

# Trade Secrets and Proprietary Information: Their Use and Misuse by Mobile Oil and Gas Professionals

---

Presented in Houston, Texas (2000)  
University of Texas Oil and Gas Institute

Written by Chris Wolfe - © 2000 Haynes and Boone, LLP

Haynes and Boone, LLP  
1000 Louisiana St., Suite 4300  
Houston, TX 77002

Chris Wolfe  
713.547.2024  
[wolfe@haynesboone.com](mailto:wolfe@haynesboone.com)

---

## Protecting Trade Secrets Versus the Right to Work.

### A. Nature of the Industry.

ExxonMobil, because of size and prominence, is used to illustrate industry trends in this outline.

1. Oil and gas is an information industry. Knowledge is critical to the oil and gas industry. The commodity price for gas dropped 54% in real terms in the decade between 1984 and 1994. The finding costs for hydrocarbons over that same decade dropped 59%. Superior knowledge generated that crucial 5% spread. Oil and gas is an information technology intensive industry. Information technology creates new jobs in the oil and gas industry and eliminates other jobs. Exxon by 1995 had fewer total employees than in 1923 although Exxon's huge information technology departments of 1995 did not exist in 1923.

2. Oil and gas is also an unstable industry. Early in this century the oil and gas industry was considered a national political threat, a target of the trustbusters. In 1911, the United States Supreme Court ordered the dissolution of the Standard Oil Trust. That same year gasoline, formerly a refining byproduct, overtook kerosene as the industry's largest product. Standard Oil of New Jersey ultimately became Exxon. Standard Oil of New York ultimately became Mobil. Times change. The oil and gas industry is no longer considered a national political threat. On November 30, 1999, eighty-eight years later, Exxon and Mobil merged. In 1998, not a good year for the industry, on a combined basis ExxonMobil had revenues of \$170 billion, net income of \$8.1 billion, operations in 200 countries and oil and gas production in 50 countries, with 123,000 employees earning an 11% return on capital. On December 15, 1999, ExxonMobil had a market capitalization of \$294 billion. Synergy benefits from the merger will exceed \$2.8 billion annually at the expense of 16,000 employees. That means that 16,000 former employees of an information intensive oil and gas company were put on the street looking for new opportunities.

3. Hand-Me Downs. Integrated oil and gas companies have gone through consolidations that can be viewed by size of oil/natural gas liquids/gas reserves. The three supermajors, ExxonMobil, Royal Dutch Shell and BP/Amoco/Arco, each have reserves in excess of 18 billion barrels of oil equivalents. The other majors, Total/Fina/Elf, Chevron, Texaco and ENI, each have reserves of between 7 and 4 billion barrels of oil equivalents. Size determines what properties can be owned or operated by which companies. Properties that are marginal for a supermajor like Shell can be very attractive for an independent like Occidental. Properties that are marginal for a major like Chevron can be very attractive for an independent like Ocean/Seagull. Oil and gas companies merge for efficiency. Paradoxically, this increases the size of property that they can afford to hold. There is a hand-me down process at work passing properties from larger to smaller companies. So, bigger companies sell properties to smaller companies who can operate the properties more efficiently. This property trade continues down to marginal wells and tiny oil companies. Oil fields never die, they just get worked harder.

Remember those 16,000 laid-off workers looking for employment? Their experience lies in oil and gas. Should they be able to find work with other oil and gas companies? If so, which ones? Is a small independent truly a competitor of ExxonMobil?

## B. Issues Facing the Oil and Gas Industry

1. The Four Quadrants of Information. Knowledge can be divided into the four following sets: (a) general knowledge that is available to the public (“General Knowledge”); (b) general knowledge that each individual obtains from education and experience (“Experience”); (c) privately owned and legally protected knowledge that has been documented and registered with the government (patented, registered copyright, registered mark) (“Registered”) and (d) privately owned knowledge that the owner must protect (trade secret) (“Confidential”). Generally, in the United States, everyone is welcome to use General Knowledge, only owners may use Registered knowledge, the individual owner may use Experience and, until the owner loses control over access to Confidential knowledge, only the owner may use Confidential information.

The real friction in mobile oil and gas professionals comes from determining whether an individual’s knowledge is their own Experience or their employer’s Confidential information.

