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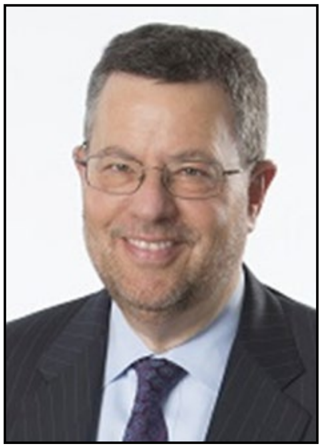
- The New Gold Rush: The Israeli Cannabis Industry

www.nysba.org/ILP

Message from the Immediate Past Section Chair

By William H. Schrag



Dear Friends:

After an amazing year, it's time to recap some of the highlights and to offer thanks to those who "made it happen."

I. Events

In June 2018, we held our signature Global Law Week program in New York, together with an International Law Bridging the Gap program. Many thanks to all of the presenters and to our fantastic organizer, Neil Quartaro.

Our Seasonal Meeting (now known as our Global Conference) was held in late October in Montreal, Canada. Mark Rosenberg and his tireless Steering Committee dazzled us with many outstanding programs, speakers, dinners and events—but no one dazzled us like Sofia, the Robot!

In January 2019, we held our Annual Meeting and honored Justice Charles E. Ramos, Ruby Asturias and the late Lauren Rachlin. Our well-attended lunch meeting was preceded by a wonderful dinner at Remi the night before. Our educational program included cutting edge presentations on (i) general data protection regulation and (ii) discrimination, diversity and inclusion. Kudos to Jay Himes for chairing this wonderful event, and many thanks to each of the panelists for their enlightening presentations.

In February, our Florida Chapter sponsored an event called "Try Your Case, Not Your Judge's Patience." It featured law clerks of federal and state court judges in Florida and New York, offering inside tips to litigators on best practices. We were fortunate to have been hosted by Greenberg Traurig at its Miami office, and we are grateful to Constantine Economides for his superb work in organizing this event.

In late April/early May, our China Chapter Vice Chair, Mike He, led a delegation of 25 senior Chinese lawyers to the offices of Watson Farley for a meeting with many of our Executive Committee members. The following morning, Neil Quartaro, Sharon Stern Gerstman and Jay Safer accompanied the delegation to the U.S. District Court for the Southern District of New York. Much goodwill was created and much enthusiasm was generated

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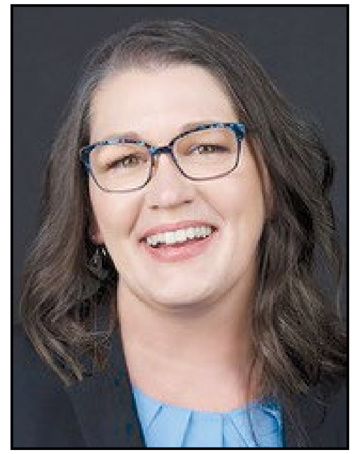
Message from the New Section Chair

By Diane O'Connell



Welcome to the *International Law Practicum and Chapter News*! We encourage all of our chapters to provide news of the latest legal developments in your home jurisdictions, whether they are cases, new legislation, programs or practice tips. Please feel free to make your submissions directly to our editor, Torsten Kracht, at tkracht@hunton.com.

In 2019, the Section is holding its Global Conference in Tokyo, Japan. Many thanks to the Conference Co-Chairs Edward Lenci of Hinshaw & Culbertson LLP and Tsugumichi Watanabe of Morgan, Lewis & Bockius LLP for putting together an impressive line-up of speakers and an exciting array of social activities for this highly anticipated week-long conference. Also, special thanks are extended to the NYSBA staff for their hard work and dedication in facilitating the planning of the event, specifically Tiffany Bardwell, Dana Alamia, Stephanie Bugos, and Gina Bartosiewicz.

Additional events include:

- **Inaugural meeting of the Texas Chapter** (September 26, 2019) in the Houston office of Locke Lord under the able leadership of Texas Chapter Chair David Harrell. David lined up a fascinating program on the latest NAFTA agreement.
- **NYSBA Annual Meeting** (January 27, 2020) the meeting will include an outstanding CLE program chaired by Gonzalo S. Zeballos of Baker Hostetler LLP, as well as a pre-meeting dinner on Sunday, January 26, 2019 for members of the EC. In addition, the winner of this year's Albert S. Pergram International Law Writing Competition will be announced.
- **Regional Meeting in Madrid, Spain** (April 27-28, 2020) being organized by Conference Co-Chairs Clifford J. Hendel of Hendel IDR and Nabil G. Foster of Hinshaw & Culbertson LLP.

Other initiatives of note are the Rapid Response Committee, The Latin American Council, and Asian Bar Council. If you are interested in participating in any of these or wish to start a new initiative, please contact me. The success of the Section, and its impact in the international

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in advance of our Global Conference in Tokyo this November. Our hope is that many members of this Chinese delegation will attend our Tokyo meeting and help form the Asian analogue to our Latin American Council.

Our European Regional Meeting in Stockholm was held in May under the outstanding leadership of Carl-Olof Bouveng, Peter Utterström and Gonzalo Zeballos. We were treated to a highly innovative program on a wide range of issues faced by start-up companies. We spent an entire day at SUP 46, a leading Swedish incubator, which added to the genuineness of the experience. That evening, we were treated to a private tour and delicious dinner at the recently renovated National Museum.

II. Chapters, Committees and Publications

We have Chapters all over the world, and we have Committees for every major practice area. Through our international network, we have become a family. We not only provide assistance and referrals to one another but we also support one another in times of political turmoil and natural disasters. Many thanks to Jonathan Armstrong and our Rapid Response Committee. Our Publications Committee, headed up by Torsten Kracht and supported by Peggy McGuinness, Jennifer Ismat, Dunniela Kaufman and Beatriz Marque, reach thousands of people around the globe.

III. Special Projects

Our Latin American Council (LAC), chaired by Mary Fernandez, continues to serve as a model Super Regional Committee. LAC continues to promote its Best Practices Guidelines, which have been approved by the entire New York State Bar Association. Another important initiative of LAC has been its Training Program for Young Latin American Lawyers. This past January, we launched the program by placing junior Latin American lawyers with New York-based firms, or firms with a New York office, for three months at no cost to the host firm. The inaugural host firms were Duane Morris, Hogan Lovells and Thompson Hine. These firms were paired with attorneys from BLP in Costa Rica, Ferrere in Paraguay and Sanchez Devanny in Mexico City. Based upon the success of this program, which has helped develop relationships between the sponsoring and host firms, a second group of Latin American trainees will be sent to U.S. firms later this year. The trainee program is in addition to our two internship programs that we continue to run for law school students (i) attending Singapore Management University, who are placed in New York City firms over the Summer for 4-8 weeks and (ii) attending New York State law schools, who are placed at leading law firms in Europe, Central America and South America for 4-8 week internships. These three programs are among my proudest accomplishments, which I could not have done without the able assistance and steady support of Ross Kartez.

IV. A Final Note of Thanks

Throughout my tenure as an officer of the International Section, I've had mentors and fellow officers who have guided and supported me every step of the way. I've also had the good fortune of working with NYSBA Presidents, Presidents Elect and Section Liaisons (at both the lay and professional levels), who were absolutely incredible. When I joined the International Section some 10 years ago, I never imagined that one day I would become its Chair but this past year has been the professional experience of a lifetime. I am deeply grateful to all of my friends who have made this such a positive and memorable experience.

The International Section is in a very good place, well-poised for continued growth and development. I wish Diane O'Connell and her talented officers continued success in the year ahead. I'll not only be rooting for you but will be there to help in whatever way I can. May we go from strength to strength!

With best regards,
William H. Schrag

Message from the Editor

By Torsten Kracht

Dear Friends and Readers:

It is an honor and privilege to welcome you to Vol. 32, No.1, of the *International Law Practicum.* The central topic for this issue is trade secrets and how the law in this area has developed in different jurisdictions around the world. Thank you to Benoît Holvoote in France for suggesting the theme! We also have a number of other articles that we hope you will find of interest in this edition, including one by our Section's outgoing president, William H. Schrag, about an important Second Circuit ruling in the Bernie Madoff matter, allowing the trustee of the Madoff bankruptcy estate to pursue transfers made between foreign entities.

Many hours of hard work have gone into producing this exciting new issue. In addition to our contributing authors, I would like to thank Pamela Chrysler at NYSBA for her tireless efforts to bring this edition to print, and our executive editor, Andria Adigwe, for assembling and leading our team of talented student editors.

I hope this issue provokes further thought and discussion. Feedback and suggestions about this edition or the *Practicum* in general are highly encouraged and I hope that together, as a community, we can continue to develop our publication as a practical forum for the exchange of useful information for our members.

