Protecting Trade Secrets in the EU and the US

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Trade Secrets – need for protection

• Trade secrets
  – Valuable business assets
  – Important for innovation
  – Factor for competitive advantage and success in the market

• Misuse of trade secrets
  – Increased risk of trade secret misuse due to greater use of outsourcing/collaborations, easier access to data, growth of commercial espionage etc.
  – The numbers are going up: 25% of companies reported theft of information in 2013, up from 18% in 2012
  – Most cases involve some form of insider – employees are the biggest threat

“A consensus among economists has emerged that trade secrets play an important role in protecting the returns from innovation...”

European Commission Study on Trade Secrets and Confidential Business Information, April 2013
Patents v Trade Secrets

- Patent provides 20 year protection, but obligation to disclose
- Trade Secret potentially not limited in time; it is essential not to disclose
- Patent provides absolute protection, Trade Secret protects only against misappropriation
- Patents are property rights. In most countries, Trade Secrets are not considered property rights.
- Patents – like other property rights – can be transferred. This is not necessarily also the case for Trade Secrets. Transfer of Trade Secrets may require a series of agreed practical arrangements.
Trade Secrets – Protection in Europe
Trade Secrets protection in Europe before 2018

- No harmonisation regarding the protection of trade secrets in Europe
- No uniform definition of a "trade secret"
- Different protection mechanisms in Europe
- Different tests and procedures make cross-border enforcement a challenge
- Remedies inconsistent

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The EU Trade Secrets Directive - overview

- Article 2: Definitions (trade secret, trade secret holder, infringer)
- Article 3: Lawful acquisition, use and disclosure of trade secrets
- Article 4: Unlawful acquisition, use and disclosure of trade secrets
- Article 5: Exceptions
- Articles 6-7, 10-15: Legal remedies, incl. injunctions and damages
- Article 8: Limitation period
- Article 9: Preservation of confidentiality in legal proceedings
- Article 19: Implementation deadline 9 June 2018

- Minimum harmonisation
- No provision on evidence gathering
- Directive does not provide that Trade Secrets are property rights
Definition of a "trade secret" under the EU Directive

"Trade secret" means information which meets all of the following requirements

a. **It is secret in the sense that it is not generally known among or readily accessible to persons that normally deal with the kind of information in question**

b. **It has commercial value because it is secret**

c. **It has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret**
EU – Unlawful acquisition, use and disclosure

**Article 4 of the EU Directive**

2. The acquisition of a 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 copying 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.

3. The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder, by a person who is found to meet any of the following conditions:
   a) having acquired the trade secret unlawfully;
   b) being in breach of a confidentiality agreement or any other duty not to disclose the trade secret;
   c) being in breach of a contractual or any other duty to limit the use of the trade secret.

4. The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person [...] knew or ought [...] 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 [...].

5. The production, offering or placing on the market of infringing goods, or the importation, export or storage of infringing goods for those purposes, shall also be considered an unlawful use of a trade secret where the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used unlawfully [...].
EU – Lawful acquisition, use and disclosure

Article 3 of EU Directive

1. The acquisition of a trade secret shall be considered lawful when the trade secret is obtained by any of the following means:

   a) independent discovery or creation;
   b) observation, study, disassembly or testing 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;
   c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices;
   d) any other practice which, under the circumstances, is in conformity with honest commercial practices.

2. The acquisition, use or disclosure of a trade secret shall be considered lawful to the extent that such acquisition, use or disclosure is required or allowed by Union or national law.
Remedies available in preliminary injunction proceedings and proceedings on the merits:

- Order to cease and desist from using or disclosing the trade secret
- Order to cease and desist from producing, offering, bringing on the market and using infringing goods, or to import, export or stock these products
- Seizure of infringing goods
- Recall of infringing goods
- Destruction or amendment of infringing goods
- Destruction or return of documents containing the trade secrets
- Damages (proceedings on the merits only)
- Publication of the decision
Available remedies (2)

- Proportionality test in PI proceedings and proceedings on the merits - Art. 11, 13 Directive
  a) the value or other specific features of the trade secret;
  b) the measures taken to protect the trade secret;
  c) the conduct of the infringer in acquiring, using or disclosing the trade secret;
  d) the impact of the unlawful use or disclosure of the trade secret;
  e) the legitimate interests of the parties and the impact which the granting or rejection of the measures could have on the parties;
  f) the legitimate interests of third parties;
  g) the public interest; and
  h) the safeguard of fundamental rights.
- Duration of injunction must be sufficient to eliminate any commercial or economic advantage of the infringer
- Possibility of damages instead of injunction
Trade Secrets – Update for Germany
Implementation into German law

Government draft of new Law for the Protection of Trade Secrets

– Government draft published in July 2018
– Still has to go through governmental process
– Draft is likely to become effective until the end of 2018
Draft law

