



## **Comparing U.S. and EU Trade Secret Laws**

**An Analysis Prepared for TABC's Intellectual Property Working Group**

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## I. Overview

With the recent enactment of new civil trade secret laws or directives in the United States and the European Union, a relatively detailed analysis of their similarities and differences may be helpful to commercial and governmental audiences. This paper endeavors to provide such an analysis:

- This Section I briefly summarizes the enactment or approval of the new legislations;
- Section II identifies comparable provisions between the legislations and analyzes significant similarities and differences; and
- Section III summarizes the common principles reflected in the legislations and proposes language that may be helpful in negotiations concerning the Transatlantic Trade and Investment Partnership (“TTIP”).

### A. US Defend Trade Secrets Act

On May 11, 2016, President Obama signed into law the *Defend Trade Secrets Act of 2016* (“US-DTSA”). See 18 U.S.C. § 1835(b). The US-DTSA establishes a federal civil cause of action for trade secret misappropriation relating to any product or service used in, or intended for use in, interstate or foreign commerce. *Id.* § 1835(b)(1). The new law applies to trade secret misappropriation “for which any act occurs on or after [May 11, 2016].”

Before the DTSA was enacted, civil trade secret misappropriation in the United States was governed solely by state law, with 48 of 50 states having enacted variations of the Uniform Trade Secrets Act (“UTSA”). State trade secret laws are not preempted by the DTSA and therefore remain in full effect. 18 U.S.C. § 1836(f). The enactment of the DTSA, however, gives trade secret claimants the option of proceeding under federal law, in federal courts, when interstate or foreign commerce is implicated by the misappropriation.

The full text of the US-DTSA, published as enrolled bill S. 1890 by the U.S. Government Printing Office, is attached as Appendix A.

### B. The European Union’s Trade Secrets Directive (“EU-TSD”)

On May 27, 2016, the EU Council approved the *Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure* (the “EU TSD”). This directive seeks to harmonize the laws of the various Member States, as there are major differences in the Member States’ legislation concerning the protection of trade secrets against misappropriation. The directive is intended to ensure that there is a sufficient and consistent level of civil redress in the internal market.

The EU-TSD requires EU Member States to enact laws consistent with the directive within two years. If a Member State fails to pass the required national legislation, or if the national legislation does not adequately comply with the requirements of the directive, the European Commission may initiate legal action against the Member State in the Court of Justice of the European Union. Even though directives in general were not considered to be binding prior to implementation by Member States, the Court of Justice of the European Union developed the doctrine of direct effect where unimplemented or badly implemented directives can have direct legal force.

The full text of the EU-TSD, as published in the Official Journal of the European Union on June 15, 2016, is attached as Appendix B.

### C. Ongoing TTIP Negotiations

Meanwhile, the US and EU continue to negotiate concerning TTIP, with the 14th round of negotiations scheduled for the second week of July 2016. We understand that the negotiations will include discussions of trade secret issues, and that to the extent the TTIP is to include a statement on trade secret misappropriation and/or protection, it should be consistent with both the US-DTSA and EU-TSD. In addition to identifying common or similar elements of the US-DTSA and EU-TSD in Section II below, Section III provides a suggested statement of the major, common principles reflected in the US and EU laws.

## II. Comparison of the US-DTSA and EU-TSD

### A. Definition of a Trade Secret

The table below shows the definitions of a “trade secret” under the US-DTSA and EU-TSD. In this table and tables that follow for other provisions, areas of similarity are indicated by common highlighting and underlining styles.

US-DTSA	EU-TSD
<p>“[T]he term ‘trade secret’ means all forms and types of financial, business, scientific, technical, economic, or engineering information, . . . whether tangible or intangible, and whether or how stored, compiled, or memorialized . . . if—</p> <p>(A) <u>the owner thereof has taken reasonable measures to keep such information secret</u>; and</p> <p>(B) <u>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</u> who</p>	<p>“[The term] ‘trade secret’ means information which meets all of the following requirements:</p> <p>(a) <u>it is secret in the sense that it is not</u>, as a body or in the precise configuration and assembly of its components, <u>generally known among or readily accessible to persons</u> within the circles that normally deal with the kind of information in question;</p> <p>(b) <u>it has commercial value because it is secret</u>;</p> <p>(c) <u>it has been subject to reasonable steps under the circumstances, by the person</u></p>

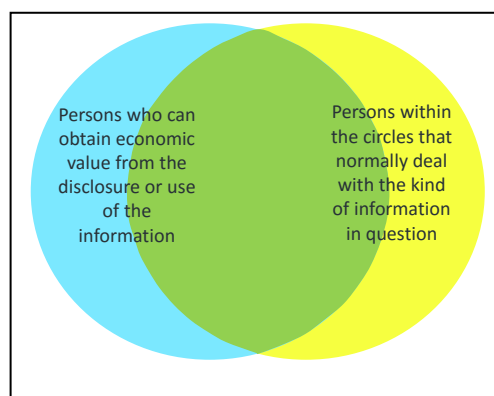
can obtain economic value from the disclosure or use of the information[.]” 18 U.S.C. § 1839(3).	<u>lawfully in control of the information, to keep it secret[.]”</u> EU-TSD art. 2, § (1).
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Thus, the US-DTSA and EU-TSD define trade secrets similarly in the following ways:

1. The owner or person lawfully in control of the information must have taken reasonable steps to maintain its secrecy;
2. The information must be secret in the sense that it is neither generally known to nor readily ascertainable by another person; and
3. The information must derive economic or commercial value from its secrecy.

Relatively minor differences include the following.

- The US-DTSA clarifies that information must not be readily ascertainable *through proper means*; the EU-TSD does not expressly include such language in the context of the legal definition, but it does separately establish lawful acquisition, use or disclosure as exemptions to misappropriation (EU-TSD Art.3, §§ 1, 2).
- Under the US-DTSA, trade secret information must not be generally known to or readily ascertainable by “another person *who can obtain economic value from the disclosure of use of the information.*” 18 U.S.C. § 1839(3)(B). The EU-TSD, on the other hand, requires that the other person be “*within the circles that normally deal with the kind of information in question.*” EU-TSD art. 2, § (1)(a). In practice, however, this distinction may not be significant. A person who can obtain economic value from the information’s disclosure or use (US-DTSA) generally also will be a person within the circles that normally deal with the kind of information in question (EU-TSD), and vice versa. In the US, for example, defendants seeking to attack trade secret status by showing that the information is generally known or readily ascertainable often investigate the knowledge of competitors, customers or researchers in the relevant field. Such people or entities also qualify as persons “within the circles that normally deal with the kind of information in question.” In sum, although one could imagine circumstances in which the one of the provisions is met and the other is not (as illustrated by the blue and yellow areas in the diagram at right), outcomes are likely to be very similar under both provisions in most common circumstances (as indicated by the green intersection in the diagram).



