

**Uniform Treatment of Private Trade Secrets
Under the Virginia Freedom of Information Act**

*Submitted by the Virginia Press Association to the
Virginia Freedom of Information Advisory Council*

June 23, 2016

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As early as 1981, the General Assembly included provisions within the Virginia Freedom of Information Act ("FOIA" or the "Act") that sought to protect the trade secrets of private parties when those parties submitted information to public bodies. See 1981 Acts of Assembly ch. 464 (regarding coal shipment data submitted to the Virginia Port Authority). Simply put, an entity doing business is entitled under general principles of law to protect its trade secrets. Absent an articulated state policy that requires trade secret protection to be waived under specified circumstances, there is no reason to presume that a private entity forfeits trade secret protection when it submits a record containing protectable information to the government.

This principle has been recognized repeatedly by the General Assembly, and Va. Code § 2.2-3705.6 now contains twenty-seven (27) distinct exclusions that arguably concern private trade secret information placed in the hands of public bodies.¹ Unfortunately, these agency-specific exclusions treat exactly the same problem in inconsistent ways. This situation has arisen for a number of reasons:

¹ Other provisions of the Act employ language addressing trade secret-like protections. See Va. Code §§ 2.2-3701.1.6; 2.2-3705.4.5; 2.2-3705.5.4 and 12.

- There is confusion between the fundamental nature of private organizations, on the one hand, and governmental bodies, on the other; information generated by private entities is fundamentally different from information held by public entities.
- There is basic misunderstanding of the law of trade secrets and what it protects.
- Concepts of ownership (so-called "proprietary" interests) are confused with concepts of confidentiality.
- The inherently messy legislative process has, over the years, permitted rules for private trade secret protection to be conflated in the same statutory provisions with unrelated confidentiality principles that concern government deliberations.

This muddled approach has potentially costly consequences. First, the language of the statute is not a clear source of guidance to public employees, elected or appointed officials, private persons or businesses, or the lawyers who must advise them. Second, it makes judicial interpretation of any single provision a daunting task. In a recent concurrence, Supreme Court Justice William Mims pointed out that the Act uses the word "proprietary" in numerous places, and without consistency. Mims' intellectual candor reflects only the obvious -- rules of statutory interpretation cannot be rigorously applied to give a consistent meaning to the provisions of the Act that purport to protect sensitive private business information.

Virginia's FOIA needs more effective, user-friendly language to govern the protection of trade secrets. The non-FOIA legal principles concerning trade secret protection are well established and applied daily in business. Clarifying the Act to conform its protections to those recognized elsewhere in the law will encourage uniform practices. Importantly, it will reduce the likelihood of costly squabbles over

interpretation of the Act, squabbles that impose costs on both requesters and public bodies, but not on the private entities claiming trade secret status.

This white paper discusses some of the fundamental policy issues surrounding protection of trade secrets, identifies some of the weaknesses of current law, and describes a VPA proposal that focuses solely on the submission of trade secrets to public bodies by private entities.

Basic Principles of Trade Secret Protection

Both entrepreneurs and owners of established businesses need to protect confidential information that gives them a competitive advantage, ensuring that it is not stolen outright or placed into the public domain through sloppy practices. A wide variety of subject matter might be commercially sensitive to a business owner, including undisclosed knowhow about manufacturing processes, scientific research, customer lists developed at considerable cost, or strategic business plans.² The law recognizes this by providing protection for a broadly-defined body of information defined as "trade secrets."

Virginia has adopted the Uniform Trade Secrets Act ("UTSA"), found at Va. Code § 59.1-336 *et seq.* (See Appendix 1.) Virginia Code § 59.1-336 defines the protected class of information:

"Trade secret" means information, including but not limited to, a formula, pattern, compilation, program, device, method, technique, or process, that:

² It is beyond the scope of this discussion to detail the various situations that private businesses face. Certainly the form of business entity is relevant to the degree of disclosure it must make about its operations. A small, closely-held company does not have the same public reporting obligations as a company that offers publicly-traded securities governed by federal or state securities laws.

