



# Gearing up to enhance protection

Susan G. L. Glovsky, Christine M. Wise and J. Dana Hubbard explore the differences between the US Defend Trade Secrets Act and the EU Trade Secrets Directive

**Securing competitive advantage through a comprehensive intellectual property programme must include trade secrets as part of the strategy.** Trade secrets protect innovation and provide a proprietary, competitive advantage simply by being kept secret; there is no application to file or argument to make. Effort is necessary to maintain the secrecy. The secrets protected can include a wide range of information, such as data, methods, formulas, software, customer lists, product plans, and supplier lists. Even food preparations can be protected as a trade secret, as demonstrated in the first federal jury trial under the US Defend Trade Secrets Act (DTSA) discussed later in this article. It is critical that companies turn to patent protection when innovations are disclosed upon sale and under other circumstances, where valuable developments cannot be kept secret.

## DTSA

Businesses need to be aware of changes in trade secret protection that have occurred as a result of the DTSA enacted in the US and an EU directive adopted in the EU. There is a lag time in the EU while each member state determines national laws to adopt which will implement the EU directive. Left unchanged in the US and EU is the need for secrecy in order to protect trade secrets. It is important for businesses to be mindful of the changes enacted in the US and evolving in the EU and to determine the need to adapt agreements and practices to comply with and take advantage of the new laws.

## Important trade secret laws in the US and EU

On 11 May 2016, the US enacted the DTSA and its provisions took effect immediately. The DTSA provides a federal private cause of action for trade secret misappropriation and offers many benefits to companies, including federal jurisdiction, *ex parte* seizure orders, compensatory damages, punitive damages, and attorneys' fees. The DTSA does not preempt or replace state trade secret law, but rather provides an additional enforcement option by allowing companies to bring lawsuits in federal court and seek federal remedies if they choose to do so. As a result, companies may decide to enforce trade secrets in a state court with a favourable trade secret protection track record, for example issuing *ex parte* injunctions for theft of trade secrets, or in a federal court that has issued favourable rulings when applying state

trade secret law. An action initiated in a state court can be subject to removal to a federal court by one accused of misappropriation.

In the EU, on 8 June 2016, the European Parliament and the Council adopted the Trade Secrets Directive (EU directive) that aims at standardising the national laws in European countries against the unlawful acquisition, disclosure and use of trade secrets. Member states have two years from adoption to implement the EU directive as part of their national laws. It is important to note that the EU directive specifies only a minimum standard for trade secret protection; member states can implement higher standards. Specifically, Article 1 of the EU directive states that, "member states may, in compliance with the provisions of the Treaty on the Functioning of the European Union, provide for more far-reaching protection against the unlawful acquisition, use, or disclosure of trade secrets than that required by this directive..." As a result, there will be a level of uncertainty until member states implement the law adopted by the EU. The language contained in the EU directive provides some guidance on the minimum that is likely to be required of businesses when the member states enact their new laws. The deadline for implementation is 8 June 2018.

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## Comparing the DTSA and the EU directive

The DTSA and EU directive take a similar stance on what constitutes a trade secret. For example, to qualify as a trade secret under both the DTSA and the EU directive, reasonable steps must be taken to keep the information at issue confidential and the owner must derive economic value from the trade secret being kept confidential. In addition, both the DTSA and the EU directive define what constitutes misappropriation/

unlawful acquisition of a trade secret similarly.

There are certain differences between the DTSA and the EU Directive. For example, while both have broad whistleblower protections, the EU directive provides an immunity provision for journalists that is not explicitly present in the DTSA. In addition, the DTSA provides the potential for criminal liability. In contrast, there is no criminal liability provision in the EU directive, although, as noted previously, member states can implement the directive with more far reaching protection against the unlawful acquisition, use, or disclosure of trade secrets than that required by the EU directive.