Best,

Torsten M. Kracht
tkracht@hunton.com

Message from the Incoming Chair

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legal community is founded on its members participation and innovation.

In addition, volunteers are always needed to help review and edit submissions for both the *Practicum* and *Chapter News*. If you are interested, please don't hesitate to contact Torsten. Many thanks to Dunniela Kaufman, Beatriz Marques, Peggy McGuinness and Jennifer Ismat for their continuing assistance with *Chapter News*, NYILR and the *Practicum*.

To close, we encourage you to make the most of your membership by participating in Section events, activities and meetings, which aim to help you keep abreast of the latest developments in your field as well as provide invaluable opportunities to network, develop and grow your business.

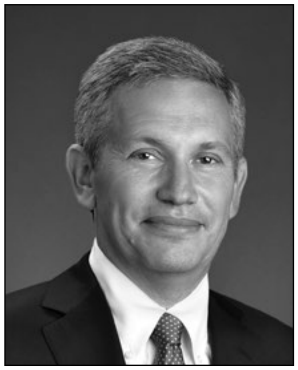
Feel free to contact our Section Liaison and Meetings Coordinator, Tiffany Bardwell, at tbardwell@nysba.org or me at diane.oconnell@ocolegal.com if you have any questions about the Section.

As always, thank you for your membership in our wonderful Section. We look forward to seeing you at our upcoming events!

With best regards,
Diane E. O'Connell

Diversifying the Legal Profession: A Moral Imperative

By Hank Greenberg



Hank Greenberg

No state in the nation is more diverse than New York. From our inception, we have welcomed immigrants from across the world. Hundreds of languages are spoken here, and over 30 percent of New York residents speak a second language.

Our clients reflect the gorgeous mosaic of diversity that is New York. They are women and men, straight and gay, of every race, color, ethnicity, national origin, and religion. Yet, the law is one of the least diverse professions in the nation.

Indeed, a diversity imbalance plagues law firms, the judiciary, and other spheres where lawyers work. As members of NYSBA's International Section, you have surely seen this disparity over the course of your law practices.

Consider these facts:

- According to a recent survey, only 5 percent of active attorneys self-identified as black or African American and 5 percent identified as Hispanic or Latino, notwithstanding that 13.3 percent of the total U.S. population is black or African American and 17.8 percent Hispanic or Latino.
- Minority attorneys made up just 16 percent of law firms in 2017, with only 9 percent of the partners being people of color.
- Men comprise 47 percent of all law firm associates, yet only 20 percent of partners in law firms are women.
- Women make up only 25 percent of firm governance roles, 22 percent of firm-wide managing partners, 20 percent of office-level managing partners, and 22 percent of practice group leaders.
- Less than one-third of state judges in the country are women and only about 20 percent are people of color.

This state of affairs is unacceptable. It is a moral imperative that our profession better reflects the diversity of our clients and communities, and we can no longer accept empty rhetoric or half-measures to realize that goal. As Stanford Law Professor Deborah Rhode has aptly observed, "Leaders must not simply acknowledge the importance of diversity, but also hold individuals accountable for the results." It's the right thing to do, it's the smart thing to do, and clients are increasingly demanding it.

NYSBA Leads On Diversity

On diversity, the New York State Bar Association is now leading by example.

This year, through the presidential appointment process, all 59 NYSBA standing committees will have a chair, co-chair or vice-chair who is a woman, person of color, or otherwise represents diversity. To illustrate the magnitude of this initiative, we have celebrated it on the cover of the June-July *Journal*. [www.nysba.org/diversitychairs]

Among the faces on the cover are the new co-chairs of our Leadership Development Committee: Albany City Court Judge Helena Heath and Richmond County Public Administrator Edwina Frances Martin. They are highly accomplished lawyers and distinguished NYSBA leaders, who also happen to be women of color.

Another face on the cover is Hyun Suk Choi, who co-chaired NYSBA's International Section regional meeting in Seoul, Korea last year, the first time that annual event was held in Asia. He will now serve as co-chair of our Membership Committee, signaling NYSBA's commitment to reaching out to diverse communities around the world.

This coming year as well we will develop and implement an association-wide diversity and inclusion plan.

In short, NYSBA is walking the walk on diversity. For us, it is no mere aspiration, but rather, a living working reality. Let our example be one that the entire legal profession takes pride in and seeks to emulate.

Hank Greenberg can be reached at hmgreenberg@nysba.org.

PRACTICUM: FORM AND POLICY

The *International Law Practicum* is a semi-annual publication of the International Section of the New York State Bar Association. The *Practicum* welcomes the submission of articles prepared by practicing attorneys. The length of an article, as a general rule, should not exceed 10,000 words, footnotes included. Shorter pieces, notes, reports on current or regional developments, and bibliographies are also welcomed. All manuscripts must be sent via e-mail in Microsoft Word or WordPerfect format to ILPArticles@nysba.org. Both text and endnotes must be double-spaced. Endnotes must appear at the end of the manuscript and should conform to *A Uniform System of Citation* (the Harvard Bluebook). Authors are responsible for the correctness of all citations and quotations. Manuscripts that have been accepted or published elsewhere will not be considered. The *Practicum* is primarily interested in practical issues facing lawyers engaged in international practice in New York. Topics such as international trade, licensing, direct investment, finance, taxation, and litigation and dispute resolution are preferred. Public international topics will be considered to the extent that they involve private international transactions or are of general interest to our readership.

Manuscripts are submitted at the sender's risk, and the New York State Bar Association, International Section, assumes no responsibility for the return of material. Material accepted for publication becomes the property of the New York State Bar Association, International Section. No compensation is paid for any manuscript. The *Practicum* reserves the right (for space, budgetary, or other reasons) to move an accepted manuscript from an earlier issue to a later issue. Articles, reports and other materials reflect the views of the authors or committees that prepared them and do not necessarily represent the position of the New York State Bar Association, International Section, or the Editorial Board of the *Practicum*.

Deadlines

Manuscripts intended for publication in the semi-annual issues must be received by the Editor-in-Chief by the preceding 1 December and 1 June, respectively.

Reprints

Each author will receive three complimentary copies of the *Practicum* issue in which the author's material is published. Additional copies may be ordered at cost before an issue goes to press by communicating with at the Newsletter Dept., New York State Bar Association, One Elk Street, Albany, N.Y. 12207-1096 (telephone (518) 487-5671 or 487-5672) or via e-mail at newsletters@nysba.org.

Past Issues and Advertising

Requests for back issues, advertising and subscription information and general correspondence should be sent to the Newsletter Dept., New York State Bar Association, One Elk Street, Albany, N.Y. 12207-1096 or via e-mail at newsletters@nysba.org.

Back issues (2000 to present) of the *International Law Practicum* are available, in pdf format, online to Section members on the New York State Bar Association's Web site at www.nysba.org/IntlPracticum. A searchable index is also available.

Practicum

Second Circuit Permits Madoff Trustee to Pursue Transfers Made Between Foreign Entities

By William H. Schrag and Shaun D. McElhenny

William H. Schrag

Shaun D. McElhenny

In the latest development in the decade-long legal battle to recover funds impacted by Bernard Madoff's Ponzi scheme, the Second Circuit earlier this year held that Irving H. Picard, the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC ("Madoff Securities"), may prosecute billions of dollars in fraudulent transfer claims against foreign investors who ultimately received funds from Madoff Securities prior to its collapse, even though they were recipients of subsequent transfers that took place entirely overseas.[1] The court's decision represents a significant departure from the presumption against extraterritorial application of U.S. law, which will not only vastly expand the trustee's sources of recovery in the Madoff litigation, but will also subject international investors with no U.S. operations to avoidance claims arising out of other U.S. bankruptcy proceedings.

