

Many Hope Trade Secrets Legislation Moves in Lame-Duck Session; Critics, Skeptical of Bills' Effectiveness, Ask: 'Why Here, Why Now?'

TRADE SECRETS

Legislation to create a federal private right of action for misappropriation of trade secrets enjoys broad support and could pass during the lame-duck session. However, some are speaking out against the measure, claiming it is ill-suited to accomplish what is absolutely necessary: stanching theft of trade secrets perpetrated by foreign entities. This article examines the reasons for, and the arguments against, the proposed legislation.

If one of two proposed bills to create a federal private right of action for misappropriation of trade secrets moves during the lame-duck session then it will be a major boon for countless American businesses—and their attorneys—who for decades have mostly litigated civil trade secrets cases under a patchwork of varied state laws.

It will also, according to one lawmaker, be “the biggest change to trade secret law in modern history.”

More than just offering a useful tool for owners of trade secrets, the new legislation, if it were to pass in the waning days of the one of the most gridlocked Congresses in history, would signal bipartisan, bicameral coalescence around a form of intellectual property that is frequently an afterthought.

Patents, copyrights and trademarks, arguably in that order, receive the bulk of congressional attention, but either the Trade Secrets Protection Act of 2014 (H.R. 5233)¹ or the Defend Trade Secrets Act of 2014 (S. 2267)² could be the third trade-secret related bill to become law since late 2012.³

¹ H.R. 5233 was introduced July 29 by Rep. George E. Holding (R-N.C.) (88 PTCJ 859, 8/1/14).

² S. 2267 was introduced April 29 by Sens. Christopher A. Coons (D-Del.) and Orrin G. Hatch (R-Utah) (88 PTCJ 41, 5/2/14).

³ The Foreign and Economic Espionage Penalty Enhancement Act of 2012 (85 PTCJ 303, 1/4/13) and the Theft of Trade Secrets Clarification Act of 2012 (85 PTCJ 126, 11/30/12) each made minor amendments to the Electronic Espionage Act of

In terms of effective congressional attention, then, trade secrets have barrelled past copyrights and trademarks in that time frame and are poised to pass patents, particularly given the stalled efforts to reform patent litigation abuses.

And it is not just Congress. The administration has made the protection of corporate American trade secrets a top priority, ramping up criminal enforcement efforts and releasing a white paper in 2013 that both identified problems—namely, a rampant and accelerating trend of trade secret misappropriation—and their cause—often China.⁴

The Department of Justice can bring criminal charges against individuals that misappropriate trade secrets on behalf of foreign governments and companies, but the business that has its data stolen has very few options. Even those critical of the proposed legislation agree that it is vitally important to rein in those thefts.

Opponents of the bill, however, argue that the proposed legislation is unlikely to solve that problem, will disturb existing trade secrets law and will introduce un-

1995, 18 U.S.C §§ 1831-1839, the law that currently allows for criminal prosecution of theft of trade secrets. One bill enhanced penalties under the EEA and the other closed an apparent loophole in the law.

⁴ The “Administration Strategy on Mitigating the Theft of U.S. Trade Secrets” is available at http://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf.

precedented remedies into intellectual property law. This article will explore those criticisms and the responses offered by supporters of the legislation.

Equal Footing for Trade Secrets. The first thing that the legislation would do is finally put trade secrets on the same footing as patents, trademarks and copyrights.

“Trade secrets have the notorious distinction of being the only form of intellectual property with no federal remedy,” Kurt G. Calia of Covington & Burling LLP, Redwood Shores, Calif., told Bloomberg BNA. “That just seems like it is relegating trade secrets to a second class status, when in reality it is clear that there is a growing recognition that a substantial portion of the intellectual property held by American companies is tied up in trade secrets.”

Along with the growing recognition of the importance of trade secrets is an increasing awareness of their vulnerability, especially when foreign actors see pilfering American industry secrets as a cheap and relatively low-risk way to level the playing field.