2. Macro versus micro perspectives. Adjusted for inflation, the long term commodity price trend for oil and gas is down. Cutting costs is critical for the industry. Costs are cut through knowledge, doing things smarter and better. Sharing knowledge is good for the industry. That is the macro perspective. Sharing your knowledge with a competitor is bad. That is the micro perspective. We live in the micro world.

3. Natural Experiments. During the Cold War, the East and West Germanies provided a natural experiment. One nation, one people, one culture started from the same baseline in 1945. The differences between the two Germanies in 1985 were caused by whether the nation developed under either a communist dictatorship or a representative government with capitalism.

A similar natural experiment occurred between the MIT-centered Route 128 technological corridor and the Stanford-centered Silicon Valley. Gilson, Ronald J., The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete, 74N.Y.U.L. Rev. 575 (1999). Route 128 is a commercial technology region, launched by the Cold War, with computer industry and computer service industry companies packed together. Silicon Valley is a chip and software technology center, with chip and software industry, and chip and software industry service companies, packed together in emulation of Route 128. Route 128 received a considerable head-start on Silicon Valley. Today, Silicon Valley has overtaken and greatly exceeds Route 128 in many economic metrics. Professor Gilson attributes this performance difference to the type of legal protection given trade secrets. California’s refusal to enforce covenants not-to-compete has made knowledge available industry-wide. This has led to a regional economic boom. Massachusetts’ enforcement of covenants not to compete has blocked the sharing of trade secrets. This has slowed economic growth. This natural experiment is given as support for the macro perspective that sharing knowledge is good for an industry.

4. Is the Route 128/Silicon Valley Natural Experiment Valid? Differences in enforcing covenants not to compete may not be the causative factor between the regions. There may be other forces at work that have differentiated Route 128 and Silicon Valley. Regardless, the macro versus micro conflict remains. Why will individual enterprises innovate if competitors are able to obtain their innovations? How can you deny someone the right to earn a living?

5. Relevancy to Texas. Texas is the center of knowledge for the world’s oil and gas industry. Houston and Dallas are commercial technology centers with oil and gas, and oil and gas service companies, packed together. Everything that a person needs to become an oil and gas company is readily available in Texas. On a macro level, the physical concentration in Texas of General Knowledge, Experience and Confidential knowledge creates a fertile environment for innovation, start-ups and the sharing of oil and gas knowledge. On a micro level this concentration creates the opportunity for less innovative companies to catch up with innovative companies. A less innovative company that can hire a team away from an innovative company can, in theory, eliminate competitive advantage. The team arrives with General Knowledge Experience and Confidential information. Assume that the hiring company pursues a course of action that is distinct from the prior employing company. If the team does no more than prevent the hiring company from pursuing paths that look attractive but hit a dead-end, based upon their experiences at their prior employer, is that use of Experience or Confidential information?

### C. What is a Trade Secret?

1. Definition. The Uniform Trade Secret Act defines “Trade Secret” as “information, including a formula, pattern, compilation, program, device, method, technique or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” Section 1(4).

2. Practical Rule of Thumb. Information that ceases to be secret is no longer a trade secret. The owner must treat the trade secret like a secret. The owner of a trade secret must use reasonable precautions to prevent the secret’s disclosure. Third parties are not required to treat information as secret unless the owner treats the information as secret. Treating information as secret includes limiting access to those with a need to know; requiring employees and contractors to sign confidentiality, invention disclosure and assignment agreements; requiring all viewers to be subject to confidentiality covenants; installing physical security systems; installing electronic information security systems and designing products to protect trade secrets when those products are examined.

3. What constitutes misappropriation of a trade secret? A misappropriated trade secret is one that is wrongfully acquired or that is misused after proper acquisition. Wrongfully acquired includes acquisition through theft, bribery, misrepresentation, breach of confidentiality duties, inducing the breach of confidentiality duties or espionage. Uniform Trade Secrets Act I(1). Misuse of a trade secret means a knowing unauthorized use. The user must know that a trade secret is involved and that the owner has not authorized the use. The use of “Confidential and Proprietary Property of XXXX” legends and notices on trade secret documentation will reduce the possibility that unauthorized use is without knowledge.

4. Inevitable Disclosure. The struggle between protecting employee mobility and protecting trade secrets took on new dimensions in 1995 with PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7<sup>th</sup> Cir. 1995). In PepsiCo the court enjoined an executive of PepsiCo from going to work for a competing beverage division of Quaker Oats on the grounds that the executive would inevitably use PepsiCo trade secrets in discharging his responsibilities at Quaker Oats. This doctrine is called “inevitable disclosure”. The elements of inevitable disclosure are (i) the existence of trade secrets, (ii) to which the employee had access, (iii) the trade secrets will be useful in the employee’s discharge of his new duties at a competitor and (iv) the employee will inevitably use the former employer’s trade secrets for the competitor’s benefit.

