

COMMITTEE NO. 410

Section of Intellectual Property Law: Trade Secrets and Interferences with Contracts; Alan Rothenbuecher, Chair; Jason D'Cruz and Robert Milligan, Vice-Chairs

Subject. FEDERAL LEGISLATION EXPANDING FEDERAL JURISDICTION FOR THEFT OF TRADE SECRETS

PROPOSED RESOLUTION 410-2

RESOLVED, that the Section of Intellectual Property Law of the American Bar Association (“the Section”) continues to support the adoption of federal legislation expanding federal jurisdiction for misappropriation of trade secret claims;

FURTHER RESOLVED, that this Section continues to support such expansion of federal enforcement through enactment of legislation authorizing a private civil action for the misappropriation of a trade secret when certain circumstances are present and certain specified requirements are met;

FURTHER RESOLVED, that the Section continues to urge that those circumstances and requirements include an acceptable framework to effectively harmonize state trade secret laws and the proposed expanded federal jurisdiction for civil actions for misappropriation of trade secret claims. The general framework should include:

- A definition of trade secret that is comprehensible and expansive versus restrictive and overly technical;
- The availability of remedies that is similar to the Uniform Trade Secrets Act (“UTSA”), including injunctive relief, royalty damages, attorneys’ fees, and exemplary damages;
- A comprehensible definition of what requirements must be met to trigger exclusive federal jurisdiction, which includes, at a minimum, claims involving the theft of trade secrets by or for the benefit of foreign governments, companies, or individuals;
- A seizure order provision that adequately addresses how seized information should be stored or protected, who will gather it, and who

will have access to it; and

- A provision addressing the interplay between state trade secret claims brought under the UTSA adopted by the vast majority of states and common law claims when an action is brought under the proposed legislation which does not interfere with the pursuit of those claims under applicable state law.

NOW THEREFORE, the Section supports legislation to expand federal jurisdiction for civil actions for misappropriation of trade secret claims in certain circumstances.

Past Action. Resolution 410-1 passed in 2012 supporting the intent, but not the content of S. 3389, introduced in the House on July 17, 2012, which set forth proposed legislation for federal jurisdiction for theft of trade secrets.

Discussion.

The Trade Secrets and Interference with Contracts Committee (the “Committee”) of the Intellectual Property Law Section of the American Bar Association previously proposed Resolution 410-1 regarding Senate Bill 3389 (Protecting American Trade Secrets and Innovation Act of 2012 (“PATSI”)). The bill amends the Economic Espionage Act (“EEA”) to provide, inter alia, a private civil cause of action for trade secret theft. The Committee’s votes tallied 7 in favor, 2 against, and 6 no response. The Committee understands that the Intellectual Property Law Section approved Resolution 410-1. The Committee has now been asked to provide a new resolution to address federal trade secrets legislation and general principles that should be included in such legislation. The Committee does not believe that it would be productive to revise the PATSI legislation or draft proposed legislation at this juncture until certain principles guiding the legislation are established, particularly since the Obama administration has indicated that it intends to propose any additional trade secrets legislation in the immediate future.

The Committee supports in principle expanded federal jurisdiction for misappropriation of trade secret claims to compliment enforcement under state trade secret laws. Recent scholarly articles in the Gonzaga Law Review and Fordham Law Review indicate that federal courts may be more equipped to devote resources to trade secret claims so as to establish a

uniform body of case law. *See A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 Gonzaga Law Review 57 (February 2011); *Four Reasons to Enact a Federal Trade Secrets Act*, 19 Fordham Intellectual Property, Media & Entertainment Law Journal 769 (April 2009).

The Committee also supports such expansion of federal enforcement through enactment of legislation authorizing a private civil action for the misappropriation of a trade secret when certain circumstances are present and certain specified requirements are met.

The Committee urges that those circumstances and requirements include an acceptable framework to harmonize effectively state trade secret laws and the proposed expanded federal jurisdiction for civil actions for misappropriation of trade secret claims. The Committee agrees that any federal law proposed should include the following main principles:

- A definition of trade secret that is comprehensible and expansive versus restrictive and overly technical;
- A comprehensible definition of what requirements must be met to trigger exclusive federal jurisdiction, which includes, at a minimum, claims involving the theft of trade secrets by or for the benefit of foreign governments, companies, or individuals;
- The availability of similar remedies provided in the Uniform Trade Secret Act, including:
 - Providing for unconditional royalty damages;
 - Attorneys' fees; and
 - Exemplary damages equating to at least the twice any award of damages.
- A seizure order provision that adequately addresses how seized information should be stored or protected, who will gather it, and who will have access to it, including:
 - Allowing the costs for recovery or return of seized property for parties injured by seizures;
 - Providing that the court or court representative takes possession of the seized property;
 - Requiring the posting of a bond to compensate for any damages incurred from a wrongful seizure or attempted seizure; and

- Providing for appropriate preservation orders in these cases.
- A provision addressing the interplay between state trade secret claims brought under the UTSA adopted by the vast majority of states and common law claims when an action is brought under the proposed legislation, which does not interfere with the pursuit of those state claims under applicable state law.