It is a longstanding canon of statutory construction that federal legislation is presumed to apply solely within the territorial jurisdiction of the United States unless clear evidence of a contrary intent is expressed by Congress in either the statutory text or legislative history.[2] The Supreme Court has promulgated a two-step approach to determine whether a claim is foreclosed by the presumption against extraterritoriality. First, a court is to examine the statute to determine whether there is clear evidence to rebut the presumption. If the presumption has indeed been rebutted, the inquiry ends and the statute may be applied to foreign conduct.[3]

If the presumption against extraterritoriality is not clearly rebutted by the statute, the court must determine whether the dispute involves a domestic application of U.S. law by determining the statute's "focus." If conduct relevant to the statute's focus occurred in the United States, "the case involves a permissible domestic application even if other conduct occurred abroad."[4] However, if the relevant conduct occurred outside of the United States, "the case involves an impermissible extraterritorial application regardless of any conduct that occurred in U.S. territory."[5]

In the context of bankruptcy proceedings, the presumption against extraterritoriality is particularly relevant to a trustee or debtor-in-possession's power to avoid fraudulent or preferential transfers and to recover the transferred assets, as such avoidance claims frequently concern transfers made by U.S. entities to foreign transferees. This is precisely what occurred in *Picard*. Even with the guidance offered by the Supreme Court in *Morrison* and its progeny, though, courts have struggled to adopt a consistent approach to determine whether the avoidance provisions of the Bankruptcy Code apply extraterritorially. Different language in the Code's different avoidance provisions has led to different decisions regarding whether Congress intended those provisions to reach assets outside of the United States.[6]

In *Picard*, the trustee brought avoidance claims against hundreds of foreign investors who made investments in foreign "feeder funds" that pooled their investments and placed them with Madoff Securities. The trustee initially brought avoidance claims against the feeder funds, which were unquestionably subject to the avoidance provisions of the Bankruptcy Code because they had a direct nexus to the United States. However, since many of the feeder funds went bankrupt themselves, due to their investment in Madoff Securities, the trustee proceeded to commence actions against the individual foreign investors, i.e., subsequent transferees who received transfers prior to Madoff Securities' insolvency.

William H. Schrag is a partner in the Business Restructuring Group of Thompson Hine LLP. Shaun D. McElhenny is an associate in the Business Litigation Group of Thompson Hine LLP. Both work in the firm's New York office.

The U.S. Bankruptcy Court for the Southern District of New York, following remand from the District Court, dismissed the trustee's claims, holding that the transactions from the feeder funds to their investors were foreign in nature, and the statutory text and legislative history do not reflect that the trustee's avoidance power should extend overseas. Accordingly, the court ruled that the trustee's claims were barred by the presumption against extraterritoriality, as well as by principles of international comity, which require deference to a foreign nation's courts where they hold a superior interest in adjudicating a dispute.[7]

The Second Circuit reversed the lower court, first analyzing the avoidance and recovery provisions relied upon by the trustee, Bankruptcy Code §§ 548(a)(1) and 550(a)(2). The Circuit Court held that the "focus" of these provisions, working in tandem, is the recovery of assets fraudulently transferred from the estate, including those that went to subsequent transferees.[8] The Circuit Court also held that the conduct relevant to this focus is not the foreign investors' receipt of assets from the feeder funds but, rather, the initial transfers made from Madoff Securities to the feeder funds. They depleted the estate and are thus subject to recovery by the trustee, even if subsequently transferred to other non-U.S. entities. Accordingly, the Circuit Court ruled that the initial transfers were domestic in nature and could, therefore, be avoided and recovered even without any statutory text or legislative history mandating extraterritorial application.[9]

For similar reasons, the Circuit Court held that the claims are not barred by principles of international comity, since the United States has a compelling interest in regulating debtors' transfers outside the country.[10] It should be noted, though, that the Circuit Court only decided the comity question as a matter of prescriptive comity, which is reviewed *de novo*, as opposed to adjudicative comity, which is reviewed under an abuse of discretion standard, on the ground that the appellees' adjudicative comity argument was not adequately preserved on appeal.[11]

Following the Circuit Court's decision, the defendants moved the court, first for a rehearing *en banc*, and then to stay the various actions against the foreign investors pending defendants' appeal to the Supreme Court. In each motion, the defendants claimed that the "focus" of Section 550(a)(2) is limited to initial and subsequent transferees only, rather than successive subsequent transferees. The defendants also claimed that the Second Circuit improperly applied a *de novo* standard of review to the District Court's decision regarding international comity, and should have deferred to foreign proceedings involving the feeder funds. The Second Circuit denied the defendants' motion for rehearing *en banc* on April 3, 2019, and granted their motion to stay proceedings on April 23, 2019, issuing both decisions without discussion.

It remains to be seen whether the Supreme Court will grant the defendants' petition for *certiorari*, which was filed before the extended deadline of August 30, 2019.[12] However, for now at least, the Second Circuit has vastly expanded the international reach of U.S. bankruptcy courts, particularly the U.S. Bankruptcy Court for the Southern District of New York, where many cross-border bankruptcy proceedings get filed and determined. In light of this development, global investors of all stripes who received transfers not only from Madoff Securities, but those that emanated from any bankrupt entity in the United States, should now be wary of potential clawback claims and take appropriate action, including retention of U.S. counsel.

For more information, please contact:

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Endnotes

1. *See In re Picard*, 917 F.3d 85 (2d Cir. 2019).
2. *See, e.g., Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 255 (2010).
3. *See id.*; *see also RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2101 (2016).
4. *Nabisco*, 136 S. Ct. at 2101; *accord Morrison*, 561 U.S. at 266-67.
5. *Id.*
6. Over just the past few years, courts have held that the Bankruptcy Code's avoidance provisions do not apply extraterritorially in *In re CIL Limited*, 2018 WL 329893 (Bankr. S.D.N.Y. Jan. 5, 2018) and *Spizz v. Goldfarb Seligman & Co. (In re Ampal-Am. Israel Corp.)*, 562 B.R. 601 (Bankr. S.D.N.Y. 2017), but declined to dismiss claims on grounds of extraterritoriality in *In re FAH Liquidating Corp.*, 572 B.R. 117 (Bankr. D. Del. 2017) and *Weisfelner v. Blavatnik (In re Lyondell)*, 543 B.R. 127 (Bankr. S.D.N.Y. 2016).
7. *See Sec. Inv'r Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC (SIPC II)*, AP 08-01789 (SMB), 2016 WL 6900689 (Bankr. S.D.N.Y. Nov. 22, 2016) (citing *Sec. Inv'r Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC (SIPC I)*, 513 B.R. 222 (S.D.N.Y.), *supplemented by* 12-MC-115, 2014 WL 3778155 (S.D.N.Y. July 28, 2014)).
8. *See Picard*, 917 F.3d at 97-100.
9. *See id.* at 100-01 (citing *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018)).
10. *See id.* at *100-05.
11. *See id.* at 102 n. 14. Prescriptive comity concerns whether a court will presume Congress intended to limit a statute's application out of respect to foreign sovereigns, while adjudicative comity concerns whether a court should abstain from exercising jurisdiction in deference to a foreign court. *See id.* at 100-01.
12. *See HSBC Holdings PLC, et al. v. Irving H. Picard*, 917 F.3d 85 (2d Cir. 2019), *petition for cert. filed* Aug. 29, 2019 (No. 19-277).

Protection of Trade Secrets in Australia

By Chris Williams

I. Introduction

Chris Williams

Consistent with obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights, signatory countries must develop a legal system for protecting trade secrets from unfair disclosure in accordance with principles of fair competition. In the U.S., misappropriation of a trade secret attracts remedies under tort and contract principles. Most U.S. states have also enacted legislation based on the Uniform Trade Secrets Act, while the Defend Trade Secrets Act 2016 provides for a federal cause of action. Similarly, in the European Union the Trade Secrets Directive required each member state to implement statutory protections for trade secrets by June 9, 2018. In Australia, by contrast, there are no equivalent statutory regimes. Instead, protection is afforded via contractual and equitable obligations of confidence.

Whilst a plaintiff seeking enforcement following a breach of confidence in Australia is required to overcome several hurdles that are not faced in a statutory trade secrets claim, these are not insurmountable and robust protection is available to a plaintiff in the form of preliminary injunctions. As explained further in this article, the ultimate recovery from an infringer can also be very significant. A successful litigant will also typically receive an order for payment of its legal costs from an infringer, making Australia an attractive jurisdiction to litigate trade secret breaches when they involve conduct touching the jurisdiction.

Whereas the theft of trade secrets used to imply stealing or copying a physical document or object, the digitalisation of information has meant that this form of industrial espionage is increasingly done through unlawful access to computer networks. Australian courts are increasingly called upon to respond quickly and decisively in such circumstances and trade secret litigation is on the rise in both state and federal courts.

This article begins by surveying the types of subject matter commonly protected through obligations of confidentiality and the interaction between contractual and equitable doctrine to achieve such protection. It then discusses the elements of the Australian cause of action for breach of confidence and the remedies which can be awarded if a misappropriation of a trade secret is established.

Chris Williams is an IP litigation partner at Gilbert + Tobin with significant experience in trade secrets litigation. Chris has an excellent track record of winning at both trial and appellate level and is able to draw upon his extensive litigation experience across IP issues, traversing patents, copyright, trademarks, trade secrets and consumer protection matters. Chris is admitted to practice in both New Zealand (1997) and Australia (2003) and continues to represent clients in both jurisdictions. Chris would like to thank Sidney Kung, solicitor, for his research and writing assistance.