“There is not a lot that Congress can agree on these days, but this seems like low hanging fruit.”

—KURT G. CALLA, COVINGTON & BURLING

Calia supports both bills, thinks a federal remedy for theft of trade secrets is an absolute necessity and, given the broad support for the legislation, sees no reason that one of the bills could not pass and become law.

“It is not a hard sell for people on both sides of the aisle to say: ‘Hey, we don’t want American companies being ripped off,’” Calia said. “There is not a lot that Congress can agree on these days, but this seems like low hanging fruit,” he said.

Some Bill Basics. There are differences between S. 2267 and H.R. 5233, but, as explained more fully in a recent Bloomberg BNA Insight article titled, “The Time Is Ripe for a New Federal Civil Trade Secret Law,” by Mark Krotoski of Morgan, Lewis & Bockius, Washington (89 PTCJ 28, 11/7/14), the bills would generally accomplish the same thing: create a private right of action for misappropriation of trade secrets. And both bills would do so by amending the Electronic Espionage Act.

Other notable commonalities of the bills include:

- the EEA’s expansive definition of a “trade secret,” which is broader than the definition of term in the Uniform Trade Secrets Act;

- a five-year statute of limitations, measured from when the trade secret owner discovered, or with reasonable diligence should have discovered, the misappropriation;

- treble damages in instances of willful or malicious misappropriation; and

- a possibility of ex parte seizures.

The bills would also not preempt existing state law, which means that a trade secret owner would have a hybrid of state and federal protection if the legislation were to pass.

Calia’s suggestion that the legislation is low-hanging fruit was evident Sept. 17 when the House Judiciary Committee unanimously ordered that an amended version of H.R. 5233 be reported favorably to the House (88 PTCJ 1259, 9/19/14).

That is not to say, however, that the process has been entirely free of controversy. Just prior to the voice vote to report the bill, the committee voted down an amendment that would have stripped the ex parte seizure provision that has made some lawmakers and academics nervous.

The version of H.R. 5233 that was reported out of committee actually contained a narrower seizure provision than what was initially introduced, which in turn was already narrower than the Senate’s similar provision.

House Seizure Remedy Tailored to Ameliorate Concerns. The provision in S. 2267 states that a court could, based upon an ex parte application, issue an order:

(ii) providing for the seizure of any property used, in any manner or part, to commit or facilitate the commission of a violation alleged under subparagraph (A), except that the order—

(I) may not provide for the seizure of any property that is merely incidental to the alleged violation unless necessary to preserve evidence; or

(II) shall provide for the seizure of any property in a manner that, to the extent possible, does not interrupt normal and legitimate business operations unrelated to the trade secret.

The bill goes on to provide that the requirements “of section 34(d) of the Trademark Act of 1946 (15 U.S.C. § 1116) shall apply to any ex parte application or seizure order under subparagraph (A).”

During a May 13 hearing before the Senate Subcommittee on Crime and Terrorism, the Senate bill in general and the ex parte seizure provision in particular were roundly applauded by witnesses representing a wide array of industries.

A representative of the pharmaceutical industry, for instance, said the ex parte provision was critical because it would give a trade secret owner an opportunity to prevent, rather than cure, the misappropriation. Because the value of a company’s trade secrets is in large part attributable to the fact that competitors do not know that secret, the possibility of preventing that disclosure through an ex parte seizure order was critical, the witnesses said.

That seizure provision, however, was criticized as being too broad during a June 24 trade secret-focused hearing before the House Subcommittee on Courts, Intellectual Property and the Internet (88 PTCJ 599, 6/27/14). Specifically, one witness said that these safeguards were not adequate to protect the data of inno-

To request permission to reuse or share this document, please contact permissions@bna.com. In your request, be sure to include the following information: (1) your name, company, mailing address, email and telephone number; (2) name of the document and/or a link to the document PDF; (3) reason for request (what you want to do with the document); and (4) the approximate number of copies to be made or URL address (if posting to a website).

cent third parties that may be intertwined with the information stored by the alleged misappropriators.

