

Recent Developments in Trade Secrets Protection: An EU and US Perspective

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Outline

- EU Trade Secrets Directive 2016
 - context
 - Substantive law provisions - Arts 2-5
 - Definitions, unlawful acts, lawful acts
 - Procedural law provisions - Arts 6-15
 - Limitation periods, confidentiality during litigation, remedies/enforcement
- U.S. Defend Trade Secrets Act 2016
 - context
 - key features

EU – Trade Secrets Directive

- Pre-proposal – Reports in 2012, 2013 & consultations
- Proposed Directive - 28 Nov 2013
- Council Position - 26 May 2014
- EP JURI Committee Report – 16 June 2015
- Compromise text between EP and Council – 18 Dec 2015
- **Directive 2016/943 - adopted 8 June 2016 – entered into force on 5 July 2016 – Member States have 2 years in which to implement**

Justifications

- Incentivise innovation and investment, esp. cross border innovation and sharing of knowledge
- Increase business competitiveness
- Stimulate employment growth and mobility in the EU
- Stimulate competitiveness in the EU
- Address the problems of legal divergences and fragmentation in the internal market
 - (see recitals 2, 3 & 7-9)

Problematic assumptions?

- There is a high risk of trade secret misappropriation
- Significantly more investment will go into innovation (with fewer resources being wasted on costly measures to protect trade secrets)
- Significantly more cross-border, collaborative research will occur
- *Legal certainty/convergence will ensue*

Legal certainty/convergence?

- **Minimum harmonisation**
 - more far ranging protection is permitted although certain safeguards are preserved (rec 10, Art 1(1))
- **Flexibility** as to mechanisms of protection
- **Unclear provisions**
 - eg relationship to Enforcement Directive; definition of trade secret, certain exceptions (inherently difficult)
- **Clarity** from courts will be a **long process**

Minimum harmonisation

- Art 1: ‘Member States may...provide more far-reaching protection...than required by this Directive’
- This is provided certain substantive and procedural safeguards are preserved namely:
 - Lawful acts (art 3)
 - Exceptions (art 5)
 - General obligations in terms of remedies (Art 6) and also proportionality and safeguards against abuse (Art 7(1))
 - Limitation period (Art 8)
 - Limits on duties of confidence in proceedings (Art 9(1)); balancing clause and data protection (Art 9(3)-(4))
 - Disclosure of trade secret in return for guarantees of compensation not allowed (Art 10(2))
 - Proportionality criteria in relation to interim and final injunctions and publication of decisions (Arts 11, 13, 15(3))

Form of protection – IP?

- Rec 16: “In the interest of innovation and to foster competition, the provisions of this Directive should not create any exclusive right on the know-how or information protected as trade secrets”
- Rec 2 - trade secret protection is a “complement or alternative to intellectual property rights”
- *Relationship to Enforcement Directive* - Commission indicates does not apply to trade secrets because *not* IPRs and some remedies too strong
- Rec 39 - *lex specialis* where scope overlaps with Enforcement Dir

Harmonisation of substantive law

- Definition of trade secrets – Art 2
- Unlawful acquisition, use or disclosure – Art 4
- Lawful acquisition, use or disclosure - Art 3
- Exceptions to remedies – Art 5

Trade secret

- Definition - Art 2(1)
 - information that is secret, has commercial value because it is secret; and has been subject to reasonable steps to preserve secrecy - parallel to Art 39 TRIPs
- Secret
 - “in the sense that it is not...generally known among or readily accessible to persons within circles that normally deal with the kind of information in question”
- Commercial value – actual or potential
 - will this cover commercialised private information?
Rec 14 refers to business information, technological information and know-how

Employees

- Rec 14 - definition of trade secret “excludes trivial information and the experience and skills gained by employees in the normal course of their employment” and “information which is generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.”
- Excludes what is already excluded but also creates a two tier definition of trade secret – employees/others

Unlawful acts - Art 4

- Acquisition
- Use or disclosure (after unlawful acquisition or in breach of contract or other duty not to disclose or use the trade secret)
- Acquisition, use or disclosure by a third party
- Infringing goods

Unlawful acquisition

- Art 4(2) – “acquisition of trade secret without the consent of the trade secret holder shall be considered unlawful whenever carried out by:
 - (a) unauthorised access to, appropriation of, or copy of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced;
 - (b) any other conduct which, under the circumstances, is considered contrary to honest commercial practices”

Unlawful use or disclosure

- Art 4(3) – use or disclosure unlawful where carried out without the consent of the trade secret holder by a person who has:
 - (a) acquired the trade secret unlawfully
 - (b) is in breach of a confidentiality agreement or any other duty not to disclose the trade secret;
 - (c) is in breach of a contractual or any other duty to limit the use of the trade secret.

