

**TRADE SECRETS IN KENYA: A CURIOUS CASE OF COMPULSORY  
ACQUISITION IN KENYA'S TOBACCO INDUSTRY**

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## DECLARATION

I, **ARITA STEPHANIE KEMUNTO**, do hereby declare that this research is my original work and that to the best of my knowledge and belief, it has not been previously, in its entirety or in part, been submitted to any other university for a degree or diploma. Other works cited or referred to are accordingly acknowledged.

Signed: .....

Date: .....

This dissertation has been submitted for examination with my approval as University Supervisor.

Signed: .....

Patricia Achieng Ouma

## **ABSTRACT**

This research paper endeavours to establish that trade secrets are ‘property’ under the auspices of Article 40 of the Constitution of Kenya, 2010, whose public disclosure without compensation amounts to unlawful and unconstitutional compulsory acquisition and thus challenge the constitutionality of the Tobacco Control Regulations, 2014. State powers of compulsory acquisition must be carried out on a balance of rights. Hence, the power is subject to limitation in that the deprivation of property must be for a public purpose and compensation must be paid to the person to whom property is deprived. The Constitution classifies intellectual property as ‘property’ and several types of intellectual property are recognised under Kenya’s property law regime with the exception of trade secrets, which are protected under English common law as confidential information.

This paper examines whether trade secrets have a place in the Kenyan property regime and delves into a discussion on their compulsory acquisition. The paper, then, analyses the determination in *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* [2016] eKLR on the constitutionality of the Tobacco Control Regulations, and thereafter, conducts a comparative study into the treatment of trade secrets in the tobacco industry in Kenya vis-à-vis in the United States of America. In conclusion, trade secrets are indeed property rights and the Tobacco Control Regulations are unconstitutional to the extent that they mandate the public disclosure of tobacco trade secrets without compensation to tobacco companies. To this end, Regulation 42 should be declared void and State agencies should be mandated to maintain the secrecy of trade secrets disclosed to them pursuant to Regulation 12.

## **LIST OF ABBREVIATIONS**

TRIPS            Agreement on Trade-Related Aspects of Intellectual Property Rights.

## LIST OF CASES

### ***Kenya:***

*British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* (2016) eKLR.

*British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 2 others* (2015) eKLR.

*British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR.

*Hoswell Mbugua Njuguna T/A Fischer and Fischer Marketing Concepts v Equity Bank Limited & another* (2017) eKLR.

*Kilimani Junior Academy Limited v S M Nzioki T/A Nzioki Tax Consultants* (2012) eKLR.

### ***The United Kingdom:***

*Coco v AN Clark (Engineers) Ltd* (1968), Chancery Division of the High Court of the United Kingdom.

### ***The United States of America:***

*Computer Associates International, Inc v Altai, Inc* (1992) The Second Circuit Court of Appeals of the United States.

*Philip Morris Incorporated v Reilly* (2002), The First Circuit Court of Appeals of the United States.

## **LIST OF LEGAL INSTRUMENTS**

### ***International Instruments:***

*Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C, Marrakesh Agreement, 15 April 1994, 1869 UNTS 299.*

*Directive 2014/40/EU on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC.*

*WHO Framework Convention on Tobacco Control, 21 May 2003, 2302 UNTS 166.*

### ***Legislations and Acts of Parliament:***

#### **Kenya:**

*Constitution of Kenya (2010).*

*Copyright Act (Act No. 12 of 2001).*

*Judicature Act (Act No. 16 of 1967).*

*Tobacco Control Act (Act No. 4 of 2007).*

*Tobacco Control Regulations (2014).*

#### **The United States of America:**

*Family Smoking Prevention and Tobacco Control Act 5 USC.*

# **CHAPTER ONE: INTRODUCTION**

## **1.1. INTRODUCTION**

The exercise of powers of eminent domain must be carried out on a balance of rights hence property can only be deprived if the reason for such deprivation is in the interest of the public, and if the person deprived of their property is compensated. The Tobacco Control Regulations of 2014 mandated certain disclosures to be made by tobacco companies, which the companies argued were violations of their intellectual property rights. This chapter will set the stage for the research paper's discussion on the compulsory acquisition of trade secrets.

## **1.2. BACKGROUND**

Trade secrets are a form of intellectual property rights provided for under the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement"), which Kenya has ratified. TRIPS serves as a basis for the recognition of trade secrets as intellectual property by providing for the protection of 'undisclosed information' and mandating members to protect such information in the course of ensuring effective protection against unfair competition.<sup>1</sup> The Constitution of Kenya defines 'property' as including any right to, or interest in or arising from intellectual property.<sup>2</sup> It is curious, then, that Kenya's property regime remains silent on trade secrets.

There exists no legislation governing trade secrets, unlike patents or copyright, which are governed by the Industrial Property Act and the Copyright Act respectively. Neither can there be found in any law any comprehensive, conclusive and exhaustive list enumerating the specific legal protection regimes falling under 'intellectual property' in Kenya. Thus, the question of whether trade secrets fall under the ambits of intellectual property in Kenya is seemingly left unanswered.

In *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others*, the High Court upheld the constitutionality of the disclosure requirements of the

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<sup>1</sup> Article 39 (1), *Agreement on Trade-Related Aspects of Intellectual Property Rights*, Annex 1C, Marrakesh Agreement, 15 April 1994, 1869 UNTS 299.

<sup>2</sup> Article 260, *Constitution of Kenya* (2010).

Tobacco Control Regulations of 2014, observing that such requirements and disclosure to health authorities outweighed the Petitioner's intellectual property rights in the ingredients of their tobacco products.<sup>3</sup> The Court thus effectively stated that acquisition of a trade secret by the State is permitted in the interest of public health, which is a reasonable conclusion as property is not included in the list of rights and fundamental freedoms that may not be limited.<sup>4</sup>

Disclosure of trade secret information to an administrative agency does not in itself destroy the trade secret holder's right or interest in the property.<sup>5</sup> It is therefore unsurprising that the Court in *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* found that there was no violation of the Petitioner's intellectual property rights while determining the constitutionality of the disclosure requirements of Regulations 12 of the Tobacco Control Regulations, which require the Petitioner to disclose information on the ingredients of their tobacco products to the Cabinet Secretary.

The Court, however, did not apply itself to the determination of the constitutionality of Regulation 42, which states that,

*The Cabinet Secretary shall ensure that all information, reports and documents related to the implementation of the Act are accessible to the public.*<sup>6</sup>

Among the information required to be made available to the public is information on product ingredients, disclosed pursuant to Regulation 12, which may contain manufacturer's trade secrets. Trade secrets derive their value from their secrecy thus their public disclosure is tantamount to deprivation. This provision, coupled with the absence of any statutory requirement for state agencies to protect trade secrets disclosed to them, effectively destroys any trade secret interest held in such product information. The deprivation of trade secret interests in the tobacco industry is deemed justifiable as it is done for public health reasons. This is akin to the concept of compulsory acquisition where property is subject to lawful deprivation by the State if the deprivation is for a public purpose or in the public interest.<sup>7</sup>

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<sup>3</sup> *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* (2016) eKLR.

<sup>4</sup> Article 25, *Constitution of Kenya* (2010).

<sup>5</sup> Young R, 'Constitutional limitations on government disclosure of private trade secret information' 56 *Indiana Law Journal* 2, 1980, 347.

<sup>6</sup> Regulation 42, *Tobacco Control Regulations* (2014).

<sup>7</sup> Article 40 (3) (b), *Constitution of Kenya* (2010).

However, one of the conditions imposed in the exercise of the power of compulsory acquisition by the State is that the government had to pay just compensation for the taking of property.<sup>8</sup> Owing to the absence of legislation on trade secrets and the scarcity of case law on the same, no such framework exists in Kenya as regards trade secrets. This allows for the deprivation of property without compensation.

### **1.3. STATEMENT OF PROBLEM**

The lack of a legal framework recognising trade secrets as intellectual property and not merely confidential information leaves room for the infringement and violation of proprietary interest in trade secrets in instances where government treatment of trade secrets is not clearly defined. The Tobacco Control Regulations deprive tobacco companies of their intellectual property, specifically under Regulation 42. Compensation by the government in instances of compulsory acquisition has long been held to be an important condition when government exercises its eminent domain powers. Disclosure of trade secrets by the government to the public constitutes compulsory acquisition and thus tobacco companies have a right to claim compensation. Despite the perceived moral repugnance towards tobacco companies, permitting such a situation where one can be deprived of property by the government without compensation is an infringement of property rights.

### **1.4. STATEMENT OF OBJECTIVES**

The specific objectives of the study are:

1. To establish that trade secrets are indeed “property” falling under Article 40 on compulsory acquisition.
2. To establish that there exist trade secrets in the tobacco industry which protect proprietary interest in the ingredients of tobacco products.
3. To establish that the Tobacco Control Regulations of 2014 effect an unlawful compulsory acquisition of trade secrets in the tobacco industry and are therefore unconstitutional.

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<sup>8</sup> Kariuki F, Ouma S and Ng’etich R, *Property Law*, Strathmore University Press, Nairobi, 2016, 135.

## **1.5. HYPOTHESIS**

This study is premised on the presumption that there exists no legal framework in Kenya for the treatment of trade secrets as intellectual property for the purposes of compulsory acquisition thus leading to violations of property rights by the State, with a focus on property rights violations in the tobacco industry.

## **1.6. RESEARCH QUESTIONS**

The study seeks to answer the following questions:

1. Do trade secrets fall under intellectual property capable of conferring proprietary interest and thus capable of being appropriated through compulsory acquisition?
2. Are there trade secrets in the tobacco industry?
3. Are the Tobacco Control Regulations of 2014 unconstitutional?

## **1.7. JUSTIFICATION OF THE STUDY**

There exists a clear grey area in Kenya's legal framework as regards the place of trade secrets. The study aims to fill the gap by positing a construction of trade secrets as conferring proprietary interests capable of being appropriated by the government in the course of the exercise of its powers of eminent domain and highlight the violations of trade secret interests by the government, specifically in the tobacco industry, as a result of the silence in the legal framework. By examining the inadequacies in law, the study is able to provide recommendations to address the gap.

## **1.8. ASSUMPTIONS**

The study assumes that the disclosure of the information, reports and documents referred to under Regulation 42 of the Tobacco Control Regulations would lead to the disclosure of trade secrets in the tobacco industry and that such disclosure would in turn result in economic loss.

## 1.9. LIMITATIONS

The first limitation of the research topic is the scarcity of information on trade secrets within the Kenyan legal framework. This makes it difficult to establish the manner in which trade secrets in the tobacco industry should be treated. This is mitigated by conducting a comparative analysis into the treatment of trade secrets in tobacco in other jurisdictions.

The second limitation of the study is that there exists no settled method of valuation of trade secrets thus the question on the valuation of compensation shall not be discussed in this paper as such economic analysis falls outside the breadth and scope of this paper.

The third limitation of the study is the demands of the study itself as the study shall require time and effort in order to adequately answer the research questions. This shall be mitigated by proper planning and time management.