- The EU-TSD states that a trade secret must not be generally known or readily ascertainable “*as a body or in the precise configuration and assembly of its components.*” EU-TSD art. 2, § (1)(a). That language clarifies that information still may be a trade secret even if its components are known or readily ascertainable, as long as their precise

configuration is not. Although the US-DTSA does not expressly include a comparable provision, the distinction should prove to be insignificant. The law is well established in U.S. jurisdictions that unique combinations of generally known components or concepts still can be trade secrets. See, e.g., RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. (f) (“[I]t is the secrecy of the claimed trade secret as a whole that is determinative. The fact that some or all of the components of the trade secret are well-known does not preclude protection for a secret combination, compilation or integration of the individual elements.”). Assuming the US-DTSA is construed consistently with prior decisions under state trade secret laws, US law will comport with the European formulation on this point.

B. Definition of Misappropriation/Improper Acquisition, Use or Disclosure

The table below shows the definitions of “misappropriation” and “improper means” under the US-DTSA, and the EU-TSD provisions defining unlawful acquisition, use or disclosure of trade secrets.

US-DTSA	EU-TSD
<p>“[T]he term ‘misappropriation’ means—</p> <p>(A) 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</p> <p>(B) disclosure or use of a trade secret of another without express or implied consent by a person who—</p> <p>(i) used improper means to acquire knowledge of the trade secret;</p> <p>(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—</p> <p>(I) derived from or through a person who had used improper means to acquire the trade secret;</p> <p>(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or</p> <p>(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or</p>	<p>“2. The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:</p> <p>(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;</p> <p>(b) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.”</p> <p>EU-TSD art. 4, § 2.</p> <p>“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:</p> <p>(a) having acquired the trade secret unlawfully;</p> <p>(b) being in breach of a confidentiality agreement or any other duty not to disclose the trade secret;</p>

<p>(iii) before a material change of the position of the person, knew or had reason to know that—</p> <p>(I) the trade secret was a trade secret; and</p> <p>(II) knowledge of the trade secret had been acquired by accident or mistake[.]”</p> <p>18 U.S.C. § 1839(5).</p> <p>“[T]he term ‘improper means’-- (A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means ....”</p> <p>18 U.S.C. § 1839(6).</p>	<p>(c) being in breach of a contractual or any other duty to limit the use of the trade secret.”</p> <p>EU-TSD art. 4, § 3.</p> <p>“4. The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of the acquisition use or disclosure, knew or ought, under the circumstances, 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 within the meaning of paragraph 3.”</p> <p>EU-TSD art. 4, § 4.</p> <p>“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 within the meaning of paragraph 3.”</p> <p>EU-TSD art. 4, § 5.</p>
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Despite variations in language, the US-DTSA definition of misappropriation (when combined with the definition of “improper means”) is mostly consistent with the EU-TSD definition of unlawful acquisition, use or disclosure of trade secrets.

### Misappropriation by Acquisition

- Both the US-DTSA and EU-TSD similarly define misappropriation by acquisition to require acquisition of another’s trade secret by improper or unlawful means. 18 U.S.C. § 1839(5)(A); EU-TSD Art 4, § 2. The definitions of improper or unlawful means also share similarities. The US-DTSA defines improper means to include various unlawful acts, including theft, bribery, misrepresentation, breach of a duty of confidentiality, and espionage. 18 U.S.C. § 1839(6). The EU-TSD defines unlawful acquisition to include accessing, appropriating or copying recorded trade secret information without authorisation, as well as a “catch-all” provision making unlawful any other conduct that is “considered contrary to honest commercial practices.” EU-TSD art. 4, § 2.
- From there, however, the provisions on misappropriation by acquisition diverge somewhat concerning the requisite knowledge of the person acquiring the trade secret information. The US-DTSA requires actual or constructive knowledge before imposing liability for acquisition of a trade secret, regardless of whether the trade secret is acquired directly

from the trade secret owner or indirectly from a third party. Under the US-DTSA, the acquirer must “know[] or ha[ve] reason to know” that the acquisition was by improper means, and the statute is silent as to whether the acquisition is direct from the owner or indirect. 18 U.S.C. § 1839(5)(A). The EU-TSD on the other hand, distinguishes between information acquired directly from the trade secret holder and information acquired from a third party. If the information is acquired while lawfully under the control of the trade secret holder, unlawful acquisition simply must be “unauthorised”<sup>1</sup> or otherwise contrary to honest commercial practices. EU-TSD art. 4, § 2. But if a trade secret is “obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully” (*i.e.*, a third party who lacks lawful control of the trade secret), the EU-TSD *does* require actual or constructive knowledge that the trade secret was obtained from someone who was using or disclosing it unlawfully. EU-TSD art. 4 § 4. In sum, persons acquiring trade secret information without knowledge of impropriety are protected from liability in both the US and EU as long as they are acquiring it from a third party, but only the US offers protection against liability without knowledge of improper means when acquiring a trade secret directly from the owner. To balance the regime of strict liability under the EU-TSD for *bona fide* users or disclosing parties, an option is provided for ordering pecuniary compensation instead of applying the measures listed in EU-TSD art. 12. This option is only available if the use or disclosure occurs without knowledge of impropriety, the application of measures would cause disproportionate harm, and pecuniary compensation is satisfactory. EU-TSD art. 13.

#### Misappropriation by Use or Disclosure

- The US-DTSA and EU-TSD provisions concerning misappropriation by the use or disclosure of trade secrets are fairly consistent, but here again, the provisions include subtle differences. Disclosure or use constitutes misappropriation if committed:
  - Without consent (18 U.S.C. § 1839(5)(B); EU-TSD art. 4, § 3); and
  - By a person who --
    - Acquired the trade secret through improper or unlawful means (18 U.S.C. § 1839(5)(B)(i); EU-TSD art. 4, § 3(a)); or
    - Under the US-DTSA, knowingly acquired the trade secret through a breach of a duty not to disclose the trade secret or limit its use (18 U.S.C. § 1839(5)(B)(ii)(II)), or under the EU-TSD, breached a duty of

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<sup>1</sup> The US-DTSA does not expressly specify that misappropriation requires “unauthorized” access. It does, however, include “espionage through electronic or other means” in the definition of “improper means,” which is a form of unauthorized access. 18 U.S.C. § 1839(6). Conversely, authorized access would not constitute misappropriation unless the actor exceeded the scope of authorization, thereby breaching a duty to maintain secrecy as to the unauthorized information. *See id.* (“improper means” also includes breach of duty to maintain secrecy).



confidentiality or not to disclose the trade secret or limit its use (EU-TSD art. 4, § 3(b)-(c));<sup>2</sup> or

- Knowingly derived the trade secret from a person who owed a duty to the person seeking relief not to disclose the trade secret or limit its use (18 U.S.C. § 1839(5)(B)(ii)(III)) or knowingly obtained the trade secret from someone who used or disclosed it unlawfully (EU-TSD art. 4, § 4) under EU-TSD art. 4, § 3, which includes a breach of duty not to disclose the trade secret or limit its use.<sup>3</sup>
- Finally, both the US-DTSA and EU-TSD contain provisions that address potentially innocent use or disclosure of a trade secret, e.g., by a downstream customer or supplier. Under the US-DTSA, if a person acquires a trade secret by accident or mistake, he is liable for misappropriation by use or disclosure only if, before a material change in his position, he has actual or constructive knowledge both that the information is a trade secret and that he learned of the trade secret by accident or mistake. 18 U.S.C. § 1839(5)(B)(iii). Implicitly, if a person does materially change his position before learning he acquired the trade secret innocently or by mistake, he may be protected from misappropriation liability. It likely will be a subject of litigation whether, and to what extent, such a person may continue to use or disclose the trade secret *after* learning he acquired the trade secret innocently or by mistake. Article 4, section 5 of the EU-TSD may be similar in effect as to downstream suppliers. It essentially states that marketing, importing, exporting or storing of goods infringing a trade secret constitutes unlawful use only where the actor has actual or constructive knowledge that the trade secret was used unlawfully--regardless of whether the information was received from the trade secret holder or indirectly from any other person.

