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THE DEFEND TRADE SECRETS ACT OF 2015, S. 1890, H.R. 3326, 114TH CONGRESS (2015)

Joseph Karnik Cortez Doukmetzian*

For the second straight session of Congress, House and Senate leaders have come together to sponsor a bill in the interest of keeping America's companies globally competitive. The Defend Trade Secrets Act of 2015 ("DTSA")¹, introduced simultaneously in the House (H.R. 3326) and the Senate (S. 1890) by a bi-partisan group of legislators, lead by Senator Orrin Hatch, proposes to consolidate current state trade secret law and create a private right of action for trade secret misappropriation in the federal court system.² The Act would fit into the federal landscape by amending the Economic Espionage Act of 1996 ("EEA"), which currently only provides criminal liability for the misappropriation of trade secrets.³ If the bill is passed, the EEA will have a civil right of action in addition to criminal liability for trade secret misappropriation.⁴

I. LEGISLATIVE HISTORY

Nearly 20 years ago, Congress passed the EEA due to concerns that foreign nations and their corporations were stealing the trade secrets of American inventors.⁵ Although the EEA imposed a criminal liability price tag to trade secret misappropriation, there was an increase in the theft of trade secrets, corporate espionage, and breaches of confidence, causing federal litigation on mis-

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¹ Defend Trade Secrets Act of 2015, S. 1890, H.R. 3326, 114th Cong. (2015).

² *Id.*

³ Economic Espionage Act of 1996 § 101, 18 U.S.C. §§ 1831-1839 (2012).

⁴ S. 1890 § 2(b); H.R. 3326. § 2(b).

⁵ See 142 CONG. REC. S12,207 (daily ed. Oct. 2, 1996) (statement of former Sen. Arlen Specter) ("For years now, there has been mounting evidence that many foreign nations and their corporations have been seeking to gain competitive advantage by stealing the trade secrets, the intangible intellectual property of inventors in this country.").

appropriation to double between 1995 and 2004.⁶ Scared of the economic loss and the idea that the Department of Justice and the Federal Bureau of Investigation do not have enough resources to adequately protect trade secrets, private corporations lobbied legislators to push for a uniform legal framework of federal trade secret law.⁷ As a result, in the 113th Congress, legislators proposed at least five separate bills relating to the misappropriation of trade secrets.⁸ The predecessor to this current bill, Defend Trade Secrets Act of 2014, was introduced on April 29, 2014 by Senators Christopher Coons and Orrin Hatch, but died on the Senate floor without getting passed.⁹

II. BACKGROUND

Currently, trade secrets are governed by state law.¹⁰ The Uniform Trade Secrets Act (“UTSA”), originally released in 1979, is the first and only source of model law for trade secret misappropriation.¹¹ Indeed, 47 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands have adopted some form of the UTSA.¹² While there is no widely accepted definition of a trade secret, the common consensus is that it is a piece of confidential information that the holder attempts to keep secret.¹³ The UTSA defines a trade secret as any “information, including a formula, pattern, compilation, program, device, method, technique, or process” that has its own economic value simply because of its

⁶ David S. Almeling, et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZAGA L. REV. 291, 293, 302 tbl.1 (2010).

⁷ PRICEWATERHOUSECOOPERS LLP, ECONOMIC IMPACT OF TRADE SECRET THEFT 2 (2014), <https://www.pwc.com/us/en/forensic-services/publications/assets/economic-impact.pdf>; see also BRIAN T. YEH, CONG. RESEARCH SERV., R43714, PROTECTION OF TRADE SECRETS: OVERVIEW OF CURRENT LAW AND LEGISLATION, at summary (2014).

⁸ See, e.g., Defend Trade Secrets Act of 2014, S. 2267, 113th Cong. (2014); Trade Secrets Protection Act of 2014, H.R. 5233, 113th Cong. (2014); Cyber Economic Espionage Accountability Act, S. 2281, 113th Cong. (2013); Future of American Innovation and Research (FAIR) Act of 2013, S. 1770, 113th Cong. (2013); Private Right of Action Against Theft of Trade Secrets Act of 2013, H.R. 2466, 113th Cong. (2013).

