility of those agreements that extend the protection period above the 2-year period that the law grants. The positive aspect is that companies which are operating in a highly competitive field and where trade secrets are the most vital part of the existence of the company must have a chance to protect their trade secrets for a longer period of time than 2 years. As an example, different types of recipes of beverage companies are necessary to be kept secret for a longer period of time than only 2 years. Otherwise the companies would suffer major losses if their recipes would be revealed. Simultaneously, there are industries where the trade secrets lose their value as time passes by and where the 2-year period can be considered as sufficient. For example, in a highly competitive market where pricing information fluctuates constantly the information may lose its value quite quickly and there may be no need to protect such information above the 2-year period. Courts should evaluate the specific aspects of the employer-employee relationship when evaluating the moderation of a non-disclosure period. Nevertheless, in the case that the Supreme Court would give a precedent regarding the matter, perhaps clarity and predictability would be created, and unnecessary litigation could be possibly avoided.

²¹⁷ Itä-Suomen hovioikeus S 18/384

²¹⁸ Itä-Suomen hovioikeus S 18/384

7.2. Non-disclosure agreements in California

However, the fact that non-compete agreements are void, with a few exceptions, does not indicate that employers could not draft agreements that restrict the use of their trade secrets when their former employees start to work at a competitor.²¹⁹ A very important case ruled by the Californian Supreme Court is *Gordon v. Landau* in which the employer and the employee had entered into a non-solicitation agreement that restricted the employee from contacting the customers of the employer for a period of 1 year after the termination of employment.²²⁰ The court found that the non-solicitation agreement was enforceable and valid. In the respective case the employee started a competing business after the termination of his employment and started to use confidential customer lists of his former employer in order to receive competitive advantage. The court ruled that the contract did not restrict competition but merely restricted the use of the former employer's confidential customer information in any competing field.²²¹ According to Bradford the conclusion of the court was based on the fact that the employee used the lists of the ex-employer and he would have not violated the agreement if he had not used the lists but independently developed the customer base.²²² In other words, the contract only restricted the use of these lists, that were considered as trade secrets but did not prevent the employee from contacting these customers through other non-intrusive means.²²³ However, the view of Bradford raises the issue that the wording of the contract clearly prohibited the employee from either directly or indirectly contacting the customers. The wording of the contract does not indicate that the agreement's only aim would be to protect any confidential list that includes information about customers but also to prevent the employee from soliciting the customers by any means.²²⁴ When companies draft non-disclosure agreements careful emphasis should be paid on the fact that does the agreement in reality put a restraint on competition in the sense of section 16600 of the Californian Business and Professions Code.²²⁵

²¹⁹ Sandeen 2017, p.443

²²⁰ *Gordon v. Landau* 49 Cal.2d 690 (Cal. 1958) 321 P.2d 456

²²¹ Bradford 2007, pp.22-23

²²² Bradford 2007, p.23

²²³ Bradford 2007, p.23

²²⁴ *Gordon v. Landau* 49 Cal.2d 690 (Cal. 1958) 321 P.2d 456

²²⁵ Bradford 2007, p.14

An important factor that must be considered in the Californian context when entering into non-disclosure agreements and other similar contracts is that the agreements should be concluded before the beginning of employment because otherwise the agreement may be unenforceable due to the fact that a necessary element “consideration” may be considered as missing.²²⁶ Consideration as a legal term refers to something of value that the parties exchange between each other.²²⁷ As an example if the other party makes a promise to pay 2000 dollars and the other party does not make any promise, then consideration is missing and the contract is unenforceable in such a jurisdiction where consideration must be present in order to form a binding contract.

7.3. Non-compete agreements in Finland

The Finnish employment law also recognizes a possibility to conclude a non-compete agreement between the employer and the employee according to section 3 (5§) of the Finnish employment Act. However, the employment law restricts, in the respective section, the use of non-compete agreements to circumstances where the special condemning reasons, that relate to the business of the employer or to the employment relationship as such, have enough weight to justify such an agreement to be signed by the parties. There is a conflict between the non-compete agreements and employee mobility because employees should be free to select the place where they work according to the Article 18 of the Constitution, and they should not be deprived from this right.²²⁸ The constitution of Finland guarantees a right to work in the field in which the individual wishes and to practice such a discipline as the individual sees appropriate even though some restrictions exist to certain professions. Therefore, the rights of the employees have been balanced by restricting the enforceability of non-compete agreements only to situations where the underlying circumstances support the need to restrict the employee from engaging in a profession.

Even though non-compete agreements indirectly protect trade secrets the primary purpose is to preserve competitive advantage in the respective field.²²⁹ According to the government proposal of the employment law the acceptability of a non-compete agreement has to be

²²⁶ Sandeen – Rowe 2017, p.448

²²⁷ Law.com (Accessed 10.4.2020)

²²⁸ HE 49/2018 vp, p.135

²²⁹ HE 157/2000 vp, p.82

considered on a case-by-case basis. Nevertheless, the government proposal outlines some factors that can be assessed when considering the justification for a non-compete agreement. The following facts/reasons could justify a company to conclude a non-compete agreement: 1) employee participates in research & development projects; 2) the employer has such knowledge in his possession that competitors do not have it; 3) the customer base of the company is dependent on key employees; 4) special training is paid by the employer and; 5) there is an aim to preserve the trade secrets of the company. Additionally, the position of the employee in the company should be considered as well when assessing the acceptability of a non-compete agreement.²³⁰ Even though the government proposal states that the protection of trade secrets could be a ground to conclude a non-compete agreement it must be considered that why non-disclosure agreements are not sufficient for these circumstances. The enforceability of a non-compete agreement has a lot to do with inevitability while otherwise non-disclosure agreements would be enough to protect trade secrets. The fact that an employee would inevitably disclose sensitive information in the course of his/her employment could justify the need to prevent the employee from engaging in a profession. However, the mere fact that the employer wants to protect its trade secrets should not be enough to justify a non-compete agreement if there are no other factors that speak in favor of concluding one if the inevitability factor is missing.

The Supreme Court of Finland evaluated the enforceability of a non-compete agreement in 2003 when it considered that was a non-compete agreement valid between a real-estate agency and its two employees who started a company after resigning from the company.²³¹ The Supreme Court indeed found that these agreements were valid and enforceable. The agreement that the company had concluded with its employees prevented the employees from engaging in any competing activity with the present customers of their employer and those who had been customers within the last 6 months prior to the termination of employment. The court concluded that agreements that do not entirely prohibit competition but restrict the possibility to compete in the field are to be deemed as non-compete agreements. The court found that the present agreement was a non-compete agreement, but it had to additionally evaluate whether it was appropriate to enforce one based on the circumstances. A balancing was conducted by the court between the freedom to practice one's profession

²³⁰ HE 157/2000 vp, p.82

²³¹ KKO 2003:19

and the interests of the employer not to suffer harm of malicious use of its trade secrets. The Supreme Court ultimately ruled that the contract did not deprive the rights of the former employees too much and the interests of the employer, considering the type of information that the former employees were using, were such that the non-compete agreement was appropriate and therefore enforceable.²³²

It remains subject to debate whether the conclusion of the court is in line with the government proposal. Even though it is undisputable that specific customers are important for a real-estate agency, it seems that the decision raises issues not only from the perspective of employee mobility but also distorts competition from the standpoint of preventing new competitors from entering the market without the burden to avoid certain customers. It seems that the court neglected the fact that competition should be market driven and customers should be allowed to make their own decisions in relation to the services that they use. The fact that two former employees start a new company and engage with the customers of the former employer does not necessarily mean that the customers would be willing to change their customerships to another real-estate agency. The ruling has dangerous features, namely, that the employee mobility gets distorted and the markets become stagnant. A more appropriate state of law would be that these type of non-compete agreements would not be enforced when the underlying facts do not support concluding one. The contract did not only forbid the employees from raiding the former customers, which would have been understandable, but it also prohibited the employee from engaging in any business with the customers in case that the customers contacted them. The minority of the court concluded differently and found that the agreement was a non-compete agreement but relying on the government proposal of the employment law the factual evidence did not support an interpretation that there would have been enough reasons for a non-compete agreement.²³³ What is interesting to note here is that based on the current Californian case law it seems that the agreement would have been considered to put a restraint on engaging in a profession in the state of California because the agreement sets an obligation for the employee to not solicit the customers of the employer.

Conversely, customer lists can be considered as trade secrets, if the criteria of a trade secret are fulfilled, and therefore the 2-year post-employment protection period in relation to trade

²³² KKO 2003:19

²³³ KKO 2003:19

secrets should apply to employees that have terminated their employment. In other words, employees should not be allowed to take advantage of specific information that relates to those customers if that information fulfils the criteria of a trade secret, but they should still be allowed to do business with those customers. Former employees should not, nevertheless, exploit specific customer information, that is considered as a trade secret e.g. customer lists, that they have learned in the course of their employment because that could be against trade secret laws.

