

Inside The House's New Trade Secrets Bill

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An impressive, bipartisan group of key lawmakers on the House Judiciary Committee, led by Rep. George Holding, R-N.C., and Jerrold Nadler, D-N.Y., introduced the Trade Secrets Protection Act, H.R. 5233, just before the August recess.[1] The bill would create a federal civil remedy for trade secret misappropriation. A companion, bipartisan legislative effort began in the Senate in April by Sens. Christopher Coons, D-Del., and Orrin Hatch, R-Utah, with the introduction of the Defend Trade Secrets Act.[2]

Trade secrets are an essential form of intellectual property for businesses across industry sectors.[3] Increasingly, companies are relying on trade secret laws to protect the know-how they develop that gives them a competitive advantage in the global marketplace. Yet trade secret owners, unlike owners of other forms of intellectual property, do not have a federal civil remedy available to them to vindicate their rights.



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The value of trade secrets makes this form of information and know-how a target for theft. The Senate Judiciary Committee heard testimony recently that trade secret theft costs on average 1 to 3 percent of GDP in the United States and other advanced economies.[4] Ultimately, the theft of a trade secret devalues research and development by allowing rivals to replicate the innovations at a fraction of the cost.

The prevalence of globalized supply chains and perpetual connectivity has made trade secrets more vulnerable and more likely to have a clear interstate or international nexus. The Economic Espionage Act of 1996 makes the theft of a trade secret a federal crime, but trade secret owners seeking to vindicate their rights in court, as a civil matter, must rely on an array of state laws. Most state trade secret laws are based on the Uniform Trade Secrets Act, but the variations among state laws and the limited ability of state courts to reach beyond their borders causes unnecessary inefficiencies.[5]

The state law approach to trade secret protection may have made sense at a time when trade secret theft was largely a local matter. But the nature of trade secret theft has changed, and our laws need to keep pace.

The bipartisan, bicameral interest in Congress for improving trade secret protection, along with the

priority trade secret protection has been given by the administration, is significant.[6] The momentum provides an uncommon but important opportunity for members of Congress to work together and enact legislation that will boost the incentives for investing in research, development, and innovation.

The Trade Secrets Protection Act would create a federal civil remedy for trade secret misappropriation as part of the EEA. It uses a definition of misappropriation that is based on the Uniform Trade Secrets Act.[7] The remedies available for a misappropriation — including both injunctive relief and damages — are also modeled directly on the UTSA.[8] By utilizing the UTSA standards, the authors wisely maintained the balance that exists under state law. The legislation would not protect information as a trade secret that is not protectable under state laws.

The legislation is also careful not to preempt state laws. Indeed, there would be instances in which the federal civil remedy would be unavailable because, as with the criminal provisions of the EEA, it requires the trade secret be “related to a product or service used in, or intended for use in, interstate or foreign commerce.”[9] In addition, it requires one act in furtherance of the misappropriation to occur in the United States.[10]

Perhaps most importantly, the legislation authorizes a court to issue a seizure order based on an ex parte application to prevent the propagation or dissemination of the trade secret alleged to have been misappropriated, subject to significant safeguards. The ability to act quickly when a trade secret is misappropriated can be essential to the owner. Once the trade secret is sold or divulged, the value of the trade secret may be lost forever and the harm irreparable.

A temporary restraining order to prevent the release may be sufficient when the alleged misappropriator is another company with a presence in the United States and would honor the court’s order, but when it is instead a thief with an airplane ticket to leave the country, a seizure may be the only way to prevent release of the property.

At the same time, a seizure provision must be tailored and limited to avoid abuse or harm to third parties. The Trade Secrets Protection Act includes protections based on those that exist under the Lanham Act,[11] but with additional safeguards that take account of the difference between counterfeits and trade secrets. The applicant can only request a seizure order to be served against a party accused of the misappropriation, and must show, among other things, that (1) a temporary restraining order would be inadequate because the party would evade it; (2) an immediate and irreparable injury will occur if seizure is not ordered; (3) the harm to the applicant of denying the order outweighs the legitimate interests of the target party and substantially outweighs any harm to third parties; and (4) the party would destroy or make the property inaccessible to the court if the applicant were to proceed on notice.

Further, the court’s order must (1) minimize any interruption to third parties; (2) be accompanied by an order protecting the property from disclosure; (3) set a hearing date no later than seven days after the order is issued; and (4) require a security adequate to cover any damages from a wrongful or excessive seizure. Any person who suffers damage by reason of a wrongful or excessive seizure has a cause of action against the applicant.