⁹ S. 2267 – *All Information*, LIB. OF CONG.: THOMAS <http://thomas.loc.gov/cgi-bin/bdquery/z?d113:SN02267:@@L&summ2=m&> (last visited Nov. 2, 2015) (S.2267’s companion bill, H.R. 5233 was reported by the House Committee on the Judiciary but no further actions have been taken.) H.R. 5233 – *All Information*, LIB. OF CONG.: THOMAS, <http://thomas.loc.gov/cgi-bin/bdquery/z?d113:HR05233:@@X> (last visited Nov. 2, 2015); see also H.R. REP. NO. 113-657, at 1 (2014).

¹⁰ YEH, *supra* note 7, at 6.

¹¹ UNIF. TRADE SECRETS ACT (UNIF. LAW COMM’N 1985).

¹² *Legislative Fact Sheet – Trade Secrets Act*, UNIF. LAW COMM’N, <http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act> (last visited Nov. 2, 2015) (MA, NY, & NC have either a statute or common law protection for trade secrets); see also YEH, *supra* note 7, at 6.

¹³ *Confold Pac., Inc., v. Polaris Indus., Inc.*, 433 F.3d 952, 959 (7th Cir. 2006).

secrecy.¹⁴

Trade secrets differ from other forms of intellectual property in the way in which they are protected. Copyrights, Trademarks, and Patents benefit from protection from infringement under federal law.¹⁵ Trade secrets are protected against misappropriation.¹⁶ Trade secret misappropriation is different than copyright infringement “because copying is infringement; copying a trade secret, which is what reverse engineering does, is not.”¹⁷ It is also different than patent infringement, because independent discovery can be a defense to trade secret misappropriation, but not to patent infringement.¹⁸ However different the claims may be, misappropriation of a trade secret can occur if it was stolen, obtained by fraud, or disclosed in breach of a duty of confidence.¹⁹

As a method to combat the foreign and domestic misappropriation of trade secrets, Congress passed the EEA, which has two sections relating to misappropriation.²⁰ First, 18 U.S.C. § 1831 deals with the misappropriation of trade secrets for “any foreign government, foreign instrumentality, or foreign agent.”²¹ Second, 18 U.S.C. § 1832 protects against the conversion of trade secrets for the “economic benefit of anyone other than the owner.”²² However, the EEA was never “intended to criminalize *every* theft of trade secrets” that can be remedied by state law.²³

To smooth out the legal playing field, the DTSA provides two legal avenues towards protecting their intellectual property.²⁴ First, it allows any trade secret owner to bring a civil action seeking injunctive relief and compensatory damages in U.S. District Court for the misappropriation of his or her trade secret.²⁵ Second, the Act creates a procedure for ex parte pre-notice seizure orders when there is a risk of “propagation or dissemination of the trade secret.”²⁶

The Act also has a special provision for the reporting of trade secret theft

¹⁴ UNIF. TRADE SECRETS ACT § 1(4).

¹⁵ Copyright Act of 1976 § 501, 17 U.S.C. § 501 (2012); Lanham Act § 31, 15 U.S.C. § 1114; Patent Act § 271, 35 U.S.C. § 271.

¹⁶ UNIF. TRADE SECRETS ACT § 2.

¹⁷ Confold, 433 F.3d at 959 (“[I]t is perfectly lawful to ‘steal’ a firm’s trade secret by reverse engineering.”).

¹⁸ *Id.*

¹⁹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 40, 43 (AM. LAW INST. 1995); UNIF. TRADE SECRETS ACT § 1(2).

²⁰ 18 U.S.C. §§ 1831-1832; *see also* UNIF. TRADE SECRETS ACT § 1(2).

²¹ 18 U.S.C. § 1831(a)

²² *Id.* § 1832 (a)

²³ U.S. DEP’T OF JUSTICE, U.S. ATT’YS MANUAL, § 9-59.100 (2015) (emphasis added), <http://www.justice.gov/usam/usam-9-59000-economic-espionage>.

²⁴ S. 1890 § 2(b); H.R. 3326. § 2(b).

²⁵ S. 1890 § 2(b)(1); H.R. 3326. § 2(b)(1).