Later the Supreme Court of Finland gave a ruling regarding the enforceability of a non-compete agreement in its decision 2014:50.²³⁴ The court found that the non-compete agreement was non-enforceable even though the job duties of the employee consisted of factors that the government proposal expressly mentions as such that support the possible enforceability of a non-compete agreement. In the respective case the company which was operating in the robotic field sued its former employee because the employee had, allegedly, moved on to a competitor and violated his non-compete agreement. The court had to evaluate whether it was lawful to conclude a non-compete agreement considering the job description of the employee. The employee's duties consisted mainly of programming, but he also had access to all databases of the company as a part of his role of the main controller of the security system's server. Additionally, his job duties consisted of development and planning tasks. The court concluded, without referring to the aforementioned *KKO 2003:19* decision even once, that part of the tasks of the employee supported the view that a non-compete agreement would be appropriate but taking into consideration the whole picture it was not enough.²³⁵ The minority of the court conceived the facts of the case differently and they concluded that the non-compete agreement was valid but not violated in the case due to the underlying facts.²³⁶

When comparing the respective court cases, it seems that the latter slightly contradicts the former. Considering the facts, both of these decisions could have been, theoretically, concluded differently. It seems that the case that was before the Supreme Court in 2014 had more factual basis to conclude a non-compete agreement than the decision from 2003. The fact that the employee took part, in the case of *KKO 2014:50*, in the research and development

²³⁴ KKO 2014:50

²³⁵ KKO 2014:50

²³⁶ KKO 2014:50

projects and had access to all the databases of the company support this view. In the case of *KKO 2003:19* the trade secrets consisted of customer information and it could be argued that it is at least to some extent in the general knowledge of real-estate agents that who are the big customers on the real estate market. Simultaneously, the agreement prevented the defendant from competing effectively on the market and thus distorted free competition because the defendant was not, according to the contract, allowed to engage in any business with the former employer's customers even though the former employer's customers contacted him.

According to recent studies approximately 50% of the employees who have a degree from a university of applied sciences or from a university have entered into a non-compete agreement in Finland.²³⁷ There have been alternative suggestions on why this is the case currently. It has been argued that the negative effects of concluding a non-compete agreement for the employer are basically none.²³⁸ There does not exist any administrative fines for employers who make their employees sign non-compete agreements or any other mechanism that would control the matter. Employees are, therefore, nudged to comply with the agreements because they do not have the capacity to evaluate the validity of the contract in a reliable manner. At the same time, it has been claimed that the reason why so many non-compete agreements are concluded is that standard agreements include such provisions and those provisions are not reviewed when entering into agreements.²³⁹ However, it seems that the former explanation bears more value as an argument because it may benefit the employer in a form of reducing competition in the field in the best scenario. The large number of non-compete agreements seems to contradict the aim of the legislator which was to design these agreements to be concluded only under rare special circumstances and not as a standard clause in employment agreements.

7.4. Non-compete agreements in California

California is a special state in the sense that it fosters employee mobility in an extensive manner.²⁴⁰ In most of the states non-compete agreements are a common way to restrict the use

²³⁷ Yle (Accessed 10.4.2020)

²³⁸ Yle (Accessed 10.4.2020)

²³⁹ Yle (Accessed 10.4.2020)

²⁴⁰ Bradford 2007, p.13

of trade secrets and competing behavior.²⁴¹ However, non-compete agreements are primarily void in California and employers are therefore, not allowed to use such agreements as a means to restrict the scope of mobility of their employees.²⁴² However, non-compete agreements are allowed in certain circumstances, according to the Californian business and professions code, that relate to the sale of the company in California.²⁴³ The advantage of the Californian system is that employees do not have to worry about any possible liability that may arise from a non-compete agreement.²⁴⁴ Additionally, the Californian law fosters employee mobility and lessens the amount of court cases and malicious insinuation of liability by the employer due to the clear interpretation that non-compete agreements are not enforceable.²⁴⁵ Some employers have tried to circumvent the issue of unenforceability of non-compete agreements by designating another court instance to rule on disputes that arise out of the employment context.²⁴⁶ The newly implemented change to the Californian employment law takes this into consideration and prohibits employers from drafting such clauses as a condition for employment when the employee resides and works in California.²⁴⁷ Based on the section 16600 of the Californian Business and Professions Code it is quite clear that employers are not allowed to distort competition by prohibiting an employee from engaging in competitive behavior by working at a competitor or by starting a business by their own. However, the Californian case law shows that there are instances in which it is not always easy to recognize that does a contract restrict the rights of the employee or not and these instances will be considered next.

The section 16600 of the Californian Business and Professions Code states that “*every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.*” Regardless of the fact that the statute strongly fosters competition there has been unclarity around the interpretation of the specific provision in the courts. *Loral Corp v. Moyes* is a case, issued in the 1985 by the Court of Appeal of California, which enforced a non-solicitation agreement.²⁴⁸ In the respective case an employee was prohibited from soliciting the employees of the former employer after the termination of his employment

²⁴¹ Sandeen and Rowe 2017, p.440

²⁴² Sandeen and Rowe 2017 p.452

²⁴³ Sandeen and Rowe 2017 p.452

²⁴⁴ Bradford 2007, p.17 and Sandeen and Rowe 2017 p.453

²⁴⁵ Sandeen and Rowe 2017, p.453

²⁴⁶ Scott Wagner and Associates, P.A (Accessed 10.4.2020)

²⁴⁷ Californian Labor Code section 925§ And Scott Wagner and Associates, P.A (Accessed 10.4.2020)

²⁴⁸ *Loral Corp. v. Moyes* 174 Cal.App.3d 268 (Cal. Ct. App. 1985) 219 Cal. Rptr. 836

contract. Moyes, the defendant, breached this contract by offering employment for two employees of his former employer, but he claimed that the agreement as such was a restraint on competition and thus void. The court of appeal ruled that an obligation to refrain from soliciting former employees cannot be deemed as a more intrusive restraint on competition than a restraint on solicitation of customers or on disclosure of confidential information.²⁴⁹ Regardless of the fact that the state of California is pro employee-mobility it seems reasonable that former employees are not allowed to, at least excessively, induce other former colleagues to leave the company. However, it is debatable that does a solicitation in a moderate amount disturb the organizational structure of a big organization in a way that a non-solicitation agreement should be held as appropriate and enforceable.

In *Edwards v. Arthur Andersen LLP*, the Supreme Court of California ruled that the non-solicitation agreement that forbid soliciting former customers was unenforceable.²⁵⁰ The respective agreement prohibited the employee from providing professional services to those clients with whom the employee had interacted with during his employment for a period of 18 months. Additionally, the agreement prohibited the employee from soliciting any clients of the company for a period of 12 months after the termination of employment. In other words, the agreement did not forbid the employee for providing professional services, but it restricted the customers to whom the employee was allowed to offer these services. The employer was of the opinion that these provisions did fall under the “narrow restraint” -doctrine that the Ninth Circuit had been applying in some of the previous cases.²⁵¹ According to the narrow restraint -doctrine employers would be allowed to narrowly restrict the way that employees are able to compete as long as they do not prohibit the competition entirely.²⁵² The court noted that the Ninth Circuit, which is a federal appellate court, has construed that the narrow restraint -doctrine can be applicable in the context of the section 16600. However, the court emphasized that the Californian State courts have not been applying the narrow restraint -doctrine in the previous cases. The Supreme Court of California abandoned the view that the narrow restraint -doctrine should be applied and it considered the non-compete agreement as invalid due to the fact that it set a restraint for the employee under Section

²⁴⁹ Loral Corp. v. Moyes 174 Cal.App.3d 268 (Cal. Ct. App. 1985) 219 Cal. Rptr. 836

²⁵⁰ Edwards v. Arthur Andersen LLP 44 Cal.4th 937 (Cal. 2008)

²⁵¹ Edwards v. Arthur Andersen LLP 44 Cal.4th 937 (Cal. 2008)

²⁵² Bradford 2007, p.28

16600.²⁵³ Based on the decision it is clear that the narrow restraint -doctrine is not applicable in the Californian state courts.