II. Subject Matter Protected by Confidentiality Obligations

As a matter of definition, Anglo-Australian authorities tend to use the expression "confidential information" as a broad, overarching term meaning information that is not in the public domain and which is the object of an obligation of confidence. Although there is no statutory or common law definition, "trade secrets" may be considered a specific type of confidential information, namely, confidential information of a commercial character and "know-how," a specific type of trade secret, being a trade secret as to how something may best be used.[1]

An obligation of confidentiality will often be imposed via an express term of a contract between a *discloser* and a *recipient*, prior to the recipient receiving access to the relevant information. Contractual obligations of confidence may provide a cost-effective means for protecting subject matter that would not otherwise qualify for protection under other intellectual property regimes (such as patents or copyright). Such express confidentiality provisions generally restrict the use of the disclosed information to the purpose for which it has been communicated and are often a standard clause in employment or services contracts, joint venture agreements and technology transfer agreements. In theory, such express commitments offer enhanced certainty regarding the parties' rights and obligations in relation to the disclosed information.

In the absence of an express term (or one that is validly enforceable), courts may nevertheless imply an obligation of confidentiality between a discloser and a recipient where performance of the contract calls for or necessarily involves the disclosure by one party to the other of secret or sensitive information. Orthodox examples include confidential disclosures by a client to a lawyer, by customer to banker, by patient to doctor and by employer to employee.[2]

The usefulness of contractual protection however, is limited by considerations of privity and the need to establish a contract. For example, where an employee (recipient) breaches a contractual obligation of confidentiality and discloses information to an opportunistic, third party competitor, the employer (discloser) will not be able to take legal action based on contract against the competitor.

Due to limitations in contractual protection, a *discloser* will often rely on the equitable doctrine of breach of confidence, which does not rely on the existence of a contractual relationship.[3] While different views have been expressed as to whether the equitable doctrine is supplanted when a contract also exists between a *discloser* and a *recipient*, a detailed discussion of this issue is beyond the scope of this article.

The co-existence of equitable and contractual obligations is a relevant consideration in respect of the potential remedies available to a plaintiff. For example, in *Optus Networks Pty Ltd v Telstra Corp Ltd*[4] the Full Court of the Federal Court of Australia took the view that equitable and contractual obligations could co-exist in circumstances where the contract specifically preserved "rights, powers or remedies provided by law independent of this agreement." Accordingly, the plaintiff who had established a breach of the confidentiality provisions in an agreement could elect to pursue an account of profits (a form of equitable relief not generally available for breach of a contractual term). On the other hand, by way of obiter, in *Streetscape Projects (Australia) Pty Ltd v City of Sydney*,[5] the New South Wales Court of Appeal preferred to see the equitable duty as a "residual" obligation that would arise only where relief was required for some misuse of confidential information not otherwise attracting liability in tort or for breach of contract.

In practice, a discloser will often allege that the same fact pattern has resulted in breaches of both contractual and equitable obligations to access the widest range of remedies possible.

III. Elements of the Equitable Cause of Action

The starting point for analysing the equitable cause of action is the classic "trinity" outlined by Megarry J in *Coco v A N Clark (Engineers) Ltd*.[6] Over time, refinement of these elements has occurred, and it is generally accepted in Australia that there are now *four* elements required to establish an action for breach of confidence, including misuse of trade secrets:[7]

1. the information in question must be identified with specificity;
2. it must have the necessary quality of confidence;
3. it must have been received in circumstances importing an obligation of confidence; and
4. there must be an actual or threatened misuse of the information.

Each of these elements is discussed in further detail below.

A. First Element: The Confidential Information Must Be Specifically Identified

As a threshold matter, a discloser plaintiff must establish with sufficient particularity the information alleged to be confidential.[8] The more general the information, the more difficult it will be for a court to find that the information was imparted to, or received in circumstances giving rise to an obligation of confidence, and that the information had the necessary quality of confidence.[9] Failure to specifically identify the information can also compromise the terms of the relief sought by a plaintiff. For example, if information alleged to be confidential is not clearly defined, any court injunction restraining its use would be of uncertain scope and unlikely to be ordered.[10]

In practice, this can be difficult where a plaintiff's confidential information has been mixed with other information and is not expressly identified as "confidential" on its face. This is often compounded by the absence of contemporaneous records identifying the types of information considered to be confidential by a plaintiff and the absence of protective measures such as access control.

B. Second Element: The Information Must Have the Necessary Quality of Confidence

To attract protection, information must "have the necessary quality of confidence about it, namely, it must not be something which is public property or public knowledge."[11] In making this assessment, courts will look to the content rather than the form of the information. The mere fact that a document is labelled as "secret" or "confidential" will not be conclusive as to whether it has the necessary quality of confidence.

In *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd*,[12] Gowans J drew expressly upon U.S. trade secret law and identified the following factors as relevant to determining secrecy of information associated with a business:

1. the extent to which the information is known outside of the business;
2. the extent to which it is known by employees and others involved in the business;
3. the extent of measures taken to guard the secrecy of the information;
4. the value of the information to the business and to its competitors;
5. the amount of effort or money expended in developing the information; and
6. the ease or difficulty with which the information could be properly acquired or duplicated by others.

Whether secrecy exists in a given case will be a question of degree. Information may be known to persons other than the discloser and recipient without ceasing to be secret—the question is at what point is information known to or accessible by enough people to be considered public knowledge. This context driven attribute has been referred to as "relative secrecy."[13]

C. Third Element: There Were Circumstances Imposing an Obligation of Confidence

An obligation of confidence may be imposed expressly or by implication.[14] In *Coco*, Megarry J held that an obligation of confidence will be imposed when "the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence." [15]

Accordingly, the appropriate test for the recipient's knowledge is determined objectively, and constructive knowledge is sufficient to impose an obligation of confidence.

In *Smith Kline*,[16] the Full Federal Court observed:

> [T]he circumstances in which confidential information is supplied may vary widely. To determine the existence of confidentiality and its scope, it may be relevant to consider whether the information was supplied gratuitously or for a consideration; whether there is any past practice of such a kind as to give rise to an understanding; how sensitive the information is; whether the confider has any interest in the purpose for which the information is to be used; whether the confider expressly warned the confidee against a particular disclosure or use of the information — and, no doubt, many other matters.

In the ordinary case, a recipient given free access to material following their request without any duty of confidentiality reserved by the discloser is entitled to assume that he or she is not restricted in the use or disclosure of that material.[17] By contrast, where the very nature of the information in question or the circumstances in which it is obtained is indicative of its confidentiality (e.g., when the parties are engaged in negotiations for a contract which fails to eventuate),[18] the person may be found to have an obligation of confidentiality on the basis of constructive knowledge.

Where a third party receives information and has actual or constructive notice of its confidentiality, the obligation of confidentiality will extend to the third party.[19] Australian courts have stressed that a third party, no matter how innocent the circumstances of their acquisition of the information, comes under a duty of confidence as soon as they are given notice of the confidentiality of the information,[20] even if this occurs as late as the commencement of proceedings by the discloser.[21] In practice, most of the cases involving liability of third parties are persons or companies who are intimately involved with the recipient in the exploitation of the information[22] or who are the intended instrument of disclosure to the public.[23]

D. Fourth Element: Actual or Threatened Misuse of the Information

Breach of confidence arises out of an unauthorised disclosure or misuse of information subject to an obligation of confidentiality and a threatened breach is sufficient to institute proceedings.[24]

Use of confidential information may be apparent from the facts or may be established by inference. For example, there may be an identity of characteristics between a plaintiff and defendant's products, or a defendant may enter a niche market after receiving confidential customer information. By contrast, where the parties are involved in closely substitutable fields of common activity, in the absence of "precise identification . . . of the information, its confidential character and its use, assertions or general conclusory contentions . . . are insufficient and will not give rise to inferences of use."[25]

If, after making reasonable inquiries, a prospective plaintiff does not have sufficient information to determine whether it should commence proceedings for relief, it can rely on court ordered "preliminary discovery."[26] Preliminary discovery allows prospective plaintiffs to obtain documents from a prospective defendant prior to the filing of a case to determine available causes of action, potential defences available to a respondent, the strength of any defences, and the remedies available to the plaintiff.[27]

Although a requirement for detriment arising from the unauthorised disclosure or misuse was noted in Megarry J's formulation in *Coco*, Australian courts have recognised that a strict requirement of detriment may be overly constraining having regard to the range of interests (including non-commercial, private interests) found to be protectable by an action for breach of confidence. In the context of a commercial dispute, any requirement of "detriment" is likely to be satisfied by reference to actual or potential pecuniary loss.

