Trade secrets come to the fore in the US and Europe with new legislation set to hit the statute books

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Following the unusually swift and bipartisan passage of the Defend Trade Secrets Act through Congress, the US is only a presidential signature away from a wide variety of civil trade secrets cases being litigated in federal courts for the first time. This comes just as the European Parliament has voted in favour of the European Union's first-ever trade secrets directive, which sets minimum standards of protection across all member states of the EU.

Recent IP Hall of Fame inductee and former WIPO deputy director general James Pooley is among the world's foremost experts on trade secrets law and has recently published *Secrets: Managing Information Assets in the Age of Cyberespionage*. In this exclusive piece for the *IAM* blog, Pooley looks at both the US and the EU legislation, explaining their main points and identifying their principle differences. His advice? Although Europe has made progress, the US is still the place to go if you want to ensure that these vital assets can be protected to maximum effect. This is what he has to say:

This past week the US Congress passed the Defend Trade Secrets Act (DTSA), less than two weeks after the European Parliament voted through the EU Trade Secrets Directive. What might at first seem like an extraordinary coincidence in fact has a lot to do with pressure applied by industry on both sides of the Atlantic to improve the remedies that are available for theft of trade secrets.

Businesses are relying increasingly on secrecy as the preferred way to protect their innovations, as well as the massive amount of analytics, financial and customer data that drive competitive advantage. But this valuable information is also vulnerable, not just

to hacking and other kinds of espionage, but also to careless behaviour by employees and business partners. Having access to robust and predictable legal remedies is important.

Those aren't available in Europe, the Commission found in a 2013 report. That concern led to its proposal for the EU Trade Secrets Directive, an attempt at minimum harmonisation.

Meanwhile, in the US, where thanks to broad discovery rights and a (mostly) uniform set of state laws, trade secret protection has been viewed as relatively powerful, business called for amendment of the federal Economic Espionage Act – which provides only criminal remedies – to include an option for companies to bring their private trade secret disputes to federal court as well. (Up to now, they have been able to do that only in cases where there is "complete diversity" of citizenship among the parties, an unusual occurrence in trade secret cases, or where there is another federal claim – such as patent infringement – pending based on closely related facts.)

Introduced only nine months ago, the DTSA enjoyed unusually bipartisan political support, buoyed by enthusiastic intervention from industry groups. In fact, the only organised opposition came from a group of law professors who were worried that provisions for seizure of infringing property could lead to a new class of "trade secret trolls" terrorising unsuspecting companies. After a Senate hearing last December, at which I was called to rebut the professors' arguments, work began on a set of amendments that were all accepted by the end of January. On 4th April, the Senate voted unanimously to accept the legislation, and the House followed suit on 27th April. President Obama is expected to sign it soon.

The DTSA adds a private right of action to the existing federal criminal law, using the same standards expressed in the Uniform Trade Secrets Act, which is the basis for almost all US state laws, and was also the pattern for Article 39 of TRIPS. As a result, it can now be said that the US has fully complied with its TRIPS obligations, since it has a single national law covering the subject. However, the new federal law will not displace existing state statutes. Instead, it will be used optionally for trade secret disputes where the federal courts provide a distinct advantage: cases with interstate or foreign actors, where attorneys can initiate discovery anywhere in the country, and where judicial experience is needed to handle complex jurisdictional issues.

State courts in the US, even though having similar substantive laws on trade secret protection, apply local procedural rules that can vary enormously, impacting multi-state cases where speed matters. This is why industry was so supportive of the legislation: instead of having to go to various county courts with unpredictable local customs, they can take advantage of a single nationwide system and set of rules.

The DTSA also provides an ex parte seizure when the trade secret holder has advance warning that someone is about to destroy a stolen secret or leave the jurisdiction. This provision has been quite controversial; however, applications have to be so well supported, and the penalties for a mistaken application are so severe, that most believe the remedy will not be invoked often and will be allowed only in obviously deserving cases.