A third very important case ruled by the Court of Appeal of California, Fourth District, Division One is *Retirement group v. Galante* that was given in 2009.²⁵⁴ In the respective case the employees of the company had entered into a contract with the employer that forbid solicitation of the customers of the employer once the employment contract ended. The court ruled that non-solicitation agreement was invalid and abandoned the narrow restraint -doctrine. The court elaborated on the fact that the law as such provides sufficient protection for an employer as far as customer lists and other information that is considered as a trade secret are concerned. The court found that when the employees use the trade secrets of the employer inappropriately protection is granted but employers cannot extent the scope of protection by concluding contracts to information that does not fulfil the criteria of a trade secret. The bottom line of the ruling is that pure non-solicitation agreements are invalid in the state of California but when an employee misappropriates trade secrets by e.g. soliciting the customers of the former employer s/he will be held accountable for that under law.²⁵⁵ In other words, courts could enforce agreements that prevent former employees e.g. from using customer lists that the employee is using to contact those customers but the courts are reluctant to enforce agreements that ban solicitation as such. The view that the court took has a lot to do with fairness and reducing unfair competition from the markets. The protection is not granted to the information as such but against unfair business behavior.

A fourth remarkable case in relation to non-solicitation agreements is the *AMN Healthcare Inc. v. AYA Healthcare Servs., inc* where a non-solicitation agreement was found void.²⁵⁶ The case was addressed before the Court of Appeal, fourth appellate district division one, state of California in 2018. In the respective case it was addressed whether a non-solicitation clause, that prohibits a former employee from consulting other employees of the company, is valid or void in the sense of Section 16600 of the Californian Business and Professions code. The court emphasized that the term “restrain” does not have to mean complete prohibition and in the current case the possibility to work at a competitor was restrained according to the

²⁵³ Edwards v. Arthur Andersen LLP LLP 44 Cal.4th 937 (Cal. 2008)

²⁵⁴ Retirement Group v. Galante 176 Cal.App.4th 1226 (Cal. Ct. App. 2009)

²⁵⁵ Retirement Group v. Galante 176 Cal.App.4th 1226 (Cal. Ct. App. 2009)

²⁵⁶ AMN Healthcare, Inc. v. AYA Healthcare Servs., Inc. 28 Cal.App.5th 923 (Cal. Ct. App. 2018)

court's view. The court, consequently, did not agree with the reasonableness standard of the ruling of *Loral Corp v. Moyes*. Regardless of the aforementioned, the court considered that the facts of the case were distinguishable from the *Moyes* because the defendants did work in the field of human resources as recruiters unlike in *Moyes*, where the defendant was an executive officer. Consequently, a prohibition to recruit a limited number of employees would constitute a restraint in the sense of section 16600.²⁵⁷ The court relied on this view because there were no trade secrets that would have been violated when soliciting the employees. The court analyzed carefully that were there any trade secrets and if so were they misappropriated and found that in the current case there were no trade secrets that had been violated and hence the solicitation was permissible.²⁵⁸

The view that was taken by the court of appeal in *AMN Healthcare Inc* was adopted in a federal case *Barker v. Insight Global LLC*, that was addressed in 2019 at the Northern District of California San Jose Division.²⁵⁹ The court concluded that the *AMN Healthcare Inc* ruling is a proper interpretation of the law and non-solicitation agreements are void according to the Californian law.²⁶⁰ However, what must be born in mind is that the court of appeal explicitly stated in the *AMN Healthcare Inc* that the facts of the present case are different from *Moyes* and therefore it does not exclude the possibility that the standard developed in *Moyes* could not be applicable in a different context.²⁶¹

Judging by the aforementioned cases the courts are not willing to enforce non-solicitation agreements nowadays. The courts will redress if trade secrets have been violated but courts are not willing to enforce agreements that merely ban the solicitation of former employees or customers as such. The courts will only redress against trade secret misappropriation and therefore, companies should not rely on the fact that non-solicitation agreements would be enforced. It is clear that the case *Loral Corp v. Moyes* has lost a lot of its relevance and Californian courts have consecutively deviated from the decision. However, *Loral Corp v. Moyes* still leaves a small possibility for companies to rely on since the case has never been completely overridden due to the different facts of the cases. The current legal frame suggests

²⁵⁷ *AMN Healthcare, Inc. v. AYA Healthcare Servs., Inc.* 28 Cal.App.5th 923 (Cal. Ct. App. 2018)

²⁵⁸ *AMN Healthcare, Inc. v. AYA Healthcare Servs., Inc.* 28 Cal.App.5th 923 (Cal. Ct. App. 2018)

²⁵⁹ *Barker v. Insight Global, LLC* No. 16-cv-07186-BLF (N.D. Cal. Jan. 11, 2019)

²⁶⁰ *Barker v. Insight Global, LLC* No. 16-cv-07186-BLF (N.D. Cal. Jan. 11, 2019)

²⁶¹ *AMN Healthcare, Inc. v. AYA Healthcare Servs., Inc.* 28 Cal.App.5th 923 (Cal. Ct. App. 2018)

that fairness plays a major role in the court's argumentation because the courts consider that has the former employee acted in a fair manner without misappropriating trade secrets of the former employer.

7.5. Loyalty obligation of employees in Finland

According to the employment law of Finland employees have a loyalty obligation towards their employers. The loyalty duty obliges employees to act in the best interests of their employer.²⁶² Additionally, employers have a right to give directions to their employees.²⁶³ Confidentiality agreements are not by any means always necessary in the employment context because the law grants the employer a very extensive scope of protection.²⁶⁴ Factors that may have an effect on the necessity of a non-disclosure agreement are, among others, the job duties of the employee, the value of the information and the risk-taking appetite of the employer. A physical contract is, however, preferable because verbal instructions may be considered as unclear and they are easier to forget.²⁶⁵ A physical agreement serves also as a form of evidence. The employer may not always have the possibility to oblige its employees to enter into a non-disclosure agreement when relying on the right to give directions and this may be problematic when entering into commercial contracts with third parties who want to secure the secrecy of their trade secrets.²⁶⁶ Therefore, it is wise to enter into a non-disclosure agreement at the beginning of the employment and have the non-disclosure agreement as a condition for employment.²⁶⁷

According to section 3 (4§) of the Finnish employment law employees are prohibited from using any trade secrets in an unauthorized manner in the course of their employment and for an unlimited time after their employment. This loyalty obligation does not only protect trade secrets that the employer possesses but also trade secrets that the employee has received from other sources in the course of his/her employment.²⁶⁸ According to the criminal law employees are, nevertheless, permitted to use trade secrets that they have acquired in an

²⁶² HE 49/2018 vp, p.25

²⁶³ Tiitinen – Kröger 2012, p.319

²⁶⁴ Vapaavuori 2019, p.87

²⁶⁵ Vapaavuori 2019, p.590

²⁶⁶ Vapaavuori 2019, pp.615-616

²⁶⁷ Vapaavuori 2019, p.615-616

²⁶⁸ Sahinoja DL 2013/6, pp.990-991

authorized manner after 2 years have lapsed from the termination of their employment. However, when interpreted in the strict sense the employment law only covers the trade secrets of the employer and, therefore, it is worth considering if it should be explicitly stated in the non-disclosure agreement that the confidentiality also applies to all the trade secrets that the employee gets access to in the course of the employment.²⁶⁹

What must be emphasized is that even if an employee has access to certain information that s/he uses as a part of his employment on a regular basis, s/he cannot take advantage of this position in a way that would prejudice the interests of the employer.²⁷⁰ The Supreme Court of Finland found, in *KKO 2013:20*, that the employees were guilty of an attempt of company espionage when the employees copied information, to which they had access to, right before the employment ended and they moved on to work at a competitor.²⁷¹ In the respective case two employees had decided to start to work at another company and while still being employed by the plaintiff copied large number of files that were not necessary for the fulfillment of their current assignments. The court had to consider that were the actions taken by the employees illegal regardless of the fact that the employees indeed had legitimate access to the information as a part of their work duties. The Supreme Court ruled that the two employees did not have any reason to copy the files because the files were not essential anymore for the fulfilment of their current assignments and the employees had already determined to start to work at a competitor. Therefore, the Supreme Court found that the employees had copied the files with malicious intent and even though they had not disclosed the trade secrets yet to the competitor the purpose was to do that at some point.²⁷² In other words, the employees had violated their loyalty obligation when not acting in the best interests of their employer. This decision can be deemed as a good precedent because it will prevent employees from maliciously taking advantage of the employer's trade secrets and other confidential information. If employees would be allowed to copy files, to which they have legitimate access to, and then wait for two years after which they are allowed to use the trade secrets that they have acquired in an authorized manner it would create a state where employees could exploit information in an unfair manner. When considering the theoretical aspects of trade secret

²⁶⁹ Vapaavuori 2019, p.608

²⁷⁰ KKO 2013:20 and HE 49/2018 vp, p.25

²⁷¹ KKO 2013:20

²⁷² KKO 2013:20

laws, the decision largely relies on preserving fairness in the market and preventing unfair business practices.