1. 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
2. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Note that the subject matter of protectable information is broadly defined. Of equal importance is the fact that the holder of information claimed as a trade secret must take reasonable steps under the circumstances to maintain the confidentiality of the trade secret. This tradeoff makes sense -- if you claim that certain information is of critical importance to your business, surely you will take proper steps to protect it as you conduct your business.

If, despite reasonable efforts to protect a trade secret, the trade secret is misappropriated, that is, acquired by another through improper means, the UTSA provides remedies for that misappropriation.³ The remedies include entry of an injunction, an award of compensatory or punitive damages, and attorneys' fees.⁴

Study of Virginia's trade secrets statutes teaches that certain things must not be confused. It is implicit in the UTSA that a person or entity claiming the right to protect information as a "trade secret" must necessarily have the right to exclude others from having access to the information. This is typically understood as some form of ownership. The holder of the secret either (1) owns it outright because it was developed internally or (2) possesses the secret by legal means that allow it to exclude others from access -- such as an exclusive license. This "proprietary" interest over

³ Both "misappropriation" and "improper means" are defined terms in the UTSA. See Va. Code § 59.1-336. (Appendix 1)

⁴ See Va. Code §§ 59.1-337, 338, 338.1.

information is a necessary precondition to claiming the information as one's own trade secret. For example, PepsiCo has no proprietary interest in the formula for Coca-Cola, a famous trade secret that has been held in confidence for decades by the Coca-Cola Company.

However, mere "proprietaryship" does not make information a trade secret. The information must also be commercially valuable, and its value must be derived from the fact that it is not known to the outside world. The disclosure of a true trade secret, in other words, causes commercial harm to its owner. To stay with the soft drink example, next week's delivery schedule of Coke from the manufacturer to the local supermarket may be of interest to Pepsi, but it may not rise to the level of a trade secret. The information probably could be ascertained by observing deliveries for a few weeks, and its disclosure, in any event, would probably be harmless to the Coca-Cola Company. Unlike the formula for Coca-Cola, that information probably does not warrant protection as a trade secret.

With a clear understanding of what trade secrets are, and what they are not, one may evaluate the effectiveness of the exclusions under the Act that purport to protect trade secrets. The Act should work in harmony with Virginia's USTA; it should not undermine the objectives of trade secrets law, or confuse trade secrets principles that are generally applied in business. The legislative objective in crafting trade secrets exclusions for the Act should be, unless waiver of such protection is specifically required by law, to provide a private entity with no *less* protection than it already possesses when it submits records to the government. By the same token, there is no reason to enact an exclusion from the Act that *elevates otherwise unprotected information* (not

qualifying as a trade secret) to a confidential status that it never possessed prior to its submission to the government.

The discussion below evaluates selected provisions set forth in Va. Code § 2.2-3705.6, measuring them against the objectives of clarity and consistency with trade secrets laws of general application. The discussion is not intended to be comprehensive, merely illustrative of key problems.

Features of Trade Secrets Provisions of the Act

Reading Virginia Code § 2.2-3705.6 from top to bottom immediately underscores the fact that the subsections of the statute present variations in the language describing what is protected. The verbal formulas include: "proprietary information," "confidential proprietary records," "proprietary, commercial or financial information, balance sheets, trade secrets, and revenue and cost projections," "trade secrets or proprietary information," "confidential proprietary information or trade secrets," "confidential proprietary information," "information of a proprietary nature," "confidential proprietary records and trade secrets," "Trade secrets as defined in the Uniform Trade Secrets Act," and "information of a proprietary or confidential nature."

This mix of terminology raises a number of problems. First, applying the rules of statutory construction, all words must be given meaning, and words must be given their plain meanings when possible. As Justice Mims aptly pointed out, this portends nothing but trouble for future judicial interpretation:

. . . mindful of our canons of construction, this concurrence is warranted.