## 1.10. DEFINITION OF TERMS

**Compulsory acquisition:** The deprivation of a person's property of any description, or of any interest in, or right over, property of any description, when the deprivation is for a public purpose or in the public interest and is carried out in accordance with this Constitution and any Act of Parliament that requires prompt payment in full, of just compensation to the person and allows any person who has an interest in, or right over, that property a right of access to a court of law.<sup>9</sup>

**Intellectual property:** Creations of the mind.

**Trade secrets:** Secret information that gives one a competitive advantage and is subject to measures aimed at maintaining its secrecy.

## 1.11. OUTLINE OF THE PAPER AND ITS FLOW OF ARGUMENTS

This paper shall seek to establish whether trade secrets fall under the classification of intellectual property and whether they can then be compulsorily acquired by the government as well as critique the non-recognition of trade secrets as property rights. It will then seek to

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<sup>9</sup> Article 40 (3) (b), *Constitution of Kenya* (2010).

establish whether there exist trade secrets in the tobacco industry and undertake a comparative analysis of the treatment of trade secrets in the tobacco industry in Kenya as seen in *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* and its subsequent appeals versus their treatment in the United States of America. Lastly, the paper shall make a case challenging the constitutionality of the Tobacco Control Regulations of 2014 and make recommendations to address the statute's shortcomings.

#### **1.12. SUMMARY OF OVERALL RESULTS**

In several jurisdictions, trade secrets are considered intellectual property capable of being seized by the government in exercise of its powers of compulsory acquisition. Disclosure to regulatory authorities has been found to be justified and not seen as deprivation. However, disclosure to the public has been deemed to constitute deprivation of the intellectual property rights of the holder.

#### **1.13. SUMMARY OF OVERALL CONCLUSIONS**

The Court in *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* erred by failing to apply itself to the determination of whether Regulation 42 which allows for disclosure to the public was a deprivation of the petitioner's intellectual property rights.

#### **1.14. CHAPTER SUMMARY**

In *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others*, the Court found the disclosure of trade secret information to government regulators and to the public to be lawful and not a limitation of the petitioner's property rights.

This is problematic however because a keen construction of trade secrets as intellectual property and the nature of disclosure as pertains to trade secrets vis-à-vis the normative understanding of deprivation of property discloses that there is indeed a violation of property rights that has occurred.

## **CHAPTER 2: THEORETICAL FRAMEWORK AND RESEARCH**

### **METHODOLOGY**

#### **2.1. INTRODUCTION**

This chapter will set out the theoretical framework underpinning this research paper and the research methodology used. The theories discussed below form the foundation upon which this paper is based. The research methodology explains the manner in which this research was conducted.

#### **2.2. THEORETICAL FRAMEWORK**

##### **2.2.1. The Social Contract Theory**

Thomas Hobbes theorised that nature made man so equal in physical and mental faculties that whatever differences there were between men was not so great as to warrant him having an unfair advantage over other men.<sup>10</sup> This equality resulted in equal hopefulness of attaining one's aims, thus, enmity would ensue between persons who desired the same thing as they endeavoured to annihilate each other to achieve their desires.<sup>11</sup> Man thus lived in a state of nature in which violence was used for one's own gain.<sup>12</sup> Each man was an enemy to every man.<sup>13</sup>

Consequently, man needed to seek peace and agree to cede his rights for another's enjoyment, if he were ever to survive.<sup>14</sup> This was only possible if other men also agreed to cede their rights, otherwise there would be no reason for any man to divest himself of his rights.<sup>15</sup>

Jean-Jacques Rousseau famously stated that, "*Man is born free, and everywhere he is in chains*", as he pondered how government came to be in existence.<sup>16</sup> He concurred with Hobbes that in the beginning, man lived in a state of nature where each person cared only

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<sup>10</sup> Hobbes T, *Leviathan*, Bennett J, 2017, 56 – <https://www.earlymoderntexts.com/assets/pdfs/hobbes1651part1.pdf> on 11 February 2019.

<sup>11</sup> Hobbes, *Leviathan*, 56-57.

<sup>12</sup> Hobbes, *Leviathan*, 57.

<sup>13</sup> Hobbes, *Leviathan*, 57.

<sup>14</sup> Hobbes, *Leviathan*, 60.

<sup>15</sup> Hobbes, *Leviathan*, 60.

<sup>16</sup> Rousseau J, *The Social Contract*, Bennett J, 2017, 1 – <https://www.earlymoderntexts.com/assets/pdfs/rousseau1762.pdf> on 11 February 2019.

for his own preservation and was his own master.<sup>17</sup> Thus, a social contract was needed where,

*Each of us puts his person and all his power in common under the supreme direction of the general will, and, in our corporate capacity, we receive each member as an indivisible part of the whole.*<sup>18</sup>

The social contract theory is critical to the understanding of the concept of compulsory acquisition as it postulates that the government is in existence for the primary purpose of protecting and guaranteeing people's rights. The protection and guaranteeing of rights are essential elements of compulsory acquisition and serve as a justification of the exercise of such state powers on the basis that the state is the protector of the public interest and enforcer of property rights.<sup>19</sup>

It may be argued that the consumer right to information can also be justified by the social contract theory, however, the ethos of the social contract theory is the obligation of the State to balance between its two mandates, that is, defending and guarding public interest and enforcing and protecting property rights. Thus, even a claim for disclosure of information under consumer protection would have to be measured and weighed against the other right that it would so infringe (in this case, the right to property). As has been observed in [Chapter Three](#), there does not exist any demonstrable benefit to the public disclosure of trade secret information so as to justify the infringement of the right to property.

### **2.2.2. The Labour Theory of Property vis-à-vis The Legal Theory**

Aristotle observed in *'Politics'* that property is derived from nature itself.<sup>20</sup> He postulated that, as a basic rule, property should be held privately as more development is likely to take place when each person has an individual interest in the property as compared to a situation in which property is held in common.<sup>21</sup>

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<sup>17</sup> Rousseau, *The Social Contract*, 2.

<sup>18</sup> Rousseau, *The Social Contract*, 7.

<sup>19</sup> Kariuki *et al*, *Property Law*, 135.

<sup>20</sup> Aristotle, *Politics*, Batoche Books, Kitchener, 1999, 13.

<sup>21</sup> Aristotle, *Politics*, 27.

John Locke, the main proponent of the labour theory, concurred with Aristotle and further theorised that the chief purpose of men putting themselves under the rule of a government was for the preservation of their property.<sup>22</sup> Locke advanced that every man has property in his own person, including the labour of his body, work of his hands and the fruits thereof.<sup>23</sup> Thus, when he appropriates something from the state of nature and applies his labour onto the thing, it becomes his.<sup>24</sup>

Additionally, taking the thing thus becomes part of one's property and taking it would require one's consent.<sup>25</sup> Any property which can be taken from someone without prior consent cannot be said to have ever been his property at all.<sup>26</sup>

This theory of property is relevant to the concept of the compulsory acquisition of trade secrets because it propounds that the ownership of property is a natural right to which man is entitled upon exercise of his labour and thus, by virtue of owning the property, such property should only be taken from him if he has consented to such taking.

While it may be argued that companies are not natural entities and that trade secrets and other intellectual property rights do not occur in nature, it is an inescapable fact that corporations are constituted by human persons, who are the prime actors involved in the expending of labour in the research and development of trade secrets. Furthermore, the argument that intellectual property does not occur in nature is inconsequential as the crux of Locke's theory is that one should be entitled to that which he has expended his labour on. In addition, that which occurs in nature should not be limited to that which is available in man's most primitive state as several technological advancements are recognized as being 'property,' despite them not being naturally occurring things (a motor vehicle, for example).

On the opposite end of the divide is the legal theory of property, which, unlike the natural rights and labour theories, makes no mention of property as coming from nature or Deity. It is a positivistic theory that grounds the definition of property in what the law defines

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<sup>22</sup> Locke J, *Second Treatise of Government*, Hafner Publishing, New York, 1690, para. 124.

<sup>23</sup> Locke, *Second Treatise of Government*, para. 27.

<sup>24</sup> Locke, *Second Treatise of Government*, para. 27.

<sup>25</sup> Tully J, *A Discourse on Property: John Locke and his Adversaries*, Cambridge University Press, Cambridge, 1980, 115.

<sup>26</sup> Tully, *A Discourse on Property*, 115.

property as.<sup>27</sup> Jeremy Bentham, a main proponent of the positivist school of thought, stated that,

*Property and law are born and must die together. Before the laws, there was no property: take away the laws, all property ceases.*<sup>28</sup>

Law creates a sense of security which enables one to obtain a thing and retain it as something belonging to him and where there is an absence of such framework, there is no sense of security.<sup>29</sup> The Constitution states that ‘property’ includes intellectual property.<sup>30</sup> However, as already stated, the law does not enumerate an exhaustive list detailing what constitutes ‘intellectual property’ and trade secrets do not have a legal framework of their own under intellectual property.

While proponents of the legal theory of property might suppose that the absence of a property framework simply means that trade secrets are not property, a coherent reading of Kenyan law, as this paper will later show, discloses that there is room to adopt a legally founded property conceptualization of trade secrets.

In summation, a property theory of trade secrets cannot be said to squarely fall within either the labour theory or the legal theory as both theories justify a property conceptualisation to varying degrees.

### **2.2.3. Utilitarian and Economic Theories of Property**

The utilitarian theory of property espouses that property exists so as to optimise the happiness and utility of all persons in terms of achieving wider socioeconomic goals.<sup>31</sup> Developments in the utilitarian theory of property has led to wealth being understood as a proxy for welfare or utility thus the theory has evolved to be understood as the modelling of

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<sup>27</sup> Kariuki *et al*, *Property Law*, 36.

<sup>28</sup> Bentham J, *Principles of the Civil Code* in Bowring J, *The Works of Jeremy Bentham*, William Tait, Edinburgh, 1843, 557 – [http://files.libertyfund.org/files/2009/Bentham\\_0872-01\\_EBk\\_v6.0.pdf](http://files.libertyfund.org/files/2009/Bentham_0872-01_EBk_v6.0.pdf) on 11 February 2019.

<sup>29</sup> Kariuki *et al*, *Property Law*, 36.

<sup>30</sup> Article 260, *Constitution of Kenya* (2010).

<sup>31</sup> Kariuki *et al*, *Property Law*, 39-40.

property institutions so as to maximise the net wealth of society.<sup>32</sup> The recognition of property rights by society produces benefits to the society at large.<sup>33</sup>

A utilitarian discussion on property rights naturally lends itself to a discussion on the economic theory of property. The economic theory of property applies economic principles to the utilitarianism theory and posits that property exists as a means to an end, with the end being monetary gain and not the abstract concept of happiness or utility as espoused by the utilitarian theory.<sup>34</sup>

Richard Posner, a contemporary theorist on the economic analysis of laws, defined property as “rights to the exclusive use of valuable resources”.<sup>35</sup> Efficient allocation of a resource thus occurs when the resource is allocated to the person who is willing to pay for it, which can only take place in free markets.<sup>36</sup> According to the economic theory of property, the purpose of law is to foster voluntary transactions by allowing persons to agree to terms of transactions and not to impose terms of transactions, unless bargaining is impossible.<sup>37</sup>

Where the benefit to be incurred from the property outweighs the transaction cost, there is still an incentive to acquire the property. Conversely, transactions are hampered where the gain to be expected from the disposal of property is lower than the transaction costs and thus trade secret licensing has high transaction costs because of the risk that the secret may be inadvertently revealed during the licensing negotiations.<sup>38</sup> As will be explained by this paper, a property conceptualization of trade secrets mitigates this risk and encourages innovation and information-sharing.