In response to that criticism, the House incorporated the limitations set forth in Section 34(d) of the Lanham Act, which deals with injunctive relief, directly into the text of H.R. 5233. Specifically, as initially introduced, an ex parte seizure under H.R. 5233 could only issue if the court first determined that a temporary restraining order under Federal Rule of Civil Procedure 65(b) “would be inadequate” due to the likelihood that the defendant “would evade, avoid, or otherwise not comply with such an order.”

The court would then have had to determine that irreparable harm would occur if the seizure were not ordered and that the applicant’s harm outweighed the potential “legitimate interests” of the defendant and “substantially outweigh[ed] the harm to any third parties who may be harmed by such a seizure.”

Moreover, the applicant would need to describe “with reasonable particularity the matter to be seized” as well as the approximate location of where the matter is to be seized.

“To me, the seizure provisions, even with the additional tailoring, are eerily similar to those provisions that were so controversial in SOPA and PIPA.”

—DAVID S. LEVINE, ELON UNIVERSITY

But even that language raised concern, leading to the introduction of a manager’s amendment by Rep. George E. Holding (R-N.C.) during the Sept. 17 markup of H.R. 5233. When he offered the amendment, Holding said:

[T]he manager’s amendment amends the seizure provision to make explicit that a seizure order cannot issue unless the subject of the order is the misappropriator who used improper means to acquire the trade secret or conspired with one who did. This provision is intended to ensure that, for instance, a website operator that publishes a misappropriated trade secret cannot be subject of a seizure order even if the operator knew the trade secret was stolen.

But to Some, Seizure a Four-Letter Word. “To me, the seizure provisions, even with the additional tailoring, are eerily similar to those provisions that were so controversial in SOPA [the Stop Online Piracy Act] and PIPA [the Protect IP Act],” David S. Levine, a law professor at Elon University, Elon, N.C., told Bloomberg BNA.

Levine—along with Sharon K. Sandeen, a law professor at Hamline University, Saint Paul, Minn.—spearheaded an effort that resulted in a group of 31 law professors sending a letter in opposition to the proposed bills.⁵ The professors were particularly troubled by H.R. 5233’s requirement that an ex parte seizure order could only issue if “the applicant has not publicized the requested seizure.”

⁵ Letter available at <http://pub.bna.com/ptcj/ProfessorLetterTS.pdf>.

“[W]e are concerned that the TSPA [H.R. 5233] requires a level of secrecy about court rulings that is unprecedented,” the letter said.

Calia noted that there was nothing unprecedented about the provisions given that identical language appears in Section 34(d) of the Lanham Act at 15 U.S.C. § 1116(d)(4)(B)(ii).

The entire seizure provision, Calia said, is modeled after and substantively identical to Section 34(d) of the Lanham Act, which concerns civil actions that target the use of counterfeits.

“The provision has been pretty effective in that context so I don’t see any reason why it wouldn’t also be helpful for trade secrets,” he said.

“We do have seizure remedies for copyrights and trademarks, but those are focused on seizing the goods themselves,” Sandeen told Bloomberg BNA. “But this legislation is not about seizing the trade secrets themselves, but about seizing evidence of the alleged misappropriation. And that is what is unprecedented.”

During the markup of H.R. 5233 three lawmakers expressed concern about the seizure provision, Reps. Zoe Lofgren (D-Calif.), Henry C. “Hank” Johnson Jr. (D-Ga.) and Raúl R. Labrador (R-Idaho).⁶

“I do not think now is a good time to rush through what will be the biggest change to trade secret law in modern history,” Lofgren said when she offered an amendment that would have stripped the seizure provision from the bill.

However, Lofgren, who was an outspoken opponent of the rogue website legislation in 2012, was not willing to paint the seizure provisions here with the SOPA brush.

“[E]ven though I object to them, [they] do not touch into the SOPA realm that we were so concerned about a few years ago,” she said of the provisions during the markup of H.R. 5233.

