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Top 10 Trade Secret Developments Of 2013: Part 1

Law360, New York (December 19, 2013, 12:59 PM ET) -- The year 2013 brought significant developments in trade secret law, both in the U.S. and abroad. In-house counsel and private practitioners should consider trends that promise to shape further developments in the years ahead.

In part 1 of this two-part series, we highlight five in particular: (1) expanding federal power being brought to bear on trade secret law; (2) Europe's progress toward a uniform framework for trade secret protection (3) the U.S. International Trade Commission's authority to protect U.S. companies from foreign acts of misappropriation; (4) Taiwan's crackdown on trade secret misappropriation by foreign countries such as South Korea and China; and (5) the continuing disagreement among U.S. courts regarding the Uniform Trade Secret Act's preemption of claims for misappropriation of confidential information that does not rise to the level of a trade secret.

A "takeaway" summarizing key issues and guidance appears at the end of each topic.

1. Increasing Federal Attention to Trade Secret Misappropriation

The federal government increasingly cracked down on the theft of trade secrets in 2013, taking significant executive and legislative action.

President Obama gave top billing to the problem of corporate espionage this year by addressing it in the State of the Union Address: "America must also face the rapidly growing threat from cyber-attacks. Now, we know hackers steal people's identities and infiltrate private emails. We know foreign countries and companies swipe our corporate secrets." Just a month later, on Feb. 20, 2013, the White House released its "Strategy to Mitigate the Theft of U.S. Trade Secrets," which is a plan for enhancing coordination among agencies and the public and improving legislation and criminal enforcement to protect trade secrets.

A few months later, in June 2013, the White House unveiled its "2013 Joint Strategic Plan on Intellectual Property Enforcement," which is a roadmap for assisting the federal agencies fight intellectual property theft in the next three years. The plan lays out 26 specific action items to enhance IP protection, improve enforcement, and promote international cooperation. The plan acknowledges that "[a]ddressing the theft and transfer of trade secrets overseas for innovative technology will continue to be a priority focus" and explains that the "Office of the Director of National Intelligence will coordinate within the intelligence community to inform the private sector about ways to identify and prevent the theft of trade secrets."

Congress has also been active in trade secret protection. Although last year's Protecting Trade Secrets and Innovation Act of 2012, S. 3389 did not advance, June 2013 saw the introduction of the Private Right of Action Against Theft of Trade Secrets Act of 2013, H.R. 2466, which would amend the Economic Espionage Act to allow civil suits against trade secret thieves. The 2013 bill is unlikely to make it past committee, but perhaps the increasing concern over trade secret theft might eventually spur Congress

to provide a federal civil remedy.

On the enforcement front, the U.S. obtained an indictment in June against one of China's largest wind turbine companies, Sinovel Wind Group Co., for allegedly stealing technology from Massachusetts-based American Superconductor Corp. ("AMSC").[1] The indictment targets Sinovel, two of its executives, and a former employee of AMSC named Dejan Karabasevic. Karabasevic allegedly traveled to China to help Sinovel adapt AMSC's trade secrets for use in Sinovel's wind turbines, and he has already served a brief prison sentence for the offense after being convicted by an Austrian court.

The indictment is just the latest development in the legal battle between AMSC and its former customer. AMSC initially filed suit in Chinese courts, accusing Sinovel of using stolen source code in more than 1,000 wind turbines that were sold in China and seeking more than $1.2 billion in damages. The indictment comes at a critical time for U.S. foreign relations, though, as China and the U.S. have been facing off in an increasingly intense conflict over economic espionage.

Takeaway

Both the White House and Congress have increasingly sought to protect American trade secrets, and in-house counsel and private practitioners should carefully monitor any renewed proposals to offer a federal cause of action for trade secret misappropriation and consider enlisting federal assistance when trade secrets are threatened — particularly by foreign competitors.

2. Defining and Protecting Trade Secrets in the EU

Europe is also increasing its focus on trade secret protection. Currently, both the definition of "trade secrets" and the protections afforded to them lack uniformity across Europe. The European Commission's 2013 Study on Trade Secrets and Confidential Business Information in the Internal Market noted that "the legal protection afforded by Member States to trade secrets varies significantly notwithstanding legal instruments already in place at the international level to foster uniform standards of protection." This could all change, however, with the European Commission's recently proposed directive "on the protection of undisclosed know-how and confidential business information (trade secrets) against their unlawful acquisition, use, and disclosure."