IV. Available Remedies

The potential jurisdictional overlap between contract and equity allows a plaintiff to seek a broad range of remedies where there has been a breach of confidence including declarations, injunctions restraining further use or disclosure, delivery up and deletion of confidential information, and pecuniary relief (in the form of damages, or an account of profits). Moreover, given that a claim of breach of confidence is often brought as part of a broader case involving other causes of action, court orders in breach of confidence cases are often complex.

A. Declarations

A declaration is an order of the court that declares the respective rights of the parties in a legal dispute before the court and may be ordered if the plaintiff has *locus standi* to seek the declaration, there is a "contradictor" to oppose the declaration, and there is no discretionary ground for refusing the declaration.

In the context of breach of confidence, which typically concerns private rights, a plaintiff will generally be able to readily establish that it has the requisite *locus standi*. By contrast, the requirement for there to be a "contradictor," namely, someone "who has a true interest to oppose the declaration sought"[28] can occasionally be problematic because it means that courts are reluctant to grant declarations by consent of the parties without legal argument or evidence (for example, as part of a pre-trial settlement arrangement).[29] In the context of discretionary considerations for granting a declaration, the High Court of Australia has observed that:

> [D]eclaratory relief must be directed to the determination of legal controversies and not to answering abstract or hypothetical questions. The person seeking relief must have "a real interest" and relief will not be granted if the question "is purely hypothetical," if relief is "claimed in relation to circumstances that [have] not occurred and might never happen" or if "the Court's declaration will produce no foreseeable consequences for the parties."[30]

B. Delivery Up

An order for delivery up is at the discretion of the court and will usually be made as an ancillary order to perfect an injunction restraining breach of confidence.[31]

The rationale behind such an order is that where a defendant is restrained from using confidential information all forms of that information must be removed from his or her possession and they are not entitled to retain the "fruits of this information" (for example, a product produced using the confidential information) for their advantage.[32] Such an order typically involves a defendant handing over to the plaintiff all physical and electronic forms of the confidential information in his or her possession, control or custody.[33] In relation to electronic forms of the information, a defendant will also be ordered to permanently delete any copy or impression of the information which remains in their possession, control or custody after the delivery up process.

Where a plaintiff's confidential information has been used by a defendant to produce a tangible article, a court will undertake a balancing exercise to ensure that the order for delivery up does not go beyond what is necessary to protect the plaintiff given that property in the articles remains with the defendant, notwithstanding the breach of confidence.[34]

C. Injunctions

1. Interlocutory injunctions

Upon commencement and prior to trial of a breach of confidence action, a plaintiff will typically seek an interlocutory injunction restraining use or disclosure of confidential information. In some circumstances, failure to obtain such relief will effectively destroy a plaintiff's rights and make a subsequent trial pointless—for example, where the whole point of the plaintiff's claim is to prevent publication and not simply prevent or halt a use which will not necessarily destroy secrecy.[35]

In determining whether an interlocutory injunction ought to be granted, a court will consider the following questions:[36]

1. whether the plaintiff has established a *prima facie* case (in the sense that if the evidence remains as it is there is a probability that at the trial of the action the plaintiff will be entitled to relief); and
2. whether the balance of convenience and justice favours the grant of an injunction or the refusal of that relief.

The balance of convenience includes consideration of whether the refusal of the injunction would have the effect that the plaintiff will suffer irreparable injury for which damages will not be adequate compensation.[37] Courts have also recognised that the two questions are not independent. The more the balance of convenience supports a defendant, and the more serious the consequences for a defendant (for example, where the defendant has already expended resources in gearing up to exploit the alleged confidential information)[38], the stronger the plaintiff's prima facie case needs to be.

2. Final injunctions

Generally, where an actual or threatened breach of confidence has been established, the starting point is that an injunction restraining use and/or disclosure of confidential information will be appropriate.[39]

A court, however, may refuse to grant an injunction where it would be inherently unfair because it would harm the defendant out of all proportion to the detriment suffered by the plaintiff,[40] where damages would be an adequate remedy, or where the relevant information has moved into the public domain and it would therefore serve no useful function.[41] Given the equitable nature of the remedy, a court may also refuse to grant an injunction if a plaintiff has come with "unclean hands" or where the plaintiff is guilty of delay.[42]

D. Pecuniary Relief

In seeking pecuniary relief in relation to a breach of confidence, a plaintiff may elect either to strip the defendant of any profits made as a result of the breach through an account of profits, or to seek compensation for any loss suffered through an award of damages.[43]

1. Damages

Regardless of whether an injunction is awarded, a plaintiff may seek damages for any loss caused by the defendant's breach of confidence, whether contractual or equitable in nature.[44]

The overarching aim of a damages award is to restore the plaintiff, as far as possible, to the position they would have been in had the breach of confidence not occurred, and in seeking to do this, the court will adopt whatever method of assessment is most appropriate to the particular circumstances.[45] In practice, where the plaintiff and the defendant are in business and the defendant's conduct has cut into the plaintiff's profits, that loss of profits will typically be the basis for assessment.[46] Where the breach of confidence consists of conduct which the plaintiff would have been prepared to authorise or license, damages will typically consist of the fee for which the plaintiff could have charged.[47] An award of damages, however, should only compensate a plaintiff for loss suffered as a result of the breach of confidence and not for loss referable to activities of a defendant after the expiry of any potential head start or "springboard" period associated with the use of the confidential information.[48]

Practically speaking, damages are the main pecuniary remedy for breach of confidence, especially where a defendant has not made any substantial gain because of legal steps taken by the plaintiff or because it failed to successfully exploit the plaintiff's confidential information.

2. Account of profits

In contrast to damages, the aim of an account of profits is to disgorge the defendant of the financial gain or benefit accrued by reason of the breach of confidence and to give this to the plaintiff. An account of profits is most suitable where it can be established that the defendant would not have been able to engage in the relevant commercial activity at all, were it not for the breach of confidence. In such a case, a plaintiff is entitled to claim *all* the profits flowing from that activity. A broad interpretation of *profit* was adopted in a recent decision of the High Court of Australia:[49]

> [T]here is no reason why a benefit or gain to be made the subject of an account must answer the description of a 'profit' in conventional accounting terms. Nor is there any reason why that benefit or gain must answer the description of "property" or must have sufficient certainty as to be capable of forming the subject matter of a trust. The benefit or gain can be expectant or contingent. Indeed, it is commonplace that a benefit or gain the subject of an account might encompass an ongoing business. And it is commonplace that the benefit or gain to be made the subject of an order to account might extend to the whole of the ongoing business or be limited to a part of the business identified by reference to both a specified scope of commercial activities and a specified period of commercial activities which need not be confined to a past period but may be a period which extends into the future.

In the same decision, the High Court also confirmed that a broad interpretation was to be taken in relation to causation, especially if the defendant is found to have been dishonest, fraudulent or to have knowingly engaged in the breach.[50]

On the other hand, plaintiffs are less likely to pursue an account where there is significant difficulty in segregating the profits made from the breach of confidence from those which would have been made in any event as a result of legitimate activity.[51] A particular complicating issue that has arisen in the context of the remedy is identification of an appropriate allowance for the defendant's costs in calculating profit,[52] which typically requires extensive examination of a defendant's business.

V. Conclusion

The action for breach of confidence is far from a "one-size-fits all" form of intellectual property protection. It does not for example, protect against independent invention or reverse engineering, whereas a patent would offer such protection. Indiscriminate reliance on the potential to remedy a breach of confidence can also jeopardize the ability to seek patent protection for an invention due to statutory prohibitions against "secret use."[53] As discussed above, there can also be practical difficulties in identifying alleged confidential information and unauthorised use or disclosure of such information.

Notwithstanding its limitations however, the action for breach of confidence is an essential component of a robust intellectual property protection strategy. It is a flexible cause of action which can be readily deployed in a variety of settings making it suited for the fast-paced digital environment which businesses now operate in. The equitable action is particularly useful where there is no contract which can be relied on. The wide range of remedies available where breach is established also makes it an attractive option where it is not legally possible or commercially feasible to rely upon conventional forms of intellectual property protection.