### C. Proper Means of Acquiring Alleged Trade Secret Information

The table below compares the provisions of the US-DTSA and EU-TSD with respect to proper or lawful means of acquiring alleged trade secret information.

US-DTSA	EU-TSD
<p>“[T]he term ‘improper means’-- ... does not include <b>reverse engineering</b>, <b>independent derivation</b>, or any other lawful means of acquisition.”</p>	<p>“1. The acquisition of a trade secret shall be considered lawful when the trade secret is obtained by any of the following means: (a) <b>independent discovery or creation</b>;</p>

<sup>2</sup> Here, the US-DTSA requires actual or constructive knowledge that a confidentiality duty has been breached but does not require that person using or disclosing the trade secret himself breached the duty. The EU-TSD provisions, by contrast, lack the knowledge requirement but do require that the person himself breached a confidentiality duty.

<sup>3</sup> Thus, under the EU-TSD, the contractual obligation does not necessarily have to exist towards the person seeking relief.

<p>18 U.S.C. § 1839(6).</p>	<p>(b) <u>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;</u></p> <p>(c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices;</p> <p>(d) any other practice which, under the circumstances, is in conformity with honest commercial practices.”</p> <p>EU-TSD art. 3, § 1.</p> <p>“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.”</p> <p>EU-TSD art. 3, § 2.</p>
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As shown by the highlighted text above, both the US-DTSA and the EU-TSD clarify that neither reverse engineering nor independent development should give rise to misappropriation liability.

- *Reverse Engineering.* Whereas the US-DTSA simply states that “reverse engineering” is “not improper,” the EU-TSD clarifies that it must involve a product that has been made available to the public or that is lawfully in the possession of the acquirer, without any valid legal duty to limit acquisition of the trade secret.<sup>4</sup> Under the US-DTSA, the absence of similar language may lead to litigation to determine whether a trade secret misappropriation claim exists where a party acquires the trade secret by reverse engineering despite a contractual duty not to reverse engineer.<sup>5</sup> Assuming a valid

<sup>4</sup> According to the recitals to the EU-TSD, there are some national laws dealing with “reverse engineering” under unfair competition regimes. However, as the EU-TSD does not expressly reform or harmonize the laws on unfair competition, the Commission may wish to examine the need for further harmonization in that area in the future.

<sup>5</sup> Indeed, prior decisions under UTSA-based US state laws suggest the question may require litigation. In a case ultimately reviewed by the California Supreme Court, for example, the trial court had found a web site operator misappropriated trade secrets by posting them on a web site despite knowing or having reason to know they had been acquired by reverse engineering in violation of a license agreement forbidding reverse engineering. *DVD Copy Control Ass'n, Inc. v. Bunner*, 31 Cal. 4th 864, 870-71 (2003) (enjoining further disclosure). Although the California Supreme Court decided only that the preliminary injunction did not violate free speech clauses of the U.S. or California constitutions (*id.*, *passim*), a concurring opinion rejected the argument that the web site operator's conduct constituted trade secret misappropriation. *Id.* at 901 n.5 (Moreno, J. concurring) (“[N]owhere has it been recognized that a party wishing to protect proprietary information may employ a consumer form contract to, in effect, change the statutory definition

contract, however, the information owner often would still have a claim for breach of contract.

- *Independent Development.* Both pieces of legislation state that independent derivation (US-DTSA) or independent discovery or creation (EU-TSD art. 3 § 1(a)) are not improper or unlawful.
- *Workers' Rights, Honest Practices.* The EU-TSD includes additional provisions not expressly found in the US-DTSA, addressing workers' rights/union laws and honest commercial practices. EU-TSD art. 3, § 1(c)-(d).
- *Exception for National Law.* The EU-TSD also includes an exception to misappropriation liability if the acquisition, use or disclosure is required by national law. EU-TSD art. 3, § 2.

According to EU-TSD recital (18), the last two exemptions concern, in particular, the acquisition and disclosure of trade secrets in the context of: the exercise of the rights of workers' representatives to information, consultation and participation in accordance with Union law and national laws and practices; and the collective defense of the interests of workers and employers, including co-determination. Moreover, these exemptions cover the acquisition or disclosure of a trade secret in the context of statutory audits and procurement proceedings. However, such treatment of the acquisition of a trade secret as lawful should be without prejudice to any confidentiality obligation regarding the trade secret or any limitation as to its use that Union or national law imposes on the recipient or acquirer of the information. In particular, it shall not release public authorities from the confidentiality obligations to which they are subject concerning information passed on by trade secret holders, irrespective of whether those obligations are laid down in Union or national law.

#### D. Other Areas of Agreement/Disagreement

##### 1. Standing

As discussed above, the US-DTSA defines a trade secret and misappropriation in terms of the trade secret's "owner," whereas the EU-TSD defines those concepts in terms of a "person lawfully in control of the [trade secret] information" or the "trade secret holder." The distinction suggests that there may be differences in standing to bring an action for misappropriation in the US and EU. While only the owner is likely to have standing under the US-DTSA, standing in the EU may include others who lawfully control a trade secret, such as licensees.

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of 'improper means' under trade secret law to include reverse engineering, so that an alleged trade secret holder may bring an action even against a nonparty to that contract.").

2. Protection for Free Speech/Whistle-Blowers/Compliance with Union or National Rules

US-DTSA	EU-TSD
<p>“IMMUNITY FROM LIABILITY FOR CONFIDENTIAL DISCLOSURE OF A TRADE SECRET TO THE GOVERNMENT OR IN A COURT FILING.—</p> <p>(1) IMMUNITY.—An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—</p> <p>(A) is made—</p> <p>(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and</p> <p>(ii) solely for the purpose of reporting or investigating a suspected violation of law; or</p> <p>(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.</p> <p>(2) USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT—An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—</p> <p>(A) files any document containing the trade secret under seal; and</p> <p>(B) does not disclose the trade secret, except pursuant to court order.”</p> <p>18 U.S.C. § 1833(b).</p>	<p>“Member States shall ensure that an application for the measures, procedures and remedies provided for in this Directive is dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:</p> <p>(a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;</p> <p>(b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;</p> <p>(c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise;</p> <p>(d) for the purpose of protecting a legitimate interest recognised by Union or national law.”</p> <p>EU-TSD art. 5; see also <i>id.</i> art. 1, § 2; <i>id.</i> Recitals, § (20).</p>

With respect to protection from liability for whistle-blowers, freedom of speech, and compliance with union or national laws, the US-DTSA and EU-TSD diverge significantly. Whereas the US-DTSA protects a whistle-blower only to the extent he discloses a trade secret “in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney,” 18

U.S.C. § 1833(b)(1)(A),<sup>6</sup> the EU-TSD flatly states that misappropriation claims against whistle-blowers acting in the public interest must be dismissed--without requiring the trade secret to have been disclosed confidentially. EU-TSD art. 5.<sup>7</sup> Moreover, the EU-TSD provides similar immunity from liability where the actor is exercising the freedom of expression, in circumstances involving workers' disclosures to representatives in accordance with Union or national law, and for the purpose of protecting any other legitimate interest recognized by Union or national law. *Id.* Nevertheless, it is the actor who bears the burden of proof that the requirements of the relevant exception are met. Although the US-DTSA provides no express protection for public disclosure of trade secrets in the exercise of freedom of expression, the First Amendment may independently protect such disclosures in certain (albeit likely rare) circumstances. See, e.g., *CBS, Inc. v. Davis*, 510 U.S. 1315 (1994) (Justice Blackmun staying, as a restraint on freedom of speech, a preliminary injunction prohibiting the network from broadcasting video of meat-packing operations that allegedly revealed "confidential and proprietary practices and processes" in violation of South Dakota's Uniform Trade Secrets Act).