Two other aspects of the DTSA deserve special comment. First, although US law has always allowed courts to issue orders against a "threatened" misappropriation, concern was raised whether this standard language might allow a federal court to stop a departing employee from taking a similar job with a competitor. This so-called "inevitable disclosure doctrine" has provoked fear – not always rational – that courts might be able to bar competitive employment merely based on how much sensitive data the employee knows. The DTSA's solution to this mobility issue was to prohibit any order that is based only on what the person knows, requiring instead that it be based substantially on the employee's behaviour that indicates untrustworthiness.

A second significant feature of the DTSA is its grant of immunity to employee whistleblowers reporting suspected wrongdoing. Existing law in the US is sparse and unreliable, based on a highly contextual backward look at the facts to determine whether the employee's action may have been justified. Unsurprisingly, under these circumstances, the risks of coming forward are too great, and studies show that many who might otherwise have reported significant wrongdoing have remained silent. Of course, the employer has legitimate interests at stake as well, since the claim may turn out to be wrong, or the employee's disclosure may be broader than necessary. The DTSA resolves this tension by providing clear immunity, but only for disclosures made in confidence to law enforcement, or as part of a court filing under seal. In this way, the information can be provided without fear of

retributive litigation, while the relevant authorities can maintain the integrity of the secrets while they determine whether there is a basis to proceed.

The DTSA will improve the efficiency of, but will not revolutionise, trade secret disputes in the US. As already noted, there will be a certain class of cases brought in federal court because they involve foreign actors or witnesses spread across the country. Strictly local cases – where the chef leaves a restaurant with the secret recipes and moves down the street – will still be handled in state courts. That's in part because the DTSA requires that the information in controversy be related to a product or service in "interstate commerce", the minimal jurisdictional requirement for federal courts to act. And it's in part because local cases will be brought by local lawyers who are familiar with their local courts.

Although some lawyers will want to use federal courts for trade secret cases just because they handle patent matters and are more comfortable there, that may not be the smartest tactical move. Federal judges take their cases on "single assignment", meaning that they are in charge of all issues from beginning to end. They are therefore more likely to view the case sceptically than state court judges, who typically have a "departmental" system and are sometimes seen as waving through weak cases so that they can be taken care of by a different judge at trial. In addition, federal judges are usually more demanding of a plaintiff's identification of its trade secrets. So we may not see a general rush toward filing in federal court.

What of the EU Trade Secrets Directive? Also driven by industry concerns over the need for harmonisation, the EU effort starts from a much lower base of harmony than has existed in US states. Indeed, the Commission's report found a disturbing level of inconsistency among the 28 national regimes. So by establishing common definitions, some common remedies and an approach for protecting secrets during litigation, the directive represents a major step forward.

But measured by the expectations and needs of customers, there is quite a distance left to travel. For cultural and political reasons, the directive does not deal with criminal remedies and so there remains an uneven regime for enforcement in the most egregious cases of information theft. More importantly perhaps for business, there has been no progress on addressing the fundamental problem of pursuing trade secret cases in civil law systems: the lack of

discovery. Say what you will about the excesses of US civil discovery in general; the trade secret plaintiff, facing losses from behaviours that only the defendants can know, is always disadvantaged at the outset of a dispute by asymmetric access to information about what happened. Without discovery to set the balance right, there will always be a significant number of legitimate cases that cannot be pursued.

Worse still may be the exceptions provided in the Directive. Unlike the DTSA, whistleblowers are free to disclose confidential information not just to government but also to media, so long as it is in the public interest. And the catchall exception for "protecting a legitimate interest" under national or EU law seems a yawning loophole that even the CJEU may not be able to constrain adequately.

The EU Trade Secrets Directive is a very good start on harmonising standards in this critical area. But for the time being, if your clients need extremely reliable civil remedies they are probably well advised to find ways to bring their cases in the US.

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