

International Trend Toward Strengthening Trade Secret Law

By Joshua Sibble

As the patent wars continue to rage, and the cost of securing and enforcing patent rights continues to rise in the United States and abroad, the role of trade secrets in securing and protecting valuable intellectual property has become increasingly prominent. As a result, trade secret law recently has received increasing attention around the world. New and proposed laws in the United States, Europe, and China all signal the rising importance of trade secrets in the global economy.

United States

Unlike the US patent system, which was expressly authorized by the Constitution and created by one of the first acts of Congress, trade secrets have long been mostly ignored by the federal government. Like trademarks, trade secrets were traditionally the domain of state common law. Unlike trademarks, however, which eventually gained federal recognition through the Lanham Act and other legislation, trade secrets remained, until recently, mostly outside the purview of federal law.¹ The first federal law to directly and broadly address the protection of trade secrets did not come until 1996 with the Economic Espionage Act (EEA), which created criminal penalties (including imprisonment) for theft of trade secrets.²

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More recently, Congress passed the Theft of Trade Secrets Clarification Act of 2012 to clarify the scope of the EEA in response to the decision of the US Court of Appeals for the Second Circuit

in *United States v. Aleynikov*.³ In that case, the Second Circuit overturned the conviction of a former Goldman Sachs employee who allegedly stole proprietary source code for a high-frequency trading platform. The Second Circuit held that the original language of the EEA, which was limited to “a product that is produced for or placed in interstate or foreign commerce,” did not cover software used only internally.⁴ In response, Congress amended the EEA to cover any “product or service used in or intended for use in interstate or foreign commerce.”

Most recently, the President signed into law the Economic Espionage Penalty Enhancement Act of 2012. This law increases the maximum criminal penalties for foreign economic espionage.⁵

Current proposed legislation also would make significant changes to federal trade secret law. For example, a draft discussion bill⁶ proposed by Senators Sheldon Whitehouse and Lindsey Graham would aim to strengthen trade secret protections by expanding the scope of the EEA. According to Senator Whitehouse’s summary,⁷ the draft legislation has seven objectives:

1. *Cover government sponsored hacking*—This proposal would clarify that the [EEA] covers instances in which (a) a foreign government agent steals and relays a trade secret to a private company; or (b) a private thief steals a trade secret at the request of a foreign government and relays the stolen trade secret to a private company.
2. *Enhance intervention of interested parties*—This proposal would enhance the opportunity of owners of trade secrets to weigh in on any assessment of the importance of keeping trade secrets confidential. ***
3. *Clarify that the statute covers trade secret theft accomplished through the use of means or facilities within the United States*—This proposal would ensure that the statute would apply to a hacker whose code

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passes through US computers but who is never physically present in the United States.***

4. *Clarify definition of “foreign instrumentality”*—This proposal would ensure that companies that are substantially subsidized by foreign government entities fall within the definition of “foreign instrumentality,” and that a foreign entity led by a foreign agent can meet the definition of “foreign instrumentality.”***
5. *Cover theft of negotiating positions or strategies*—This proposal would ensure that stealing negotiating positions or strategies (e.g. from a company or its law firm) is covered by the statute.***
6. *Clarify definition of “benefit” to include any conveyance of a trade secret to a foreign government*—This proposal would ensure criminal liability for all the trade secrets the thief knowingly conveys to a foreign government, not just the ones the thief knows will benefit a foreign government.***
7. *Make Trade Secret Theft a RICO predicate*—This proposal would ensure that RICO tools are available in trade secret and economic espionage investigations.***⁸

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One change the Whitehouse bill would not make is the creation of a federal civil cause of action for trade secret misappropriation. Currently, the only civil remedies available to aggrieved parties come from state law.⁹ The Protecting American Trade Secrets and Innovation Act of 2012 would have created federal civil remedies, but that bill languished and then died at the end of the last congressional session.¹⁰ A similar bill, the Private Right of Action against Theft of Trade Secrets Act of 2013, was introduced by Silicon Valley Congresswoman Zoe Lofgren, and is now pending in the House.¹¹

Europe

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controlled by member states. The existing patchwork of national trade secret law in the European Union, however, makes it difficult, and in some cases practically impossible, for companies to protect and enforce their trade secrets.¹² In response, the European Union recently has taken the first major steps toward the creation of a union-wide regime for the protection of trade secrets.

Some are moving faster than others, but every major player in the modern economy has an interest in ensuring effective enforcement of trade secrets within its borders and beyond.