Under one canon, we presume that the General Assembly is aware of how we construe the terms it used in a statute and that it acquiesces in such constructions unless it subsequently enacts a corrective amendment. [citations omitted] Under another, we presume that when the General Assembly used a

word in multiple places within the same statutory scheme, it intended the word to have the same meaning in each unless another meaning is expressly provided. [citations omitted]

While I believe the court has accurately assessed the public policy underlying the legislature's enactment of Code § 2.2-3705.4.4, the exclusion at issue in this case, I observe that the word "proprietary" also occurs in Code §§ 2.2-3705.1(6), 2.2-3705.4(5), 2.2-3705.5(4) and (12), 2.2-3705.6(1), (3), (7), (8), (9), (10), (12), (13), (14), (17), (18), (19), (21), (25), and (27). I am not confident that the General Assembly intended the definition of "proprietary" we endorse today to apply equally to them all. However, only Code § 2.2-3705.1(6) provides an express definition clarifying legislative intent.

The majority opinion rightly deals only with the case, and code section, presently before the Court. However, I write separately to spotlight that the judicial canons of statutory construction will require us to extrapolate from this decision when we are called upon to decide future cases dealing with other code sections. I fear that such extrapolations may cause us to diverge from the General Assembly's true intent in such cases, if it does not provide clarification soon. "Proprietary" is susceptible to too many meanings to be used so broadly and so often in the Virginia Freedom of Information Act with no specific definition.⁵

This reflection on the state of the Act should be troublesome to the General Assembly. Even experienced counsel trying in good faith to interpret the "trade secrets" provisions in FOIA cannot read them in the context of a consistently-applied approach that promotes clear guidance to clients, either private or governmental.

⁵ *American Tradition Inst. v. Rector of the Univ. of Va.*, 287 Va. 330, 346-47, 756 S.E.2d 435, 444 (2014). In *American Tradition*, the Court interpreted an exclusion from the Act for certain information generated by faculty at institutions of higher education. See Va. Code § 2.2-3705.4.4. The Court's interpretation began with a discussion of the phrase "information of a proprietary nature." It conducted no textual analysis of other limiting language in subsection 4, and reached an outcome that purported, by negative implication, to reflect the intentions of the General Assembly. The interpretation included a fairly unremarkable definition of "proprietary" as a right associated with "ownership, title and possession." 287 Va. at 341, 756 S.E. 2d at 441.

The confusion created by repetition of the word “proprietary” is multiplied when it is combined with other words that have legal import, such as “confidential.” *See, e.g.,* Va. Code § 2.2-3705.6 subsections 3, 7, 8. Not everything that is proprietary is confidential; not everything that is both proprietary and confidential rises to the level of a trade secret. Yet, it is clear that a number of FOIA provisions simply use the vague phrase that something is “of a proprietary nature” as a proxy for claiming it as a “trade secret.” *See, e.g.,* Va. Code § 2.2-3705.6 subsections 14, 21, 25, 27. This encourages private parties, without rigorously determining whether submitted information is truly a trade secret, simply to submit records to public bodies with vague claims that they are “proprietary” and therefore excluded from disclosure under the Act. This puts enormous pressure on the receiving public body, which bears the risk of erroneous classification under FOIA. Moreover, when categories of records that are not commercially sensitive are withheld under ill-defined and arbitrary notions, public confidence in government and in the Act itself is undermined. Withholding “proprietary” information from public disclosure under FOIA is very difficult to justify if that information is not important enough to warrant legal protection as a trade secret in the normal course of business.

Further confounding matters is the use of both “trade secret” and “confidential proprietary records” references in the same subsection. Under canons of statutory interpretation, these terms must be given different meanings. It is not clear why trade secrets protection, already broad, needs to be conflated with language that can only make the scope of such exclusions broader and essentially boundless. *See, e.g.,* Va. Code § 2.2-3705.6 subsections 12, 18, 19.

In addition to the chaotic terminology, certain subsections mix principles of trade secret protection with the closure of government deliberative processes. That is a functionally and legally distinct issue, and conflating it with private trade secrets protection in the same statute is simply confusing. See Va. Code § 2.2-3705.6 subsections 3 (private business development), 11 (PPTA/PPEA), 23 (Tobacco Region Revitalization Commission), 24 (Commercial Space Flight Authority). It may well be that the deliberative processes referenced in those provisions warrant secrecy, or temporary secrecy, for policy reasons unrelated to trade secret protection. If they do, they should be the subject of statutes that articulate those policies and describe them with precision.