Johnson and Labrador noted that none of the 47 states that have enacted the UTSA have included an ex parte seizure provision and questioned the necessity of including it in the federal legislation. In response, many of their colleagues stressed the importance of giving a trade secret owner a chance to prevent disclosure in the first place.

“Where a thief sneaks into a facility, steals a trade secret and is heading to the airport to fly to China and sell it, a piece of paper from the court is not going to stop that person,” the chairman of the House Judiciary Committee, Rep. Robert W. Goodlatte (R-Va.), said during the markup. “That is why the seizure provision is necessary.”

Goodlatte and lawmakers also noted that the bill provides for stiff penalties that can be brought to bear against any party abuses the ex parte seizure remedy.

“Assuming that this passes, if I am advising a client on an ex parte seizure, I am going to tell them that you better really tailor exactly what it is that you want seized to only what you think it is that is absolutely necessary to prove out your trade secrets case, and not one bit farther,” Calia said. “Because you could face exposure as a result.”

⁶ Transcript of Sept. 17 markup of H.R. 5233 available at http://judiciary.house.gov/_cache/files/4d029f1e-fbf3-40e1-acdd-e555b464c984/09.17.14-markup-transcript.pdf.

What if Seizure Provisions Dropped? The seizure provision has undoubtedly been the most contentious provision, and the provision most likely to derail the legislation in the short term.

“Lame-duck sessions are wild cards and so unless something is really and truly noncontroversial, there is no guarantee that it will pass,” Robert B. Milligan of Seyfarth Shaw LLP, Los Angeles, told Bloomberg BNA.

Milligan conceded that “there has been a lot of noise about the seizure provisions,” but, in his view, the language that was reported out of the House Judiciary Committee was so narrowly tailored that “it is hard to see how the provision could be abusive at all.”

“Candidly, if the choice was no trade secret legislation or trade secret legislation that had to include the seizure order, I think a lot of supporters would adopt the trade secret legislation even if they couldn’t get the ex parte seizure order,” Milligan said. However, he noted that the ex parte provision was critically necessary in exceptional cases.

An opponent of the legislation, David S. Bloch of Winston & Strawn LLP, San Francisco, said he doubted that there would be sufficient support for enactment should the seizure provisions be stripped.

“The business community does not see this legislation as unnecessary, and they are the ones whose information is in play.”

—ROBERT B. MILLIGAN, SEYFARTH SHAW

“That provision, I think, is what drives most of the support for the legislation, and I think it is a provision that will legitimately put the fear of God into certain kinds of importers,” Bloch told Bloomberg BNA. “The provisions also creates a real risks for some legitimate importers who could be victimized by some troll who tries to block their imports at the border.”

Still, although Bloch said he was “not in love” with the seizure provision, calling it a “blunt tool to solve the problem,” he saw a path forward that was essentially the opposite of Milligan’s suggestion.

“If this is what people want, then fine, let’s create this by appending an ex parte seizure remedy onto the EEA,” Bloch said. “But that provision can conceptually be divided away from the rest of the law. And so lets just create that remedy without putting the entire architecture of trade secret law in the United States at naught.”

Are the Bills Necessary? The architecture that Bloch was referring to, which was also brought up by the professors, is the existing body of trade secret jurisprudence that has developed for decades under common law and state law doctrines.

“It is true that trade secrets are the only form of intellectual property not federalized, but that mere fact that it has not been federalized does not mean it should be,” Bloch said. This is especially true, he said, given that there has not been “a clamor of people suggesting that states are falling down on the job of protecting trade secrets.”

The professors’ letter argued that the legislation was unnecessary because, thanks to widespread adoption of the Uniform Trade Secrets Act, there is a “deep body of state law” available that offers “a high level of predictability” for American businesses. That position does not appear to be widely accepted outside of academia.

“The business community does not see this legislation as unnecessary, and they are the ones whose information is in play,” Milligan said.

Calia, too, took issue with the characterization that state trade secret jurisprudence made the legislation unnecessary.