Unlawful acts - third parties

- Art 4(4) - Unlawful acquisition, use or disclosure can occur where:
- “[A] person, at the time of acquisition, use or disclosure, knew or ought, under the circumstances, to have known that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully”
- Third parties also taken into account at the remedies stage – see Art 13(3)

Infringing goods

- Art 4(5) prohibits:

“[t]he production, offering or placing on the market of infringing goods, or the importation, export or storage of infringing goods for those purposes....when the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used unlawfully within the meaning of paragraph 3”.

Infringing goods

- Art 2(4): “infringing goods” means “goods whose design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed.”
- Restricted to ‘goods’ so not relevant in the case of infringing processes/business practices
- Not adopting a test of *use* but one of significantly benefits – i.e. where goods commercially benefit - see rec 28
- *Potentially broad test that elides distinction between continuing or past use* and is broader than patent law – products obtained ‘directly’

Lawful acquisition/use/disclosure

- Art 3: Acquisition by following means considered lawful:
- Independent discovery or creation
- *Reverse engineering - “observation, study disassembly or test of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret.”*
- Exercise of right of workers’ representatives to information under Union or national law
- Other honest commercial practices
- Acquisition, use or disclosure lawful to the extent it is required or allowed by Union or national law

Exceptions

- Art 5 : No entitlement to remedies where alleged acquisition, use or disclosure of trade secret is for:
 - Exercising the right to freedom of expression/information
 - For revealing a misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;
 - Disclosure by workers to trade unions
 - For the purpose of protecting a legitimate interest under Union or national law

Exceptions

- Uncertainty may arise in relation to:
- What constitutes acting in general public interest?
- When acquisition, use or disclosure is for “making legitimate use of the right of freedom of expression and information”?
- What are legitimate interests under EU or national law?

Procedural law harmonisation

- Limitation period – Art 8
- Preservation of confidentiality during litigation – Art 9
- General obligations re remedies & proportionality – Art 6, 7
- Interim measures – Arts 10, 11
- Final measures – Arts 12-14
- Publication of judicial decisions – Art 15

Limitation period

- Art 8 and rec 23
- Member States to determine when the limitation period begins to run, when suspended and its duration
- But duration of limitation period shall not exceed 6 years

Preservation of confidentiality

- Art 9 - creates obligation to ensure parties and others involved in legal proceedings are not permitted to use or disclose trade secrets that they have become aware of because of proceedings EXCEPT if information not secret or no longer secret
- Also creates obligation to ensure courts may take specific measures necessary to preserve the confidentiality of any trade secret used or referred to in legal proceedings by restricting access to documents or access to hearings and their records
 - The measures include restricting access to any document; access to hearings and their corresponding records or transcript

Preservation of confidentiality

- Art 9(3) addresses concerns about transparency and open justice
- Judicial authorities shall “take into account the need to ensure the right to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate, of third parties” (See also rec 24)

Remedies – general obligations

- Article 6 - MS shall provide for measures, procedures and remedies necessary for *civil redress* against unlawful acquisition, use or disclosure
- These must be fair and equitable; reasonably timely, affordable and accessible and be effective and dissuasive
- Criminal measures omitted

Remedies – general obligations

- Article 7 - proportionality and abuse of process
- Measures, procedures and remedies must be applied in a proportionate manner, avoid barriers to trade in internal market and provide safeguards against their abuse
- Member states must have measures available to deal with abusive or bad faith proceedings (see also rec 22)

Interim measures

- Art 10 - must ensure availability of provisional and precautionary measures
 - Injunctions against use or disclosure of trade secret
 - Prohibition of making, offering, putting on the market or use of infringing goods and import/export/storage of infringing goods for those purposes
 - Seizure or delivery up of suspected infringing goods

Interim measures

- Art 11 - various protections for respondents against interim measures
 - Sufficient evidence - Art 11(1)
 - Assessing all circumstances of case - Art 11(2)
 - Revocation of measures - Art 11(3)
 - Adequate security/assurances for prejudice suffered - Art 11(4)