The European Court of Human Rights gave (ECHR) a decision on 5th of November 2019 that evaluated the balance between the loyalty obligation and the freedom of expression in the employment context and concluded the case in favor of the employee.²⁷³ In the respective case the question was about the fact that had an employee violated his loyalty obligation towards his employer by sharing articles in the internet that related to the skills and knowledge that the employee was using as a part of his current employment. The employee had violated the confidentiality policies of the company that forbid the dissemination of the type of information to external parties. Hungary's supreme court had found that *"the mere fact that the applicant had featured as an expert on the website and had authored a contribution on human resources management reflecting knowledge acquired through his work was sufficient to conclude that he had acted to his employer's detriment."*²⁷⁴ Conversely, the ECHR stated that less severe sanctions were not imposed on the employee than the termination of his employment and no evidence was presented that to which extent and how the employer's actions would have negatively affected the employer's business interests.²⁷⁵ The court finally ruled that the freedom of expression cannot be abandoned as a concept in the employment context and the national courts had failed to do the balancing appropriately between the right to freedom of expression and complying with contractual arrangements.²⁷⁶ In other words, the decision of the court points out that contracts or confidential policies cannot be used to limit the freedom of expression in the employment context to an unlimited extent and there are other more fundamental values that sometimes override the freedom of contract.²⁷⁷ Therefore, the freedom of contract may sometimes be superseded by fundamental rights such as the freedom of speech as in the current case.²⁷⁸ Even though employees have a duty to act in the best interest of the employer and employers have the right to give orders, these are not absolute rights. The trade secret directive also balances various rights by explicitly stating in Article 5 about exceptions that relate to the protection of trade secrets. The Article provides the possibility for freedom of expression, whistle blowing, disclosures to employees' representatives under

²⁷³ Herbai v. Hungary 11608/15 ECHR 2019

²⁷⁴ Herbai v. Hungary 11608/15 ECHR 2019 (paragraph 47)

²⁷⁵ Herbai v. Hungary 11608/15 ECHR 2019 (paragraphs 48 and 49)

²⁷⁶ Herbai v. Hungary 11608/15 ECHR 2019 (paragraphs 50 and 51)

²⁷⁷ Rosati 2019

²⁷⁸ Rosati 2019

certain circumstances and protecting the legitimate interests that are recognized in the Union law or national law.

Additionally, the ECHR's decision is an important decision because it elaborates that employers must consider the sanctions that they impose in the case that their employees violate their internal policies. In the present case the termination of employment was seen as a too harsh of a means to punish the employee. When considering the appropriate sanction for the employee the damage that was caused by the action should be taken into consideration.²⁷⁹

7.6. Loyalty obligation of employees in California

In the state of California, the employee mobility is a highly respected value to which courts have given emphasis in order to foster competition among companies.²⁸⁰ What is very important for this research is that what kind of a role does the loyalty obligation play in the employment context as far as transmitting certain type of information is concerned. According to Judicial Council of California Civil Jury Instructions 2017 a fiduciary duty imposes a duty to act with the utmost good faith in the best interests of the one to which s/he owes the duty.²⁸¹ The extent of the fiduciary duty may depend on factors such as the position of the employee and the salary of the employee.²⁸²

In *Bancroft – Whitney co v. Glen* the Supreme Court of California considered the scope of fiduciary duty of an officer towards the employer.²⁸³ Glen who was the president of the company provided valuable information to another company in which Glen was supposed to begin an employment soon. Glen solicited other employees of the company and disclosed their salary information to the future employer. The court concluded that Glen violated his fiduciary duty and the other company was found guilty of a practice that was against fair competition because the company cooperated with Glen and took advantage of the knowledge that Glen gave to it.²⁸⁴ The Supreme Court relied on *Guth v. Loft, inc.* and stated that a public policy existed according to which officers and directors are obliged to “*protect the interests of the*

²⁷⁹ *Herbai v. Hungary* 11608/15 ECHR 2019 (49)

²⁸⁰ Bradford 2007, pp.13-14 Bui-Eve 1997, p.982

²⁸¹ Judicial Council of California Civil Jury Instructions (Accessed 10.4.2020)

²⁸² Kolasa 2018, p.142. See: Milgrim on Trade Secrets vol 1A 5-19

²⁸³ *Bancroft-Whitney Co. v. Glen* 64 Cal.2d 327 (Cal. 1966)

²⁸⁴ *Bancroft-Whitney Co. v. Glen* 64 Cal.2d 327 (Cal. 1966)

*corporation committed to his charge, but also refrain from doing anything that would work injury to the corporation, or to deprive it from profit or advantage...*²⁸⁵ However, the Court stated that it is not solely enough to indicate that a violation exists if an officer makes preparations to compete before his resignation but the nature of those steps is of importance.²⁸⁶ The court specifically evaluated whether unpublished customer lists constitute confidential information and can an officer disclose those to a competitor without breaking his fiduciary duty with the intent of providing the information in order to induce those employees to work at a competitor. The court found that the information was confidential, but it did not explicitly evaluate whether the information constituted a trade secret or not.²⁸⁷ In other words, it is important to bear in mind that the fiduciary duty has an important role when considering that what actions employees are allowed to take in the course of their employment. Trade secret protection is relevant to a large extent, but the fiduciary duty and the loyalty obligation make the scope of protection broader in some instances as the aforementioned case points out.

7.7. Restraints on future employers in Finland

According to the employment law employees are not the only ones that can be held liable for trade secret misappropriation. Subsequent employers have an obligation to make sure to a reasonable extent that the information does not violate trade secret laws nor any non-disclosure contracts in to which the employee has entered into with the former employer.²⁸⁸ Sometimes it may make sense to ask from new employees if they have entered into any contracts with the former employer that would set any restrictions on the subsequent employment.²⁸⁹ New employers should also be aware that the employees are not permitted to use any trade secrets of the former employee earlier than two years have lapsed of the end of the employment according to the criminal act of Finland.²⁹⁰ The aforementioned applies to such trade secrets as well that have been acquired in a lawful manner. In the case that the former employer is worried about how an employee is going to handle trade secrets he can inform the new employer of the fact that the employee is not allowed to reveal and use certain types of

²⁸⁵ *Bancroft-Whitney Co. v. Glen* 64 Cal.2d 327 (Cal. 1966)

²⁸⁶ *Bancroft-Whitney Co. v. Glen* 64 Cal.2d 327 (Cal. 1966)

²⁸⁷ *Bancroft-Whitney Co. v. Glen* 64 Cal.2d 327 (Cal. 1966)

²⁸⁸ Vapaavuori 2019, p.443

²⁸⁹ Vapaavuori 2019 pp.443-444

²⁹⁰ Vapaavuori 2019, pp. 443-444

information.²⁹¹ In practice the new employer has to rely on the assessment skills of the employee because the new employer is not aware of the trade secrets of the former company. The new employer may be aware of the fact that the employee has knowledge of the trade secrets of the former employer, but the new employer cannot control when does the employee cross the line by using trade secrets in an unauthorized manner simply because he is not aware of the content of trade secrets. Companies can if they deem it as appropriate remind the employee of the existence of trade secret laws but simultaneously this should not lead to a situation where employees are scared and frightened of possible liability. This may lead to a situation where the employee works too carefully and is afraid to take initiatives simply because s/he does not know what information he is allowed to use.

7.8. Restraints on future employers in California

Employers must be careful about that that employees do not disclose trade secrets of the former employer in the course of the new employment.²⁹² Employers can be deemed to violate the law by engaging in deceptive manners that are deemed as unfair competition or unfair practices.²⁹³ Employers also have an important role on securing that their new employees do not bring legal challenges upon their arrival by using trade secrets of the former employer that they are not allowed to use. The Californian courts require that an employer conducts an inquiry, where deemed as appropriate, whether the employee uses trade secrets of the former employer.²⁹⁴ In *Ralph Andrews Productions inc. v. Paramount Pictures Corp.* the court of appeal of California ruled that the new employer had a duty to inquire and verify that the information that the new employee introduced to the company belonged to him and not to the company in which the employee had previously worked.²⁹⁵

Therefore, employers should be at least aware of the fact that if a new employee starts to bring in knowledge that seems to be a result of plenty of research and monetary investments the employer should discuss the matter, especially from which source does the information

²⁹¹ Vapaavuori 2019, p. 633

²⁹² Bui-Eve 1997, pp.993-994 and *Ralph Andrews Productions v. Paramount Pictures* 222 Cal.App.3d 676 (Cal. Ct. App. 1990)

²⁹³ Bui-Eve 1997, p.986-987

²⁹⁴ Bui-Eve 1997, p.994 and *Ralph Andrews Productions v. Paramount Pictures* 222 Cal.App.3d 676 (Cal. Ct. App. 1990)

²⁹⁵ *Ralph Andrews Productions v. Paramount Pictures* 222 Cal.App.3d 676 (Cal. Ct. App. 1990)

originate, with the employee.²⁹⁶ A very recent example can be shown in order to demonstrate how employers can face unwanted litigation when new employees use or are alleged of using trade secrets of a former employer in an unauthorized manner. In 2017 Google sued Uber because it claimed that one of its former employees had stolen trade secrets and used them in his current employment at Uber. Uber did not admit that trade secrets were used but it settled the civil charges with Google by giving Stock equity to Google that is worth a quarter of a billion.²⁹⁷ In other words, hiring new employees can turn out to be extremely expensive for the company if it does not pay enough of attention to the way that employees behave. Employers must also pay attention to the steps that their future employees make while still being employed by their current employer before commencing employment in order to avoid any possible liability.²⁹⁸

8. Protecting trade secrets from the unauthorized acquisition, use and disclosure from third parties in Finland and in the United States

8.1. Introduction to the following sections

The aspects that relate to the employer-employee relationship were considered in detail in the previous sections of this research. The research will move on to consider that how do companies assess the need to protect their trade secrets when they interact with third parties. In the following sections these aspects will be considered, and the aspects of the Californian law and the Finnish law will be evaluated in the same sections together in order to avoid unnecessary repetition.