### 3. Preserving Confidentiality in Litigation

US-DTSA	EU-TSD
<p>"RIGHTS OF TRADE SECRET OWNERS.—<u>The court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential.</u> No submission under seal made under this subsection may be used in a prosecution under this chapter for any purpose other than those set forth in this section, or otherwise required by law. The provision of information relating to a trade secret to the United States or the court in connection with a prosecution under this</p>	<p>"1. <u>Member States shall ensure that the parties, their lawyers or other representatives, court officials, witnesses, experts and any other person participating in legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal proceedings, are not permitted to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a duly reasoned application by an interested party, identified as confidential</u> and of which they have become aware as a result of such participation or access. In that regard, Member States may</p>

<sup>6</sup> The US-DTSA similarly requires whistle-blowers suing their employers for retaliation to file documents containing the trade secret under seal and not disclose the trade secret except pursuant to court order. 18 U.S.C. 1833(b)(2).

<sup>7</sup> Another manner in which the US law provides more limited immunity than EU law is in the type of misappropriation given immunity. The US-DTSA provides immunity from liability only "for the disclosure of a trade secret." It does not immunize the act of illicitly acquiring the trade secret, even if the disclosure is made for the salutary purposes protected in the law. Therefore, an employee who lacks authorized access to a trade secret and acquires it improperly and then discloses it to an appropriate government agency may not be held liable for the disclosure, but may still be held liable for the illicit acquisition. By contrast, the EU-TSD expressly states that its immunity provisions apply more broadly to the "acquisition, use or disclosure of the trade secret."

chapter shall not constitute a waiver of trade secret protection, and the disclosure of information relating to a trade secret in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection unless the trade secret owner expressly consents to such waiver.”

18 U.S.C. § 1835(b).

also allow competent judicial authorities to act on their own initiative.

The obligation referred to in the first subparagraph shall remain in force after the legal proceedings have ended. However, such obligation shall cease to exist in any of the following circumstances:

(a) where the alleged trade secret is found, by a final decision, not to meet the requirements set out in point (1) of Article 2; or

(b) where over time, the information in question becomes generally known among or readily accessible to persons within the circles that normally deal with that kind of information.”

EU-TSD art. 9, § 1.

“2. Member States shall also ensure that the competent judicial authorities may, on a duly reasoned application by a party, take specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret.

Member States may also allow competent judicial authorities to take such measures on their own initiative.

The measures referred to in the first subparagraph shall at least include the possibility:

(a) of restricting access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties, in whole or in part, to a limited number of persons;

(b) of restricting access to hearings, when trade secrets or alleged trade secrets may be disclosed, and the corresponding record or transcript of those hearings to a limited number of persons;

(c) of making available to any person other than those comprised in the limited number of persons referred to in points (a) and (b) a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed or redacted.

	<p>The number of persons referred to in points (a) and (b) of the second subparagraph shall be no greater than necessary in order to ensure compliance with the right of the parties to the legal proceedings to an effective remedy and to a fair trial, and shall include, at least, one natural person from each party and the respective lawyers or other representatives of those parties to the legal proceedings.”</p> <p>EU-TSD, art. 9, § 2.</p> <p>“3. When deciding on the measures referred to in paragraph 2 and assessing their proportionality, the competent judicial authorities shall take into account the need to ensure the right to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate, of third parties, and any potential harm for either of the parties, and, where appropriate, for third parties, resulting from the granting or rejection of such measures.”</p> <p>EU-TSD, art. 9, § 3.</p>
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Both the US-DTSA and EU-TSD require courts hearing misappropriation cases to offer measures to keep trade secret information confidential. In the US, courts must not allow the public disclosure of alleged trade secret information without first giving the trade secret owner an opportunity to describe the owner’s interest in maintaining confidentiality. 18 U.S.C. § 1835(b). The EU-TSD includes similar provisions requiring courts to take measures to preserve confidentiality based on a “duly reasoned application” by a party. EU-TSD art. 9, §§ 1-2. The EU also includes provisions setting out: circumstances in which confidentiality may be lifted (e.g., the information later losing trade secret status), *id.* § 1(a)-(b); minimum potential measures to preserve confidentiality, *id.* § 2; and factors to consider when deciding on which confidentiality measures to implement, *id.* § 3. The restricted circle of persons allowed to access trade secret information during proceedings in EU Member States should consist of at least one natural person from each of the parties as well as their respective lawyers and, where applicable, other representatives appropriately qualified in order to defend, represent or serve the interests of a party (e.g., patent attorneys).<sup>8</sup> Although the US-DTSA lacks comparable provisions, such issues are typically addressed in court procedures for filing documents under seal and protective orders governing confidential information disclosed for purposes of litigation. Except for the fact that non-lawyer party representatives need not be given access to trade secret information in US

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<sup>8</sup> According to recital (25) to the EU-TSD this requirement shall ensure the right of the parties to effective remedy and fair trial.

proceedings (and often are not given such access), practical differences between the US and EU approaches are not likely to be significant.

4. Remedies

a. *Provisional Relief including Seizure of Property*

US-DTSA	EU-TSD
<p>The full text of the provisions on seizure of property are found in Appendix A (US-DTSA) at 18 U.S.C. § 1836(b)(2). For the sake of brevity, key provisions are summarized here:</p> <ul style="list-style-type: none"> <li>• <b>Permits ex parte applications for “seizure of property necessary to prevent the propagation or dissemination of the trade secret,” but “only in extraordinary circumstances.”</b> <i>Id.</i> § 1836(b)(2)(A)(i).</li> <li>• No ex parte order may be granted unless applicant clearly shows: <ul style="list-style-type: none"> <li>○ Neither relief under Fed. R. Civ. P. 65 (e.g., preliminary injunction or temporary restraining order) nor other form of equitable relief adequate to achieve purpose;</li> <li>○ Immediate and irreparable injury absent seizure;</li> <li>○ <b>Harm to applicant outweighs harm to seizure target and substantially outweighs harm to third parties;</b></li> <li>○ <b>Likelihood of success on trade secret status and misappropriation;</b></li> <li>○ <b>Target actually possesses trade secret and property to be seized;</b></li> <li>○ Application particularly describes matter to be seized and its location;</li> </ul> </li> </ul>	<p>“1. Member States shall ensure that the competent judicial authorities may, at the request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer:</p> <p>(a) <b>the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis;</b></p> <p>(b) <b>the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;</b></p> <p>(c) <b>the seizure or delivery up of the suspected infringing goods<sup>9</sup>, including imported goods, so as to prevent their entry into, or circulation on, the market.”</b></p> <p>EU-TSD art. 10, § 1.</p> <p>“2. Member States shall ensure that the judicial authorities may, as an alternative to the measures referred to in paragraph 1, make the continuation of the alleged unlawful use of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder. Disclosure of a trade secret in return for the lodging of guarantees shall not be allowed.</p> <p>EU-TSD art. 10, § 2.</p> <p>“1. <b>Member States shall ensure that the competent judicial authorities have, in respect of the measures referred to in Article 10, the authority to require the applicant to provide evidence that may reasonably be considered</b></p>