Final measures

- Art 12 - must ensure availability of final injunctions and corrective measures
 - Cessation or prohibition of use/disclosure of trade secret
 - Prohibition of making, offering, putting on the market, use of infringing goods and import/export/storage for those purposes
 - Corrective measures such as recall, change, or destruction or withdrawal from market
 - At the expense of the infringer
 - Destruction or delivery up of document, object, etc embodying trade secret

Final measures

- Art 13 - safeguards and alternative measures
 - Court must take into account the circumstances of the case (sets out factors)
 - If duration of measure is limited - duration is sufficient to *eliminate any commercial or economic advantage* infringer could have derived - so ‘springboard’ injunctions?
 - Injunctions and prohibitions cease or are revoked if no longer a trade secret for reasons not attributable to the respondent
 - Pecuniary compensation may be awarded instead of these measures (innocent third party)

Obligations - final measures

- Art 14 - Damages

- Must ensure award of damages against infringers who knew or ought to have known they were carrying out unlawful acquisition, use or disclosure
- Damages appropriate to actual prejudice suffered as a result of unlawful acquisition, use or disclosure

Obligations - final measures

- Art 14 - Damages
 - Take into account all relevant factors - “negative economic consequences, including lost profits...unfair profits made by infringer...and elements other than economic factors, such as the moral prejudice caused to the trade secret holder”
 - *Alternatively*, court may set damages as a lump sum based on “the amount of royalties or fees which would have been due had the infringer requested authorisation to use the trade secret”

Obligations - final measures

- Art 14 - Damages - Guidance from Enforcement Dir.?
 - See *Liffers* C-99/15 - lump sum based on hypothetical remedies can be claimed alongside compensation for any moral prejudice
 - What will be moral prejudice here?
 - Careful not to confuse with economic factors such as loss of exclusivity for a striking unregistered design - see *Kohler Mira* [2014] EWHC 1931 (IPEC)
 - *Henderson* [2014] EWHC 3087 (IPEC) - includes mental distress, injury to feelings and humiliation BUT only available in unusual circumstances where moral prejudice significant and damages for economic loss are not proportionate to overall prejudice suffered
 - Can lost profits *and* unfair profits be claimed? *Henderson* - suggests no - this would risk imposing punitive damages
 - What are ‘unfair profits’? E.g. *Henderson*

Obligations - publication of judicial decisions

- Art 15
 - Shall ensure that courts may order “appropriate measures for the dissemination of the information concerning the decision, including publishing it in full or in part”
 - Rec 31 sets out rationale - supplementary deterrent and contribute to awareness of public at large
 - At the expense of the infringer
 - Mirrors Art 15 and rec. 27 ED, BUT
 - confidentiality of trade secrets to be preserved
 - specifies factors for court to take into account
 - is concerned with possible harm to privacy and reputation of the infringer

Cf Enforcement Directive

- Persons who can bring suit
 - *Trade secret holder* - “any natural or legal person lawfully controlling a trade secret” - Art 2(2) TSD
 - But who is this? What about commissioned parties, joint creators, exclusive or non-exclusive licensees, employees and reverse engineers?

Cf Enforcement Directive

- Certain measures *omitted*
- obligations for preserving evidence or for obtaining orders regarding the origin and distribution networks of infringing goods (Art 8 ED);
- injunctions against ISPs whose services are used to infringe (Art 11 ED)
- Provision on legal costs (Art 14 ED)
- Regulation 608/2013 on Customs enforcement of IPRs also not applicable - see Art 2

Cf Enforcement Directive

- Explicit recognition of proportionality factors
- See Articles 11(2), 13(1), 15(3) TSD
 - Value of trade secret, measures taken to protect trade secret, impact of unlawful use or disclosure
 - Conduct of infringer, legitimate interests of parties
 - Legitimate interests of third parties
 - Public interest, fundamental rights

Third parties, employees

- Third parties - Art 13(3)(a) TSD - instead of final injunctions or corrective measures, courts may award pecuniary compensation where lack of knowledge that trade secret was obtained from another person who was using or disclosing it unlawfully, measures would disproportionately harm respondent, and compensation to injured party appears reasonably satisfactory.
- Employees - Art 14(1) TSD - “Member States may limit the liability for damages of employees toward their employers for the unlawful acquisition, use or disclosure of a trade secret of the employer where they act without intent”.