²⁹⁶ *Ralph Andrews Productions v. Paramount Pictures* 222 Cal.App.3d 676 (Cal. Ct. App. 1990)

²⁹⁷ *Washington Post* (Accessed 10.4.2020)

²⁹⁸ *Bui-Eve* 1997, pp.991-992 and *Bancroft-Whitney Co. v. Glen*, 64 Cal.2d 327 (Cal. 1966)

8.2. Secrecy of the information and protecting trade secrets with reasonable steps

According to the law of Finland, trade secrets can be disclosed to some extent as a part of business activities as long as it is ensured that the information stays among those recipients and is not further disseminated to other parties in a way that the information would become generally known.²⁹⁹ Therefore, the secrecy criterion should not be considered as a form of absolute secrecy and it should be regarded rather as a form of relative secrecy as it has been considered in the legal literature.³⁰⁰ The concept of relative secrecy applies in the United States as well and thus trade secrets may be disclosed to third parties, to some extent, without the fear of losing trade secret status as long as those secrets are protected by reasonable measures.³⁰¹ When trade secrets are disclosed to third parties it is vital to ensure that those trade secrets are not further disseminated by the recipient. Therefore, it is important to restrict the way that the recipients can use the disclosed information.³⁰² The aforementioned can be done by entering into non-disclosure agreements with parties to whom the information is disclosed to. Companies must always remember that engaging with third parties includes its own risks and careful attention should be paid when dealing with third parties. It is of primary importance that no information is disclosed before the appropriate and necessary agreements are in place because otherwise a company can say goodbye to its trade secrets absent any implied confidentiality.³⁰³ In other words, trade secret owners have to actively protect their trade secrets and they must take reasonable steps to keep the information secret in order to receive trade secret protection.³⁰⁴

As a general rule, information that is highly sensitive should be protected with more effort than information that is not that important for the company.³⁰⁵ Therefore, one way to reach this goal is to internally categorize the information to less valuable and more valuable

²⁹⁹ Vapaavuori 2019, p.75 and Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

/* COM/2013/0813 final - 2013/0402 (COD) */, p.3

³⁰⁰ Vapaavuori 2019, p.75

³⁰¹ Lemley 2011, p.114

³⁰² Vapaavuori 2019, p. 93

³⁰³ Sandeen 2014, p.16

³⁰⁴ E.I. duPont deNemours Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970) and Kolasa 2018, pp.65-66 and HE 49/2018 vp, p.85

³⁰⁵ Vapaavuori 2019, p.89

information. The distinction is important to be made because protecting information is expensive. However, the incentive to secure information and the incentive to do business in an agile manner should be always balanced because protecting information excessively harms the business.³⁰⁶ In other words, companies should be aware of the fact that keeping information as trade secrets is sometimes vital but may also harm the business activities if unimportant information is protected too heavily. However, what is extremely important is that some courts in the United States have considered that a trade secret owner has not taken sufficient measures to protect its trade secrets if it has not concluded a non-disclosure agreement with a third party or when the term of the confidentiality period is limited and it has expired.³⁰⁷ A trade secret holder must protect the information with “reasonable measures” in order to receive trade secret protection in California as in Finland according to the applicable legislation.³⁰⁸ It has been conceived sometimes that entering into a non-disclosure agreement is considered as a necessary measure to fulfil the aforementioned criterion, but this was proven to be not the case e.g. in *Alta Devices v. LG elects inc.*³⁰⁹ The court stated in the following manner: “Thus, the presence of a contract is an allegation that may support a finding of reasonable measures, but an expired contract does not automatically render any information incapable of receiving trade secretion protection.”³¹⁰ In other words, non-disclosure agreements serve a vital role when companies do business together, but trade secret protection may be received sometimes absent the agreement as well if the trade secret holder has taken other reasonable steps under the circumstances to keep the information secret. However, a decision to not conclude non-disclosure agreements includes risks that can be avoided by entering into a contract.

8.3. Implied confidentiality

At the beginning of a business project the parties usually consider the need to enter into a confidentiality agreement.³¹¹ However, according to the trade secret law of Finland a confidentiality agreement is not always necessary because the law as such grants protection in

³⁰⁶ Vapaavuori 2019, p.92

³⁰⁷ *DB Riley, Inc. v. AB Engineering Corp.* 977 F. Supp. 84 (D. Mass. 1997)

³⁰⁸ 18 U.S.C. § 1839(3 A); Cal. Civ. Code § 3426.1(d2) and Article 2 (1c) of the Directive(EU) 2016/943

³⁰⁹ *Alta Devices, Inc. v. LG Elecs., Inc.* 343 F. Supp. 3d 868 (N.D. Cal. 2018)

³¹⁰ *Alta Devices, Inc. v. LG Elecs., Inc.* 343 F. Supp. 3d 868 (N.D. Cal. 2018)

³¹¹ Vapaavuori 2019, p.453

certain business relations.³¹² Additionally, Max Planck institute for Innovation and Competition has also perceived that explicit confidentiality agreements are not necessarily a “must” if other reasonable steps have been taken to preserve the secrecy.³¹³ Sometimes when corporations work together there is an implicit duty to hold certain type of information secret even though the parties had not entered into a non-disclosure agreement. The trade secret directive states in Article 4 (3) b) that the use or disclosure shall be considered as unlawful when “*being in breach of a confidentiality agreement or any other duty not to disclose the trade secret*”. Article 4 (3) (c) further provides that the use or disclosure is considered as unlawful when “*being in breach of a contractual or any other duty to limit the use of the trade secret*”. Therefore, the law of individual member states will define what constitutes these other duties. In Finland the principle of loyalty³¹⁴ is not restricted to the context of employment law but such an obligation exists sometimes between companies as well.³¹⁵ The loyalty obligation may exist absent the agreement too. According to the European patent office it has been deemed that a subcontractor and joint-venture relationship contains an implied duty of confidentiality in the absence of an agreement.³¹⁶ Additionally, the implied confidentiality may be based, for example, on the business practices of the field.³¹⁷ In the case that the parties have not entered into a non-disclosure agreement the requirement to protect trade secrets with reasonable steps still exists and has to be fulfilled in order to receive trade secret protection.³¹⁸

The loyalty obligation exists also in the contractual relationships in the United States in the form of *good faith and fair dealing* -doctrine. However, such an obligation has usually been considered to have relevance in special relationships like between an insurer and insured party.³¹⁹ Regardless of the aforementioned, the duty of good faith and fair dealing exists in other contractual relationships as well according to the Californian Supreme Court which evaluated the existence of a covenant of good faith in *Seaman’s Direct Buying Service inc. v. Standard Oil Co.*³²⁰ The court noted that such a duty of good faith exists in every single agreement,

³¹² Vapaavuori 2019, p.88

³¹³ Max Planck Institute for Innovation and Competition p.6

³¹⁴ Saarnilehto 2018, p.24

³¹⁵ KKO 1993:130

³¹⁶ Vapaavuori 2019, p.46

³¹⁷ Vapaavuori 2019, p.88

³¹⁸ Max Planck Institute for Innovation and Competition p.6

³¹⁹ Cohen pp.1292-1293 and *Seaman's Direct Buying Service, Inc. v. Standard Oil Co.* (1984) 36 Cal.3d 752 (Cal. 1984)

³²⁰ *Seaman's Direct Buying Service, Inc. v. Standard Oil Co.* (1984) 36 Cal.3d 752 (Cal. 1984)

but the Supreme Court emphasized the fact that when equally strong parties enter into an agreement the assertion of good faith claim should be considered carefully.³²¹ The duty to act in good faith protects the contractual parties from behavior that can be deemed as malicious.³²²