<sup>9</sup> The EU-TSD defines “infringing goods” to “mean[] goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed.”, Art 2 §4EU-TSD



- Target would destroy or conceal matter to be seized if given notice; and
- Applicant has not publicized the requested seizure.

*Id.* § 1836(b)(2)(A)(ii).

- The court must hold a hearing on the seizure within 7 days after the order issues unless the target consents to a longer time. *Id.* § 1836(b)(2)(B) (v).
- The court also must require the applicant to post adequate security for any damages that could result from a wrongful seizure, *id.* § 1836(b)(2)(B)(vi), and the target has a cause of action for such damages, *id.* § 1836(b)(2)(G).
- See also *id.* § 1836(b)(3)(A)(iii) (“in exceptional circumstances that render an injunction inequitable, courts may condition[] future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited”).

available in order to satisfy themselves with a sufficient degree of certainty that:

(a) a trade secret exists;

(b) the applicant is the trade secret holder; and

(c) the trade secret has been acquired unlawfully, is being unlawfully used or disclosed, or unlawful acquisition, use or disclosure of the trade secret is imminent.”

EU-TSD, art. 11, § 1.

“2. Member States shall ensure that in deciding on the granting or rejection of the application and assessing its proportionality, the competent judicial authorities shall be required to take into account the specific circumstances of the case, including, where appropriate:

(a) the value and other specific features of the trade secret;

(b) the measures taken to protect the trade secret;

(c) the conduct of the respondent 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.”

EU-TSD, art. 11, § 2.

“3. Member States shall ensure that the measures referred to in Article 10 are revoked or otherwise cease to have effect, upon the request of the respondent, if:

(a) the applicant does not institute legal proceedings leading to a decision on the merits of the case before the competent judicial authority, within a reasonable period determined by the judicial authority ordering the measures where the law of a Member State so permits or, in the absence of such

	<p>determination, within a period not exceeding 20 working days or 31 calendar days, whichever is the longer; or</p> <p>(b) the information in question no longer meets the requirements of point (1) of Article 2, for reasons that cannot be attributed to the respondent.”</p> <p>EU-TSD, art. 11, § 3.</p> <p>“4. Member States shall ensure that the competent judicial authorities may make the measures referred to in Article 10 subject to the lodging by the applicant of adequate security or an equivalent assurance intended to ensure compensation for any prejudice suffered by the respondent and, where appropriate, by any other person affected by the measures.”</p> <p>EU-TSD, art. 11, § 4.</p> <p>“5. Where the measures referred to in Article 10 are revoked on the basis of point (a) of paragraph 3 of this Article, where they lapse due to any act or omission by the applicant, or where it is subsequently found that there has been no unlawful acquisition, use or disclosure of the trade secret or threat of such conduct, the competent judicial authorities shall have the authority to order the applicant, upon the request of the respondent or of an injured third party, to provide the respondent, or the injured third party, appropriate compensation for any injury caused by those measures.</p> <p>Member States may provide that the request for compensation referred to in the first subparagraph is dealt with in separate legal proceedings.”</p> <p>EU-TSD, art. 11, § 5.</p>
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### Seizure

While both the US-DTSA and EU-TSD provide for the seizure of goods, the US law expressly permits *ex parte* seizure of property where necessary to protect a trade secret in extraordinary circumstances and where certain conditions are met. 18 U.S.C. § 1836(b)(2). The EU-TSD is silent as to whether seizure procedures may be conducted *ex parte*. EU-TSD art. 10, § 1(c). The US-DTSA seizure remedy also applies more broadly to “property” as opposed to only “goods,”

which presumably encompasses items like documents that reflect the trade secrets and equipment used to manufacture infringing goods.

#### Provisional or Precautionary Measures including Preliminary Injunctive Relief

The EU-TSD expressly requires Member States to include provisions for provisional or precautionary measures including preliminary injunctive relief. EU-TSD art. 10, § 1. Although the US-DTSA does not include express provisions on such measures, it references comparable relief provided by Federal Rule of Civil Procedure 65, including preliminary injunctions and temporary restraining orders. See 18 U.S.C. § 1836(b)(2)(A)(ii). In effect, therefore, both US and EU law provide for similar provisional or precautionary measures.

Both sets of laws also provide that judicial authorities must consider similar factors in deciding whether to grant or deny provisional or precautionary relief.

- *Balancing of harms and public interest.* In the US, balancing of harms is directly addressed in the US-DTSA for the *ex parte* seizure remedy, *id.* § 1836(b)(2)(A)(ii), and balancing of harms and the public interest are addressed in common law concerning preliminary injunctive relief. See, e.g., *Winter, et al. v. Natural Resources Defense Council, Inc., et al.*, 555 U.S. 7 (2008) (stating that an applicant for preliminary or permanent injunctive relief must show “that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, *that the balance of equities tips in his favor, and that an injunction is in the public interest*”) (emphasis added). The EU-TSD directs judicial authorities to consider various circumstances that roughly correspond to a balance of harms, including the value of the trade secret, the impact of its misappropriation, the interests of the parties, third parties and public. EU-TSD art. 11, § 2.
- *Target in possession of trade secret and likelihood of success on the merits.* The US-DTSA expressly states these factors, 18 U.S.C. § 1836(b)(2)(A)(ii), and the EU-TSD similarly requires that judicial authorities have the authority to require corresponding evidence demonstrating, with a sufficient degree of certainty, that misappropriation has occurred, the trade secret exists, and the applicant is its holder, EU-TSD, art. 11, § 1; see also *id.* art. 11, § 2 (judicial authorities must take into account factors including the applicant’s protective measures<sup>10</sup> and the conduct of the respondent in acquiring the trade secret).
- *Prompt Opportunity for Respondent to Challenge Preliminary or Precautionary Relief.* At least with respect to *ex parte* seizure, the US-DTSA requires that courts hold a hearing on the seizure within 7 days, unless the target consents to a later hearing. 18 U.S.C. § 1836(b)(2)(B)(v); see also Fed. R. Civ. P. 65(b)(2)-(3) (limiting *ex parte* temporary restraining orders to 14 days in duration unless extended by the court or the target’s

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<sup>10</sup> As the protective measures put in place by the trade secret holder have to be taken into account by the judicial authorities when deciding on provisional measures (EU-TSD art. 11, § 2), ensuring confidentiality is of utmost importance not only for the information to be considered a trade secret pursuant to EU-TSD art. 2, § 1 but also for access to effective judicial protection as set forth in EU-TSD art. 10, 11.

consent, and requiring a preliminary injunction hearing at the earliest possible time after a temporary restraining order). The EU-TSD includes somewhat similar provisions applying to all preliminary or precautionary measures, requiring their revocation at the respondent's request if the applicant does not institute misappropriation proceedings on the merits within a reasonable time (about a month unless otherwise specified by a Member State's judicial authorities), or if the information ceases to qualify as a trade secret for reasons not attributable to the respondent. EU-TSD art. 11, § 3.