“While I don’t disagree with the point the professors are making that there is a body of state law that has blossomed, that really doesn’t speak to the issue that this statute is designed to address,” Calia said. “As a practitioner who handles trade secret litigation with relative frequency, I can say that it is sometimes a struggle to figure out how best to advise a client. I don’t think that most would agree that there is ‘a high level of predictability’ in this area.”

The high level of predictability, according to Calia and other backers of the legislation, will only come when there is one national standard for trade secrets misappropriation.

“Even though the vast a majority of states have implemented some version of the Uniform Trade Secrets Act, the reality is there are some important variations from state to state,” Calia said. “For example, in some states you can get punitive damages and in some states you can’t. These are not trivial differences.”

Impactful But Not Preemptive. How the proposed legislation will impact businesses in California was an issue that was brought up by both Calia and Bloch, and clearly demonstrates how, while the legislation will not preempt state law, it will nonetheless profoundly impact litigants in all states.

“I think about a state like California, where I practice, it is very difficult to craft non compete [agreements] that have real teeth to them,” Calia said. “In other states it is quite different.”

A deterioration of these employer-employee relationships often lead to trade secrets cases, and the lack of a uniform standard with regards to what a business can do to protect its property in these circumstances is a real impediment, Calia said.

“In California, you may not be able to prevent an employee from working for a direct competitor in the areas in which they had been working for a given company, like you can in some other states, but at least you will have a remedy under a federal statute for the potential misappropriation by that employee,” Calia said.

“My broadest concern is why here, why now, why at all?”

—DAVID S. BLOCH, WINSTON & STRAWN

Another California practitioner, Bloch, derided for the impact the legislation would have on parties defending against misappropriation claims in his state.

“This is a really lousy bill for a California company, because that company will immediately lose statutory

protections that we have had for a couple of generations now,” Bloch said.

Specifically, Bloch noted that under California civil procedure rules, a plaintiff in a misappropriation suit cannot pursue discovery until after it has disclosed its asserted trade secret with sufficient particularity to put the defendant on notice of what the litigation will be about.

“The concern has always been that we don’t want a situation where a plaintiff files a suit now, and develops a predicate basis later,” he said. “And that concept does not exist in the proposed federal legislation.”

Bloch also said that the proposed five-year statute of limitations period was too long, especially because the UTSA suggested, and most states adopted, a limitations period of three years. The legislation, he said, would revive suits that are now time barred in jurisdictions that have a three-year limitations period.

Milligan noted that a number of states have adopted the five-year limitations period, which he said is helpful because often times it takes a few years for a misappropriator to secure funding to start producing and marketing a product containing the stolen trade secret. The longer period “certainly helps trade secret holders protect their rights,” he said.

‘Why Here, Why Now?’ “My broadest concern is why here, why now, why at all,” Bloch said. His criticism, shared by other opponents of the legislation, was that there has been insufficient attention given to whether the legislation actually solves the issue that is most critical to American companies.

“I understand the concerns about China and I am sympathetic to them, but I don’t think this legislation is going to end trade secret misappropriation” from Chinese actors, he said. Rather, increased and coordinated criminal enforcement efforts are the best solution to that problem, he said.

Sandeen and Levine also questioned whether the legislation could meaningfully reduce trade secrets theft perpetrated on behalf of foreign companies and governments. To the extent that cybertheft is being targeted, the Computer Fraud and Abuse Act, 18 U.S.C. § 1030, which criminalizes unauthorized access to a computer, is a better tool, they said.

“One of the consequences to not listening to other voices is that Congress has not heard better solutions.”

—SHARON K. SANDEEN, HAMLINE UNIVERSITY

“We don’t doubt the harm, but we do suggest that this legislation is not the answer,” Levine said. He said that a revised and amended CFAA that better clarifies what constitutes unauthorized access could better reduce cybertheft targeting American corporate trade secrets.