However, when considering that does there exist a confidentiality duty between two companies absent the agreement courts are not highly willing to enforce implied duty of confidentiality when no action has been taken to secure the confidential nature of the information.³²³ In other words, courts have been reluctant to interpret that the company has taken reasonable steps under the circumstances to secure the secrecy of a trade secret if no confidentiality agreement exists. In *RTE Corp. v. Coatings Inc.* the Supreme Court of Wisconsin did not completely exclude the possibility that a duty of confidentiality may exist in the absence of an agreement but it emphasized that in any case reasonable steps must be taken to protect the trade secret in order to receive trade secret protection.³²⁴ According to the court's reasoning, the sole disclosure of trade secrets does not create a confidential relationship when the parties do not depend on each other in one way or the other.³²⁵ It has been deemed that a confidential relationship exists between a manufacturer and an independent contractor absent a non-disclosure agreement.³²⁶ However, it is impossible to define exhaustively that when such a relationship exists and therefore the analysis is always made on a case-by-case basis.³²⁷ The absence of a non-disclosure agreement will most likely lead to misunderstandings and disputes between the parties about the interpretation of the confidential nature of the disclosed information. Consequently, it is always advisable to enter into a non-disclosure agreement when two companies start to collaborate together where information is exchanged. A company should only rely on implied confidentiality as a last resort when the company's staff has neglected the duty to evaluate the situation in a duly manner.

³²¹ *Seaman's Direct Buying Service, Inc. v. Standard Oil Co.* (1984) 36 Cal.3d 752 (Cal. 1984)

³²² Cohen p.1292

³²³ *RTE Corp. v. Coatings, Inc.* 267 N.W.2d 226 (Wis. 1978)

³²⁴ *RTE Corp. v. Coatings, Inc.* 267 N.W.2d 226 (Wis. 1978)

³²⁵ *RTE Corp. v. Coatings, Inc.* 267 N.W.2d 226 (Wis. 1978)

³²⁶ *DB Riley, Inc. v. AB Engineering Corp.* 977 F. Supp. 84 (D. Mass. 1997)

³²⁷ Sandeen 2014, pp.51-54

8.4. No duty of confidentiality towards the other party

When there is no duty of confidentiality towards the other party it does not mean that companies would have the permission to acquire, use and disclose trade secrets without any restraints. The trade secret directive of the European Union explicitly states in Article 4 (2) that: *“The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:(a) unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced; (b)any other conduct which, under the circumstances, is considered contrary to honest commercial practices.”* The aforementioned provision captures a variety of different actions that are forbidden. The essence of the provision is that companies cannot basically acquire trade secrets by any fraudulent means. The provision manifests itself as a fight against unfair business behavior as opposed to protecting some specific information “as such” regardless of the manner how it is acquired.

In the state of California, it is not allowed to acquire trade secrets through improper means. According to California’s Civil Code § 3426.1 improper means include *“theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.”* The definition of improper means in Defend Trade Secrets Act is quite similar.

From the outset it seems that there does not exist big differences between the European Union and US law in relation to the definition of improper means. However, the trade secret laws in the United States specifically mention bribery and misrepresentation as unlawful ways to acquire trade secrets. The aforementioned ways would most likely fall under the conduct that is considered contrary to honest commercial practices in accordance with Article 4 (2) (b) of the trade secret directive of the European Union. In other words, there does not exist differences between the US and the European Union legislation as far as acquiring trade secrets in an unlawful manner absent the agreement is concerned.

Sometimes companies may even want that the information that they disclose is not deemed as confidential. In this type of a situation companies should enter into non-confidentiality agreements in which it is stipulated that no information is considered as confidential information that is disclosed between the companies.³²⁸ It is advisable to conclude a non-confidentiality agreement when a company wants to exclude the possibility that the other party would try to claim that there exists an implied duty of confidentiality between the parties.³²⁹ If a company decides to conclude such an agreement it has to specifically pay attention to the information that it discloses and it must only disclose such information that it can afford to lose. However, when companies operate in the same field they should also bear in mind that competition law sets certain restrictions on the way that companies are allowed to collaborate and exchange information between each other.³³⁰ Having said that companies should carefully assess which information they afford to disclose and also be aware of possible competition law issues that relate to sharing information between competitors and potential competitors.

8.5. Duty to evaluate the information and the specific circumstances of the case

The company that discloses information does not have to specifically emphasize that the information constitutes a trade secret when disclosing information to a third party in the absence of any contradicting contract terms.³³¹ Even though it is clear that trade secrets receive protection based on law, without any registration procedure, when the information fulfils the criteria of a trade secret it may be sometimes wise to mark the information as confidential in order to emphasize the fact that the information is confidential. This should, however, only be used as a way to demonstrate the sensibility of the information but it should not be a means to categorize information dividing it to trade secrets and to other information.³³² Companies can also restrict the use of other types of information than trade secrets when they enter into agreements. Even though companies can stipulate about the confidentiality of other types of information as well, information that does not fulfil the criteria of a trade secret

³²⁸ Vapaavuori 2019, p.622

³²⁹ Vapaavuori 2019, pp.622-623

³³⁰ Kuoppamäki 2018, p.179

³³¹ Vapaavuori 2019, p.155

³³² Vapaavuori 2019, p.119

does not receive trade secret protection from the law.³³³ When a company uses information, that is confidential but not a trade secret, in an unauthorized manner, it will be considered as a breach of contract and not as a trade secret violation.³³⁴ Companies can also stipulate about monetary sanctions, that must be paid when a party breaches the agreement, in order to make sure that both parties take the contractual terms seriously.³³⁵

In the context of acquisition negotiations, problems may arise in relation to the trade secrets that the seller has acquired from third parties with whom it does business with.³³⁶ The entered agreements may and usually prohibit a company from disclosing or transferring trade secrets of the contractual party to anyone and thus a company should theoretically ask for consent before it is allowed to disclose information to any potential buyer.³³⁷ Monetary sanctions might also actualize when information is disseminated during acquisition negotiations to other parties.³³⁸ In order to avoid the problem companies could take the aforementioned aspect into account when entering into non-disclosure agreements by drafting wording that allows the companies to disclose information as a part of a due-diligence process in the context of an acquisition negotiation.

The information that companies want to have subject to confidentiality depends on the specific circumstances. In the context of acquisition negotiations, it is for example evident that the seller has a very big incentive to protect all the information that can be protected in the case that no agreement is reached. Simultaneously, the buyer has incentives to receive knowledge from the business procedures and of the confidential information in order to make its decision based on reliable data.³³⁹ It is very common that the parties to a confidentiality agreement have different aims in relation to the optimal amount of information that they would like to disclose/receive.³⁴⁰ Standard non-disclosure agreements may serve as a starting point, but agreements have to be adapted based on the specific factors of the case.³⁴¹ Simultaneously, using cloud services may sound promising from the business point of view as far as

³³³ Vapaavuori 2019, p.512

³³⁴ Vapaavuori 2019, p.512

³³⁵ Vapaavuori 2019, pp.502-503

³³⁶ Vapaavuori 2019, pp. 638-639

³³⁷ Vapaavuori 2019, p.639

³³⁸ Vapaavuori 2019, p.640

³³⁹ Vapaavuori 2019, pp.636-637

³⁴⁰ Vapaavuori 2019, p.502

³⁴¹ Vapaavuori 2019, p.455

costs are concerned but using cloud requires a company to rely on third party service providers which may raise issues, among other things, in relation to trade secrets if the contracts do not stipulate about confidentiality.³⁴² Companies should always make sure that they have entered into a non-disclosure agreement with cloud service providers before they disclose any information to them.

8.6. Confidential information -clauses

Usually contracts include a confidential information -clause where it is stipulated that how companies can use the information that is disclosed between each other and what is considered as confidential information. Companies may have a need to protect other information as well that does not fulfil the criteria of a trade secret.³⁴³ Companies are allowed to contractually agree on information that must be considered as confidential and they can extend the duty to protect information to cover any information that they deem as appropriate to protect.³⁴⁴ Issues may arise when two companies enter into an agreement that restricts the rights of their own employees to use the information that amounts to the professional skills of employees. Therefore, the extent to which such information is restricted should be defined in the contract in a way that it makes room for the employees to use their professional skills if a company wants to make sure that it does not violate its contractual obligations.³⁴⁵ In other words, companies should not enter into confidentiality agreements that set an obligation that companies cannot comply with.