Endnotes

1. Andrew Stewart et al., Intellectual Property in Australia 858 (6th ed. 2018); *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37, 46 (Austl.); *Secton Pty Ltd v Delawood Pty Ltd* (1991) 21 IPR 136, 149-150 (Austl.).
2. *Prebble v Reeves* [1910] VLR 88, 108 (Austl.); J D Heydon, M J Leeming & P G Turner, Meagher, Gummow and Lehane's Equity: Doctrines & Remedies 1160-61 (5th ed. 2014).
3. *Moorgate Tobacco Co Ltd v Philip Morris Ltd (No 2)* (1984) 156 CLR 414, 438 (Austl.).
4. *Optus Networks Pty Ltd v Telstra Corp Ltd* (2010) 265 ALR 281, 288 (Austl.).
5. *Streetscape Projects (Australia) Pty Ltd v City of Sydney* (2013) 85 NSWLR 196, 224 (Austl.).
6. *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41.
7. *Optus Networks Pty Ltd v Telstra Corp Ltd* (2010) 265 ALR 281, 290 (Austl.).
8. *O'Brien v Komesaroff* (1982) 150 CLR 310, 326-28 (Austl.); *Moorgate Tobacco Co Ltd v Phillip Morris Ltd (No 2)* (1984) 156 CLR 414, 438 (Austl.); *Corrs Pavey Whiting & Byrne v Collector of Customs (Vic)* (1987) 14 FCR 434, 443 (Austl.).
9. *Streetscape Projects (Australia) Pty Ltd v City of Sydney* (2013) 295 ALR 760 (Austl.).
10. *American Cyanamid Co v Alcoa of Australia Ltd* (1993) 27 IPR 16, 20 (Austl.).
11. *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203, 215; *O'Brien v Komesaroff* (1982) 150 CLR 310, 326-8 (Austl.); *Johns v Australian Securities Commission* (1993) 178 CLR 408, 460-461 (Austl.).
12. *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37, 49 (Austl.).
13. *Australian Medic-Care Co Ltd v Hamilton Pharmaceutical Pty Ltd* (2009) 261 ALR 501, 639 (Austl.).
14. *Attorney-General (UK) v Heinemann Publishers Australia Pty Ltd* (1987) 10 NSWLR 86, 189-90 (Austl.).
15. *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41, 48.
16. *Smith Kline & French Laboratories (Aust) Ltd v Department of Community Services & Health* (1991) 28 FCR 291, 302-303 (Austl.).
17. *Trevorrow v State of South Australia (No 4)* (2006) 94 SASR 64 (Austl.).
18. *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41, 48.
19. *Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd* (2001) 208 CLR 199, 224-225 (Austl.).
20. *G v Day* [1982] 1 NSWLR 24, 34 (Austl.); *Johns v Australian Securities Commission* (1993) 178 CLR 408, 460, 474 (Austl.).
21. *Talbot v General Television Corp Pty Ltd* [1980] VR 224 (Austl.).
22. *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37 (Austl.).
23. *Argyll v Argyll* [1967] Ch 302.
24. *Corrs Pavey Whiting & Byrne v Collector of Customs (Vic)* (1987) 14 FCR 434, 443 (Austl.).
25. *Retractable Technologies Inc v Occupational & Medical Innovations Ltd* (2007) 72 IPR 58, 87-88 (Austl.).
26. For example, under rule 7.23 of the *Federal Court Rules 2011* (Cth) and rule 5.3 of the *Uniform Civil Procedure Rules 2005* (NSW).
27. *St George Bank Ltd v Rabo Australia Ltd* (2004) 211 ALR 147, 154 (Austl.).
28. *Russian Commercial and Industrial Bank v British Bank for Foreign Trade Ltd* [1921] 2 AC 438, 448.
29. *Australian Competition and Consumer Commission (ACCC) v Dataline. Net.Au Pty Ltd* (2006) 236 ALR 665, 680 (Austl.).
30. *Ainsworth v Criminal Justice Commission* (1992) 175 CLR 564, 582 (Austl.).
31. *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37, 52 (Austl.).
32. Gordon Hughes, Dean's Law of Trade Secrets and Privacy [90.3000] (3rd ed. 2018).
33. *Labelmakers Group Pty Ltd v LL Force Pty Ltd (No 2)* [2012] FCA 512 (18 May 2012) (Austl.).
34. *Streetworx Pty Ltd v Artcraft Urban Group Pty Ltd (No 2)* (2015) 322 ALR 557, 575 (patent infringement) (Austl.).
35. *Westpac Banking Corporation v John Fairfax Group Pty Ltd* (1991) 19 IPR 513 (Austl.).
36. *Ocean Dynamics Charter Pty Ltd v Hamilton Island Enterprises Ltd* [2015] FCA 460 (14 May 2015) [26]-[27] (Austl.).
37. *Id.* at [27].
38. *Concept Television Productions Pty Ltd v Australian Broadcasting Corporation* (1988) 12 IPR 129 (Austl.).
39. *Ansell Rubber Co Pty Ltd v Allied Rubber Industries Pty Ltd* [1967] VR 37 (Austl.); Michael Gronow, *Injunctions in Breach of Confidence Proceedings*, 6 Australian Intellectual Property Journal 246 (1995).
40. *Seager v Copydex Ltd* [1967] 2 All ER 415.
41. *Fractionated Cane Technology Ltd v Ruiz-Avila* [1988] 2 Qd R 610 (Austl.).
42. *Sports Data Pty Ltd v Prozone Sports Australia Pty Ltd* (2014) 316 ALR 475 (Austl.).
43. *Optus Networks Pty Ltd v Telstra Corp Ltd* (2010) 265 ALR 281, 290 (Austl.).
44. *Giller v Procopets (No 2)* (2008) 24 VR 1 (Austl.).
45. *Talbot v General Television Corp Pty Ltd* [1980] VR 224 (Austl.); *Interfirm Comparison (Aust) Pty Ltd v Law Society of New South Wales* [1975] 2 NSWLR 104 (Austl.).
46. *Aquaculture Corp v New Zealand Green Mussel Co Ltd (No 2)* (1986) 10 IPR 319 (N.Z.).
47. *Streetscape Projects (Australia) Pty Ltd v City of Sydney* (2013) 85 NSWLR 196 (Austl.).
48. *RLA Polymers Pty Ltd v Nexus Adhesives Pty Ltd* (2011) 280 ALR 125, 145-46 (Austl.).
49. *Ancient Order of Foresters in Victoria Friendly Society Limited v Lifeplan Australia Friendly Society Limited* (2018) 360 ALR 1, 22 (Austl.).
50. *Id.* at 25.
51. *Vasco Investments Ltd v Morgan Stanley Australia Ltd* (2014) 108 IPR 52, 94 (Austl.).
52. *Dart Industries Inc v Décor Corporation Pty Ltd* (1993) 179 CLR 101 (in the context of patent infringement) (Austl.).
53. *See*, for example, sections 18(1)(d) and 18(1A)(d) of the *Patents Act 1990* (Cth).

The Protection of Trade Secrets in Brazil

By Roberto Carapeto

I. Introduction

Rorberto Carapeto

In Brazil, being conscious about the ways you can protect your trade secrets is an important tool for handling intellectual assets. The use and exploitation of technical and commercial information in Brazil has been relevant historically and is an important part of the flow of technology to Brazil today. The protection of trade secrets, know-how, and other commercial and technical information is a complex topic. This article looks to summarize the basic ways to protect such types of information in Brazil.

II. A Brief History of the Protection of Trade Secrets in Brazil

The protection of trade secrets in Brazil is not necessarily new. The disclosure of confidential information has been a crime of unfair competition since 1934. In 1940, such crimes were included within the newly enacted Penal Code. In 1945, the Industrial Property Code in 1945[1] was enacted. This contained provisions relating to the criminal offence of unfair competition, including making it a crime to violate confidential information. These provisions have remained within the industrial property laws until the present day. Nonetheless, until the 1990s, companies preferred to make business decisions that inefficiently limited the disclosure of information because of the fear that they could not rely on the courts to prevent the use of information they disclosed.[2] Notwithstanding this, it can be said that the situation has improved considerably with the improvements brought about by the current law in Brazil.

The current Brazilian Industrial Property Act[3] (Brazilian IP Act) was enacted in 1996 in order to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in Brazil. The current law brought some relevant developments relating to the protection of trade secrets; namely, holding liable as a possible violator the contractual partner, the employee or ex-employee, and the employer, partner or administrator of another company—anyone who had access to the confidential information by unlawful means or by means of fraud. By comparison, Art. 178 of the previous Industrial Property Code[4] held liable only the employee or the service provider. This article will focus mainly on the practice of the current Brazilian IP Act and related laws.

III. What Is Considered a Trade Secret in Brazil?

There is no definition of what constitutes a "trade-secret" nor a "know-how" within Brazilian law as a whole. However, the Brazilian IP Act contains some minor requirements for information to be considered as a "trade secret." These requirements can be read as somewhat of a definition and can be found within the provisions that define one of the crimes related to unfair competition.[5] Therefore, the current law defines "confidential information" as "confidential knowledge, information or data, usable in industry, commerce or the provision of services." This is an amalgamation of the two types of "confidential information" protected in the previous laws, which divided the scope of protection between "confidential business information" and "confidential industrial information." Furthermore, the same legal text says that the confidential information to be protected must not be "that which is of public knowledge or which is obvious to a person skilled in the art."