On November 28, 2013, the European Commission adopted a proposed directive to harmonize national trade secret laws throughout the European Union. The proposal would create a common definition of protected know-how and harmonize enforcement throughout the member states.¹³ Although it could be several months until it is fully implemented, the European Commission’s adoption of the harmonization proposal has been met with broad, though not universal, approval by policymakers, practitioners, and business leaders.¹⁴

China

Enforcement of intellectual property rights (IPR) in China has long been a challenge for foreign rights holders. In an effort to address this problem, China amended its Civil Procedure Law in 2012 to make it easier to for plaintiffs to obtain preliminary injunctive relief.¹⁵ Although there has been some confusion regarding the scope of the amendments, a recent ruling by the Shanghai No. 1 Intermediate Court confirmed that the new provisions apply to trade secret cases. In that case, *Eli Lilly v. Huang*, the court issued an order enjoining the defendant from distributing alleged trade secrets downloaded from the plaintiff’s Web site.¹⁶ Although other Chinese courts are not bound by the Shanghai court’s decision, recent developments such as this give hope to watchers of Chinese IP law that stronger trade secret protection may be on the horizon.¹⁷

Even as it makes progress toward stronger IPR protections, China continues to feel pressure from the outside world. In 2011, then-Secretary of the Treasury Timothy Geithner accused China of

enabling the “systematic stealing of intellectual property of American companies.”¹⁸ More recently, US Ambassador to China Gary Locke continued the criticism, warning that while recent reforms in China signal a move “in the right direction,” IPR protection in China still does not meet the expectations of rights holders.¹⁹

Conclusion

As the importance of intellectual property in the global economy continues to surge and expand, governments are moving to keep up with the changing IP landscape. Some are moving faster than others, but every major player in the modern economy has an interest in ensuring effective enforcement of trade secrets within its borders and beyond.

Notes

1. Two early statutes provide only limited protection. The National Stolen Property Act, 18 U.S.C. § 2314, has been interpreted to cover the theft of tangible objects containing trade secrets, *see* *United States v. Bottone*, 365 F.2d 389, 393 (2d Cir. 1966), and the Trade Secrets Act, 18 U.S.C. § 1905, prohibits the theft of trade secrets by federal employees.
2. 18 U.S.C. §§ 1831–1839.
3. *United States v. Aleynikov*, 676 F.3d 71 (2d Cir. 2012).
4. *Id.* at 82.
5. Economic Espionage Penalty Enhancement Act of 2012, Pub. L. 112-269, 126 Stat. 2442 (Jan. 14, 2013).
6. Available at <http://www.whitehouse.senate.gov/download/?id=bfff5944-bb28-47f8-a309-b5bb3dd729ef>.
7. Available at <http://www.whitehouse.senate.gov/download/?id=ac13e02f-0840-4868-ba9c-06f1f8682a9d&download=1>.
8. *Id.*
9. Forty-seven states have passed the Uniform Trade Secrets Act, which provides injunctive and monetary relief for trade secret theft.
10. Available at <https://www.govtrack.us/congress/bills/112/s3389>.
11. Available at <https://www.govtrack.us/congress/bills/113/hr2466>.
12. *See* Nicholas Hirst, “EU Moves to Protect Trade Secrets,” *European Voice* (Nov. 21, 2013), available at <http://www.europeanvoice.com/article/imported/eu-moves-to-protect-trade-secrets/78810.aspx>.
13. *See* Press Release, European Commission, “Commission Proposes Rules to Help Protect Against the Theft of Confidential Business Information,” (Nov. 28, 2013), available at http://europa.eu/rapid/press-release_IP-13-1176_en.htm?locale=en.
14. *See, e.g.*, Hirst, *supra* n.12; Bill Donahue, “EU Trade Secrets Fix Earns High Marks,” *LAW360* (Nov. 19, 2013), available at <http://www.law360.com/ip/articles/489914/eu-trade-secrets-fix-earns-high-marks>; Jack Ellis, “Doubt Raised Over Benefits of EU’s Trade Secret Harmonisation Plans,” *IAM Magazine* (Oct. 4, 2013), available at <http://www.iam-magazine.com/blog/Detail.aspx?g=7712877f-1c40-4f20-8383-e0ebb029f43b>.
15. “Recommendations for Strengthening Trade Secret Protection in China,” The US-China Business Council, 8 (Sept. 2013), available at https://www.uschina.org/sites/default/files/2013.09_USCBC_Recommendations_for_Strengthening_Trade_Secret_Protection_in_China.pdf.
16. *Id.*
17. *See, e.g., id.*; Richard Grams, “China Must Double-Down On Trade Secret Protection,” *LAW360* (Nov. 21, 2013), available at <http://www.law360.com/employment/articles/489559/china-must-double-down-on-trade-secret-protection>.
18. “Geithner Slams China’s Intellectual Property Policies,” *Reuters* (Sep. 23, 2011), available at <http://www.reuters.com/article/2011/09/23/us-china-geithner-idUSTRE78M15G20110923>.
19. “U.S. Says China Must Do More to Safeguard Trade Secrets,” *Reuters* (Nov. 14, 2013), available at <http://www.reuters.com/article/2013/11/14/us-china-usa-ipr-idUSBRE9AD0K120131114>.



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