It is common practice that non-disclosure agreements have one of the following type of wording about what constitutes confidential information: a) all confidentially marked information must be held confidential, b) information categories that are listed in the contract are to be held as confidential, c) all disclosed information is to be held as confidential, d) all confidentially marked information and information that should be deemed as confidential judging by its nature.³⁴⁶ It could be also relevant to put emphasis on defining what constitutes intellectual

³⁴² Sandeen 2014, pp.54-56

³⁴³ Vapaavuori 2019, p.512

³⁴⁴ Vapaavuori 2019, p.512

³⁴⁵ Vapaavuori 2019, p.536

³⁴⁶ Vapaavuori 2019, p.517

property, at least in an international context, in order to avoid any confusions that might arise of the concept of trade secrets as a form of intellectual property rights.³⁴⁷

The parties to an agreement may have disputes about how the non-disclosure agreement should be drafted in order to take into consideration the interests of both of the parties. The company that discloses more information has a higher incentive to have more restrictive terms in place as the recipient of the information.³⁴⁸ When drafting the agreement careful attention should be paid to what constitutes confidential information, to which extent the information can be used and how long the information must be held as confidential.³⁴⁹ Among other things the company that discloses information may want a) that the recipient is only subjected to the confidentiality duty (unilateral obligation), b) the company that discloses information may want that the employees of the recipient who process the information enter into separate confidentiality agreements, c) the company that discloses information has an interest to define the confidential information -clause as broadly as possible and not restricting it to any form of information or type of information, d) the disclosing company may want to restrict the right of the recipient to use the information only to what is necessary in order to execute the service, e) the disclosing company may want that the recipient does not have a right to reverse engineer the information that is disclosed to it, f) the disclosing company may want to stipulate that it does not have any responsibility of the information that it discloses, g) the disclosing company may also want that there is a contractual duty to stop using the information and a duty to delete and/or return the information upon termination of the agreement, h) the disclosing company may also want to stipulate that there is no restriction on liability and there is no time restriction on the confidential period and that a monetarily severe penalty clause is implemented in the contract.³⁵⁰ Simultaneously the recipient of the information usually tries to negotiate a contract that takes its aspects into consideration in a better way and tries to pursue opposite aims as the company that discloses information.³⁵¹ However, there are also instances where the parties disclose approximately the same amount of information and therefore the interests of the parties are usually the same in those kinds of situations.

³⁴⁷ Vapaavuori 2019, p.39

³⁴⁸ Vapaavuori 2019, p.502-503

³⁴⁹ Slowinski – Hummel – Kumpf 2006, p.32

³⁵⁰ Vapaavuori 2019, pp.502-503

³⁵¹ Vapaavuori 2019, pp.502-503

Non-disclosure agreements are not always enough to ensure that information is treated with appropriate precautions. Employees should be made aware of the information that they are allowed to reveal and of information that they are not permitted to disclose. Appropriate training reduces risks that relate to unwanted disclosures of information that is of sensitive nature.³⁵² Consequently, companies should allocate resources on training their employees on what kind of duties they have in relation to preserving confidential information and companies should not only rely on the fact that since a non-disclosure agreement is in force all the risks are circumvented.³⁵³

8.7. Non-compete agreements in business relations

Non-compete agreements do not only exist in the employment context but there may be a need to conclude a non-compete agreement in other circumstances as well. Even though non-compete agreements are usually void in California there are exceptions to the principle rule.³⁵⁴ According to the Californian Business and Profession Code section 16601 non-compete agreements can be concluded in the context of a sale of a business. According to section 16602 and 16602.5 of the respective Code non-compete agreements are also allowed in the context of dissolution/disassociation of a partnership and in the context of a dissolution of a limited liability company. The provisions state that the non-compete obligation must be geographically limited but the non-compete obligation must not be limited to any certain number of years. Additionally, the non-compete obligation can be enforced to the extent that the company or partnership, due to which the non-compete agreement was drafted, stops operating. As an example, in *Howard v. Babcock* the Supreme Court of California held a non-compete agreement as enforceable and valid when a partner of a law firm violated his non-compete agreement by starting to work at a competitor.³⁵⁵

In *Fillpoint, LLC v. Maas* the legal issue that the appellate court had to solve was that can an employment agreement that includes a non-compete clause and a separate non-compete

³⁵² Slowinski – Hummel – Kumpf 2006, p.37

³⁵³ Slowinski – Hummel – Kumpf 2006, p.37

³⁵⁴ Sandeen and Rowe 2017, p.452

³⁵⁵ *Howard v. Babcock* 6 Cal.4th 409 (Cal. 1993)

agreement concluded in the context of a sale of a business be enforced together.³⁵⁶ The court found that theoretically this is possible but in the current case the employment contract that included the non-compete clause was not sufficiently connected to the sale of the business and additionally was extensively broad and distorted the possibility to engage in profession in ways that were not necessary to protect the buyer's interests.³⁵⁷ Based on the analysis of the court it is a necessity to make sure that the non-compete clause is tied to the sale of the business and does not restrain competition in other more intrusive means than reasonable.

In the European Union non-compete agreement can be concluded in relation to a sale of a company in order to secure that the company's value does not decrease upon sale.³⁵⁸ Even though non-compete agreements restrict competition these restrictions can be considered as necessary because otherwise the sale of the business might not be lucrative to execute.³⁵⁹ The length of the allowed restriction depends of the circumstances of the case. The restriction to compete has to be restricted geographically and the maximum allowed duration is three years when both know-how and goodwill are transmitted as a part of the sale.³⁶⁰ The maximum allowed restriction for the non-compete agreement is two years when goodwill, but no know-how is transferred as a part of the deal. The restrictions should not go further than necessary and there must be also a legitimate interest to justify a non-compete agreement.³⁶¹ However, the special circumstances of the case might justify a longer non-compete agreement if it was, for some reason, absolutely vital to extend the non-compete period.³⁶²

There may be severe consequences when the parties enter into non-compete agreements that distort competition as the *Portugal Telecom SGPS v. Commission* points out. In the respective case a company called Telefonica purchased the shares of Vivo from Portugal Telecom and entered into an agreement that included the following non-compete clause: *"To the extent permitted by law, each party shall refrain from engaging or investing, directly or indirectly through any affiliate, in any project in the telecommunication business (including fixed and mobile services, internet access and television services, but excluding any investment or*

³⁵⁶ Fillpoint LLC. v. Maas 208 Cal.App.4th 1170 (Cal. Ct. App. 2012)

³⁵⁷ Fillpoint LLC. v. Maas 208 Cal.App.4th 1170 (Cal. Ct. App. 2012)

³⁵⁸ Commission Notice on restrictions directly related and necessary to concentrations p.4

³⁵⁹ Kuoppamäki 2018 p.194

³⁶⁰ Commission Notice on restrictions directly related and necessary to concentrations p.4

³⁶¹ Commission Notice on restrictions directly related and necessary to concentrations p.4

³⁶² Kuoppamäki 2018 p.195

activity currently held or performed as of the date hereof) that can be deemed to be in competition with the other within the Iberian market for a period starting on [the date of the definitive conclusion of the transaction of 27 September 2010] until [31 December] 2011.”³⁶³ The court found that indeed the agreement amounted to a market-sharing agreement and it was not necessary in relation to the purchase agreement and therefore it distorted competition.³⁶⁴ The court found that it did not have any relevance that the parties had drafted the wording “*to the extent permitted by law*” to the contract and it considered the clause as anti-competitive.³⁶⁵

There may also sometimes be a necessity to conclude a non-compete agreement when two companies operate on different levels of distribution or production chain. The European Commission has introduced a block exemption, Regulation 330/2010, that excludes certain agreements from Article 101 (1) of the Treaty as such thereby providing leeway for companies to conclude certain agreements. The block exemption applies only to companies that are not operating on a same level e.g. two car sales companies that enter into an agreement cannot benefit from the block exemption regulation because they operate on a horizontal level.³⁶⁶ During the time the companies operating on a vertical level are doing business together a non-compete agreement limited to 5 years falls within the block exemption regulation according to Article 5(1a). Article 5(1b) states that post-term non-compete agreements fall out of the block exemption but may under certain circumstances be executed for a period of 1 year in accordance with Article 5(3).³⁶⁷ However, the provisions do not indicate that an agreement that sets a longer non-compete obligation would be against competition laws as such, but it should be subject to a careful competition analysis because it is not exempted by the regulation.³⁶⁸

³⁶³ Judgement of 28 June 2016, Portugal Telecom SGPS v. Commission, T-208/13, ECLI:EU:T:2016:368 (1)

³⁶⁴ Judgement of 28 June 2016, Portugal Telecom SGPS v. Commission, T-208/13, ECLI:EU:T:2016:368 (36 and 190-193)

³⁶⁵ Judgement of 28 June 2016, Portugal Telecom SGPS v. Commission, T-208/13, ECLI:EU:T:2016:368 (130-131)

³⁶⁶ Guidelines on Vertical Restraints (24)

³⁶⁷ Guidelines on Vertical Restraints (68)

³⁶⁸ Guidelines on Vertical Restraints (47)