In addition, the disclosure of trade secrets impedes its transfer for economic gain as the benefit to be obtained from the trade secret is negated by its disclosure and thus there is no incentive to acquire the trade secrets. This violates the interests of the holder of the intellectual property in the trade secrets.

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<sup>32</sup> Alexander GS and Peñalver EM, *An Introduction to Property Theory*, Cambridge University Press, New York, 2012, 17.

<sup>33</sup> Kariuki *et al*, *Property Law*, 40.

<sup>34</sup> Kariuki *et al*, *Property Law*, 40.

<sup>35</sup> Posner R, *Economic Analysis of Law*, Aspen Publishers, New York, 2003, 31.

<sup>36</sup> Kariuki *et al*, *Property Law*, 41.

<sup>37</sup> Cooter R and Ulen T, *Law and Economics*, Addison-Wesley, Boston, 2012, 81.

<sup>38</sup> Posner R, ‘Intellectual property: The law and economics approach’ 19 *Journal of Economic Perspectives* 2, 2005, 68.

#### **2.2.4. A Unified Value Theory of Property**

Abraham Bell and Gideon Parchomovsky posit a unified value theory of property by drawing from natural rights, legal and utilitarian theories of property. The unified value theory propounds that a property system with stable rights increases the value of assets to users and decreases the cost of obtaining and defending those assets.<sup>39</sup>

The theory further postulates that only tangible and intangible things that are capable of being protected by *in rem* rights may be called ‘property.’<sup>40</sup> To establish whether intangible things are property, a ‘taking test’ is applied, in which an intangible thing is classified as property if its taking would confer value on the taker and decrease its value to the ‘takee.’<sup>41</sup>

This theory is relevant to the study as it advances the argument that trade secrets are property. This is because the taking of a trade secret would confer value on whomever takes it while simultaneously decreasing its value to the original holder.

### **2.3. METHODOLOGY**

This research paper is a descriptive study to establish whether Regulation 42 of the Tobacco Control Regulations effects an unlawful compulsory acquisition of trade secrets in the tobacco industry. The methodology used in the paper is desktop research through investigating primary sources such as the Constitution, international instruments, statute and judicial decisions, as well as secondary sources such as books, chapters in books, academic journals, online resources, postgraduate and working papers and case and comparative studies. The choice of methodology facilitates a study into the property theory of trade secrets and their compulsory acquisition as well as the trade secrets in the tobacco industry.

### **2.4. CONCLUSION**

In conclusion, this chapter establishes the theoretical framework upon which this paper is built. The social contract theory establishes that the State must balance its roles as the custodian of human rights and protector of property. Thus, the least restrictive method which

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<sup>39</sup> Bell A and Parchomovsky G, ‘A theory of property’ 90 *Cornell Law Review* 3, 2005, 552.

<sup>40</sup> Bell and Parchomovsky, ‘A theory of property’, 579.

<sup>41</sup> Bell and Parchomovsky, ‘A theory of property’, 583.

protects both human rights and property is the method that should be used. Public disclosure of trade secrets is not the least restrictive method available, as this paper will demonstrate.

The natural rights and labour theories propound that one is entitled to that which he has expended labour on. Trade secrets are developed as a result of investment into research and development, which is an act of expending of labour.

A legal theory of property posits that property is that which is deemed property by law. This paper posits that the Kenyan legal framework allows for a property conceptualisation of trade secrets.

Utilitarian and economic theories postulate that property should be allocated in a manner that achieves the greatest utility or monetary gain. Disclosure of trade secrets waters down the utility or monetary gain that can be obtained from them because their value lies in their exclusive and secret use.

The unified value theory propounds that in rem intangible property is that whose taking confers a benefit on the taker and results in a loss to the takee. The use of a trade secret allocates benefits to the person who uses it while concurrently diluting the benefits obtained by preceding users therefore trade secrets should be accorded treatment as in rem property rights.

This chapter also provides the research methodology used in writing this paper, which is desktop research using both primary and secondary sources as well as a case study and a comparative analysis.

## **CHAPTER 3: LITERATURE REVIEW**

### **3.1. INTRODUCTION**

This chapter will conduct a review of existing literature on the subject of compulsory acquisition of trade secrets and analyse the literature's significance to this paper as well as the shortcomings that this paper intends to remedy.

### **3.2. COMPULSORY ACQUISITION AND THE RIGHT TO PROPERTY**

According to Locke, the right to own property originated as a natural right even before the coming of laws where the application of labour by a person onto a thing effectively appropriated that thing into his private property thus making the thing his.<sup>42</sup>

So important is the right to property that it nearly holds the status of an absolute right, with the exception of two conditions, which are: that the use of one's property should not hinder his/her neighbour's enjoyment of their property; and that the needs of the sovereign shall outweigh private property rights when such property is needed in the interest of the public or for a public purpose.<sup>43</sup>

The second condition is codified in law as the state power of compulsory acquisition for a public purpose or in the interest of the public, provided there is prompt payment in full, of just compensation.<sup>44</sup> Furthermore, Calabresi and Melamed posit that property is protected by liability rules where it may be deprived of the original holder of the property without their consent, provided that the new holder is willing to pay an objectively determined value for it.<sup>45</sup>

Pursuant to the Constitution, the subject of compulsory acquisition is 'property,' which entails intellectual property.<sup>46</sup> Despite the right to property being subject to lawful limitation, the denial of compensation for the deprivation of property by the state would constitute

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<sup>42</sup> Bonaya AG, 'Compulsory acquisition and the right to property: the gaps in the legal framework, practices and possible solutions' Published LLB Thesis, Strathmore University Law School, 2018, 13.

<sup>43</sup> Kariuki *et al*, *Property Law*, 134.

<sup>44</sup> Article 40 (3), *Constitution of Kenya* (2010).

<sup>45</sup> Calabresi G and Melamed D, 'Property rules, liability rules and inalienability: one view of the cathedral' 85 *Harvard Law Review* 6, 1972, 1092.

<sup>46</sup> Article 40 (3) and Article 260, *Constitution of Kenya* (2010).

unlawful exercise of the state's power of eminent domain. Without the limitations posed to the exercise of compulsory acquisition, such acquisition cannot be justified.<sup>47</sup>

However, Kenyan jurisprudence on the compulsory acquisition of trade secrets and the place of trade secrets in Kenya's property regime is lacking. This paper aims to fill this lacuna through conducting a study into the property nature of trade secrets and argues that mandatory public disclosure of trade secrets amounts to compulsory acquisition, for which tobacco companies are entitled to compensation.

### **3.3. TRADE SECRETS AS INTELLECTUAL PROPERTY CAPABLE OF BEING PROTECTED AND PUBLIC DISCLOSURE AS DEPRIVATION**

As already mentioned earlier, the law in Kenya is silent concerning the status of trade secrets as intellectual property and administers their protection using applicable principles of English common law. Trade secrets are generally used to protect information that is meant to be kept as a secret and which has economic value to the owner of the trade secret, or innovations that are unpatentable.

Trade secret misappropriation is an unlawful act, but the law permits the discovery of a trade secret through independent discovery, reverse engineering and actual or accidental disclosure of the trade secret by the holder.<sup>48</sup> However, the Kenyan legal framework is silent on the possibility of infringement of rights in trade secrets by the government through mandatory disclosure. This paper endeavours to remedy this silence.

### **3.4. THE DISCREPANCY IN THE RECOGNITION OF TRADE SECRETS AS INTELLECTUAL PROPERTY BUT NOT 'PROPERTY'**

While it is generally accepted that trade secrets fall within intellectual property, there is a glaring debate on whether trade secrets fall within the property law regime.<sup>49</sup> Kenya recognizes trade secrets as intellectual property through its ratification of TRIPS but does

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<sup>47</sup> Kariuki *et al*, *Property Law*, 135.

<sup>48</sup> Opati LM, 'Intellectual property rights in health-impact on access to drugs' in Wekesa M and Sihanya B (eds) *Intellectual property rights in Kenya*, Konrad Adenauer Stiftung, Nairobi, 2009, 18-19.

<sup>49</sup> Aplin TF, 'Confidential Information as Property?' The Dickson Poon School of Law, King's College London Dickson Poon School of Law Legal Studies Research Paper Series Paper Number 2014-20, 2014, 1 – [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2436983](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2436983) on 3 September 2019.

not recognize their proprietary nature, instead treating them as confidential information in English common law. The argument that confidential information should not be treated as property is founded on the claim that confidential information does not satisfy the characteristics of ‘property’ as propounded by Honore, and specifically the characteristics of permanence and stability, excludability, and exchange and alienation.<sup>50</sup>

However, this paper contends that trade secrets meet the criteria of in rem property and that the reasons given above do not deprive trade secrets of their proprietary nature, but instead are reasons why law should have a framework in place for their protection. Technological advancements have increased the ease of replication, transmission, modification and manipulation of intellectual property, including that of other more ‘stable’ forms of intellectual property such as copyright.<sup>51</sup> For example, e-books (which are still considered to be ‘property’ by virtue of being copyrightable work) are easily transferred and not easily excludable.

This paper argues that the fluidity of trade secrets can no longer be used as an adequate metric by which to compare them to other traditional intellectual property regimes and deprive them of their proprietary nature.

### **3.5. TRADE SECRETS IN THE TOBACCO INDUSTRY**

It is argued that tobacco companies do not possess trade secrets in the ingredients of their products because they routinely analyse each other’s ingredients in great detail, which means that the information is neither secret nor commercially viable.<sup>52</sup>

However, this paper argues that reverse engineering does not destroy the property rights in trade secrets, but merely acts akin to the fair dealing or independent creation exceptions in

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<sup>50</sup> Aplin TF, ‘Confidential Information as Property?’, 17.

<sup>51</sup> Samuelson P, ‘Digital Media and the Changing Face of Intellectual Property Law’ *Rutgers Computer & Tech Law Journal*, 1990, 324 - <https://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1245&context=facpubs> on 3 September 2019.

<sup>52</sup> Velicer C, Lempert LK and Glantz S, ‘Cigarette company trade secrets are not secret: An analysis of reverse engineering reports in internal tobacco industry documents released as a result of litigation’ 24 *Tobacco Control* 5, 2015, 469 — <https://tobaccocontrol.bmj.com/content/24/5/469.long> on 3 September 2019.

copyright law to preclude an action for intellectual property infringement.<sup>53</sup> In addition, the accuracy of results obtained through the reverse engineering of tobacco product ingredients is doubtful as the lighting and burning of tobacco products usually destroys or transforms its initial ingredients.<sup>54</sup>

### **3.6. TRADE SECRETS -VERSUS- RIGHT TO INFORMATION**

It is argued by some commentators that trade secret protection should not be invoked to protect information about adverse effects of products and activities that threaten public health.<sup>55</sup> Professor Julie Zink propounds that the precautionary principle should be applied to trade secrets such that corporations claiming trade secret protection should first prove that the product or process which is the subject matter of the trade secret protection so claimed will not cause harm, and only after adducing such evidence will corporations be able to receive trade secret protection for the product or process.<sup>56</sup> Corporations, therefore, must prove that their products and processes are safe in order to receive trade secret protection. Such a reconstruction of trade secret protection effectively acts as a paradigm shift modifying trade secret protection into a ‘guilty until proven innocent’ regime and reconceptualising property rights as ‘non-existent until vindicated.’

