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FINAL REPORT

Trade Secrets: a re-visited business tool towards a new rebound

Encounter 7

Date: December 1st, 2020
Speakers:

- Prof. Sharon K. SANDEEN– Director of the IP Institute at Mitchell Hamline School of Law.
- Prof. Nicolas BINCTIN– Professor of Law, University of Poitiers.

Moderator: Prof. Javier FERNÁNDEZ-LASQUETTY – Partner at Elzaburu. Professor of IP Law. Member of Fide's Academic Council.

As Prof. FERNÁNDEZ-LASQUETTY stressed at the beginning of the 7th Encounter, the figure of the trade secret has gained importance in recent years due to the possibilities it offers for the protection of all knowledge and business information whose characteristics do not allow them to be safeguarded through other intellectual property rights such as copyright or patents. In this sense, trade secret protection also offers several advantages, such as no time limit or low costs, all of which place it at the forefront as a mechanism for defending the competitive advantages obtained by companies as a result of their investments in R&D.

This circumstance forces us to analyse through this Global Digital Encounter some of the issues that the legislative efforts of the United States and the European Union raise in this matter:

1. Current landscape in the United States and in the European Union with regard to trade secrets regulation: the Defend Trade Secrets Act and the Directive (EU) 2016/943 of the European Parliament and the Council on the protection of undisclosed know-how and business information (trade secrets).

In regard to this question, Prof. SANDEEN pointed out that since 2010, there has been a coordinated effort in the international legal community to increase the protection of trade secrets and the harmonization of trade secret law in the international arena. Proof of this is the adoption of the Defend Trade Secrets Act (hereinafter referred to as "DTSA") and the Trade Secrets Directive ("TSD") instruments by the United States and the European Union.

Both of these instruments are based on the Uniform Trade Secrets Act ("UTSA"), which has been used as a starting point to establish an adequate trade secrets protection regime. She claimed that the DTSA will not make a great difference in the United States as it does not differ much from the previous content of the UTSA. However, it should be noted that the implementation of the TSD in the EU framework has made it possible to achieve a certain degree of harmonisation between Member States and that it regulates several aspects that may provide answers to some of the key questions that still need to be solved in order to achieve an optimal regulation of trade secrets.

Elaborating on that idea, Prof. BINCTIN highlighted that even though the TSD intended to harmonize the regulation of trade secrets along the European Union, at the end of the day, the level of harmonization that this instrument has achieved is limited, given the lack of definition or concreteness of certain issues left to national legislators. For example, in relation to the legal qualification of trade secrets, in some countries, such as Germany, there is no notion of ownership of an intangible thing, while in others such as Austria or France, it is possible to be owner of such item. This results in significant differences when it comes to ensuring the protection of trade secrets on an international level.

2. Application before the courts:

Prof. SANDEEN explained how jurisdiction is now shared between state and federal courts of the United States after approval of the DTSA and how she considers that federal courts may have the capacity of providing more adequate and concise knowledge about these matters than state courts. Prof. BINCTIN asked Prof. SANDEEN whether filing a complaint in federal or state court may affect the protection of workers and their right to change jobs, especially given the disparity in rights they have depending on the state in question, to which she responded that United States law provides for the possibility for federal courts of taking the state law into consideration with respect to the issuing of an injunction, so that state law should also apply and be respected by federal courts. This includes California's laws which prohibits the enforcement of most non-compete agreements.

Prof. BINCTIN draw attention to the fact that, even with the implementation of the Directive on Trade Secrets, we haven't achieved harmonization regarding the workers' rights in the European Union countries, so we may have the same issue as the United States in relation to the disparity of rights and the outcomes that might result from applying the laws of different Member States.

Prof. FERNÁNDEZ-LASQUETTY agreed with this idea and highlighted that this issue constitutes one of the main problems in relation to the protection of trade secrets and relates it to the differentiation between employees' knowledge and skills (which has not yet been duly delimited by the European instruments) and the trade secrets produced for the company, which must remain in the company when the employee leaves.

3. Scope of protection of trade secrets regulations:

Prof. SANDEEN indicated that the objective scope of application of trade secrets protection is limited, as information must comply with certain minimal conditions that were firstly set out in the UTSA and included in article 39 of the TRIPS Agreement in order to be eligible for this protection, mainly: (i) to be secret (not generally known or readily ascertainable); (ii) to have commercial value due to the secrecy; and (iii) to have been subject to reasonable measures to protect the secret(s).

In contrast, Prof. BINCTIN claimed that this definition (shared by the TSD) is deficient, for the concepts used to delimit trade secrets / undisclosed information are not sufficiently precise. For example, as regards to commercial value, the professor considers that the value of the information does not lie in the secret but in the information itself (the secret is just a way of protecting the information) and that based on that definition, any secret business information may have commercial

value and therefore be susceptible to protection by extending the scope of protection of the rule in an unbalanced manner.

In relation to this, Prof. SANDEEN agreed that those countries interested in adopting specific regulations on trade secrets should pay special attention to the language they use to define the term. The definition provided by the UTSA and DTSA are preferable to the language of TRIPS Article 39 and the TSD insofar as they do not associate the commercial value of the information with its secrecy, but rather with the value the information may have for other competitors, thus reducing the objective scope of application of the rule. For example, according to the definition given by the TRIPS agreement / TSD, information about actions of the company that caused an environmental damage might be considered a "trade secret" only because of its secret nature, while this information should not be considered a trade secret under the UTSA and DTSA as it does not have any value to the competitors of the company. This serves to limit the scope of trade secret protection and allow regulatory oversight to apply in a logical and optimal way.