²⁶ S. 1890 § 2(b)(2)(A)(i); H.R. 3326 § 2(b)(2)(A)(i).

occurring overseas.²⁷ Twice a year, the Attorney General and other agency heads would have to submit a report to the Judiciary Committees of both the House and the Senate that would contain (1) the “scope and breadth” of trade secret theft abroad, (2) the extent to which trade secret theft is bankrolled by foreign persons or foreign governments, (3) the danger of trade secret theft abroad, (4) the “ability and limitations of trade secret owners” in preventing misappropriation and enforcing judgments against foreign parties, (5) an analysis of trade secret protections given to U.S. companies by our trading partners, (6) examples of the U.S. government working with foreign governments to “investigate, arrest, and prosecute” those stealing U.S. trade secrets abroad, (7) instances of improvement protecting against foreign trade secret theft through trade agreements and treaties, and (8) “recommendations of legislative and executive branch actions” to minimize economic threat of trade secret theft and educate U.S. companies on the risks and threats their companies face.²⁸

III. ARGUMENTS SUPPORTING DTSA

DTSA has massive industry support, including the Semiconductor Industry Association, Biotechnology Industry Organization, and Software & Information Industry Association.²⁹ It is also backed by the ABA Section of Intellectual Property, as well as many big name companies from various industries, including: Nike, Microsoft, Honda, General Electric, Boeing, Johnson & Johnson, and 3M.³⁰

If DTSA is not passed, proponents argue that the “hemorrhaging of jobs and

²⁷ S. 1890 § 3; H.R. 3326 § 3.

²⁸ S. 1890 § 3(b); H.R. 3326 § 3(b)

²⁹ Letter from John Neuffer, President & CEO, Semiconductor Indus. Ass’n, to Sponsors of the Defend Trade Secrets Act of 2015 (Oct. 7, 2015) (on file with author) [hereinafter SIA Letter], http://www.hatch.senate.gov/public/_cache/files/0858cc82-289c-4985-a88c-5c439fdb27f9/SIA%20trade%20secrets%20letter%20oct%202015.docx.pdf; Letter from Companies & Organizations in support of the Defend Trade Secrets Act of 2015, to the Sponsors of the Defend Trade Secrets Act of 2015 (July 29, 2015) (on file with author) [hereinafter DTSA Support Letter], <http://www.bsa.org/~media/Files/Policy/IntellectualProperty/07292015DTSASupportLetter.s.pdf>.

³⁰ Letter from Theodore H. Davis, Jr., Chair, Am. Bar Ass’n–Section of Intell. Prop., to the Honorable Robert W. Goodlatte, Chairman, H. Comm. on the Judiciary & the Honorable John Conyers Jr., Ranking Member, H. Comm. on the Judiciary 2 (Oct. 5, 2015) (on file with author) [hereinafter ABA Support Letter], http://www.americanbar.org/content/dam/aba/administrative/intellectual_property_law/advocacy/advocacy-20151005-letter.authcheckdam.pdf; see also DTSA Support Letter, *supra* note 29, at 1. For a full list of supporters, see *UTC News*, UTAH TECH. COUNCIL (Oct. 10, 2015), <http://www.utahtech.org/wcnews/NewsArticleDisplay.aspx?articleid=1951>.

revenue being lost to the theft of trade secrets” will continue.³¹ They contend that current federal law doesn’t sufficiently protect trade secrets, and that state law does not protect against interstate theft.³² This is because there is no federal civil right of action and state law is inconsistent and a state may not have personal jurisdiction over one of the parties.³³ Promoters of the bill indicate that state law protections only made sense when trade secrets were a local issue.³⁴ Now, however, globalization and technology have changed the way the world works, because we are always connected, data storage capabilities are always increasing, and global supply chains help companies reach new consumers.³⁵

Even though globalization and technology has been great for business, it has opened new avenues for competitors to steal others’ trade secrets in order to avoid paying for expensive research and development.³⁶ Passing the bill creates a federal civil cause of action and would therefore provide a “harmonized, uniform standard and system.”³⁷ Advocates feel that this bill would help eliminate the “commercial injury, diminished competitiveness, and loss of employment” that happens when trade secrets are misappropriated.³⁸

Others have argued that the disconnected regime of state trade secret law causes substantive and procedural issues.³⁹ They surmise that the DTSA would fix expansive investigatory costs and “economic inefficiencies” from interstate trade secret law differences.⁴⁰ Even though most states have passed some form of the UTSA, the enacted statutes “differ in the interpretation and implementation of existing laws.”⁴¹ Additionally, advocates have noted that the national

³¹ Press Release, Sen. Orrin Hatch, Senate, House Leaders Introduce Bipartisan, Bicameral Bill to Protect Trade Secrets (July 29, 2015), <http://www.hatch.senate.gov/public/index.cfm/2015/7/senate-house-leaders-introduce-bipartisan-bicameral-bill-to-protect-trade-secrets>.

³² *See id.*

³³ However, it is important to note that trade secrets owners may still file a misappropriation suit in federal court using diversity jurisdiction.