The precautionary principle cannot apply to tobacco products for the reason that tobacco in itself may be said to carry an inherent adverse health effect and thus trade secret protection sought by tobacco manufacturers and producers will always fall short of the requirements of the principle. The precautionary principle will have an egregious application in the regulation of tobacco products where it acts to forcibly mandate the disclosure of tobacco ingredient information. Tobacco products do not conceal their health implications and indeed tobacco product packaging carries health warnings ranging from addiction to lung cancer and even death. Consumers of tobacco products are thus given reasonable notice of the health implications of tobacco products. Furthermore, it is unclear how disclosure of

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<sup>53</sup> Epstein RA, ‘Trade secrets as private property: Their constitutional protection’ Coase-Sandor Institute for Law and Economics at the University of Chicago Law School, John M. Olin Program in Law and Economics Working Paper Number 190, 2003, 3-4 — [https://chicagounbound.uchicago.edu/law\\_and\\_economics/592/](https://chicagounbound.uchicago.edu/law_and_economics/592/) on 3 September 2019.

<sup>54</sup> Epstein RA, ‘Trade secrets as private property: Their constitutional protection,’ 17-18.

<sup>55</sup> Zink JE, ‘When trade secrecy goes too far: Public health and safety should trump corporate profits’ 20 *Vanderbilt Journal of Entertainment & Technology Law* 4, 2018, 1173.

<sup>56</sup> Zink JE, ‘When trade secrecy goes too far,’ 1177.

product ingredients will dissuade a tobacco product consumer from using a tobacco product where threat of lung cancer or death have failed to do the same.

Where tobacco consumers have been given reasonable notice of the effects of tobacco products and still choose to partake in their consumption, forcible disclosure of ingredients seems to serve government's moral responsibility more than consumer protection. However, moral objections cannot justify the deprivation of property because compulsory acquisition requires that such deprivation be in the interest of the public. There is no public interest served when it cannot be shown how disclosure of product ingredients would benefit users in a way in which stark health warnings visibly printed on tobacco product packaging do not. Furthermore, the technical ingredients used in tobacco product manufacturing would not be comprehensible to a large percentage of tobacco consumers. Moreover, the average tobacco consumer lacks the scientific and empirical knowledge to compare and contrast ingredients and their quantities so as to derive a 'safe option.'

Product ingredients are more helpful when disclosed to government health and regulatory authorities. Such disclosure does not infringe the trade secret interests held by tobacco manufacturers and producers. However, there is a clear infringement of the constitutionally protected right to property where trade secrets are disclosed to the public in a situation in which the public interest served cannot be ascertained and where, even if public interest can be proven, no compensation is given.

### **3.7. CONCLUSION**

This chapter reviews the available literature on the topic of compulsory acquisition of trade secrets and finds that this paper will add to the body of knowledge by endeavouring to answer the question of whether trade secrets are endowed with proprietary rights capable of being deprived through compulsory acquisition and relating its findings to the regulation of tobacco products. This chapter also engages in a discussion of the question of trade secrets vis-à-vis consumer rights of access to information.

## **CHAPTER 4: AN ANALYSIS OF THE PLACE OF TRADE SECRETS IN THE KENYAN LEGAL FRAMEWORK**

### **4.1. INTRODUCTION**

The place of trade secrets in Kenya is a convoluted, mangled wreck. Trade secrets in Kenya are often not administered under a property regime, unlike other intellectual property such as patents and copyright.

In order to assess whether trade secrets in the tobacco industry are accorded adequate protection in Kenya, it is imperative to begin by analysing the place of trade secrets generally in the current laws and regulations in the Kenyan legal regime.

This chapter shall thus establish and proffer a normative analysis on the place of trade secrets in the Kenyan legal framework. The question of whether there exist trade secrets in the tobacco industry and whether the Tobacco Control Regulations of 2014 violate such trade secrets shall be dealt with in the next chapter.

### **4.2. AN ANALYSIS OF THE PLACE OF TRADE SECRETS IN KENYA'S CURRENT LEGAL REGIME**

#### **4.2.1. The Constitution of Kenya**

The Constitution of Kenya of 2010 is definitively clear on the place of intellectual property in Kenya's property regime. Article 260 is the interpretative clause of the Constitution, dictating the meaning and interpretation of its text. The article provides as the definition of 'property' that,<sup>57</sup>

*“Property” includes any vested or contingent right to, or interest in or arising from—*

- (a) Land, or permanent fixtures on, or improvements to, land;*
- (b) Goods or personal property;*
- (c) **Intellectual property** (emphasis added); or*
- (d) Money, choses in action or negotiable instruments.*

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<sup>57</sup> Article 260, *Constitution of Kenya* (2010).

Evidently, the Constitution therefore envisages that intellectual property be administered under the property regime of Kenya. Consequently, a conjunctive reading of the Constitution through deductive reasoning lends itself to the conclusion that Article 40 on compulsory acquisition can be read to include intellectual property because of its use of the broad term ‘property,’ which, as discussed above, encompasses intellectual property.<sup>58</sup> The Article provides that:<sup>59</sup>

*The State shall not deprive a person of property of any description, or of any interest in, or right over, property of any description, unless the deprivation –*

- (a) Results from an acquisition of land or an interest in land or a conversion of an interest in land, or title to land, in accordance with Chapter Five; or*
- (b) Is for a public purpose or in the public interest and is carried out in accordance with this Constitution and any Act of Parliament that-*
  - (i) Requires prompt payment in full, of just compensation to the person; and*
  - (ii) Allows any person who has an interest in, or right over, that property a right of access to a court of law.*

The Constitution thus enables the State to deprive a person of property if the deprivation is for a public purpose or in the public interest; a power necessary in a democratic society and an expression of the role of the State as the custodian of human rights as expounded in the discussion on the Social Contract theory.<sup>60</sup> The State, despite having a right to deprive of property under certain circumstances, also has an obligation to support, promote and protect the intellectual property rights of the people of Kenya.<sup>61</sup>

Article 40 further renders an obligation on the State to ensure the fulfilment of a bipartite condition in any action taken by it in the exercise of its powers of eminent domain in accordance with the Constitution. The conditions are: firstly, that the State is obliged to adhere to any Act of Parliament obliging it to pay compensation to the person to whom property has been deprived; and secondly, that the State is obliged to adhere to any Act of Parliament that allows the person to whom property has been deprived to approach a court

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<sup>58</sup> Article 40 (3), *Constitution of Kenya* (2010).

<sup>59</sup> Article 40 (3), *Constitution of Kenya* (2010).

<sup>60</sup> See Chapter 2 of this dissertation.

<sup>61</sup> Article 40 (5), *Constitution of Kenya* (2010).

of law.<sup>62</sup> The rationale of this provision, in line with the mandate of the State as the primary protector and custodian of human rights, is to protect property owners and safeguard their property rights from arbitrary and unfair deprivation.

The eminent domain clause becomes significant in the discourse on trade secret protection – and for the purposes of this dissertation, trade secret protection in the tobacco industry in Kenya – by virtue of the promulgation of the Tobacco Control Regulations of 2014 and the subsequent finding by the Court in the *BAT Case*<sup>63</sup> that the Regulations (including Regulation 42 which mandates the Cabinet Secretary for Health to make all information, reports and documents related to the implementation of the Act available to the public)<sup>64</sup> do not violate the petitioner’s intellectual property rights and are necessary for public interest reasons.

Among the “information, reports and documents related to the implementation of the Act” is the requirement for manufacturers and importers of tobacco products to provide a list of all ingredients contained in the tobacco product and its components as well as the quantities of all such ingredients.<sup>65</sup> A United States First Circuit Court of Appeals observed in *Philip Morris Incorporated v Reilly* that there were trade secrets in the ingredient lists of tobacco companies.<sup>66</sup> The European Union also recognises trade secret protection for tobacco product constituents.<sup>67</sup> Kenyan judicial precedent on trade secrets and specifically trade secrets in the tobacco industry is insufficient as there has not been any determination on the trade secret status of tobacco product ingredients nor any determination on whether trade secrets are property capable of being acquired through compulsory acquisition, which are essential considerations when drafting tobacco regulation legislation.

Should trade secrets be found to be intellectual property of a nature capable of conferring proprietary interest, as willed by the Constitution, then the sanctioning by Regulation 42 of the public disclosure of documents which may contain trade secrets of tobacco companies

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<sup>62</sup> Article 40 (3) (b), *Constitution of Kenya* (2010).

<sup>63</sup> *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* (2016) eKLR.

<sup>64</sup> Regulation 42, *Tobacco Control Regulations* (2014).

<sup>65</sup> Regulation 12 (1) (a), *Tobacco Control Regulations* (2014).

<sup>66</sup> *Philip Morris Incorporated v Reilly* (2002), The First Circuit Court of Appeals of the United States.

<sup>67</sup> *Directive 2014/40/EU on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC* provides for tobacco constituents disclosures under Article 5 (1) and mandates the public disclosure of such constituents under Article 5 (4) but makes an exception for trade secrets.

would be tantamount to effective deprivation of property by virtue of the intrinsic secret nature of trade secrets. This deprivation by the government for a public purpose (that is, for reasons of public health), thus brings the matter directly under the doctrine of compulsory acquisition. It may be argued that manufacturers can still access and use the trade secret and thus it has not been compulsorily acquired but this argument is fundamentally flawed because the value in a trade secret is derived from the competitive advantage obtained from keeping it a secret.

The Constitution, however, does not in itself answer the question – *what exactly constitutes intellectual property and are trade secrets considered therein?* – as it does not provide a comprehensive list of the specific protection mechanisms falling under the auspices of intellectual property. Nevertheless, it is understandable (and desirable, even) that legislators cannot and should not codify each and every nuance into law as law should not be static but should be able to address the needs of the society at a given time. This argument is all the more compelling in matters of intellectual property on account of its dynamic nature and the changing definitions and mechanisms of intellectual property protection that arise as a result of advancement in technology. Stringent intellectual property laws may not be able to adequately protect the entire spectrum of intellectual property rights and address emergent forms of intellectual property protection.

Conversely, and quite paradoxically, this also means that there is a likelihood of intellectual property rights being infringed upon by virtue of the rights being insufficiently provided for in law, which is the quandary faced in trade secret protection in Kenya due to their insufficient consideration. Indeed, the non-recognition of trade secrets as a form of intellectual property to which the provisions of Article 40 apply goes against the rationale of the Constitution by allowing for arbitrary deprivation of intellectual property rights in trade secrets by the government.

The answer as to whether trade secrets are considered intellectual property in Kenya and capable of conferring proprietary interest, shall thus be sought in other sources of law. The Constitution prescribes that customary law, general rules of international law and any treaty or convention ratified by Kenya, shall form part of the law of Kenya to the extent that they are consistent with the Constitution.<sup>68</sup> In addition, the Judicature Act further provides that

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<sup>68</sup> Article 2, *Constitution of Kenya* (2010).