“To muddy up trade secret law as these acts do, and to not in any way create benefits to trade secret holders, seems to be a colossal waste of time and one that carries with it the potential for serious downsides,” Levine said.

The legislation does not solve the purported problem in part because Congress has not engaged with enough stakeholders to determine how best to solve that problem, Sandeen said. “One of the consequences to not listening to other voices is that Congress has not heard better solutions.”

“There has been no discussion of whether these bills actually solve that problem,” Levine said. “I don’t doubt the good intentions of the sponsors, but it is a gigantic issue that the hearings that have been held have not carefully examined whether these bills will be effective at solving the problem that everyone agrees exists.”

Bloch, too, argued that the entire process has moved too swiftly and has lacked input from all relevant stakeholders.

“You think about how much more debate there was over the boat vessel hull protection law,⁷ over the need for mass work protections for semiconductors,⁸ these are very narrow specialized laws that we still had robust debate over,” Bloch said. “This trade secret legislation, on the other hand, seems to just be percolating to the surface without a whole lot of public notice,” he said.

While H.R. 5233’s pace through the House has been swift to date, the issue has been percolating for some time. Indeed, although not as broad as the current bills, a measure introduced in 2012 by then Sen. Herbert H. Kohl (D-Wis.) would have created a federal right of action for trade secret theft in many instances. Related bills were also introduced in 2013 by Lofgren in the House (86 PTCJ 470, 6/28/13) and Sen. Jeffery L. Flake (R-Ariz.) in the Senate (87 PTCJ 215, 11/29/13).

The legislation might be moving now, as opposed to in previous years, because, “There is a growing recognition that trade secrets are an enormously important economic asset of the country, and in many ways it is a national security issue,” Jason C. Schwartz of Gibson, Dunn & Crutcher LLP, Washington, told Bloomberg BNA.

“There is a growing recognition that trade secrets are an enormously important economic asset of the country, and in many ways it is a national security issue.”

—JASON C. SCHWARTZ, GIBSON, DUNN & CRUTCHER

The potential for the legislation to provide American businesses a last line of defense against foreign attack—most notably through the ex parte seizure provisions—is what makes it low hanging fruit for so many in Washington.

“If you read the white paper by the White House, almost every example of trade secret misappropriation is where trade secrets have been stolen on behalf of a foreign entity. More specifically, virtually every party in those examples is a Chinese actor, and so it is part of the picture and there is an emphasis on it [going after

⁷ The Vessel Hull Design Protection Amendments of 2008.

⁸ Semiconductor Chip Protection Act of 1984.

China],” Schwartz said.⁹ “But when you look at case filings, they are all over the map. There are a panoply of day-to-day cases that are filed all over the country against a broad range of defendants, and those cases are also really important, and those plaintiffs are also eager to get a uniform body of law and access to federal district courts.”

In many ways Schwartz’s last point, which was also made by Milligan, is a refinement of the underlying disagreement over the bills. Supporters are hopeful that the legislation will allow trade secret owners to proactively join the fight, currently being led by the Department of Justice, against foreign-sponsored misappropriation. But even if the *ex parte* seizure provisions are not a silver bullet against foreign theft, the legislation on the whole will still be immensely valuable to American companies, proponents argue.

⁹ Seventeen of the 20 criminal enforcement actions the White House detailed in its 2013 report on mitigating trade secret thefts involved Chinese actors.

Opponents generally see the prevention of foreign theft as the only legitimate purpose behind the legislation, and if the bills cannot achieve that result, then Congress should come up with something that can, they say.

Congress has just a few weeks to decide whether it can resolve the problem in this session, or whether trade secrets reform will instead be one of the many intellectual property issues deferred to the next Congress. However, given the intense focus on trade secrets and the need for stronger protections, any delay in new legislation is likely to be only temporary.

“If it doesn’t get done before the end of the year, it would be disappointing, but certainly they could bring it up in the next session of Congress,” Milligan said. “There is nothing magical about getting it passed in the lame-duck session.”

BY TAMLIN BASON