Another important limitation that is built into US trade secret law but is not present in the TSD concerns Section 7 of the UTSA which precludes tort liability and equitable claims for the misappropriation of information not meeting the definition of a trade secret. Under US law, the only allowable claims for misappropriation of information (except in States that misapply Section 7) are the tort of trade secret misappropriation for qualifying trade secrets or a breach of contract claim for breach of an obligation of confidentiality.

4. Interpretation of the Trade Secrets Directive:

Prof. FERNÁNDEZ-LASQUETTY highlighted the existence of interpretative problems in relation to the TSD, and more specifically, to the content of article 4 and the inclusion of a new offence as the production or distribution of “infringing goods” and the liability of those that ought, under the circumstances, to have known that an unlawful use of a trade secret was being made.

In relation to that article, Prof. SANDEEN pointed out, firstly, that the offences established in United States law include a state of mind requirement for all wrongs that requires the wrongful acquisition, disclosure or use of trade secrets to be done with either knowledge or reason to know of the trade secret misappropriation. The TSD is worded differently, with only some of the wrongs specified in article 4 having a “know or ought to know” requirement, but with that language later appearing in the remedies provisions.

Secondly, Prof. SANDEEN noted that the TSD inclusion of a new offence for the production or distribution of infringing goods does not exist in the US, except to the extent that importation into the US is controlled by the ITC. She is concerned that making distribution of infringing goods a wrong under the TSD may lead to an unfair outcome in those situations in which a retailer may be selling some goods that include a misappropriated trade secret; once notified, they may be deemed to have the requisite knowledge to be subjected to liability for trade secret misappropriation.

Prof. BINCTIN expanded on this idea by saying that there is also concern in Europe about two different questions: (i) the clashes between the consideration of business secrets as property (as in

France in some cases) and their classification as an act of unfair competition (as in Germany), although due to the harmonization of common civil procedural rules carried out by the Directive, which has a real impact in practice specially in front of counterfeit seizure to identify which information can be disclosed, this issue is mitigated; and (ii) the distinction between a lawful and an unlawful act, which may be more problematic, for there are certain situations that may fall between these two definitions and it could be difficult in front of the courts to argue whether an act is lawful or not.

5. Harmonization in other countries:

After Prof. FERNÁNDEZ-LASQUETTY asked the speakers to provide information about the protection of trade secrets in other countries rather than United States and EU countries, Prof. SANDEEN referred to another piece of legislation including trade secrets regulation, such as the agreement between United States, Mexico and Canada (the so-called "new" NAFTA agreement) in which trade secret rules were updated in article 1711. She pointed out that there have been efforts by the US Trade Representative since the TRIPS Agreement to include trade secret provisions in FTAS, often including a requirement that members to the agreement establish criminal penalties for the theft of trade secrets. Other countries that are expanding their legislative efforts to protect business secrets are Japan and China, which have amended their trade secret laws in recent years.

Prof. BINCTIN provided a financial perspective and implied that depending on the qualification (property, etc.) given to the trade secret, it may have certain advantages in terms of taxation, so there is a need for harmonized regulation in this area to give clarity to businesses and enable them to obtain the maximum possible benefit. The BEPS NEXUS initiative shows how this point can be important et remains unharmonized.

6. Additional need for harmonization on a European level:

Prof. FERNÁNDEZ-LASQUETTY raised the question of whether a second Directive or even a European Regulation would be necessary to achieve full and satisfactory harmonization in this area, to which Prof. BINCTIN answered that, for sure, we will need further solutions for trade secrets regulation, so as to achieve a real civil global harmonization that answers some questions such as the tort liability applicable regime.

Prof. SANDEEN added that there is no coordination between European instruments such as the General Data Protection Regulation ("GDPR") and TSD and that a closer examination of the intersection between these instruments and the consequences arising from them is needed. In this sense, Prof. BINCTIN pointed out that the existence of different regulations that may include the same object or behavior within their scope of application causes difficulties in determining responsibilities before the European courts and that the real challenge for the European Union lies in drawing up a global and fully harmonized regulation that avoids fragmentation and dispersion of concepts and rules.

7. Additional dilemmas: the extraterritorial application of EE. UU regulations.

Prof. FERNÁNDEZ-LASQUETTY raised the issue of the possibility of US courts having jurisdiction over European countries in cases of trade secrets protection, an important matter given the current situation where most transactions are digital and it can become complicated to determine where the harmful action was carried out, etc.

Prof. SANDEEN pointed out that there is little jurisprudence in regard to this specific matter and its regulation in the DTSA and that it needs further development. However, even in those cases in which the United States courts can claim jurisdiction over foreign parties, often the resulting judgements still have to be recognized and enforced in the correspondent foreign countries, which is not always possible.

8. Considerations about the future:

In order to conclude, Prof. FERNÁNDEZ-LASQUETTY highlighted the fact that trade secrets will have an important and relevant role on the current context of relevant technological developments and inventions and that future questions may arise in relation to trade secrets and the protection of data or even algorithms.

Prof. BINCTIN endorsed this idea and stated that the figure of trade secrets in relation to new technologies is very relevant; for example, in those situations in which a certain element, such as an algorithm or big amounts of data, can't be protected through other intellectual property right like patents, trade secrets may provide an adequate protection and even offer important possibilities to guarantee competitive advantage.

Prof. SANDEEN gave some final notes in this regard, pointing out that (i) not all information and data are trade secrets and they cannot be equated and that (ii) we have to think about how to facilitate the sharing of data between companies to reduce inefficiencies arising from the collection of the same information by different companies, an issue that trade secrets legislation may be able to help with.

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