Acts of Parliament, common law, doctrines of equity and certain statutes of general application, shall form part of the law of Kenya.<sup>69</sup>

#### **4.2.2. International Instruments: The TRIPS Agreement**

Article 2 of the Constitution of Kenya provides that that any treaties or conventions ratified by Kenya form part of the laws of Kenya.<sup>70</sup> Kenya has ratified the TRIPS Agreement, which provides for the protection of ‘undisclosed information’ in Section 7 of Part II of the TRIPS Agreement.<sup>71</sup> Undisclosed information is regarded as ‘intellectual property’ according to the TRIPS Agreement.<sup>72</sup>

According to the TRIPS Agreement, any undisclosed information must have three essential elements. Firstly, the information should be secret such that it is not generally known or easily accessible.<sup>73</sup> Secondly, the information should have commercial value attached to it because it is secret.<sup>74</sup> Thirdly, there should have been reasonable steps taken to keep such information secret.<sup>75</sup> These elements are the same elements that characterize trade secrets, that is, secrecy, commercial value and steps to maintain secrecy.<sup>76</sup>

Natural persons and legal persons are both entitled to protect information that is lawfully within their control from being disclosed to, acquired by or used by others without their consent and in a manner that is contrary to honest commercial practise, that is, at the very least, in a manner which constitutes a breach of contract, a breach of confidence, inducement to breach or the acquisition by third parties who knew or ought to have known that one of the foregoing methods was employed to acquire the information.<sup>77</sup>

The TRIPS Agreement thus prevents the leaking of undisclosed information without the consent of the person(s) who exercise(s) control over such information, and in breach of a contractual obligation, a duty of confidence or by way of an inducement to breach. In

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<sup>69</sup> Section 3, *Judicature Act* (Act No. 16 of 1967).

<sup>70</sup> Article 2 (6), *Constitution of Kenya* (2010).

<sup>71</sup> Article 39, *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>72</sup> Article 1 (2), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>73</sup> Article 39 (2) (a), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>74</sup> Article 39 (2) (b), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>75</sup> Article 39 (2) (c), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>76</sup> <http://www.kenyalawresourcecenter.org/2011/07/trade-secrets.html> — on 25 September 2019.

<sup>77</sup> Article 39 (2), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

addition, the TRIPS Agreement does not set out any obligation for member states to assign property treatment to undisclosed information.<sup>78</sup>

The fact that the TRIPS Agreement does not oblige States to treat undisclosed information as property does not prohibit States from doing so as it merely grants States a margin of appreciation as to the treatment of trade secrets. This paper argues that the Kenyan legal framework should treat trade secrets as property for two reasons: firstly, because the protections afforded by the TRIPS Agreement are insufficient to deal with developing questions in law regarding trade secrets, specifically their forceful disclosure by the State; and secondly, because the Constitution of Kenya deems that all intellectual property is property.

Concerning the first reason, the causes of action provided for by the TRIPS Agreement are insufficient in the present case because they fail to address the possibility of State-sanctioned disclosure and/or misappropriation of trade secrets. The TRIPS Agreement entitles one to claim against a breach of a contractual obligation or breach of a duty of confidence. However, there exists neither a contractual obligation nor a duty of confidence mandating the protection of undisclosed information submitted to the government in accordance with the Tobacco Control Regulations because the statute itself creates a pre-emption of any such obligation or duty by necessitating public disclosure. Consequently, the protection afforded for trade secrets under the TRIPS Agreement is insufficient and inadequate to the extent that it does not envision trade secret infringement by the State.

The requirement under Regulation 42 of the Tobacco Control Regulations stipulating that all information submitted to state agencies in accordance with the Regulations be disclosed to the public essentially makes void any confidentiality agreement that would otherwise be entered into by tobacco companies and state agencies for the protection of undisclosed information containing their trade secrets. In addition, the public disclosure provision dispels any claim under the common law duty of confidence as such a claim requires the injured party to prove that the information was given in circumstances importing an obligation of confidence, as held in *Coco v AN Clark*<sup>79</sup> and upheld in *Kilimani Junior Academy Limited v S M Nzioki T/A Nzioki Tax Consultants*.<sup>80</sup> On this account, one cannot sustain a claim against

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<sup>78</sup> [https://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) — on 25 September 2019.

<sup>79</sup> *Coco v AN Clark (Engineers) Ltd* (1968), Chancery Division of the High Court of the United Kingdom.

<sup>80</sup> *Kilimani Junior Academy Limited v S M Nzioki T/A Nzioki Tax Consultants* (2012) eKLR.

a breach of a duty of confidence because such a claim would require one to prove that their information was given out in a manner in which a duty of confidence was obliged. However, a duty of confidence to protect trade secrets cannot be obliged when there exists a statutory requirement for the disclosure of such information. The protection granted under the TRIPS Agreement is therefore of little help to the question of compulsory acquisition of trade secrets save for its contribution as a source of reference that undisclosed information ('trade secrets' for the purposes of this paper) is indeed a form of intellectual property.

The second reason why the Kenyan legal framework should adopt a proprietary viewpoint for trade secrets (and perhaps the most important reason) is because the Constitution of Kenya does not make any distinction between undisclosed information, such as trade secrets, and other systems of intellectual property protection when it deems that intellectual property is property.<sup>81</sup> The Constitution categorically states that intellectual property, with no exceptions, shall be considered 'property' in Kenya.<sup>82</sup> Trade secrets are intellectual property in Kenya by virtue of the ratification of the TRIPS Agreement, which recognizes undisclosed information as property. Thus, despite the TRIPS Agreement not placing any obligation on states to construe undisclosed information/trade secrets as property, the Constitution of the Republic of Kenya, in effect, establishes that undisclosed information is in fact property. The treatment of trade secrets as property thus allows for their State-sanctioned disclosure to be construed as an exercise of the government's power of compulsory acquisition.

The TRIPS Agreement, nevertheless, makes provisions for the public disclosure of undisclosed test data and other data in circumstances in which member states have obtained such undisclosed information as a prerequisite for approving the marketing of pharmaceutical or agricultural chemical products in which new chemical entities are used.<sup>83</sup> Public disclosure must be done in order to serve the purpose of protecting the public, but where disclosure is not necessary for the protection of the public then the TRIPS Agreement mandates member states to protect such information submitted to it from disclosure save for where the member state in question has taken steps to ensure that the information is protected against unfair commercial use.<sup>84</sup>

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<sup>81</sup> Article 260, *Constitution of Kenya* (2010).

<sup>82</sup> Article 260, *Constitution of Kenya* (2010).

<sup>83</sup> Article 39 (3), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>84</sup> Article 39 (3), *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

It is questionable whether tobacco products contain or can be classified as pharmaceutical or agricultural chemical products which use new chemical entities. However, this distinction aside, the underlying principle of Article 39 (3) of the TRIPS Agreement and indeed the crux of the provision, is the need to balance consumer protection on one hand and competition law and the rights of corporations in their intellectual property on the other. Evidently, the TRIPS Agreement recognises that disclosure to state agencies does not in itself destroy rights in undisclosed information but the subsequent public disclosure of such information does.

#### **4.2.3. Judicial Precedent and the Application of English Common Law**

A glaring gap exists within the Kenyan legal framework in the place in which legislation regulating trade secrets would have resided. Instead, within that void will be found principles of the English common law, which is the vehicle employed by the legal system to be used in judicial decisions to address questions regarding trade secrets.<sup>85</sup> Yet, court cases on trade secrets are nonetheless few and far between, with most limited to addressing the question of confidential information (which is the English common law term used for valuable secret information) in employment settings and restraint of trade agreements, and none yet addressing the treatment of trade secrets by the State.

In *Hoswell*, the Court cited Cornish, Llewellyn and Aplin in their book *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (7<sup>th</sup> edition, 2010) in observing the complexities and unsettled questions as concerns the proprietary treatment of trade secrets and relied on *Webster vs James Chapman & Co [1989]*, *Primary Group (UK) Limited vs The Royal Bank of Scotland Plc [2014]* and *Attorney General vs Guardian Newspapers Ltd (No 2) [1988]* in finding that trade secrets need not be given proprietary treatment as they can be protected from third parties with whom no contractual duty of confidence exists using doctrines of equity which require a third party to maintain confidentiality where they know or have notice that the information is confidential where such information is not acquired in breach of confidence.<sup>86</sup>

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<sup>85</sup> Opati, 'Intellectual property rights in health-impact on access to drugs,' 18.

<sup>86</sup> *Hoswell Mbugua Njuguna T/A Fischer and Fischer Marketing Concepts v Equity Bank Limited & another* (2017) eKLR.

However, third party interference in *Hoswell* differs significantly and fundamentally from the third-party interference by the State in *BAT Case*. In *Hoswell*, an example is given of an instance in which a duty of confidence arises “where an obviously confidential document is wafted by an electric fan out of a window into a crowded street”.<sup>87</sup> In the example, disclosure is protected by an equitable duty of confidence. However, in the present instance, it cannot be said that the State has an equitable duty not to disclose trade secret information as any such equitable duty is abrogated by a statutory requirement mandating disclosure.

It may be argued that trade secrets do not need to be construed as property because they are adequately protected from unlawful third party use by the common law equitable duty of confidence which binds the public and prevents them from using the disclosed information but such an assertion is far from true. An equitable duty of confidence does little to protect the interests held by trade secret holders because in order to claim a breach of an equitable duty of confidence, trade secret holders would be required to investigate and prove whether any members of the public are using its trade secret. This would place an unreasonably onerous burden on trade secret holders.

The inadequate Kenyan jurisprudence on trade secret law has several adverse effects. First, there is no clear answer as to the manner in which and the extent to which trade secrets are to be disclosed in proceedings before a court of law. Second, there is no consensus in Kenyan case law on the standard of proof required in such cases. Third, there is no mention of the appropriate treatment of trade secrets or relief to trade secret holders when the disclosure of trade secret information is required by law. Fourth, there is no case law distinguishing between public disclosure and mere disclosure to state organs and agencies or asserting that such differentiation is immaterial.

The prevalent treatment of trade secrets administered by Kenyan courts is treatment under the common law duty of confidence doctrine. However, despite the widespread use of the doctrine, the treatment of trade secrets under the duty of confidence does not automatically preclude trade secrets from conceptualisation under a property theory. Indeed, there exist several actions for which legal redress and protection can be found in two or more separate and distinct legal spheres, for example, an employee of a state agency who believes he faced

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<sup>87</sup> *Hoswell Mbugua Njuguna T/A Fischer and Fischer Marketing Concepts v Equity Bank Limited & another* (2017) eKLR.

unfair dismissal may institute an employment action at the Employment and Labour Court or file a constitutional petition for unfair administrative action.

In all the confusion, however, one particular case sheds a bit of light on the place of trade secrets in the property regime: the *BAT Case Appeal*.<sup>88</sup> The Court of Appeal recognised that requiring the Applicant to disclose their manufacturing processes and product ingredients to the Ministry of Health for regulation limited their intellectual property rights in their trade secrets but found that the limitation was reasonable and justifiable. The succeeding chapter of this paper shall debunk the assertion that the limitation in the case was reasonable and justifiable. However, its importance to the present chapter lies in the Court's recognition that the Petitioner (British American Tobacco) holds intellectual property rights in the ingredients of its tobacco products. Tobacco companies hold trade secrets in the ingredients of their tobacco products and thus, if the Court recognised that what is held in the product ingredients of tobacco products amounts to intellectual property, then it can only flow that the Court found that trade secrets are intellectual property. And, as already stated, intellectual property is property.