- Draft law implements EU Directive almost identically into national law
- First law for the protection of trade secrets
- Enforcement of trade secrets is likely to become easier in Germany after the implementation
  - Remedies for misappropriation
  - Reverse engineering is now explicitly allowed
  - Protection measures and documentation of protection measures necessary
  - Provisions to keep trade secrets during the court proceeding a secret
Additional provisions in the German draft

- **Accounting claim (§ 7)**
  - Necessary for the effective protection of the trade secret holder
  - Proportionality test (§ 8)
  - Sanctions possible in the event of incorrect provision of information

- **Liability of the owner of a company (§ 11)**
  - Only for injunction and recall claim not for damages

- **Right to claim surrender after the statute of limitations has expired (§ 12)**
  - Lex specialis for damage claim in § 852 Civil Code
  - Limitation within 6 years

- **Compensation for expenses for legal defence in the event of abusive assertion of claims (§ 13)**
Trade Secrets – Update for the Netherlands
Almost literal implementation of EU Trade Secrets Directive

Explanation of 'trade secret' in Explanatory Memorandum new Dutch Act:

"Trade Secrets can pertain to a broad spectrum of information, from technological knowledge, such as production methods and recipes, to commercial data, such as information about customers and suppliers, business plans or market research and market strategies."

Limitation period: 5 years after becoming aware of misappropriation, or 20 years after the start of the misappropriation (new Article 6:310d DCC)
Intended NL implementation: *Trade Secret Protection Act (2)*

- New confidentiality provisions in Dutch procedural law:
  - Article 1019ib DCCP
    - The parties, lawyers, witnesses, experts will not use or disclose trade secrets outside of the proceedings.
    - The Court can order that only a limited group of persons gets access to the trade secret information. Access to hearings can be limited to said group of persons. The size of the group should safeguard both effective proceedings and the right to a fair trial
    - Redacted version of the decision can be made public
  - Article 22a DCCP: The Judge can order that trade secret information is only accessed by the procedural party’s lawyer
- Article 1019ie DCCP: Reasonable attorney costs are recoverable
- No new rules on evidence, but evidentiary seizure and disclosure order possibilities remain available
Unlawful act (Article 6:162 DCC)
Breach of contract (Article 6:74 DCC)
Article 7:611 Dutch Civil Code: duty to act as a good employee
Article 273 Dutch Criminal Code
Competition and relationship clauses in employment contracts are outside scope of Directive and Dutch implementation
NL: Obtaining evidence

- EU Trade Secrets Directive contains no provisions on obtaining evidence
- Useful measures available in NL:
  - Evidentiary seizure (Article 843a jo. 6:162 DCC)
    - Dutch Supreme Court 28 September 2018 (Organik Kimya v. Dow Chemical)
      - Evidentiary seizure of documents is possible
      - Detailed description of products/processes is also possible
  - Disclosure of specific documents (Article 843a DCCP)
    - Evidence may be used abroad (Supreme Court 8 June 2012, ADIB v. ABN)
    - Trade Secret Holder is not required to specify its trade secrets in a seizure / disclosure action (Supreme Court 28 September 2018)
  - (Preliminary) hearing of witnesses
Trade Secrets – Protection in the United States
US legal framework

U.S. state civil law claims:

• In the U.S., historically, laws protecting trade secrets were predominantly state laws; Thus, most U.S. trade secret precedent involves application of state laws

• 47 of the 50 U.S. states and the District of Columbia have adopted some version of the Uniform Trade Secrets Act (“UTSA”) as their trade secrets law
  – Exceptions: New York, Massachusetts, North Carolina

• However, differences among states in interpretation and application of UTSA
U.S. federal civil law claims:

• The Defend Trade Secrets Act (‘‘DTSA’’), enacted in 2016, creates a federal civil cause of action for trade secret misappropriation claims
  – The act provides for greater uniformity across state lines in trade secret definitions and misappropriation standards, as well as national service of process and execution of judgments
  – Among the DTSA’s more notable provisions are the availability of ex parte seizure orders in ‘‘extraordinary circumstances’’, both to preserve evidence and as a remedy, and whistleblower protection for employees and contractors

US legal framework

U.S. federal civil law claims:

• The DTSA (cont’d)
  – Effective for misappropriation occurring on or after May 11, 2016
  – Interstate or foreign commerce requirement for standing
  – Applies to conduct outside the U.S. if (1) offender is U.S. citizen or company or (2) an act in furtherance of the offense committed in U.S.
  – Remedies include
    • Injunctive relief (but no restraint on employee mobility, and rejection of inevitable disclosure doctrine);
    • Monetary damages for actual loss and any unjust enrichment, or alternatively a reasonable royalty;
    • Enhanced damages of up to two times the amount of monetary damages; and
    • Attorneys’ fees, where the misappropriation was willful and malicious, or if the claim of misappropriation was made in bad faith
  – The DTSA does not preempt state law claims; If properly in federal court, plaintiff can pursue both DTSA and parallel state law claims
What is a Trade Secret in the US?