VPA's Proposal

Appendix 1 is VPA's proposal for a comprehensive trade secrets statute. It would apply to all submissions of information to the government by non-governmental entities with legitimate claims to trade secret protection. Several points are noteworthy.

First, a very similar but not identical proposal was offered for consideration to the Virginia Freedom of Information Advisory Council work group studying Va. Code § 2.2-3705.6. The work group failed to reach consensus around the VPA proposal, or around other trade secrets proposals offered by staff.

Second, the VPA proposal does not address another scenario: the limited but significant circumstances under which public bodies are actors or potential actors in the commercial marketplace, and sometimes have trade secret concerns similar to those present in private enterprises. University scientific research is an obvious area of discussion, as public universities, including graduate programs and medical programs,

generate work that might be commercialized and may be entitled to intellectual property protection until it is made public in accordance with patent or copyright laws.

Third, enactment of a uniform trade secrets exclusion will require the identification of functions that may continue to warrant separate rules. Although it is beyond the scope of this paper, consideration must be given to special cases such as public entities that invest public employee funds for the payment of retirement benefits.

The VPA proposal has two main features.

First, it explains what is entitled to protection and how that protection must be invoked at the time a record is submitted to a public body. It is intended to track the scope of the USTA, and presumes that by adopting the USTA the General Assembly has defined the proper scope of trade secret protection in Virginia. It requires that information subject to a claim of protection be identified with specificity at the time it is submitted.

Second, it describes a process for enforcement of the Act and resolution of trade secret-based disputes in the event a requester does not acquiesce in a public body's assertion that information in a public record is a trade secret. Rather than placing the burden and expense of defending a claim for private trade secret protection on a public body, the proposal requires that the submitting entity be joined as a party to any action to enforce the Act. It requires further that, in the event the requester substantially prevails in litigation, the entity claiming trade secrets protection, and not the public body, must pay the attorneys' fees of the prevailing party.

Conclusion

The VPA respectfully submits this paper and its accompanying private trade secrets proposal to the Virginia Freedom of Information Advisory Council for consideration. VPA looks forward to further discussion of the principles that have been addressed in this paper.

June 23, 2016

Appendix 1

Virginia Press Association Proposed FOIA Exclusion for Trade Secrets Submitted to a Public Body

2.2-37xx. Protection of trade secrets submitted to a public body. *A record delivered or transmitted to a public body by a submitting entity that is not a public body as defined in this Chapter may be withheld in whole or in part to the extent that:*

- (a) the record contains information in which the submitting entity has an ownership interest;*
- (b) the submitted information qualifies as a "trade secret" of the submitting entity as defined in the Uniform Trade Secrets Act, Va. Code Section 59.1-336, et seq.;*
- (c) the submitting entity delivered or transmitted the record to the public body (i) in compliance with a statute, regulation or other law of the United States or the Commonwealth, or (ii) as a required component of a submission made in connection with a public procurement, public financing or economic development transaction; and*
- (d) the information that the submitting entity seeks to protect was clearly and specifically identified by the submitting entity as a trade secret at the time of its delivery or transmission to the public body, such identification being a representation by the submitting entity that it has made a good faith effort only to designate as trade secrets those portions of the submitted information that are entitled to protection under the Uniform Trade Secrets Act.*

In the event a public body, in response to a request under this Chapter, denies access to a public record or a portion of a public record on the ground that the requested information has been identified by the submitting entity as a trade secret and the requester challenges the characterization of the withheld information as a trade secret, the public body must notify the submitting entity within two work days of the challenge made by the requester. If the submitting entity and the requester are unable after conferring to reach agreement on the proper designation of the material in dispute, or the submitting entity refuses to confer with the requester, the requester may bring an action under this Chapter to require the public body to produce the requested material, and shall name as an additional defendant in the action the submitting entity. If as a result of the action the court requires that the public body produce material that has been improperly designated as a trade secret by the submitting entity, any award of reasonable costs and attorneys' fees to the requester pursuant to § 2.2-3713 shall be paid by the submitting entity and not by the public body.