### **4.3. A CRITIQUE OF THE NON-RECOGNITION OF TRADE SECRETS AS PROPERTY RIGHTS**

The question of whether trade secrets are 'property' is a debate that continues to rage in jurisprudence. The legal theory of trade secrets is a melting pot into which various other areas of law find application, for example, contract law, tort law, common law duty of confidence and privacy law, among others.<sup>89</sup> However, from this paper's analysis of the laws, an argument can be made that within the Kenyan legal framework, trade secrets are intellectual property and thus 'property.'

However, while there is no debate as to whether trade secrets are intellectual property, jurisprudence on the recognition of the rights in trade secrets is split between the recognition of trade secrets as endowed with in rem property right and the conceptualisation of trade secrets rights as predicated on contractual and fiduciary relationships (as stated earlier, the

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<sup>88</sup> *British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR.

<sup>89</sup> Deutch M, 'The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate' 31 *University of Richmond Law Review* 2, 1997, 316.

Court in *Hoswell*<sup>90</sup> took cognisance of these convolutions).<sup>91</sup> In addition, others in the fray theorise that, in any case, there is simply no need to assign property rights to protected information.<sup>92</sup>

Professor Pamela Samuelson of Berkeley Law School describes several reasons why there is difficulty in characterising information, which is the substance of trade secrecy, as property. Firstly, she argues that information has no tangible existence in and of itself, regardless of subsequent documentation in a tangible medium.<sup>93</sup> However, copyright and patent laws have protected intangible works, such as the copyright protection afforded to folk dances.<sup>94</sup>

Secondly, Professor Samuelson further points out the plasticity and expandability of information and maintains that this creates difficulty in defining what exactly constitutes ‘information’ and of particular import, the difficulty in defining what information has proprietary interest.<sup>95</sup> However, this problem is due to the absence of standard legal rules governing trade secret law. The formulation of trade secrets as confidential information has led courts to determine matters on a case-by-case basis using fact-specific analysis.<sup>96</sup> A property conception of trade secrets would remedy the current uncertainty by requiring courts to define the limits and boundaries of such property.<sup>97</sup>

Thirdly, she contends the excludability of information and argues that information cannot be kept under lock and key in the same way that tangible property can and once obtained, it cannot be returned to the source.<sup>98</sup> However, Professor Samuelson asserts in *Digital Media and the Changing Face of Intellectual Property Law* that the increasing ease of replication and transmission of copyrightable digital media requires that intellectual property laws be reviewed in order to create a framework that better protects such subject matter.<sup>99</sup> It is not

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<sup>90</sup> *Hoswell Mbugua Njuguna T/A Fischer and Fischer Marketing Concepts v Equity Bank Limited & another* (2017) eKLR.

<sup>91</sup> Deutch M, ‘The Property Concept of Trade Secrets in Anglo-American Law,’ 317.

<sup>92</sup> Samuelson P, ‘Privacy as Intellectual Property?’ 52 *Stanford Law Review* 5, 2000, 1153.

<sup>93</sup> Samuelson P, ‘Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?’ 38 *Catholic University Law Review* 2, 1989, 368.

<sup>94</sup> Section 49 (d), *Copyright Act* (Act No. 12 of 2001).

<sup>95</sup> Samuelson P, ‘Information as Property,’ 368-369.

<sup>96</sup> Feldman MJ, ‘Towards a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship’ 9 *High Technology Law Journal* 1, 1994, 161.

<sup>97</sup> Graves CT, ‘Trade Secrets as Property: Theory and Consequences’ 15 *Journal of Intellectual Property Law* 1, 2007, 45.

<sup>98</sup> Samuelson P, ‘Information as Property,’ 369.

<sup>99</sup> Samuelson P, ‘Digital Media and the Changing Face of Intellectual Property Law,’ 324-328.

clear, then, why diminished exclusivity is a reason for affording copyrightable work better protection but conversely is a reason for denying trade secrets proprietary protection.

Furthermore, this argument fails to recognize that the value in a trade secret is in both its secrecy and use, so although information cannot be returned to its owner in the traditional sense that other forms of property can, its use and disclosure can be estopped. This is quite similar to the prohibition from using copyrighted computer source code that has been illegally acquired, as seen in *Computer Associates v Altai* where the Court prohibited Altai from using illegally acquired information on the computer source code of Computer Associate's CA-ADAPTER program in its Oscar 3.4 program.<sup>100</sup> Similar to trade secret information, knowledge of the source code could not be returned to its owner but its use was nevertheless estopped and copyright proprietary interests protected. It is therefore unascertainable why trade secrets are denied property rights despite sharing characteristics with other more conventional forms of intellectual property.

Professor Samuelson further observes, together with Suzanne Scotchmer, that other individuals have a privilege to reverse engineer the trade secret for their own use thus trade secrets cannot be in rem property rights.<sup>101</sup> However, this should not be a reason why trade secrets are deemed not to possess an 'in rem' nature. The permissibility of reverse engineering is aimed at promoting innovation as technological advancements are often built on each other through follow-on innovation. The misappropriation exemption for reverse engineering is akin to the fair dealing exemptions in copyright law in that both exemptions aim to balance the rights of intellectual property holders with the rights of the society.<sup>102</sup>

It is further argued that trade secrets lack an 'in rem' nature because it is possible for two or more persons to have the same trade secret without either one knowing that the other possesses the information.<sup>103</sup> However, this proposition is erroneous because there is no ownership over the same asset because every additional competitor making use of the trade secret effectively reduces its value and thus modifies the characterisation of the asset that the prior owner is left with.<sup>104</sup> Furthermore, it is possible that an individual person can

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<sup>100</sup> *Computer Associates International, Inc v Altai, Inc* (1992) The Second Circuit Court of Appeals of the United States.

<sup>101</sup> Samuelson P and Scotchmer S, 'The Law and Economics of Reverse Engineering' 111 *Yale Law Journal* 7, 2002, 1582.

<sup>102</sup> Epstein RA, 'Trade secrets as private property: Their constitutional protection,' 3-4.

<sup>103</sup> Deutch M, 'The Property Concept of Trade Secrets in Anglo-American Law,' 334.

<sup>104</sup> Deutch M, 'The Property Concept of Trade Secrets in Anglo-American Law,' 334.

possess trade secrets, which contests the assertion that trade secrets are premised on contractual relationships.<sup>105</sup>

Fourthly, Samuelson argues that as a matter of public policy, information should not be characterised as property because it hinders the free dissemination of information, which is the quid pro quo that the public receives in exchange for granting exclusive rights to intellectual property holders.<sup>106</sup> However, Professor Lemley of Stanford Law School asserts that, paradoxically, trade secret protection has the converse effect of encouraging information disclosure.<sup>107</sup>

There are two reasons for this paradoxical turn of events. Firstly, without trade secret protection, companies would overinvest in preserving and protecting the secrecy of their information (an example is the use of draconian restrictive trade covenants by companies to hinder employee mobility).<sup>108</sup> Secondly, trade secret protection gives a partial solution to the problem of the Arrow's Information Paradox where: a person attempting to sell potentially valuable secret information will face great difficulty selling the information to someone who could make more efficient use of it because he will have to disclose the information in order to sell it but disclosure destroys the value inherent in its secrecy and a potential buyer who wants the secret information will be reluctant to sign a confidentiality agreement before knowing what they might be limiting themselves from using.<sup>109</sup>

Finally, to conclude the argument that trade secrets are property, this paper makes reference to its initial premise, which is that trade secrets (just like physical property) may be subject to compulsory acquisition. The value of a trade secret is in its secrecy; if the secrecy is revoked and accessible to the very competitors against whom the competitive advantage is sought, then the trade secret ceases to exist. The prohibition by the State against the preservation of the secrecy of a trade secret (such as through requiring its disclosure) in furtherance of a public benefit (such as public health) is a deprivation of property for the

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<sup>105</sup> Epstein RA, 'The Constitutional Protection of Trade Secrets under the Takings Clause' *University of Chicago Law Review*, 2004, 60 — [https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2200&context=journal\\_articles](https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2200&context=journal_articles) on 14 November 2019.

<sup>106</sup> Samuelson P, 'Information as Property,' 374.

<sup>107</sup> Lemley MA, 'The Surprising Virtues of Treating Trade Secrets as IP Rights' 61 *Stanford Law Review* 2, 2008, 313.

<sup>108</sup> Lemley MA, 'The Surprising Virtues of Treating Trade Secrets as IP Rights,' 334.

<sup>109</sup> Lemley MA, 'The Surprising Virtues of Treating Trade Secrets as IP Rights,' 336-337.

benefit of the public, which is the exact analogy which characterises compulsory acquisition of physical property and thus compensation is required.<sup>110</sup>

#### 4.4. CONCLUSION

In conclusion, the Constitution<sup>111</sup> as read with the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>112</sup> and the decision in the *BAT Case Appeal*<sup>113</sup> leads to the conclusion that trade secrets are in fact intellectual property, and the place of trade secrets thus falls squarely within Kenya's property regime as applicable under the compulsory acquisition auspices of Article 40.

Furthermore, an analysis of the legal theory of trade secrets and the laws of Kenya leads to the conclusion that whereas mandatory disclosure to regulators is not compulsory acquisition in itself, public disclosure of trade secrets by the State in fulfilment of a public benefit is compulsory acquisition and does not serve as a justifiable limitation unless compensation is given. Thus, a legal basis is established for the award of monies to an entity that has been deprived of their intellectual property rights in their trade secrets.

The importance of public health, public safety and other societal benefits cannot be overstated. However, despite the importance of meeting these noble aims, it is important to take the least restrictive approach which affords the public benefit but does not unjustifiably revoke the rights of others.

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<sup>110</sup> Epstein RA, 'The Constitutional Protection of Trade Secrets under the Takings Clause,' 62.

<sup>111</sup> Article 40 (3) as read with Article 260, *Constitution of Kenya* (2010).

<sup>112</sup> Article 39, *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

<sup>113</sup> *British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR.

## **CHAPTER 5: THE COMPULSORY ACQUISITION OF TRADE SECRETS IN KENYA’S TOBACCO INDUSTRY**

### **5.1. INTRODUCTION**

As already established in the preceding chapters, trade secrets are a form of intellectual property endowed with proprietary rights and ought to be recognized as such in Kenya, meaning that their statutory disclosure to the public in pursuance of a public interest is tantamount to compulsory acquisition under Article 40.

This chapter shall narrow down the scope of the study to conduct an examination into the treatment of the trade secrets in the tobacco industry in Kenya as seen in the BAT cases (Petition 143 of 2015 and Civil Appeal No. 112 of 2016) challenging the constitutionality of the Tobacco Control Regulations.

This chapter shall establish two points: that there do exist trade secrets in the tobacco industry and that Regulation 42 of the Tobacco Control Regulations 2014 is unconstitutional.