- *Requirement for Applicant to Post Security.* The US-DTSA requires applicants to post security in connection with *ex parte* seizures and gives the target a cause of action to sue for damages, 18 U.S.C. §§ 1836(b)(2)(B)(vi), 1836(b)(2)(G); and Federal Rule of Civil Procedure 65(c) includes comparable security requirements for preliminary injunctive relief. The EU-TSD similarly requires that judicial authorities be given the ability to require adequate security for any prejudice the respondent or third parties may suffer, EU-TSD, art. 11, § 4, and allows for compensation to a respondent where the preliminary or precautionary measures prove to have been inappropriate, EU-TSD art. 11, § 5.
- *Reasonable Royalty in lieu of Injunction.* Both the US-DTSA and EU-TSD include provisions allowing for the imposition of a reasonable royalty to compensate the trade secret owner or holder as an alternative to a preliminary injunction or other preliminary measures. 18 U.S.C. § 1836(b)(3)(A)(iii); EU-TSD art. 10, § 2.

b. Damages

i. Compensatory Damages

US-DTSA	EU-TSD
<p>Compensatory damages are available for actual loss and any additional unjust enrichment; or, in the alternative, a reasonable royalty:</p> <p>“(i) --</p> <p>(I) <u>damages for actual loss caused by the misappropriation of the trade secret</u>; and</p> <p>(II) <u>damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss</u>; or</p> <p>(ii) <u>in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret.</u>”</p>	<p>Damages similarly include payment to compensate the trade secret holder for actual prejudice including lost profits, as well as unfair profits made by the infringer; or, in the alternative, a lump sum based at least in part on a reasonable royalty:</p> <p>“1. Member States shall ensure that the competent judicial authorities, upon the request of the injured party, order an infringer who knew or ought to have known that he, she or it was engaging in unlawful acquisition, use or disclosure of a trade secret, to <u>pay the trade secret holder damages appropriate to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret.</u></p> <p>Member States may limit the liability for damages of employees towards their employers for the unlawful acquisition, use or</p>

<p>18 U.S.C. § 1836(b)(3)(B).</p>	<p>disclosure of a trade secret of the employer where they act without intent.”</p> <p>EU-TSD art. 14, § 1.</p> <p>2. <u>When setting the damages referred to in paragraph 1, the competent judicial authorities shall take into account all appropriate factors, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer ....</u></p> <p><u>Alternatively, ... the competent judicial authorities may, in appropriate cases, set the damages as a lump sum on the basis of elements such as, at a minimum, the amount of royalties or fees which would have been due had the infringer requested authorisation to use the trade secret in question.</u></p> <p>EU-TSD art. 14, § 2.</p>
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With respect to compensatory damages, the US-DTSA and EU-TSD are essentially consistent. Both permit damages for actual loss or prejudice suffered by the claimant including: the claimant’s lost profits, see 18 U.S.C. § 1836(b)(3)(B)(i)(I), EU-TSD art. 14, § 1; and (non-duplicative) damages based on benefits unfairly received by the misappropriator (“unjust enrichment”<sup>11</sup> under US law, *id.* § 1836(b)(3)(B)(i), and “unfair profits made by the infringer” under EU-TSD art. 14, § 2). Both the US and EU also provide, in the alternative to those measures, for damages based on a reasonable royalty for the misappropriation. 18 U.S.C. § 1836(b)(3)(B)(ii); EU-TSD art. 14, § 2.<sup>12</sup>

The EU-TSD also includes a provision, not found in the US-DTSA damages statute, stating that Member States may limit employee liability toward their employers if the misappropriation was without intent. EU-TSD art. 14, § 1.

ii. Punitive Damages

US-DTSA	EU-TSD
<p><u>“If the trade secret is willfully and maliciously misappropriated, award exemplary damages in an amount not more than 2 times the</u></p>	<p><u>Judicial authorities may, “in appropriate cases, [take into account] elements other than economic factors, such as the moral prejudice caused to the trade secret holder by the</u></p>

<sup>11</sup> Unjust enrichment under US law may be based on the infringer’s profits or other measures (e.g., the value of the trade secret misappropriated).

<sup>12</sup> According to recitals (7) and (30) of the EU-TSD, it was of major importance for the legislator to provide for the opportunity to calculate damages on a royalty basis.

amount of the [compensatory] damages awarded.” 18 U.S.C. § 1836(b)(3)(C).	unlawful acquisition, use or disclosure of the trade secret.” EU-TSD art. 14, § 2.
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Under the US-DTSA, in cases of willful or malicious misappropriation, exemplary (*i.e.*, punitive) damages may be awarded up to 2 times the compensatory damages. 18 U.S.C. § 1836(b)(3)(C). The EU-TSD does not expressly provide for exemplary or punitive damages as a multiple of compensatory damages, but it does state that judicial authorities may, in appropriate cases, consider non-economic factors such as moral prejudice suffered by the trade secret holder. EU-TSD art. 14, § 2. It remains to be seen whether allowing consideration of non-economic, moral factors could lead to significant exemplary damages under any of the EU Member States’ laws.

c. *Injunctive Relief*

US-DTSA	EU-TSD
<p>Remedies include “an injunction--</p> <p>(i) to prevent any actual or threatened misappropriation ... on such terms as the court deems reasonable ...;</p> <p>(ii) if determined appropriate by the court, requiring affirmative actions to be taken to protect the trade secret; and</p> <p>(iii) in exceptional circumstances that render an injunction inequitable, that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited[.]”</p> <p>18 U.S.C. § 1836(b)(3)(A).</p>	<p>“1. Member States shall ensure that, where a judicial decision taken on the merits of the case finds that there has been unlawful acquisition, use or disclosure of a trade secret, the competent judicial authorities may, at the request of the applicant, order one or more of the following measures against the infringer:</p> <p>(a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret;</p> <p>(b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;</p> <p>(c) the adoption of the appropriate corrective measures with regard to the infringing goods;</p> <p>(d) the destruction of all or part of any document, object, material, substance or electronic file containing or embodying the trade secret or, where appropriate, the delivery up to the applicant of all or part of those documents, objects, materials, substances or electronic files.”</p> <p>EU-TSD art. 12, § 1; see also <i>id.</i> art. 12, § 2 (expanding upon corrective measures referenced in §1(c)); <i>id.</i> art. 12, § 3 (addressing disposition of infringing goods withdrawn from the market); <i>id.</i> art. 12, § 4 (stating expenses of compliance with §1(c)-(d)</p>