From the definition of the current law, it seems the two main requirements are "confidentiality" and "industrial/commercial applicability." Considering this, it appears that the Brazilian law lags behind the basic standard applied by TRIPS[6] and the main IP developed countries like the United States[7] and those in Europe.[8] That is, the information to be protected as trade secret must be:

a) secret, in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

b) has commercial value because it is secret; and

c) has been subject to reasonable steps to be kept a secret.

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Contrary to U.S. and E.U. legislation, Brazilian law does not seem to require the information to have commercial or potential commercial value to be protected as a trade secret—just that it can be usable in industry/commerce. Furthermore, there is no statutory requirement that the information must be subject to reasonable steps to be kept a secret. In this regard, it seems that the scope of what can be protected as a trade secret in Brazil might be broader in comparison to other countries.

There is no system of stare decisis in Brazil; previous decisions are not binding and precedential. Notwithstanding that, from the study of the case law on the subject, it is possible to perceive that sometimes the scope of what can be protected as a trade secret can vary from being interpreted quite widely or somewhat strictly.

For example, a 2013 decision defines a trade or industrial secret as "the information you do not want the competition to be aware of."[9] It further comments that confidential information can be categorized in two different ways:

a) technical know-how, which includes all the technologies developed by the company, such as formulae, production methods, software, tools, etc., and,

b) business know-how or business intelligence, which are the company's trade secrets, i.e., financial, sales, marketing and administrative data.

Regarding the level of confidentiality, a 2010 decision from São Paulo mentions that the analysis shall be done on a case-by-case basis and must be identifiable.[10] In this case, the plaintiff simply argued that the former employees had access to confidential information about the production of tubes and that the similarity of the defendant's plant structure to the plaintiff's demonstrated use of the confidential information. The court mentioned that merely claiming that there was technical information with restricted access is not sufficient for a finding of violation. It was necessary to provide documentary evidence that the trade secret holder had the information in its possession at the time of misappropriation, disclosure or infringement, and that access to such information was restricted somehow.

Another relevant point for the scope of the protection of trade secrets is that the information must not be (i) that which has fallen into the public domain, and/or (ii) is either generally known or obvious in the relevant field. For example, a decision[11] from São Paulo dealing with swimming pool solar panels reinforced the idea that there will be no unfair competition if there is proof that the knowledge, information or confidential data used by the agent was not public knowledge (in the public domain) and was not obvious to a person skilled in the art.

IV. Acts Considered as a Violation/Infringement of Trade Secrets

The main acts considered to be violations of trade secrets are the ones included in the Art. 195 of the Brazilian IP Act, mainly in items XI and XII. In a nutshell, item XI deals with the unauthorized use and/or disclosure of trade secrets by a primary source who lawfully received the information. On the other hand, item XII deals with the use and/or disclosure by a party who obtained the confidential information though unlawful means.

In detail, Art. 195 (XII) states that it shall be considered unfair competition to disclose, exploit or use, without authorization, a trade secret, when obtained directly or indirectly by illicit means or to which a party has had access by fraud. The problem with this provision is that it seems that no court decision has applied this statute directly. This makes it difficult to define what would be considered "illicit means" or "fraud," in the context of illegal access to information. "Illicit means" is an open concept within Brazilian law, widely mentioned in cases involving illegally obtained evidence to indicate any means that are not allowed by law. In regards to "fraud," scholars tend to define it as "the use of deceptive or tricky means in order to circumvent a law or a contract,"[12] while some case law seems to indicate that bad-faith is necessary for fraud to occur.[13] The text of the item XII states that access to the trade secret might have occurred "directly or indirectly." This raises the question to what extent this provision could be applied to parties who indirectly access a trade secret that was disclosed by illicit means without their knowledge. While there does not appear to be any case law regarding this situation, item XII appears to be the only applicable statute for these types of issues.

For cases involving bad faith, when there is a problem in defining the information being used or disclosed as a trade secret and considering the requirements discussed in the previous section, it is possible to bring a case to the court by using item III of the same statute. This provision states that it is unfair competition to employ fraudulent means to divert the customers of another person to his or another party's advantage. This claim was used in a case in Rio de Janeiro,[14] where one company was approached by another interested in negotiating an acquisition. The former was granted access to, upon the signing of a non-disclosure agreement, a number of financial and organizational information of the latter's operation. The latter company claimed that this information was later used in the opening of a new company with a similar business operation as the one that disclosed the information.

Item XI of Art. 195 considers an infringer to be one who discloses, exploits or uses, without authorization, a trade secret to which they have access by means of a contractual or employment relationship. This applies even after the termination of the contract. There are multiple problems with the application of this provision, ranging from proving that the former employee actually took trade secrets with them, to discussions on freedom of employment.

In regard to issues related to employment and unfair competition, items IX and X of Art. 195 provide further causes of action. Item IX provides that giving or promising money or other utility to an employee of a competitor in order to obtain an advantage, where that employee fails in complying with any of his work-related duties, is unfair competition. Art. 195 (X) provides that it shall be unfair competition to receive money or other utility or to accept a promise of payment or reward for failing in a work- related duty and providing a competitor with an advantage. Item X can be especially advantageous in that it can be used from the moment the promise of payment is accepted. Arguably, this can be used to prevent a trade secret disclosure if that disclosure is being made on the promise of payment. However, a decision from São Paulo stated that even when a competitor offers a job with better working conditions, this only qualifies as unfair competition if there is evidence that the employee has the intent to violate the previous employer's trade secrets and takes advantage of the acquired know-how, knowledge or data deemed as privileged and classified.[15]

The Brazilian legal system is highly protective of the employee. According to a precedent from São Paulo, if an employee leaves a company and then decides to establish his own business in the same field of activity, it will not automatically be considered to be unfair competition unless said former employee acts in bad faith by using secret or privileged information obtained from the former employer.[16] However, it is unclear if proving bad faith is a requirement for such an action to be considered unfair competition.

The Consolidation of Labor Laws[17] establishes in Art. 482 (g) that the violation of trade secrets (in the original text, "secrets of the company") is considered a cause for justified termination. Therefore, it seems that the labor law considers the duty to protect undisclosed information to be an important one. A 2015 decision from the state of Rio Grande do Sul stated that a former trader who obtained experience through its labor obtains the right to continue using part of the information to apply this experience further on—even as a competitor. In this case, the court determined that there was no unfair competition in the trader contacting his former clients to offer his service under the new company.[18] The Brazilian Superior Labor Court (TST)[19] has already set a precedent[20] that non-compete clauses must include territorial and time limitations, as well as financial compensation or a guarantee that the employee may perform another activity. This restrictive interpretation may create issues with the enforcement of post termination non-disclosure agreements.

Other Brazilian laws contain causes of action related to trade secrets. The Brazilian Franchise Law[21] establishes in Art. 3, item XIV(a) that terms and conditions related to access, use and treatment post-termination of trade secrets must be included not only in the Franchise Agreement but also in the Uniform Franchise Offering Circular. The Bankruptcy Law[22] in Art. 169 states it is a crime to violate, exploit or disclosure business secrets in a way that contributes to the insolvency of a company in debt. Also, the Brazilian Penal Code[23] provides penalties for the undue disclosure of secrets, professional secrets, and for the hacking of IT systems in order to obtain, modify or destroy information.

The variety of laws related to the protection of trade secrets and confidential information demonstrates that there is, at least in principle, a general interest of the Brazilian legal system in protecting such subjects.

V. Remedies

In Brazil, most of the provisions related to infringements of trade secrets are crimes. However, in principle, both criminal remedies and civil remedies are available. Especially in regards to acts of unfair competition under the Brazilian IP Act, the criminal and civil remedies available are the same across the board.

It is important to note that Brazilian law does not make it clear that border measures are available for trade secrets. Enforcement under Art. 198 of the Brazilian IP Act only refers to retention by customs of "products carrying falsified, altered or imitated trademarks or a false indication of origin."

A) Criminal Remedies

Any criminal case related to trade secrets must start with the filing of a complaint by the holder of the trade secret as per Art. 199 of the Brazilian IP Act. Brazilian law also expressly provides for the possibility of preliminary proceedings of search and seizure for all crimes related to industrial property. This includes those related to unfair competition and trade secrets. This kind of preliminary proceeding can be useful for gathering evidence of infringement and avoiding the destruction or concealment of evidence. It is considered more straightforward to pursue this proceeding through criminal routes than civil procedures without prejudice to the usage of the obtained evidence in further criminal and civil cases.