Executive swore that he would not use PepsiCo’s Confidential information and instead would use only his Experience. Quaker Oats relied upon the Quaker Oats policy against using the Confidential information of a third party. Quaker Oats also relied upon timing. Executive would be implementing pre-existing Quaker Oats Confidential plans developed prior to Executive’s arrival.

The PepsiCo court accepted PepsiCo’s arguments. The court appears to have used the two following elements of analysis in reaching this decision: (i) Executive will be unable to compartmentalize Experience and Confidential information and will inevitably use PepsiCo’s Confidential information to benefit a competitor; and (ii) due to a lie told PepsiCo by Executive about whether he had accepted an offer with Quaker Oats, Executive would not honor a promise to not use PepsiCo’s Confidential information.

Numerous lawsuits copying PepsiCo’s position have followed, including several in the oil and gas industry. Unocal’s raid on Shell’s deepwater group is perhaps the best known example of an energy industry inevitable disclosure lawsuit.

5. Different jurisdictions, different results. Registered intellectual property is governed by federal law. Trade secrets are intellectual property governed by state law. That means that there are fifty plus different systems of trade secret law at work today in the United States.

There is the Uniform Trade Secrets Act, a codification of trade secret law that has been adopted by over forty of the states. However, not all states have enacted the Uniform Trade Secrets Act. Also, there are fifty plus independent judicial systems deciding trade secret cases. The decisions of these independent

judicial systems are not binding precedent in any other jurisdiction. As shown by PepsiCo, the facts of trade secret cases drive the results. This also leads to inconsistent results when trade secret law is applied.

E. The Easy Case - Theft and Espionage.

The American Society for Industrial Security Industrial reported a 323% increase in reported incidents of trade secret thefts over a four year period. H.R. Rep. No. 104-788 at p. 5 and 6 (1996). Congress responded to this concern over intellectual property piracy by passing the Economic Espionage Act of 1996 ("Espionage Act"). The Espionage Act makes certain trade secret thefts federal felonies. The Espionage Act is focused upon corrupt employees and foreign agents, the easy factual cases.

D. Is Knowledge Experience or Confidential?

1. Perspectives. When a professional moves from one energy company to a competitor there are very predictable positions that will be asserted.

a. The former employer will assert the position that the professional is selling the former employer's Confidential knowledge to the new employer;

b. The new employer will assert the position that the professional is being hired for Experience and will work exclusively with the new employer's Confidential knowledge; and

c. The professional will assert the position that the professional will only use Experience and General Knowledge and will never use the former employer's Confidential knowledge; and

d. The professional will note that much of what former employer considers Confidential is actually General Knowledge and Experience.

2. Acid Test: does each party's action match its verbal position? Trade secret dispute resolution will turn on facts. Does a party's action match its verbal position?

a. Does the former employer protect the trade secrets?

b. Does how long the former employer asks that the new employer not hire the professional match how long the trade secrets will remain Confidential?

c. Does the former employer offer to compensate the professional for the length of the period the former employer asks that the new employer not hire the professional?

d. Did the professional create or have access to the trade secrets?

e. Did the professional download or otherwise copy the trade secrets immediately prior to departure?

f. Is the former employer willing for the professional to be employed by the new employer in a capacity unrelated to the trade secrets?

g. Is the new employer willing to allow reliable inspectors access to the professional's work?

h. Is the professional willing to allow reliable inspectors access to the professional's work?

i. Is the compensation package offered to the professional by the new employer in-line with industry standards or so large as to indicate the purchase of trade secrets?

j. Has the new employer offered jobs to a discrete group of individuals at the former employer that worked with the professional?

k. Is the former employer willing to identify the specific points of concern?

l. Are the professional and new employer willing to institute safeguards to address the former employer's specific points of concern?

m. Did the former employer lay-off professional or did professional resign?

n. Are there documented incidents involving a lack of integrity on the part of the professional, the new employer or the former employer?

o. What statements have been made by the professional, the new employer and the former employer about the dispute?

3. Hypothetical Case. Attached is a hypothetical petition and response for litigating inevitable disclosure in the oil and gas industry.