	<p>generally borne by infringer); <i>id.</i> art. 13, § 1 (detailing circumstances judicial authorities must consider when assessing applications for injunctive relief); <i>id.</i> art. 13, § 2 (requiring revocation of injunctive relief if the subject information ceases to be a trade secret).</p> <p>“3. Member States shall provide that, at the request of the person liable to be subject to the measures provided for in Article 12, the competent judicial authority may order pecuniary compensation to be paid to the injured party instead of applying those measures if all the following conditions are met:</p> <p>(a) the person concerned at the time of use or disclosure neither knew nor ought, under the circumstances, to have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully;</p> <p>(b) execution of the measures in question would cause that person disproportionate harm; and</p> <p>(c) pecuniary compensation to the injured party appears reasonably satisfactory.”</p> <p>EU-TSD art. 13, § 3.</p>
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The US-DTSA and EU-TSD also both permit injunctive relief, including to halt or prevent misappropriation and to undertake affirmative actions or corrective measures to protect the trade secret. 18 U.S.C. § 1836(b)(3)(A)(i)-(ii)<sup>13</sup>; EU-TSD art. 12, § 1(a)-(d). As with precautionary measures, both the US and EU also allow the imposition of a reasonable royalty for any misappropriation that is not enjoined. 18 U.S.C. § 1836(b)(3)(A)(iii); EU-TSD art. 13, § 3. The US-DTSA states that the reasonable royalty alternative is to be employed only “in exceptional circumstances that render an injunction inequitable,” while the EU-TSD lists conditions that must be met, including the misappropriator’s lack of culpable knowledge and disproportionate harm that an injunction would cause. *Id.*<sup>14</sup>

<sup>13</sup> In addition, the US International Trade Commission has the authority to exclude imported goods from the US if, upon a petition, it finds the goods are based on a trade secret misappropriation. See 19 U.S.C. § 1337(a)(1)(A)(defining unlawful activities to include “[u]nfair methods of competition and unfair acts” in the importation of articles”); see also *TianRui Group Co. v. Int’l Trade Comm’n*, 661 F.3d 1322, 1326 (Fed. Cir. 2011) (“The Commission has long interpreted Section 337 to apply to trade secret misappropriation.”).

<sup>14</sup> Recital (29) to the EU-TSD points out that the purpose of art. 13 § 3 providing a possible reasonable royalty in lieu of injunctive relief is to favor bona fide users. In this regard, it has been emphasized that the pecuniary compensation

d. *Attorneys' Fees or Other Sanctions for Bad-Faith Claims or Defenses*

US-DTSA	EU-TSD
<p data-bbox="203 331 799 594">“If a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, [a court may] award reasonable attorney’s fees to the prevailing party.”</p> <p data-bbox="203 615 548 646">18 U.S.C. § 1836(b)(3)(D).</p>	<p data-bbox="824 331 1414 793">“Member States shall ensure that competent judicial authorities may, upon the request of the respondent, apply appropriate measures as provided for in national law, where an application concerning the unlawful acquisition, use or disclosure of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith. Such measures may, as appropriate, include awarding damages to the respondent, imposing sanctions on the applicant or ordering the dissemination of information concerning a decision as referred to in Article 15.”</p> <p data-bbox="824 814 1414 913">EU-TSD art. 7, § 2; see also <i>id.</i> Recitals, § (22) (focusing on potential abuses by applicants acting in bad faith).</p>

Both the US-DTSA and EU-TSD allow for sanctions against a party that initiates misappropriation claims in bad faith. The US-DTSA specifically provides for an award of attorneys’ fees to a party that prevails against a bad-faith misappropriation claim. 18 U.S.C. § 1836(b)(3)(D); see also Fed. R. Civ. P. 11 (generally permitting sanctions for federal court filings that are presented for an improper purpose or that lack sufficient basis in law or fact). The EU-TSD similarly compels Member States to allow for the imposition of sanctions on the applicant or the award of damages to the prevailing respondent if the legal proceedings were initiated abusively or in bad faith. EU-TSD art. 7, § 2.

The US-DTSA also allows for an attorneys’ fee award to the applicant if the misappropriator acts willfully or maliciously, or against any party that makes or opposes a motion to terminate an injunction in bad faith. 18 U.S.C. § 1836(b)(3)(D).

e. *Statute of limitations*

US-DTSA	EU-TSD
<p data-bbox="203 1581 799 1749">“Period of limitations.—A civil action under subsection (b) may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the</p>	<p data-bbox="824 1581 1414 1728">“1. Member States shall, in accordance with this Article, lay down rules on the limitation periods applicable to substantive claims and actions for the application of the measures,</p>

should not exceed the amount of royalties which would have been due had that person obtained authorization to use the trade secret in question.



<p>exercise of reasonable diligence should have been discovered. For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.”</p> <p>18 U.S.C. § 1836(d).</p>	<p>procedures and remedies provided for in this Directive.”</p> <p>The rules referred to in the first subparagraph shall determine when the limitation period begins to run, the duration of the limitation period and the circumstances under which the limitation period is interrupted or suspended.</p> <p>EU-TSD art. 8, § 1.</p> <p>2. <u>The duration of the limitation period shall not exceed six years.</u>”</p> <p>EU-TSD art. 8, § 2.</p>
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Both the US-DTSA and EU-TSD address the limitation period for filing misappropriation claims.

The US-DTSA specifies a three-year period triggered by actual or constructive discovery. 18 U.S.C. § 1836(d). The EU-TSD, however, only specifies a maximum period of six years, leaving Member States free to define a shorter period and the rules for when the limitation period begins and how it may be tolled. EU-TSD art. 8, §§ 1-2.

f. *Employee Mobility*

US-DTSA	EU-TSD
<p>Injunction orders shall not “(I) prevent a person from entering into an employment relationship, and ... <u>conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows;</u> or (II) <u>otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business[.]</u>”</p> <p>18 U.S.C. § 1836(b)(3)(A)(i)(I)-(II).</p>	<p>“Nothing in this Directive shall be understood to offer any ground for restricting the mobility of employees. In particular, in relation to the exercise of such mobility, this Directive shall not offer any ground for:</p> <p>(a) <u>limiting employees’ use of information that does not constitute a trade secret as defined in point (1) of Article 2;</u></p> <p>(b) <u>limiting employees’ use of experience and skills honestly acquired in the normal course of their employment;</u></p> <p>(c) <u>imposing any additional restrictions on employees in their employment contracts other than restrictions imposed in accordance with Union or national law.</u>”</p> <p>EU-TSD art. 1, § 3; see also EU-TSD Recitals, §§ (13), (21).</p>

The EU-TSD provides relatively robust protections to protect employee mobility, stating categorically that the directive shall not “offer any ground for restricting the mobility of employees.” EU-TSD art. 1, § 3. That prohibition is highlighted by stating that the directive should offer no ground for: (a) limiting employees’ use of non-trade secret information; (b) limiting their use of

honestly acquired experience and skills; or (c) imposing any other restrictions in their employment contracts other than those imposed by Union or national law. *Id.*