### **5.2. CASE STUDY OF THE BAT CASES<sup>114</sup>**

#### **5.2.1. Background**

British American Tobacco Plc (“BAT”) is a public limited liability company that deals in the manufacture, sale and export of cigarettes<sup>115</sup> and is part of British Tobacco Group,<sup>116</sup> a British multinational cigarette and tobacco manufacturing company headquartered in London.<sup>117</sup>

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<sup>114</sup> *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* (2016) eKLR, *British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR and the Supreme Court Appeal.

<sup>115</sup> *British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR.

<sup>116</sup> [http://www.batkenya.com/group/sites/BAT\\_B4ALXZ.nsf/vwPagesWebLive/DO9T5K3S?opendocument](http://www.batkenya.com/group/sites/BAT_B4ALXZ.nsf/vwPagesWebLive/DO9T5K3S?opendocument) on 20 November 2019.

<sup>117</sup> [https://en.wikipedia.org/wiki/British\\_American\\_Tobacco](https://en.wikipedia.org/wiki/British_American_Tobacco) on 20 November 2019.

On 5 December 2014, the Tobacco Control Regulations (the “Regulations”) were published in the Kenya Gazette by the Cabinet Secretary for the Ministry of Health vide Legal Notice No. 168, Legislative Supplement No. 161.<sup>118</sup>

The Regulations were made pursuant to Section 53 of the Tobacco Control Act (the “Act”) which grant the Cabinet Secretary the power to make regulations prescribing that anything required by the Act be prescribed, prohibiting anything prohibited by the Act and generally for the better carrying out of the objects of the Act .<sup>119</sup>

The objects of the Act are, in summary, the provision of a legal framework for the regulation of the production, manufacture, sale, labelling, advertising, promotion, sponsorship and use of tobacco products, including exposure to tobacco smoke.<sup>120</sup>

### **5.2.2. Procedural History**

BAT was the Petitioner at the court of first instance and the Applicant in the appeal. In both cases, BAT challenged the constitutionality of the Regulations in its entirety, and further identified specific regulations that it argued were unconstitutional.

In the first case, Petition 143 of 2015, the Court granted interim orders on 4 June 2015 to restrain the implementation of the Regulations pending the hearing and determination of the petition.<sup>121</sup> The petition was heard, and a judgment entered on 24 March 2016 upholding the constitutionality of the Regulations with the exception of Regulation 1, Regulation 13 (b) and Regulation 45.<sup>122</sup>

BAT, dissatisfied with the High Court’s judgment, appealed to the Court of Appeal and lodged Civil Appeal No. 112 of 2016.<sup>123</sup> On 17 February 2017, the Court of Appeal upheld the High Court’s judgment in totality.

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<sup>118</sup> [http://kenyalaw.org/kl/fileadmin/pdfdownloads/LegalNotices/2014/LN169\\_2014.pdf](http://kenyalaw.org/kl/fileadmin/pdfdownloads/LegalNotices/2014/LN169_2014.pdf) on 20 November 2019.

<sup>119</sup> Section 53, *Tobacco Control Act* (Act No. 4 of 2007).

<sup>120</sup> Section 3, *Tobacco Control Act* (Act No. 4 of 2007).

<sup>121</sup> *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 2 others* (2015) eKLR.

<sup>122</sup> *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* (2016) eKLR.

<sup>123</sup> *British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR.

BAT, joined by Mastermind Tobacco Kenya, further appealed to the Supreme Court of Kenya on 26 April 2018.<sup>124</sup> On 25 October 2019 the Supreme Court adjourned its judgment to 26 November 2019.<sup>125</sup>

### 5.2.3. Facts, Issues and Determination

#### Petition 143 of 2015<sup>126</sup>

Of particular import to this paper are the Petitioner's submissions on the Regulation's requirement for disclosure. The Petitioner argued that the Regulations were unreasonable, disproportionate, irrational and onerous as the East African Standard 110:2005, which is administered by the Kenya Bureau of Standards, already provides the specifications for cigarettes with which manufacturers and importers of cigarettes are mandated to comply. The Standard mandates manufacturers and importers of cigarettes to submit their cigarette packs and products for annual testing and certification. Thus, the Petitioner contended that there were already mechanisms in place regulating manufactured and imported cigarettes and requiring them to meet stringent specifications and so there was no need for disclosure to the State.

Among the specific regulations that the Petitioner contended was Regulation 42, which states that:

*The Cabinet Secretary shall ensure that all information, reports and documents related to the implementation of the Act are accessible to the public.*<sup>127</sup>

The Petitioner argued that the product information required to be disclosed under Regulation 42 comprised of the manufacturer's trade secrets or sensitive information and that in jurisdictions where disclosure to regulators is permitted, there are measures put in place to ensure that the trade secrets are not disclosed to the public. Furthermore, the Petitioner argued that such disclosure to the public would avail the information to the manufacturer's

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<sup>124</sup> <https://www.nation.co.ke/news/Supreme-Court-asked-to-throw-out-smoking-rules/1056-4532412-4cujfd/index.html>

<sup>125</sup> <https://www.pressreader.com/kenya/the-star-weekend-kenya/20191026/281732681272219> on 21 November 2019.

<sup>126</sup> *British American Tobacco Kenya Ltd v Cabinet Secretary for the Ministry of Health & 4 others* (2016) eKLR.

<sup>127</sup> Regulation 42, *Tobacco Control Regulations* (2014).

competitors and illicit cigarette manufacturers, which consequently would adversely lead to losses in trade and tax revenues to the government.

On the other hand, the Respondents argued that the Regulations were made in accordance with the WHO Framework Convention on Tobacco Control, to which Kenya is a signatory. Furthermore, the Respondents argued that there were no regulations in existence which controlled production, manufacturing, sale, distribution and farming within the tobacco industry as the East Africa Standards 110:2005 is inadequate to implement the provisions of the Tobacco Control Act. Therefore, Part III of the Regulations were reasonable and justifiable as the disclosure to the State aided regulation of harmful ingredients.

Regulation 12 of Part III of the Regulations mandates manufacturers and importers of tobacco products to disclose the following to the Cabinet Secretary for the Ministry of Health:<sup>128</sup>

- i) A list of all ingredients, including their quantities;
- ii) A statement of the reason for the inclusion of each ingredient, which shall indicate the ingredient's function and category;
- iii) All toxicological data available to the manufacturer concerning the ingredients, whether burnt or unburnt and their effects on health, including effects which arise on combination with any other ingredient and any addictive effects; and
- iv) Information on the characteristics of the tobacco leaves used including their type and the percentage and levels contained in the tobacco product.

The learned Judge, in determining the case within the context of public health versus the commercial rights and interests of tobacco manufacturers, found that the requirement for disclosure of health effects (iii above) does not violate the Petitioner's intellectual property right and is aimed at aiding public health authorities. It was observed that though infringement of intellectual property could not be seen, in any case the requirements for disclosure outweigh the intellectual property rights pertaining to tobacco products. The Court thus held that the disclosure requirements under Part III, save for Regulation 13 (b) which obliges tobacco companies to disclose their market share, do not contravene the Constitution or any other written law and that no violation of the Petitioner's rights was

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<sup>128</sup> Regulation 42, *Tobacco Control Regulations* (2014).

demonstrated. The Court did not, however, apply itself to the determination of the constitutionality of Regulation 42, which the Petitioner had impugned.

#### Civil Appeal No.112 of 2016<sup>129</sup>

At the Court of Appeal, the first and second interested parties submitted that even if the disclosure had the effect of violating the Petitioner's rights, such rights were nevertheless non-absolute and subject to higher ideals of public health. The Court of Appeal, in upholding the High Court's judgment, found that the limitations imposed on the Petitioner's intellectual property rights were reasonable and justified in a democratic society.

#### Supreme Court Appeal

On 26 November 2019, the Supreme Court entered a judgment against British American Tobacco, holding that the limitations imposed on tobacco companies were justifiable as they must be measured against health considerations of the society.<sup>130</sup> The decision is however yet to be reported.

#### **5.2.4. Analysis**

Tobacco product constituents are generally held to be trade secrets.<sup>131</sup> The High Court failed to apply itself to the constitutionality of Regulation 42, which inherently destroys the Petitioner's trade secrets and deprives them of property without compensation.

In addition, an analysis of the constitutionality of Regulation 42 would have contextualised the Petitioner's concerns with Part III of the Tobacco Control Regulations on disclosure to

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<sup>129</sup> *British American Tobacco Ltd v Cabinet Secretary for the Ministry of Health & 5 others* (2017) eKLR.

<sup>130</sup> <https://www.nytimes.com/aponline/2019/11/26/world/africa/ap-af-kenya-tobacco.html>.

<sup>131</sup> In the United States of America, trade secret protection for trade secrets was established in *Philip Morris Incorporated v Reilly* (2002) The First Circuit Court of Appeals of the United States. In the European Union, Directive 2014/40/EU on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC provides for tobacco constituents disclosures under Article 5 (1) and mandates the public disclosure of such constituents under Article 5 (4) but makes an exception for trade secrets.

the state agencies. That the regulation of tobacco products is important and necessary due to the health implications of tobacco products is an indisputable fact. However, when trade secrets are disclosed to the State pursuant to regulatory requirements but no obligation is placed on the State to put in place measures to protect the secrets disclosed to them from public disclosure, then the secrets are left at risk of disclosure and thus at risk of infringement and deprivation.

Disclosure under Regulation 42 deprives the Petitioner of their property in trade secrets in totality because property in trade secrets is extinguished upon public disclosure. Regulation 42 therefore amounts to compulsory acquisition by virtue of property rights being deprived for reasons of public health. This is different from the regulations for disclosure to state agencies under Part III. Disclosure to state agencies is justified and reasonable as they aim to merely regulate the property in trade secrets rather than deprive of the property entirely (but which may nevertheless effectively result in deprivation if measures for trade secret protection are not instituted by the state agency in question, as explained above). Compulsory acquisition mandates that just and adequate compensation be paid to the person whose property has been acquired.<sup>132</sup> Thus, Regulation 42 is unconstitutional to the extent that it deprives tobacco manufacturers and importers of their trade secrets without compensation.

Questions concerning the State's demonstration of adequate trade secret protection mechanisms prior to their acquisition and what constitutes appropriate measures for their maintenance are beyond the scope of this paper. Nevertheless, the Petitioner's concerns as regards the disclosures made to state agencies under Part III of the Regulations are entangled with the discussion on the compulsory acquisition of their trade secrets.

### **5.3. WHO FRAMEWORK CONVENTION**

The Tobacco Control Regulations 2014 were legislated to further give effect to the provisions of the Tobacco Control Act and the WHO Framework Convention on Tobacco

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<sup>132</sup> Kariuki, Ouma and Ng'etich, *Property Law*, 138.