³⁴ Aaron Cooper, *Bipartisan Trade Secrets Legislation is Back*, LAW360 (Aug. 3, 2015, 10:26 AM), https://www.cov.com/~media/files/corporate/publications/2015/08/opinion_bipartisan_trade_secrets_legislation_is_back.pdf (“[A] company’s greatest risk was that a competitor down the street would steal its customer list.”).

³⁵ *Id.*

³⁶ Letter from Rob McKenna, President, Nat’l Alliance for Jobs & Innovation, to Sponsors of Defend Trade Secrets Act of 2015 (Aug. 10, 2015) (on file with author), <http://naji.org/naji-endorses-defend-trade-secrets-act-of-2015>.

³⁷ SIA Letter, *supra* note 29.

³⁸ *Id.*

³⁹ David S. Almeling, *Four Reasons to Enact a Federal Trade Secret Act*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 769, 776-78 (2009).

⁴⁰ *Id.*

⁴¹ ABA Support Letter, *supra* note 30, at 2 (noting that states differ in defining trade secrets, in what is required to bring a claim for trade secret misappropriation, and in length of the statute of limitations).

service of process afforded by federal law gives an advantage that is “critical in trade secrets litigation.”⁴²

Supporters explain that the bill clearly and effectively defines a trade secret in a manner that is not highly technical or restrictive.⁴³ They say there are clear requirements to bring a claim, the remedies available are comparable to those available in the UTSA and state law, and that the bill will not preempt state law.⁴⁴ Therefore, they argue, the inclusion of these components will provide an effective civil remedy for small and large businesses alike, whose trade secrets have been misappropriated.⁴⁵

IV. ARGUMENTS IN OPPOSITION OF DTSA

In a letter of opposition to the DTSA of 2014, a group of 31 professors of Intellectual Property law argued that if the Acts were passed, they would not solve any problems in trade secret law, and create new legal problems or worsen current ones.⁴⁶ They note that even though proponents of the Act say that it will create a uniform standard, uniform law already exists, as the UTSA has been adopted by 47 out of 50 states.⁴⁷ Additionally, while the Act would give trade secrets protection under federal law, supplementary state law would still apply to certain related issues.⁴⁸ Further, while they agree that cyber-espionage is an area of concern for Congress, they add that the Acts are incomplete because the Acts’ definition of trade secret may “not protect all of the information that may be the subject of cyber-espionage, or even all of the information that many businesses believe are trade secrets.”⁴⁹

In response to the new legislation, two out of the 31 professors authored another letter, contending that the DTSA of 2015 is just a combination of the two bills that failed in 2014.⁵⁰ These professors say that the concerns in their 2014

⁴² R. Mark Halligan, *Revisited 2015: Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 14 J. MARSHALL REV. INTELL. PROP. L. 656, 674 (2015).

⁴³ ABA Support Letter, *supra* note 30, at 2.

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ Letter from Professor David S. Levine, et al., to, Members of U.S. Congress 1 (Aug. 26, 2014) (on file with author) [hereinafter Professors’ 2014 Letter], <http://cyberlaw.stanford.edu/files/blogs/FINAL%20Professors%27%20Letter%20Opposing%20Trade%20Secret%20Legislation.pdf>.

⁴⁷ *Id.* at 2.

⁴⁸ *Id.* at 3 (noting that state law would cover definitions, obligations, and ownership of inventions, confidential relationships, and non-compete agreements).

⁴⁹ *Id.* at 7.

⁵⁰ Letter from Professors David S. Levine & Sharon K. Sandeen, to the Sponsors of the Defend Trade Secrets Act 1 (Aug. 3, 2015) (on file with author) [hereinafter Professors’

letter were not addressed and that the sponsors of the bill have not explained how the bill will “specifically address the harms it purports to mitigate.”⁵¹

Opponents of the Act think that the broadness of the proposed law and the creation of the ex parte seizure proceeding will give rise to so-called “trade secret trolls.”⁵² Similar to patent trolls, trade secret trolls would use threats of litigation to extort small business owners.⁵³ These trolls would come into existence because the ex parte proceeding does not give notice or an opportunity for the defendants to defend themselves.⁵⁴ Notwithstanding the creation of these trolls, opponents continue to fight against the ex parte proceeding because they say “it is fraught with potential anti-competitive abuse,” which is exactly what trade secret protection is designed to protect against.⁵⁵