If adopted, the directive would establish a uniform definition of "trade secret" and a set of remedies for unlawful use or disclosure in all 28 EU member states. The definition of "trade secret" should be familiar to U.S. practitioners: (1) the information must be confidential; (2) the information must have commercial value because of its confidentiality; and (3) the holder of information must have made "reasonable efforts to keep it confidential."

The directive would also provide for preliminary injunctive relief, precautionary seizure of suspected infringing goods, a two-year statute of limitations, and safeguards to preserve the confidentiality of trade secrets in judicial proceedings. In short, the directive could bring trade secret uniformity to Europe, just as UTSA has done for the U.S. One difference between the directive and UTSA is worth noting, however: the directive does not provide for exemplary/punitive damages.

Following recommendation from the European Commission, the directive will now go the European Parliament and member state governments for adoption.

Takeaway

The European Commission's proposed directive faces significant procedural hurdles before becoming final, but in-house counsel and private practitioners should stay tuned. Greater trade secret protection and predictability may be on the forefront in Europe.

3. The ITC, China and Foreign Misappropriation

Two rubber resin companies claimed legal victories in the same trade secret dispute on the same day in June 2013. New York-based SI Group announced a "significant victory" over China-based Sino Legend (Zhangjiagang) Chemical Co., Ltd. before the U.S. International Trade Commission.[2] The ITC action involves allegations that Sino Legend poached a manager from one of SI Group's Chinese facilities and that the manager disclosed SI Group's trade secrets to Sino Legend, which used them to develop rubber resins that were ultimately imported into the United States.

Because Sino Legend's alleged acts of misappropriation occurred exclusively in China, U.S. federal courts lack jurisdiction over the dispute. As recently confirmed by the Federal Circuit, however, the ITC has authority under Section 337 of the Tariff Act to restrict the importation of goods produced through the misappropriation of trade secrets, even if the acts of misappropriation occurred entirely abroad.[3] Exercising this authority, the administrative law judge found in favor of SI Group and recommended a ten-year importation ban on certain rubber tackifier resins manufactured by Sino Legend. The publicly available, and heavily redacted, version of ALJ Robert K. Rogers Jr.'s decision spans 724 pages.

The same day, Sino Legend claimed victory in a parallel Chinese action. Before bringing its claims to the ITC, SI Group had sued in the Shanghai No. 2 Intermediate People's Court alleging that Sino Legend published SI Group's trade secrets in a Chinese patent application. The Chinese court rejected SI Group's claims, and on October 12, 2013, the Shanghai Higher People's Court rejected SI Group's final appeal. According to a Sino Legend press release, the Shanghai Higher People's Court "ruled that SI [Group's] appeal lacked factual and legal basis, and reiterated there is no infringement of any trade secrets by Sino Legend."[4]

In the ITC action, Sino Legend has tried to introduce evidence of the Chinese proceedings and to argue that the ITC should show deference to the Chinese courts, but the ALJ excluded all evidence of the Chinese proceedings. In October 2013, the ITC notified the parties that the six ITC commissioners will review the initial determination by the ALJ. The ITC's target date for completing that review was recently extended from Oct. 25, 2013 to Jan. 13, 2014.

Takeaway

The ITC is a useful forum for companies seeking to protect trade secrets from foreign acts of misappropriation — particularly when those acts occur in countries like China, which can be unfriendly to foreign trade secret plaintiffs. Given SI Group's preliminary success before the ITC this year, U.S. companies should consider ITC actions as an alternative to seeking relief from foreign courts for foreign acts of misappropriation.

4. Taiwan Cracks Down on Trade-Secret Misappropriation

In August 2013, Taipei authorities arrested three employees of Taiwanese smartphone-maker HTC on suspicion of trade secret theft and fraudulent expense claims after HTC filed a complaint with the Taiwan Investigation Bureau. The three employees — a vice president of product design, a director of research and development, and a senior designer — are accused of stealing trade secrets relating to HTC's "Sense 6.0" user interface that will debut in upcoming smartphones.

The employees allegedly formed design companies in Taiwan and China and spoke to Chinese phone-makers — and according to some reports, the Chengdu city government in China — about selling HTC's trade secrets and confidential information. They have also been accused of defrauding HTC out of more than $334,000 by using an external design firm to fraudulently invoice HTC for services that were performed in-house.