Control (the “Framework Convention”). Kenya acceded to the Framework Convention on 25 June 2004.<sup>133</sup> Article 10 of the Framework Convention states that,

*Each Party shall, in accordance with its national law, adopt and implement effective legislative, executive, administrative or other measures requiring manufacturers and importers of tobacco products to disclose to governmental authorities information about the contents and emissions of tobacco products. Each Party shall further adopt and implement effective measures for public disclosure of information about the toxic constituents of the tobacco products and the emissions that they may produce.*<sup>134</sup>

Guidelines have been adopted for the Framework Convention for specific Articles. Among the guidelines that have been adopted by the Conference of the Parties are guidelines for Article 10, which prescribe that detailed information on the ingredients of tobacco products may not be understood by the public and therefore may not further public health but may assist other members of civil society, and proposes that parties make information publicly accessible in accordance with their national laws.<sup>135</sup>

Kenya is thus required to implement Article 10 of the Framework Convention in accordance with its national laws. As already discussed in the preceding chapter, an analysis of the laws of Kenya and trade secret jurisprudence reveals a legal basis for the formulation of trade secrets as proprietary rights whose mandatory statutory disclosure amounts to deprivation of property. Public disclosure of tobacco industry trade secrets pursuant to Article 10 of the Framework Convention will thus amount to deprivation of property by the standards of the laws of Kenya. Article 10 of the Framework Convention compels the public disclosure of tobacco product ingredients for public health reasons. Where deprivation occurs in order to achieve a public good, then compulsory acquisition has taken place. Where compulsory acquisition has taken place, a right to claim compensation arises and where compulsory acquisition occurs with no payment of compensation, such acquisition is unlawful. Thus, should the State choose to implement Article 10 of the Framework Convention, it will also

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<sup>133</sup> [https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg\\_no=IX-4&chapter=9&clang=en](https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IX-4&chapter=9&clang=en) on 25 November 2019.

<sup>134</sup> Article 10, *WHO Framework Convention on Tobacco Control*, 21 May 2003, 2302 UNTS 166.

<sup>135</sup> World Health Organisation, Partial guidelines for implementation of Articles 9 and 10, para 3.5.2.1. — [https://www.who.int/fctc/treaty\\_instruments/guidelines\\_articles\\_9\\_10\\_2017\\_english.pdf](https://www.who.int/fctc/treaty_instruments/guidelines_articles_9_10_2017_english.pdf) on 25 November 2019.

be required to compensate tobacco companies for the deprivation of their trade secret intellectual property rights.

#### 5.4. COMPARATIVE ANALYSIS: THE UNITED STATES OF AMERICA

The United States of America (“America”) also provides for a framework for tobacco control. Despite there being glaring differences between America and Kenya, America serves as an appropriate measure for the purposes of a comparative study under this paper for four primary reasons:

- i) America is also a signatory to the WHO Framework Convention;<sup>136</sup>
- ii) The Tobacco Control Regulations 2014 requirements on the disclosure of tobacco product ingredients are a replica of the America Family Smoking Prevention and Tobacco Control Act;<sup>137</sup>
- iii) America has extensive jurisprudence on trade secret protection;
- iv) Both the High Court and Court of Appeal of Kenya recognised that there exist intellectual property rights in the ingredients and constituents of tobacco products, akin to the position in America.

The Family Smoking Prevention and Tobacco Control Act mandates tobacco companies to make submissions to the US Food and Drug Agency (“FDA”) disclosing tobacco ingredients, constituents and health implications.<sup>138</sup> The Family Smoking Prevention and Tobacco Control Act in turn mandates the FDA to make disclosures to the public “in a format that is understandable and not misleading to a lay person.”<sup>139</sup> In addition, the FDA is required to publish to the public a list of harmful and potentially harmful constituents by brand (though it should be noted that the FDA is yet to do so).<sup>140</sup> However, an exception exists with regard to trade secrets.<sup>141</sup> The Family Smoking Prevention and Tobacco Control Act thus maintains trade secret protection and does not effect a taking (compulsory acquisition) of trade secrets. To this aim, the FDA has published a general list of ninety-four

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<sup>136</sup> [https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg\\_no=IX-4&chapter=9&clang=en](https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IX-4&chapter=9&clang=en) on 25 November 2019.

<sup>137</sup> Section 201, 206 and 904, *Family Smoking Prevention and Tobacco Control Act* 5 USC.

<sup>138</sup> Section 904, *Family Smoking Prevention and Tobacco Control Act* 5 USC.

<sup>139</sup> Section 904 (d) (1), *Family Smoking Prevention and Tobacco Control Act* 5 USC.

<sup>140</sup> Section 904 (e), *Family Smoking Prevention and Tobacco Control Act* 5 USC.

<sup>141</sup> Section 916 (a) (2B), *Family Smoking Prevention and Tobacco Control Act* 5 USC.

harmful and potentially harmful ingredients that can be found in tobacco products and their health implications.<sup>142</sup>

In addition, the Family Smoking Prevention and Tobacco Control Act differs from the Tobacco Control Regulations in that the Family Smoking Prevention and Tobacco Control Act only mandates the publishing of harmful ingredients whereas the Tobacco Control Regulations mandate the disclosure of all ingredients whether harmful or otherwise.

Furthermore, the Family Smoking Prevention and Tobacco Control Act mandates that publication of ingredients be in a manner that is understandable to the layperson which advances its aim of safeguarding public health, while the Tobacco Control Regulations do not concern themselves with disclosure in a manner that will benefit the public. Indeed, it can reasonably be assumed that the average tobacco consumer will not understand, or seek out, the ingredient disclosures and thus the public disclosures will likely benefit competitors more than the tobacco consumer for whom the Regulations were made.

## 5.5. CONCLUSION

This chapter establishes that there are trade secrets in the constituents, combination and percentages of tobacco products. It also establishes the unconstitutionality of Regulation 42 of the Tobacco Control Regulations of 2014, which fails to take such trade secrets into account by mandating their disclosure.

Tobacco industry trade secrets are protected in other jurisdictions. However, the disclosure of trade secrets in Kenya in the manner provided under the Tobacco Control Regulations will have an intrinsic causal effect of making the trade secrets accessible even by persons in whose jurisdiction such trade secrets are protected thus undermining and collapsing – on a global scale – protection accorded to trade secrets belonging to tobacco companies.

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<sup>142</sup> <https://www.fda.gov/tobacco-products/rules-regulations-and-guidance/harmful-and-potentially-harmful-constituents-tobacco-products-and-tobacco-smoke-established-list> on 26 November 2019.

## **CHAPTER 6: CONCLUSION AND RECOMMENDATIONS**

### **6.1. INTRODUCTION**

This chapter shall set out the conclusion of the paper and make appropriate recommendations. The conclusion shall analyse whether the research paper has answered the research questions that it sought to answer. The ‘Recommendations’ section of this chapter shall give suggestions aimed at remedying the problem of unlawful compulsory acquisition of trade secrets in the tobacco industry in light of the need to safeguard public health.

### **6.2. CONCLUSION**

This paper began by setting out three research questions: whether trade secrets are property; whether there exist trade secrets in the tobacco industry; and whether Regulation 42 of the Tobacco Control Regulations of 2014 is unconstitutional.

Firstly, this paper established that the Constitution of Kenya 2010 as read with the Agreement on Trade-Related Aspects of Intellectual Property Rights effectively establishes trade secrets as intellectual property and thus ‘property’ for the purposes of Article 40 of the Constitution and despite past judicial decisions demonstrating uncertainty as to the nature and treatment of trade secrets, the courts in the BAT cases recognised that trade secrets were intellectual property. Furthermore, this paper demonstrated that arguments opposing the recognition of trade secrets as property are not coherently sufficient so as to deny trade secret holders the property in their labour. Trade secrets are therefore property whose protection is constitutionally mandated and whose compulsory acquisition must be compensated.

Secondly, this paper demonstrated that ingredients, constituents and levels of tobacco product ingredients are generally treated as trade secrets and protected as such even in their regulation. The paper provided a comparative study with the United States of America, where disclosures are made in the interest of public health, but trade secret protection is maintained, thus achieving a balance. This balance between the interests of the tobacco industry and public health is necessitated by the proprietary rights tobacco manufacturers have in their trade secrets. Furthermore, it is possible to educate the public on the harms of consuming tobacco products without depriving tobacco companies of their trade secrets thus

such a least restrictive approach should be adopted so as to balance the rights of the public and of tobacco companies.

Thirdly, this paper demonstrated that Regulation 42 of the Tobacco Control Regulations 2014 is unconstitutional as it deprives tobacco companies of their property in trade secrets in the interest of public health, but without just and prompt compensation. Regulation 42 goes beyond mere regulation and enters the scope of compulsory acquisition due to the nature of trade secrets qua secrets. Furthermore, Regulation 42 goes beyond the requirements of the WHO Framework Convention on Tobacco Control, which requires Member States to adhere to their national laws when legislating for public disclosures.

### **6.3. RECOMMENDATIONS**

This dissertation establishes a constitutional basis upon which compensation can be paid for the disclosure of trade secrets held by companies operating in the tobacco industry. It is from this conclusion that the following recommendations are made.

1. Regulation 42 of the Tobacco Control Regulations 2014 should be declared null and void. The regulation attempts to effect the compulsory acquisition of proprietary trade secrets in the tobacco industry without just and prompt compensation, which is prohibited by the constitution. In addition, the disclosure of trade secrets in Kenya would be effective global disclosure thus the compensation due to tobacco companies would accrue for worldwide loss of trade. This would be a heavy burden for tobacco companies to bear, especially when other less restrictive means of protecting public health exist. Furthermore, public disclosure of tobacco product ingredients may benefit persons engaging in illicit tobacco trade (unregulated and smuggled tobacco products) allowing them to make their products more desirable to consumers and thus creating an entirely new tobacco problem.
2. The State should be required to protect and maintain trade secrets from disclosure. The information to be submitted to the State under Regulation 12 would contain tobacco manufacturer's and importer's trade secrets thus the State needs to have

adequate measures in place for the protection of such trade secrets from public disclosure.

3. Instead of disclosing any and all information submitted to it to the public, the Government should publish a list of harmful substances generally found in tobacco products and their health implications, with the exception of ingredients that are the subject of trade secrets. This list would be easier for the layman to understand than the documents and reports submitted by tobacco companies, which is what Regulation 42 requires to be made publicly available. The documents and reports submitted by tobacco companies may be lengthy documents with technical language used to describe the ingredients and their health implications, which the average tobacco consumer is unlikely to comprehend. The publication of a general list of harmful substances with easily understood explanations on their health implications advances the protection of public health while at the same time maintaining trade secret protection.
4. Parliament should enact legislation on trade secrets so as to govern the treatment of trade secrets and ensure uniformity and certainty in law. The Kenyan legal framework does not have a specific legislation that deals with trade secrets, which leads to their differential treatment in courts, uncertainty as regards disclosure of trade secrets in judicial proceedings and most importantly, violation of the proprietary right held in trade secrets. Parliament should therefore enact legislation that comprehensively captures the salient features of trade secret protection.
5. Imposition, by the State, of undue burdens on otherwise legitimate industries for the single reason that they are considered 'sin industries' should be avoided. Sin industries are those industries which are considered culturally, socially or morally reprehensible but are legally permitted. The fact that tobacco products have health implications cannot be disputed. However, for as long as it is not prohibited by law, tobacco trade remains as legitimate a business as any. Although the health implications of tobacco products may warrant closer regulation, it does not altogether warrant revocation of constitutionally enshrined rights. If such a status quo is allowed, then there exists nothing to stop the State from arbitrarily curtailing the rights of other industries or persons whom it deems culturally, morally or socially

reprehensible. Thus, the State's seemingly innocent tobacco regulation may act as a gateway to a slippery slope of arbitrary deprivation and infringement of right on the basis of subjective moral ideals.

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