Significantly, the DTSA contains a notice requirement, with no corresponding requirement in the EU directive. Specifically, in order to be entitled to the full remedies available under the DTSA, employers must provide notice in any contract or agreement that governs the use of a trade secret or other confidential information, entered into on or after 11 May 2016 with an employee, contractor, or consultant. An appropriate notice follows:

"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 is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney solely for the purpose of reporting or investigating a suspected violation of law. 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 is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. 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 files any document containing the trade secret under seal; and does not disclose the trade secret, except pursuant to court order."

It is advisable to incorporate these words from the DTSA, almost verbatim, in every US employment agreement, non-disclosure agreement, consulting agreement, vendor agreement, and consulting agreement containing a trade secret provision in order for the agreement to afford trade secret protection under the DTSA.

Further, malicious violation of the DTSA may result in a court awarding enhanced damages as well as attorneys' fees. The EU directive does not provide for enhanced damages for malicious activity. In fact, the EU directive specifies that member states may limit employees' liability for damages for misappropriating trade secrets, if the employee acted without intent.

Actions for trade secret infringement under the DTSA must be brought no later than three years after the date on which the misappropriation was discovered or should have been discovered. In contrast, the EU directive provides that actions for trade secret infringement must be brought within a maximum of six years, but member states can implement shorter time periods. As a result, once a member state implements the directive there may be an opportunity for a trade secret owner that has failed to commence an action in the US to pursue a claim in the EU against an individual or company that is also violating the owner's rights under the law as implemented in a member state in the EU.<sup>1</sup>

### Establish a corporate policy for keeping trade secrets confidential

The need to keep trade secrets secret is vital worldwide, and this requirement needs to be a priority for every business, whether the business engages in rocket science or food science. Changes in law

have not changed the criticality of keeping information confidential or the difficulty in being vigilant in protecting trade secrets through policies, agreements, and training. Businesses must instill an attitude within the business that trade secrets and their protection are a priority. Both the DTSA and the EU directive provide that "reasonable steps" must be taken to keep trade secrets confidential, left undefined by both the DTSA and the EU directive.

Dalmatia, the owner of a proprietary fig spread, succeeded in enforcing its trade secrets in the first federal jury trial under the DTSA (*Dalmatia Import Group v Foodmatch, Inc et al*).<sup>2</sup> Dalmatia showed it had been diligent in its efforts to maintain the secrecy of its proprietary information, including making third parties sign nondisclosure agreements and labeling written disclosures "confidential".

Misappropriation of the fig spread occurred after Dalmatia terminated its agreement with its manufacturer (Lancaster) and its distributor (FoodMatch), which both then entered the fig spread business. Dalmatia filed suit in federal court in 2016 seeking to enjoin FoodMatch from using its trade secrets in the production of FoodMatch's fig spread, and Dalmatia amended the complaint to add a claim under the DTSA after the DTSA was enacted. Evidence that FoodMatch told the Lancaster director of product development that "[t]he product we know and have become used to will be the basis for development" helped Dalmatia establish its claim for misappropriation.

After a four-week trial, the jury returned a verdict in favour of Dalmatia under the DTSA and awarded \$500,000 in compensatory damages, as well as an injunction preventing future use of Dalmatia's trade secrets.

This case highlights the criticality of keeping trade secrets confidential, the potential benefit of aggressive steps to protect and enforce claims for trade secret misappropriation, and potential valuable opportunities under the DTSA for expeditious resolution of trade secret misappropriation claims in the US in federal court.<sup>3</sup>

### Summary

Businesses need to make appropriate changes to comply with and take advantage of the provisions of the DTSA enacted in the US. The EU directive provides guidance in order to anticipate and be proactive in the EU as member states proceed to implement the EU directive.

### Footnotes

1. To see a more detailed comparison of the DTSA and the EU Directive, please visit <https://www.hbsr.com/publications/comparison-defend-trade-secrets-act-dt-sa-eu-trade-secrets-directive>
2. 16-cv-02767 (ED Pa 24 Feb 2017).
3. For further guidance on corporate practices that should be considered toward taking "reasonable steps" in protecting trade secrets, see <https://www.hbsr.com/publications/primer-reasonable-steps-protecting-trade-secrets>

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