United States

- Context - trade secrets protection at *both state AND federal levels*
- *State protection*
 - Historically, common law protection
 - *Uniform Trade Secrets Act (UTSA)* (1979 codification of common law principles by National Conference of Commissioners on Uniform State Law)
 - All states *except* NY, North Carolina and Massachusetts have adopted UTSA but North Carolina statute borrows heavily from UTSA
 - General principles of US trade secret law are well-established and substantially uniform – significant parallels with EU TSD

United States

- Federal protection
- Economic Espionage Act 1996 (Title 18 USC ch 90) (amended in 2012, 2013 and now 2016)
- *Passage of DTSA:*
- S. 2267 Defend Trade Secrets Act 2014
- S. 1890 Defend Trade Secrets Act 2015
- S. 1890 Defend Trade Secrets Act 2016, 11 May 2016 Public Law 114-153

United States

- Federal protection – EEA (pre DTSA)
- S. 1831 Economic espionage – covers persons who for the benefit of foreign governments, instrumentalities, or agents knowingly steals or without authorisation appropriates or conceals or by deception obtains a trade secret; copies a trade secrets or receives/buys a trade secret knowing it to have been stolen or misappropriated

United States

- Federal protection – EEA (pre DTSA)
- S. 1832 Theft of trade secret
- Person who knowingly steals or without authorisation appropriates or conceals or by deception obtains a trade secret; copies a trade secrets or receives/buys a trade secret knowing it to have been stolen or misappropriated where the trade secret is *related to a product or service used in or intended for use in interstate or foreign commerce* for the benefit of anyone other than the owner

United States

- **Federal protection – EEA (pre DTSA)**
- Criminal penalties and forfeiture (these are stringent) – e.g. for economic espionage fines of \$10 million or 3 times value of stolen trade secret and \$5 million for theft of trade secrets
- Dept of Justice can bring civil proceedings
- *No private actions*
- Can relate to conduct outside the U.S. if the offender is a citizen or permanent resident of the U.S. or act in furtherance of the offense was committed in the U.S.
- Does not pre-empt state law

United States

- Federal protection – DTSA 2016
- Aims to increase protection against domestic and foreign cyber espionage by:
 - Increasing criminal penalties for trade secret misappropriation AND
 - Creating a federal *civil* cause of action for trade secret misappropriation

United States

- Federal protection – DTSA 2016
- Increase in criminal penalties for trade secret misappropriation ('theft')
- The greater of \$5 million or 3 times the value of the stolen trade secret to the organisation that commits the offense – s. 1832(b)

United States

- **Federal protection – DTSA 2016**
- Creates private civil actions – see s. 1836(b)
- Owner of a trade secret may bring a civil action *if* trade secret relates to a product or service used in, or intended for use in, interstate or foreign commerce
- *Ex parte* applications for seizure of property necessary to prevent the propagation or dissemination of the trade secret
- Remedies of injunction; damages – measured by actual loss/unjust enrichment/royalty based
- Exemplary damages for wilful and malicious misappropriation - 2 times amount of damages
- Limitation period = 3 years from misappropriation is or ought to be discovered
- Applies to acts occurring after date of enactment of this Act
- No pre-emption of state law

United States

- DTSA 2016 – criticisms
- Scholars argue that federal trade secret law is not needed because of robust state laws and there are significant costs to introducing a federal civil cause of action
- Ex parte seizure provision – may harm small SMEs and other innovators
 - Vague provision – what ‘property’ may be seized? Ex parte nature of process is pro-plaintiff

United States

- DTSA 2016 – criticisms
- Will likely increase the cost and length of trade secret litigation – grant federal courts original (but not exclusive) jurisdiction over civil trade secret claims where alleged trade secrets is ‘related to a product or service used in, or intended for use in, interstate or foreign commerce’
 - Having to satisfy this requirement will increase complexity of the case
 - Also, there is broad scope of discovery under Federal Rules of Civil Procedure

United States

- DTSA 2016 – criticisms
- Will likely result in *less* uniformity in trade secret law
- Already robust and uniform body of state law
- This would be undermined by creating new differences with existing state law, requiring development of federal jurisprudence (e.g. definition of trade secrets)
- Federal cause of action to exist in parallel with state law – possible forum shopping and choice of law problems

Brief conclusions

- Overlaps and similarities between EU TSD and US UTSA – possibility of comparative law study in order to help inform development of EU jurisprudence
- Both EU and US trade secret law, in attempt to strengthen protection, is likely to become more complex and uncertain
- Future challenge for EU – harmonisation of criminal provisions