• “all forms and types of financial, business, scientific, technical, economic, or engineering information . . . tangible or intangible . . . if

  – (i) the owner thereof has **taken reasonable measures** to keep such information **secret**; and

  – (ii) the information derives **independent economic value**, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.” *18 U.S.C. §1839*
What is a Trade Secret in the US? (2)

• A *substantial element of secrecy* must exist with respect to a trade secret

• A trade secret is not:
  – Matters of public knowledge or of general knowledge in an industry;
  – Matters which the company freely discloses, or makes no efforts to retain in confidence;
  – Matters which are completely disclosed on the face of the goods which one markets
  – *Can the “secret” be reverse-engineered from products on the market?*
What is a Trade Secret in the US? (3)

• Examples:
  
  – Quintessential example is the Coca Cola formula, but many different types
  
  – Technical or scientific: Prototypes, formulas, designs or drawings, schematics, programs, codes, algorithms, tests, techniques, processes, patterns, R&D roadmaps
  
  – Business or financial: Business strategies, marketing plans, customer lists, pricing information, sales forecasts, compensation information, organizational information
  
  – Can be maintained in many different formats: physical, electronic, graphic, drafts, calendars, minutes
  
  – Even if disclosed outside the company, if disclosed in confidence, can still be a trade secret: NDA, sealed bid, confidential response to RFP
Confidential Business Information

• Trade secrets vs. confidential business information (“CBI”):
  – Trade secrets are *one type* of confidential business information
  – Not all confidential business information qualifies as a trade secret
  – Confidential and/or proprietary business information *may* be protected under some state laws even if not proven to be a trade secret

• This discussion will likely also arise in Europe after implementation of the Trade Secrets Directive
Trade Secrets Litigation in the U.S.

• “Misappropriation” of trade secrets may give rise to a civil (or criminal) claim under both federal and state laws

• Trade secrets cases can be litigated in the U.S. in three possible forums:
  – A federal district court;
  – The court of a U.S. state; or
  – The U.S. International Trade Commission (“ITC”) (in cases involving imported goods)
Some general concepts:

• “Misappropriation” of trade secrets is:
  – **Acquisition** of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by *improper means*; or
  – **Disclosure or use** of a trade secret of another without express or implied consent by a person who:
    (A) Used *improper means* to acquire knowledge of the trade secret; or
    (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
      (i) Derived from or through a person who had used *improper means* to acquire it;
      (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
      (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
    (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

*18 U.S.C. §1839*
Trade Secrets Litigation in the U.S. (3)

• “Improper means”:  
  – includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means

• “Improper means” is not:  
  – Reverse engineering, independent derivation, or any other lawful means of acquisition

18 U.S.C. §1839
  • Independent development is a common defense to misappropriation claims
US discovery

- Courts permit broad discovery of any information that is relevant to a claim or defense
  - Document production
  - Depositions
  - Interrogatories
  - Requests for admission
  - Subpoenas to third parties

- Discovery of highly confidential information is generally permitted
  - Protected from disclosure to public or opposing parties by Protective Order
US discovery for use in foreign proceedings (28 USC s1782)

- Three requirements:
  - The person from whom discovery is sought must reside (or be found) in the district where the application is made. Temporary presence is sufficient.
  - The discovery must be for use in proceedings before a foreign tribunal.
  - The application must be made by a foreign or international tribunal or any "interested person".

- Wide applicability and scope, but considerable discretion of district courts to grant, limit or deny discovery.
Best practices for protecting trade secrets and confidential business information
Best Practices for Protecting Trade Secrets and Avoiding Misappropriation Claims by Others

General Steps:

1. **Inventory**: Conduct review to identify specific trade secret and confidential business information assets and designate their importance.

2. **Protect**: Create contractual obligations for employees and third parties concerning use and disclosure of confidential documents and information.

3. **Protect**: Restrict and/or control employee access to confidential documents and information.

4. **Protect**: Implement procedures for new hires and departing employees.

5. **Identify**: Implement document marking policies.

6. **Secure Disposal**: Implement policies for disposal and destruction of confidential documents and information.

7. **Monitor**: Appoint individual or committee responsible for oversight of trade secret protection policies and procedures.
Conclusion
Conclusion

- Like the US, there is now a clear legal framework for Trade Secrets in Europe
  - Provides better protection of Trade Secrets throughout Europe and improves enforcement
- Lack of harmonization of evidence gathering options is a missed opportunity
- The Netherlands will be a favorable jurisdiction for Trade Secret claims:
  - NL is an important transportation/distribution hub (gateway to Europe)
  - Availability of evidentiary seizure and disclosure actions
- Enforcing Trade Secret claims in Germany will become much easier in Germany after the implementation
  - Germany is a rather quick and comparably cheap litigation location
  - Courts are well experienced in IP matters
- Companies operating internationally should consider the "best practices" and take all reasonable steps to protect their trade secrets, in order to meet protection requirements in the US, the EU and elsewhere
Map usage

Our Offices

Our global presence