Taiwanese police also raided the accused employees' offices and homes, seeking evidence to support the prosecution. This is noteworthy because Taiwanese courts lack a formal discovery system, and plaintiffs often face difficulty obtaining the evidence necessary to succeed on trade secret and related claims. As a result, Taiwanese plaintiffs can benefit from making criminal complaints before filing a civil suit, hoping that the authorities will launch these kinds of raids and discover evidence that will also be admissible in later civil cases.

Taiwan recently amended its criminal Trade Secrets Act in response to increasing concern over the unlawful disclosure of such information to competing companies in China and South Korea. The amendment ratcheted up the penalties for violations of the act, increasing fines and jail time. The HTC arrests will likely be the first high-profile case under the newly amended law.

Takeaway

Taiwan's amendment to the Trade Secrets Act alongside this high-profile prosecution signals a shift by the Taiwanese government toward increased protection of trade secrets. Companies that recruit Taiwanese employees — and particularly those with operations in China and South Korea — should take note and ensure that new hires do not bring trade secret or other confidential information with them to their positions.

5) Preemption of Nontrade-Secret Information Still an Open and Confusing Question

Most enacted versions of UTSA contain a provision that preempts civil claims "based upon" or "relating to" claims of trade secret misappropriation. But courts throughout the country have struggled to determine whether UTSA preempts claims alleging misappropriation of confidential information that does not rise to the level of a trade secret. On Aug. 9, 2013, a federal district court in Minnesota ruled that a state law claim for conversion was preempted by Minnesota's Uniform Trade Secrets Act ("MUTSA").[5]

The case was brought by a software developer, Superior Edge Inc. ("SEI") against its licensee, Monsanto Company and one of SEI's competitors, Site-Specific Technology Development Group ("SST"). Pursuant to a license agreement, SEI agreed to develop software for Monsanto to assist with its seed sales initiatives. At the time, Monsanto already had an agreement with SST related to other components of its seed sales initiatives. Following a contract dispute, the relationship between Monsanto and SEI deteriorated, causing Monsanto to look to SST for some of the services and software originally assigned to SEI. Ultimately, SEI sued both Monsanto and SST for misappropriation of trade secrets, conversion, breach of trade secrets, and related torts.

The Minnesota federal court held that SEI's conversion claim was preempted by MUTSA, explaining that "SEI's conversion claim is based on factual allegations that are identical to its MUTSA claim."[6] In particular, the court noted that "there is no information that SEI alleges was converted that it does not also allege is a trade secret, therefore SEI's common law claim for conversion is preempted by MUTSA."[7] By ruling this way, the court did not take a clear position as to the larger question that has been troubling courts around the country.

A majority of courts have held that UTSA preempts all common law tort claims based on the misappropriation of nontrade-secret information. Most recently, a federal district court in Arizona ruled that the state's version of UTSA preempts any common law claim that "necessarily rises or falls with misappropriation."[8] The Arizona federal court explained further that the same statute applies to all claims alleging misappropriation of information, regardless of whether or not that information can be defined as a "trade secret" under state law.[9] A minority of courts have held otherwise — that only trade-secret misappropriation claims are preempted by UTSA.

Takeaway

In-house counsel and private practitioners should take state's preemption rulings into account when drafting choice-of-law provisions, and plaintiffs should be mindful of the same when choosing a forum and pleading their claims.

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[1] United States v. Sinovel Wind Group Co. Ltd., No 13 Crim 0084, Dkt. No. 25 (W.D. Wisc. June 27, 2013).

[2] In re Certain Rubber Resins and Processes for Manufacturing Same (Inv. No. 337-TA-849).

[3] TianRui Group Ltd. v. ITC, 661 F.3d 1322 (Fed. Cir. 2011)

[4] Press release available at: http://www.sinolegend.com/show.asp?articleid=277

[5] Superior Edge. Inc. v. Monsanto Company, 12-Civ-2672, 2013 WL 4050790 (D. Minn. Aug. 9, 2013).

[6] Id. at *14.

[7] Id.

[8] Unisource Worldwide Inc. v. Swope, No. CV-12-02036-PHX-NVW, 2013 U.S. Dist. LEXIS 112623, (D. Ariz., Aug. 8, 2013).

[9] Id.