These protections are as important to the legislation as the ability to obtain a seizure order.[12] The protections will prevent fishing expeditions. They will also ensure that a third party that is not involved in the misappropriation but has an allegedly misappropriated trade secret residing on its server will not be subject to a seizure order.

The legislation maintains the established balance in trade secret law, but provides the tools needed for effective and efficient remedies for misappropriation. The balance is evident in the overwhelming support from all industry sectors and among companies of all sizes.[13]

The legislation will also advance efforts to improve trade secret protection and laws overseas. A harmonized, uniform federal trade secret law can serve as a model for other jurisdictions, such as in the European Union, where the European Commission is considering a directive providing more uniform protection of trade secrets. It will also bolster efforts to improve standards around the world through bilateral and multilateral negotiations.

Much has been written about how Congress has not been able to enact legislation in recent years. Intellectual property law, however, remains an area of bipartisan interest and accomplishment.[14] The bipartisan, bicameral nature of this effort to protect American trade secrets is important to turning the legislation into law, which is a hallmark of the chairmen and ranking members of the House and Senate Judiciary Committees, and a credit to the process. It is a great opportunity to protect American intellectual property, advance our economic interests domestically and abroad, and demonstrate that our elected representatives can work together to improve the American economy.

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[1] The legislation is cosponsored by the Chairman and Ranking Member of the Subcommittee with jurisdiction over intellectual property laws, the Ranking Member of the full Committee, and two previous Chairmen of the full Committee. For a full list of current cosponsors, see H.R. 5233 - Trade Secrets Protection Act of 2014, Cosponsors, <https://beta.congress.gov/bill/113th-congress/house-bill/5233/cosponsors>.

[2] Defend Trade Secrets Act, S. 2267.

[3] See John E. Jankowski, Businesses Use of Intellectual Property Protection Documented in NSF Survey, National Science Foundation (Feb. 2012) (“More so than for other forms of [intellectual property rights], a diverse group of industries reported trade secrets as very or somewhat important to their businesses.”); see also Trade Secrets: Promoting and Protecting American Innovation, Competitiveness and Market Access in Foreign Markets: Before the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary, 113th Cong. 3 (2014) (statement of David M. Simon, Senior Vice President for Intellectual Property, salesforce.com, Inc., available at http://judiciary.house.gov/_cache/files/cb622ae8-9acf-4937-b362-50559c1311e9/062414-trade-secrets-testimony---simon.pdf).

[4] Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today’s Threats: Hearing on

S. 2267 Before the Subcomm. on Crime and Terrorism of the S. Comm. on the Judiciary, 113th Cong. 2 (2014) (statement of Pamela Passman, President and CEO, CREATE.org, available at <http://www.judiciary.senate.gov/imo/media/doc/05-13-14PassmanTestimony.pdf>); see also id. at 5-40 (CREATE.org & PricewaterhouseCoopers, Economic Impact of Trade Secret Theft).

[5] Trade Secrets: Promoting and Protecting American Innovation, Competitiveness and Market Access in Foreign Markets: Before the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary, 113th Cong. 3 (2014) (statement of Richard A. Hertling, available at http://judiciary.house.gov/_cache/files/88b77b8d-9ee2-4b7c-b761-ca2810888292/hertling-written-statement.pdf).

[6] See Office of the U.S. Intellectual Property Enforcement Coordinator, Administration Strategy on Mitigating the Theft of U.S. Trade Secrets (Feb. 2013), available at http://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf.

[7] Compare amendments made by H.R. 5233, sec. 2(b)(3), with Uniform Trade Secrets Act sec. 1(2).

[8] The remedies available include injunctive relief and damages for actual loss and any additional unjust enrichment or, in the alternative, a reasonable royalty for an unauthorized disclosure or use of the trade secret. The Uniform Trade Secrets Act authorizes double damages for willful and malicious misappropriation while the Trade Secrets Protection Act authorizes treble damages, consistent with the trademark and patent laws.

[9] 18 U.S.C. § 1832(a); H.R. 5233 sec. 2(a).

[10] 18 U.S.C. § 1837.

[11] Section 34(d) of the Lanham Act.

[12] The Defend Trade Secrets Act, S. 2267, incorporates the Lanham Act protections, which are similar to the protections described in the text, by reference.

[13] See Letter from Adobe et al. to the Hon. George Holding et al. (July 29, 2014), available at http://www.cov.com/files/upload/Support_for_the_Trade_Secrets_Protection_Act.pdf

[14] At the end of last Congress, after the August recess, five bills relating to intellectual property were enacted, including two addressing the criminal aspect of trade secret theft. See Pub. L. 112-190; Pub. L. 112-211; Pub. L. 112-236; Pub. L. 112-269; Pub. L. 112-274.