Published reports indicate that there is a growing rise in trade secret theft from foreign hackers and rogue employees interested in obtaining U.S. businesses' trade secrets. Foreign economic collection and industrial espionage against the United States represent significant and growing threats to the nation's prosperity and security. In response, the Obama administration recently released a 150-page report that unveiled a government-wide strategy designed to reduce trade secret theft by hackers, employees, and companies. In its published strategy plan, the Obama administration recognized the accelerating pace of economic espionage and trade secret theft against U.S. corporations. Additionally, security company Mandiant recently published a report finding that the Chinese government is sponsoring cyber-espionage to attack top U.S. companies. Moreover, CREATE.org released a whitepaper that highlighted how far-reaching and deeply challenging trade secret theft is for companies operating on a global scale. Further, a recent report commissioned by IT security company Symantec revealed that half of the survey respondents, employees from various countries, including the United States, revealed that they have taken their former employer's trade secret information, and 40 percent say they will use it in their new jobs.

Indeed, the recent expansion of penalties and expanded definition of trade secret under the EEA reflects a recognition by the government that the EEA is a valuable tool to protect secret, valuable commercial information from theft and that Congress can work in a bipartisan effort to address such theft.

The significant harm caused by economic espionage for the benefit of foreign actors is illustrated by a recent case where a project engineer for the Ford Motor Company copied 4,000 Ford Motor Company documents onto an external hard drive and delivered them to a Ford competitor in China. The documents contained trade secret design specifications for engines and electric power supply systems estimated to be worth between \$50 million and \$100 million.

The United States currently has an un-harmonized patchwork of trade secret protection laws that are ill-equipped to provide an effective civil remedy for companies whose trade secrets are stolen by or for the benefit of foreign governments, companies, or individuals. Not all states have adopted the Uniform Trade Secret Act, and many differ in the interpretation and implementation of certain trade secret laws. Moreover, victims of trade secret theft often face lengthy and costly procedural obstacles in obtaining evidence when the misappropriators flee to other states or countries or transfer the evidence to other states or countries. Senate Bill 3389 was a step toward uniformity, efficiency, and effectiveness in combating trade secret theft in violation of the EEA. That bill proposed to help U.S. companies protect their valuable trade secrets by giving them the additional option of seeking redress in federal courts when they are victims of economic espionage or trade secret theft. The bill proposed providing U.S. companies the most effective and efficient ways to combat trade secret theft and recoup their losses, helping them to maintain their global competitive edge. While the Section did not support the enactment of S. 3309 as drafted, the Section continues to support the enactment of federal jurisdiction for the misappropriation of trade secret claims. Federal legislation should not replace state trade secret laws, but complement them, and provide, at a minimum, exclusive jurisdiction for civil actions involving claims involving the theft of trade secrets by or for the benefit of foreign governments, companies, or individuals.

The Committee has refrained from amending the language of S. 3389 given that the Obama administration has indicated that it intends to introduce proposed legislation in the immediate future.

[Trade Secrets and Interference with Contracts Committee Vote Tally
(as of xxx):

	For	Against	Explicitly Abstain	Not Heard From
Resolution 410-2	<u>8</u>	<u>1</u>		<u>5</u>

Voting Members Approving Resolution 410-2:

Robert Milligan, Jason D’Cruz, Alan Rothenbuecher, Richard Darwin,
James McEwen, Melinda Morton, Mark Wittow, and Nicholas Crincoli

Voting Members Disapproving Resolution 410-2:

David Pardue

Voting Members Abstaining:

Voting Members Not Heard From:

Hilary Brill, Arnold Calmann, Eric Crusius, Matthew Fischer, and Kathryn Kent

Narrative Comments

“I vote for the resolution, but wanted to see whether there was interplay between this legislation and when the Federal government misuses a trade secret. It does happen, and the remedies are less than easy to understand. It could be a taking (“Ruckelshaus v Monsanto is an example), it could be a breach of contract (Spectrum Sciences v US is an example), and you are forced into a myriad of specialized courts you might not want to be in. A simple remedy would be to waive sovereign immunity as was done under the Lanham Act.” James McEwen

“I would like it to include claims that are interstate but not necessarily foreign.” Mindy Morton