Additionally, the opposing professors claim that the Acts may increase the risk of accidental disclosure of trade secrets.⁵⁶ This is because the existence and nature of the trade secret is needed to establish jurisdiction under the Act, and so defendants may be allowed to demand earlier disclosure of the trade secrets at issue.⁵⁷ “Thus, while the provision might look good on paper as a means to quell foreign cyber-espionage, in practice it will likely to have more of an adverse impact on U.S.-based entrepreneurs than on the foreign agents and cyber-hackers whose activities it is purportedly designed to address.”⁵⁸

V. CURRENT STANDING IN CONGRESS

On July 29, 2015, after being introduced in the House, H.R. 3326 was referred to the House Committee on the Judiciary.⁵⁹ On October 1, 2015, the bill was further referred to the Subcommittee on Courts, Intellectual Property, and the Internet.⁶⁰ As of October 28, 2015, the bill had 62 co-sponsors (42 Republi-

2015 Letter], <https://www.elon.edu/e/CmsFile/GetFile?FileID=185>.

⁵¹ *Id.*

⁵² See David S. Levine & Sharon K. Sandeen, *Here Come The Trade Secret Trolls*, 71 WASH. & LEE L. REV. ONLINE 230, 234 (“[T]rade secret troll’ [is] an alleged trade secret-owning entity that uses broad trade secret law to exact rents via dubious threats of litigation directed at unsuspecting defendants.”); but see Gene Quinn, *A Fear of Trade Secret Trolls is Completely Unfounded*, IPWATCHDOG.COM (Oct. 15, 2015), <http://www.ipwatchdog.com/2015/10/15/a-fear-of-trade-secret-trolls-is-completely-unfounded/id=62508/>.

⁵³ Levine & Sandeen, *supra* note 52, at 234.

⁵⁴ *Id.* at 256.

⁵⁵ Professors’ 2015 Letter, *supra* note 50, at 3.

⁵⁶ Professors’ 2014 Letter, *supra* note 46, at 5.

⁵⁷ *Id.*

⁵⁸ Professors’ 2015 Letter, *supra* note 50, at 3.

⁵⁹ H.R. 3326 – *All Congressional Actions*, LIB. OF CONG.: THOMAS, <http://thomas.loc.gov/cgi-bin/bdquery/z?d114:HR03326:@@X> (last visited Nov. 2, 2015).

⁶⁰ *Id.*

cans and 20 Democrats).⁶¹ H.R. 3326's identical counterpart, S.1890, was read twice and referred to the Senate Committee on the Judiciary, where it still sits today.⁶² As of October 28, 2015, the bill had 10 co-sponsors (6 Republicans and 4 Democrats).⁶³ One website gives H.R. 3326 a 15% chance of getting past committee and S. 1890 only a 6% chance of getting past committee.⁶⁴ Only time will tell if Congress finally elects to pass the bill or, if, like it's previous counterparts, it lets the bill expire on the House or Senate floor.

⁶¹ *H.R. 3326 – Co-Sponsors*, LIB. OF CONG.: THOMAS, <http://thomas.loc.gov/cgi-bin/bdquery/z?d114:HR03326:@@P> (last visited Nov. 2, 2015); *see also H.R. 3326: Defend Trade Secrets Act of 2015*, GOVTRACK.US, <https://www.govtrack.us/congress/bills/114/hr3326> (last visited Nov. 2, 2015).

⁶² *S. 1890 – All Congressional Actions*, LIB. OF CONG.: THOMAS, <http://thomas.loc.gov/cgi-bin/bdquery/z?d114:SN01890:@@X> (last visited Nov. 2, 2015).

⁶³ *S. 1890 – Co-Sponsors*, LIB. OF CONG.: THOMAS, <http://thomas.loc.gov/cgi-bin/bdquery/z?d114:SN01890:@@P> (last visited Nov. 2, 2015); *see also S. 1890: Defend Trade Secrets Act of 2015*, GOVTRACK.US, <https://www.govtrack.us/congress/bills/114/s1890> (last visited Nov. 2, 2015).

⁶⁴ *H.R. 3326: Defend Trade Secrets Act of 2015*, GOVTRACK.US, <https://www.govtrack.us/congress/bills/114/hr3326> (last visited Nov. 2, 2015); *S. 1890: Defend Trade Secrets Act of 2015*, GOVTRACK.US, <https://www.govtrack.us/congress/bills/114/s1890> (last visited Nov. 2, 2015).