9. Conclusions

9.1. Similarities between California and Finland

In this research, the trade secret laws of the United States and the European Union have been analyzed. More specifically particular aspects that relate to trade secret laws of California and Finland have been examined in a detailed manner. Even though there are plenty of differences between the judicial systems, such as the other one is based on common law while the other is based on civil law, a lot of similarities can also be found. The similarities relate especially to the wording of the trade secret laws. The definition of a trade secret according to the European Union's trade secret directive and the Defend Trade Secrets Act is to a large extent the same. The criteria that needs to be fulfilled in order to receive trade secret protection is exactly the same according to the applicable laws. Therefore, companies receive protection based on the same criteria while the factor of secrecy, reasonable steps and commercial value are the decisive factors. What is extremely important to realize is that trade secrets must be subject to reasonable steps taken by the trade secret holder in both of the respective jurisdictions in order to receive protection. These measures are usually to a large extent the same but may also sometimes vary as it was pointed out earlier in this research. In the European Union as well as in the United States contracts are not the only way that companies can fulfil the requirement of reasonable steps but both systems encourage, based on the applicable case law, to enter into contracts when engaging with third parties. What could be stated here is that in Finland the reasonable steps requirement is most likely easier to fulfil than in California based on the findings of the research. The decision of the appellate court of Finland supports this view where the court found that reasonable steps had been taken when it was in the general knowledge of the employees that the information was confidential, and the employer had elaborated this to its employees as well (HO 18.12.2017). Furthermore, as it was analyzed earlier in this research the courts in the United States are very reluctant to enforce the *good faith and fair dealing* -doctrine, which may have an effect on implied confidentiality, when equally strong parties do business together.

As far as information that is considered as a trade secret is concerned both of the judicial systems conclude that the employees should have a right to use certain type of knowledge

and skills, without any restrictions, that they have gained in the course of their employment. The information that is considered as a part of an employee's own skills and knowledge relies largely on similar concepts in both of the judicial systems. The distinction between trade secrets and legitimate know-how that employees have gathered in the course of their employment is based on similar objective criteria and there are no big differences between the judicial systems in relation to the aforementioned matter.

Another similarity is that In Finland and California the loyalty obligation towards the employer has an important role in relation to trade secret protection. Both jurisdictions also recognize that trade secrets must be kept secret but not be held completely secret from others and therefore both systems consider the secrecy factor as relative secrecy. Additionally, the information that can receive trade secret protection in the respective jurisdictions is not limited to any certain industry or type of information and hence companies can rely on trade secret legislation in a variety of different circumstances. Lastly, as has been pointed out in this research non-disclosure agreements are always enforced in Finland as long as they are not disguised non-compete agreements. In California non-disclosure agreements are also enforced as long as the agreement does not put a restraint on engaging in a profession.

9.2. Differences between California and Finland

Regardless of the fact that there are major similarities between California and Finland there are also differences that distinguish these judicial systems from each other. These differences have major impacts on the business strategies of companies. The biggest differences between California and Finland seem to relate to the enforceability of contracts that try to restrict the use of trade secrets. A major difference can be found from the enforceability of non-compete agreements. As it was pointed out earlier in this research, Californian courts do not enforce non-compete agreements that employers have concluded with their employees at all. In Finland non-compete agreements are enforced in the employment context, but the enforceability is based on a case-by-case analysis, where it is determined if the underlying special circumstances justify a non-compete agreement or not. The differences in relation to the enforceability of non-compete agreements can be deemed to be one of the biggest fundamental differences between the respective judicial systems.

The Californian case law in relation to non-compete agreements seems to be more well-defined and predictable than the one that exists currently in Finland. Additionally, the practical problems are avoided in California because the Californian courts have been clear and explicit on the matter that non-compete agreements put a restraint on employee mobility and are not enforceable. The predictability factor is missing in Finland because the analysis will be made based on the specific circumstances of the case which can be construed in multiple ways. As a matter of fact, the current case law seems to support this view when considering the relationship between the earlier analyzed cases that do not create clarity for companies (Supreme Court case 2014:50 and 2003:19). The case law that was evaluated as a part of this research indicates that the coherency is missing in Finland and the justifying factors for non-compete agreements are subject to various interpretations.

Another important difference between the judicial systems is that the legal doctrines that have actual interpretative value, as such, differ from each other in the respective judicial systems. For example, doctrines such as the inevitable disclosure -doctrine and the narrow restraint -doctrine are not known in Finland. California does not explicitly enforce these doctrines, but it has been at least considered in the case law that should these doctrines be enforced or not. California differs a lot from the other states because it fosters employee mobility and does not enforce doctrines that are meant to protect the trade secret holder in a broad manner. Conversely, in Finland the employee mobility, based on the relevant case-law and the legislation, does not seem to be such a highly perceived value as in California.

The current state of legislation in California supports and appreciates employee mobility to a higher extent than in Finland. It could be argued that the Californian model has created a framework where it is easier to operate for companies and employees. The Californian model does not allow employees to use trade secrets without of any limits after employment, but it merely provides a possibility to greater employee mobility. At the same time, employees in Finland are faced with the dilemma that they do not have the capability to analyze the validity of a non-compete agreement due to the fact that the special criteria are subject to a case-by-case analysis conducted by courts. In Finland companies can also conclude non-compete agreements to deter employees from starting to compete in the respective field convincingly. In the state of California, the evaluation is easier for an employee to make because non-compete agreements are not allowed in the normal course of employment when an employee

resigns. Simultaneously, unwanted litigation could be avoided in Finland and resources could be allocated to other more important areas if the case law would be predictable and clear.

9.3. Developing trade secret legislation further

Even though the new trade secret law of the European Union has created a more predictable framework for trade secret protection it does still not provide a completely unified frame for trade secret protection because it leaves room for the individual member states to make deviations. It can be argued that a completely harmonized framework of trade secret laws could generate advantages even more within the European Union. Currently, the directive stipulates in a way that some provisions are of binding nature while others are such that Member States are allowed to modify at their own discretion. Nonetheless, the directive has been a major step towards a more harmonized legal framework in the European Union and it can be considered as a step towards a positive direction. The reason why the directive can be considered as a positive step is that it has made the legal framework more predictable, clear and unified among the member states. The directive secures and provides a very solid level of protection as far as civil remedies are concerned. However, the biggest differences in relation to trade secrets currently relate to employment law and criminal law where the European Union member states have differences with each other. The employment and criminal law aspects are extremely important as far as trade secret laws are concerned and therefore, there will exist crucial differences between the member states in the future as well.

The federal law, the Defend Trade Secrets Act, could be described as an advancement as well. However, it can be questioned that do the variations among individual states in relation to trade secret laws bring any extra value in today's society. As a matter of fact, the trade secret laws as such are unified to a large extent but the legal doctrines that independent states are willing to apply differ largely between the states and thus different types of decisions are given by courts. The state of California represents the other end of the extremes and is extremely nudged to pro-employee mobility. The independency of the states is a vital value in the US and local aspects can be taken care of better when provisions are not set by the central government but by the state legislator. However, it is debatable that are trade secret laws such a field of law that would undermine the cultural local factors and values of independent states if not regulated solely on a state level. Secondly, commerce is not anymore local but rather

state overarching and thus clarity and predictability should be the biggest goal among the individual states. Complexity, generally speaking, does not create innovation but rather creates problems and waste of resources. Companies have to invest more money and time to interpret the differing laws across the states instead of concentrating on the actual business side.

In the United States individual states can always work more closely when producing new legislation but the fundamental differences that relate to legal doctrines inevitably produce different outcomes between the states. Regardless of the applicable law there will be always discrepancies between individual states due to the enforceability of certain doctrines. The essence of the political system in the United States relies on the idea of independent states and it is far-fetched that these doctrines would be equalized in the future to guarantee a coherent trade secret legislation throughout the states. As a matter of fact, it seems that the trade secret laws are as unified in the United States currently as they can realistically be. This is further supported by the fact that the federal trade secret law does not pre-empt state laws which makes it possible for the individual states to stipulate about trade secrets in contradicting ways.

The latest developments in relation to trade secret laws in the European Union have been important and most likely are going to further cross-border innovation and information dissemination. The trade secret laws as such are very similar to a large extent in the respective judicial systems and if trade secret laws were to be developed further the European Union should introduce measures that would change the status of the employment and criminal law in the member states. The aforementioned measure would most likely raise objections within individual member states and it seems that it is not an approach that is going to receive support. The European Court of Human Rights and the European Court of Justice will most likely give decisions that will clarify trade secret laws in the future and thus unify the interpretation in the European Union. The legislator has already done a lot in the European Union and now it is for the member state courts to apply the laws in a coherent, predictable and clear manner so companies can operate across the European Union with certainty.