Although somewhat more muted with respect to employee mobility, the US-DTSA offers protections similar to items (a)-(c) above in connection with injunctive relief. In addition to stating that injunction orders shall not prevent a person from entering an employment relationship, any conditions on employment (a) must be based on evidence of threatened misappropriation and (b) must not be based merely on the information an employee knows, and (c) the injunction order must not otherwise conflict with any state law prohibiting restraints on employment. 18 U.S.C. § 1836(b)(3)(A)(i)(I)-(II). It should be noted, however, that the US-DTSA’s protections for employee mobility apply only under the federal statute itself. Because the US-DTSA also makes clear that state laws are not preempted, 18 U.S.C. § 1836(f), some state laws may permit restrictions on employee mobility that are not allowed under the US-DTSA.

g. *Extraterritorial Jurisdiction*

US-DTSA	EU-TSD
<p>“This chapter also applies to conduct occurring outside the United States if—</p> <p>(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or</p> <p>(2) an act in furtherance of the offense was committed in the United States.”</p> <p>18 U.S.C. § 1837.</p>	<p>[The EU-TSD is silent on extraterritorial jurisdiction.]</p>

Procedurally, the US-DTSA was implemented by adding civil misappropriation laws to chapter 90 of the United States Code. Before the enactment of the US-DTSA, chapter 90 already contained the Economic Espionage Act of 1996, which addresses federal *criminal* liability for trade secret theft, and included section 1837 concerning extraterritorial jurisdiction. Because Congress left section 1837 intact when it revised the chapter to add the civil US-DTSA provisions, and because section 1837 expressly applies to “[t]his chapter,” it seems clear that section 1837 should apply equally to criminal and civil misappropriation. Thus, a civil misappropriation claim may be made against an extraterritorial offender that is a U.S. citizen or permanent resident, an entity organized under US (or US state or local) laws, even if that person or entity acts outside the US. Conversely, a foreign citizen or entity is also subject to liability under the US-DTSA if any act in furtherance of the offense is committed in the US.

The EU-TSD, on the other hand, is silent as to extraterritorial jurisdiction. Presumably, Member States may enact laws that could have limited extraterritorial reach consistent with established jurisdictional principles.

#### h. *Criminal Liability*

Although criminal trade secret misappropriation is beyond the scope of this paper, the US Economic Espionage Act of 1996 does establish a federal cause of action for criminal liability. Because the EU-TSD does not include any provisions concerning criminal liability, whether to criminalize trade secret misappropriation is up to the individual EU Member States.

### III. **Common Principles concerning Civil Trade Secret Misappropriation in the US and EU**

As noted in Section I, we understand that a summary of suggested common principles concerning civil trade secret misappropriation in the US and EU may be helpful in the TTIP negotiation process. This Section III, therefore, reiterates certain common principles without regard to the differences identified in Section II. In an effort to provide relatively concise language that might be more helpful to TTIP negotiators, it is not an exhaustive summary of all common provisions. Rather, it focuses only on provisions we considered central to the principles and policies embodied in the US-DTSA and EU-TSD. To ensure the statement of common principles represents an intersection of provisions found in the US-DTSA and EU-TSD, the common principles sometimes include narrower provisions found in one but not the other of those documents.

### IV. **Suggested Common Principles in the US and EU (the “Parties”) regarding Trade Secrets, Their Protection and Misappropriation**

- *In the event any language herein is be used in any governmental document or publication, consider the following caveat:* Nothing in this summary of common principles in the US and EU regarding trade secrets, their protection or misappropriation shall be construed to modify, or otherwise affect the interpretation of, the US-DTSA, the laws of any US state, the EU-TSD, or any EU Member States’ laws relating to the EU-TSD.
- A “trade secret” generally includes any type of information that meets the following requirements:
  - The owner or person lawfully in control of the information must have taken reasonable steps to maintain its secrecy;
  - The information must be secret in the sense that it is neither generally known to nor readily ascertainable by other persons who are within circles that normally deal with such information and who can obtain economic value from its disclosure or use; and
  - The information must derive economic or commercial value from its secrecy.
- The Parties recognize that trade secrets are a legitimate and often valuable form of intellectual property that deserve protection from misappropriation under US and EU Member State laws.
- Civil trade secret misappropriation, also known as the unlawful acquisition, use or disclosure of trade secrets, includes:

- The acquisition of a trade secret of another, without the owner's or lawful trade secret holder's consent or authorization, by a person who knows or has reason to know that the trade secret was acquired by unlawful or otherwise improper means;
- The disclosure or use of a trade secret of another, without the owner's or lawful trade secret holder's consent or authorization, by a person who--
  - Acquired the trade secret by unlawful or otherwise improper means;
  - Breached an agreement or duty to maintain the confidentiality of the trade secret;
  - Knew or had reason to know, under the circumstances and at the time of use or disclosure, that the knowledge of the trade secret was--
    - Derived or obtained from a person who had acquired the trade secret through unlawful or otherwise improper means or who was using or disclosing the trade secret unlawfully; or
    - Acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit its use; or
    - Derived or obtained through a person who breached any agreement or duty to maintain the secrecy of the trade secret or limit its use.
- Unlawful or improper means to acquire trade secrets include unauthorized and/or illegal access to, copying or appropriation of trade secret information, as further defined by EU or US laws.
- Unlawful or improper means to acquire trade secrets do *not* include: independent derivation, discovery or creation; or reverse engineering of a product or other object that is available publicly or otherwise lawfully in the possession of the acquirer, without any legally valid duty forbidding or limiting such reverse engineering.
- The Parties recognize that trade secret laws should include protections against liability for persons who acquire, use or disclose trade secrets innocently, including, for example, when a "downstream" customer or supplier produces, markets, imports or exports goods embodying trade secret information without knowledge, or reason to know under the circumstances, that the trade secret was acquired or used unlawfully or improperly.
- Exceptions to misappropriation liability also may be made for worker's rights, union laws or other applicable state or national laws.
- The Parties recognize that limited immunity may attach for disclosure of trade secret information for the purpose of revealing or investigating suspected wrongdoing or illegal activity, and that the enacting Party may (or may not) in its discretion require any such disclosure to be made confidentially.
- Judicial authorities in misappropriation proceedings should allow measures, when justified by the trade secret owner or holder, to preserve the confidential nature of alleged trade secret information and restrict its disclosure to what is necessary for litigation purposes.

- Remedies for trade secret misappropriation may include, where appropriate under the circumstances and subject to applicable procedures, protections and limitations:
  - Provisional or precautionary measures against alleged misappropriators, including (i) the seizure of goods or other property necessary to prevent the dissemination of trade secrets and (ii) preliminary injunctive relief;
  - Compensatory damages, which may be measured by the trade secret owner's or holder's actual loss or prejudice, by the misappropriator's unfair profits or enrichment, or by a reasonable royalty for the acts of misappropriation;
  - Potentially additional exemplary damages based on a misappropriator's willful, malicious behavior or moral prejudice to the trade secret holder;
  - Injunctive relief, including to halt or prevent misappropriation and to undertake affirmative actions or corrective measures to protect the trade secret; and
  - Other sanctions, where appropriate in response to claims or other litigation conduct initiated or pursued in bad faith.
- The Parties recognize that appropriate limitations periods and rules should be established to determine when misappropriation actions must be commenced.
- The Parties further recognize the potential tensions between trade secret misappropriation laws and employee mobility and agree that certain exceptions may be made to ensure that employee mobility is not unduly restricted.