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THE PRACTICE

Is Trade Secrets Legislation Necessary?

Two pending bills are popular among lawmakers due to concern about thefts by foreign countries.

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Patents, copyrights and trademarks—each of these elements of intellectual property law has its own federal statute and its own body of federal case law, available for enforcement by the federal judiciary following uniform federal procedural rules. Indeed, patent cases have a specialized appellate court, the U.S. Court of Appeals for the Federal Circuit.

Do we also need a federal statute to regulate trade secrets, another significant intellectual property right? Many members of Congress in both parties think so, although critics question whether there is good reason to federalize trade secret law.

Over the past year, both the Senate and the House have considered bills (S. 2267 and H.R. 5233) that would amend the Economic Espionage Act, which provides for criminal prosecution of trade secret theft, to establish a federal civil private right of action for trade secret misappropriation. These bills were introduced in response to increasing concern over allegations that foreign companies and governments, such as China's, have stolen the trade secrets of U.S. companies.

For example, a 2013 White House report, Administration Strategy on Mitigating the Theft of U.S. Trade Secrets, warned that "foreign competitors of U.S. corporations, some with ties to foreign governments, have increased their efforts to steal trade secret information through the recruitment of current or former employees."

But rather than simply target the narrow problem of trade secret theft by foreigners, the Senate and House bills cover theft by anyone of any trade secret related to any product or service used in interstate or foreign commerce. The bills therefore largely replicate (but do not preempt) state trade secret law. Every state has laws that protect trade secrets, and

47 states and the District of Columbia have passed a version of the Uniform Trade Secrets Act, drafted by the Uniform Law Commission. In addition, state common law torts, such as unfair competition, unjust enrichment and fraud typically also come into play in trade secret actions.

HELP FOR TRADE SECRET OWNERS

The proposed federal legislation does broaden the rights of trade secret owners in a few respects. The bills provide for a five-year statute of limitations, which is longer than the state law norm. (The Uniform Trade Secrets Act has a three-year statute.)

The bills encourage trial judges to issue protective orders to prevent disclosure of trade secrets during litigation and authorize interlocutory appeals of orders denying confidential treatment. In addition, the legislation would have extraterritorial effect, applying to conduct outside of the United States, so long as some act in furtherance of the misappropriation was committed in the United States. And, of course, the bills provide access to a federal forum, although that is available now in any case where there is diversity jurisdiction.

The one feature of the bills that has sparked controversy is the provision for ex parte seizure applications—meaning that a defendant will get no notice or opportunity to respond before a seizure order is issued. These provisions are modeled on a similar section of the Lanham Act, 15 U.S.C. 1116(d), which allows for the seizure of counterfeit trademarked goods. Unlike seizure under the Lanham Act, which is limited to infringing goods, the trade secret bills would also allow the seizure of property "necessary to preserve evidence" related to the alleged misappropriation.

Commentators and some members of Congress are concerned that the procedure will be abused by plaintiffs who demand the seizure of evidentiary materials related to alleged misappropriation, threatening significant injury to the business of competitors. That is a risk in any ex parte setting, where the court rules after hearing only one side. Moreover, it isn't clear that a federal ex parte remedy is required. As long as a clear showing of need is made, there is no reason to believe that a state court would not issue an ex parte order requiring a defendant to preserve evidence related to the dispute. In fact, in some jurisdictions, it is easier to get ex parte relief in state court rather than in federal court. An effort to delete the seizure provisions from the House bill was recently defeated in committee.

Some advocates of the legislation have argued that a federal cause of action would bring uniformity to trade secret law. But given the broad acceptance of the Uniform Trade Secrets Act, it is difficult to identify a significant issue on which state courts are in disagreement. Unlike patent and copyright law, each of which has a number of highly technical rules that can be outcome-determinative, the merits of trade secret law are relatively straightforward and most cases will turn on their facts. Such facts include how important the alleged trade secret is, whether the plaintiff acted reasonably to keep it confidential and whether the defendant acted in an underhanded or unfair way.

One member of the House Judiciary Committee considering H.R. 5233, Rep. Zoe Lofgren, D-Calif., called the legislation "the biggest change to trade secret law in modern history." Likely more accurate was the statement of the committee's chairman, Bob Goodlatte, R-Va., who said the bill merely "puts forward modest enhancements" to existing federal law. If legislation is passed—and given the broad support the bills have received so far, that seems to be a good bet—we will soon find out which view is correct.

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