The penalties for crimes related to unfair competition are all the same: three months to one year in detention or a fine. The fine is calculated based on the current minimum wage in Brazil. Currently, it can range from as little as $10 USD to around $3.5 million USD. Fines are paid to a public fund. Although the maximum fine can be quite high, we are not aware of any actual cases involving a fine of that amount. Because the imprisonment period is very short, there is a general view that trade secret crimes are not serious. Under criminal law practice in Brazil, such short penalties can be replaced with alternative sanctions, such as making a donation to a local charity. In this regard, there seems to be no cases of detention related to infringement of trade secrets. A revision of the law to raise the penalties for trade secret violations might be an important step to improve the enforcement system in Brazil.

B) Civil Remedies

The Brazilian IP Act has a provision that clearly allows for the civil prosecution of any acts considered as crime by the law.[24] Therefore, it is possible to prosecute violators on the basis of tort and request a court order to prevent or suspend the unauthorized use of the confidential information and also to claim for damages. Civil remedies related to trade secrets must be sought before the state civil trial courts. Some states, such as Rio de Janeiro, have civil trial courts specializing in business law. Trade secret litigation is not common and judges may not be familiar with it. Therefore, it may be advisable to shop around for the appropriate forum to file the lawsuit in, such as a state that has a court specifically for business law.

To avoid irreparable damages or damages that would be difficult to recover, a judge may grant a preliminary injunction to suspend the violation before summoning the defendant. When necessary, the deposit of a monetary caution or fiduciary guarantee may be demanded for the grant of preliminary injunction. Preliminary injunctions are a very useful tool within the Brazilian enforcement system and are be an important remedy to prevent further damage after the trade secret is already in use by a third party.

Unlike the U.S., Brazil has no system of discovery, and evidentiary materials are presented mainly in documented form.[25] Expert opinions and expert technical examinations performed by experts from the court and both parties can determine the outcome of the lawsuit.

In regards to the disclosure of trade secrets during court proceedings, Art. 206 of the Brazilian IP Act states that if any information of a confidential nature is to be revealed, the judge must make an "in camera" determination how the lawsuit is to continue. Furthermore, the use of such information by the other party for other purposes is forbidden. In practice, judges are often very respectful of the secrecy of trade secrets and know-how and typically determine that procedural secrecy will extend to all case files.

When a trade secret holder receives a favorable decision on the merits, aside from an injunction to prevent the defendant from using the trade secrets, the court may grant the destruction of infringing goods if such a request was made at the beginning of the complaint. Damages are also available and, according to the Brazilian IP Act,[26] are calculated based on the following grounds:

- the benefits that the injured party would have gained had the violation not occurred;
- the benefits actually earned by the infringer; or
- the remuneration that the author of the violation would have paid to the proprietor of the violated rights for a license that would have legally permitted him to exploit the subject of the rights.

The court may appoint an expert to define the values based on the criteria above that is most favorable to the claimant. There are no punitive damages per se within Brazilian law, but the judge may grant moral damages, which may enhance the amount of damages. However, it does not appear that moral damages have been applied in any trade secret case so far. Damages are not usually high, usually ranging between $10,000 (R$50,000)[27] and $50,000 USD (R$200 thousand).[28] However, there is no statutory limit and they can go higher depending on the case.

VI. Conclusion

In theory, the scope of what can be protected under trade secrets in Brazil is quite wide. Although there are acts to which protection against violation is not provided (e.g. acquisition of trade secrets of a third party in good faith, but in gross negligence), criminal and civil remedies are available for the disclosure, usage and exploitation of trade secrets. Further, the availability of preliminary injunctions can be an effective tool in seeking quick action against infringement. However, case law illustrates the importance of proper documentation and evidence for successful trade secret enforcement. Restricting access to information, technical barriers (e.g. password restriction, encryption and safekeeping), and NDAs and confidentiality agreement clauses with employees are important, but documentation of these acts and the information to which they are related is essential for effective enforcement.

Although there is room for improvement in the Brazilian system, it can be a useful tool if an adequate protection strategy of trade secrets is prepared and implemented. Therefore, with commercial activities in Brazil, it is important to be conscious about the issues explained in this article to be protected under the law.

Endnotes

1. Federal Decree-Law No. 7.903, of August 27, 1945.
2. Robert M. Sherwood, Intellectual Property and Economic Development 113 (1990).
3. Federal Law No. 9279, of May 14, 1996.
4. Federal Law No. 5.772, of December 21, 1971.
5. Brazilian IP Act Art. 195 (XI).
6. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Art. 39 (2).
7. Defend Trade Secrets Act of 2016 (DTSA), 18 USC § 1839(3).
8. Directive (EU) 2016/943 Art. 2 (1).
9. The Appellate Court of the State of São Paulo, 7th Public Treasury Court, Writ of Mandamus No. 0012662- 80.2013.8.26.0053, Rheotix Distribuidora do Brasil Ltda. Vs. Regional Tax Officer of the Finance Department of São Paulo, ruled on 23 August 2013.
10. The Appellate Court of the State of São Paulo, 5th Private Law Chamber, in Civil Appeal No. 994.05.049985-7, Hobas Engineering Ag and other Vs. Edra do Brasil Indústria e Comércio Ltda. and other, ruled on 06 October 2010.
11. The Appellate Court of the State of São Paulo, 6th Criminal Law Chamber, in Criminal Appeal No. 0102322-60.2007.8.26.0000, Paulo César dos Santos Silva and other Vs. Transen Indústria e Comércio Ltda., ruled on 05 November 2009.
12. Sílvio de Salvo Venosa, Direito civil: parte geral, 11 ª edição (Atlas, 2011), at 213.
13. The Superior Court of Justice, 6th Chamber, in Habeas Corpus 285.587-SP, ruled on March 15, 2016.
14. The Appellate Court of the State of Rio de Janeiro, 1st Reserved Chamber of Business Law, in Civil Appeal No. 0024232-41.2014.8.19.0209, Medidata Informatica S.A. Vs. Telemont Engenharia de Telecomunicacoes S.A. and another, ruled on January 31, 2017.
15. The Appellate Court of the State of São Paulo, 5th Private Law Chamber, in Civil Appeal No. 538.991.4/4-00, Lenecruz Indústria e Comércio de Massas Alimentícias Ltda. Vs. Consoline Massas e Produtos Alimentícios Ltda., ruled on 06 March 2009.
16. The Appellate Court of the State of São Paulo, 1st Reserved Chamber of Business Law, in Civil Appeal No. 0011397-27.2011.8.26.0566, Incon Eletrônica Ltda. EPP Vs. João Ricardo Iannoni and another, ruled on March 26, 2013.
17. Federal Decree-Law No. 5,452 of 1943.
18. The Appellate Court of the State of Rio Grande do Sul, 6th Chamber of Civil Law, in Civil Appeal No. 0092032-63.2013.8.21.7000, Peccin S.A. Vs. Tomaz Schmidt Lain and another, ruled on November 19, 2015.
19. Brazil has a system of specialized courts in Labour Law, which includes, besides the Superior Labour Court (Tribunal Superior do Trabalho) the Regional Labour Courts (*Tribunais Regionais do Trabalho - TRTs*), as second instance appeal courts, and the Trial Labour Courts (*Varas do Trabalho*) in the first instance level.
20. *See, e.g.*, The Superior Labour Court, 2nd Chamber, in Revisional Appeal No. 10660320145120022, Claudio Pedro Silveira Junior Vs. Prospera Trading Importacao e Exportacao LTDA, ruled on August 30, 2017.
21. Federal Law No. 8,955 of 1994.
22. Federal Law 11.101/2005.
23. Decree-Law No. 2.848 of December 7, 1940.
24. Art. 207 of the Brazilian Industrial Property Law.
25. Witnesses may be heard in person, but these are not common in trade secret litigation.
26. Art. 210 of the Brazilian Industrial Property Act.
27. The Trial Court of the State of Santa Catarina, 4th Civil court of Criciuma, in Civil Action No. 0005179-26.2011.8.24.0020, Manfedini & Schianchi SRL and another Vs. K-Sider, ruled on August 17, 2015.
28. The Trial Court of the State of Santa Catarina, Central court of Trombudo Central, in Civil Action No. 0001685-98.2005.8.24.0074, Biochamm Caldeiras e Equipamentos Industriais Ltda. Vs. Caldemaq Caldeiras e Equipamentos Industriais Ltda e outros, ruled on February 8, 2011.

Explaining the French Trade Secrets Act

By Benoît Holvoote

In June 2016, the European Union adopted the Directive on Trade Secrets, Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June, 2016 (the "Directive"). The Directive involved the protection of undisclosed know-how and business information against their unlawful acquisition, use and disclosure, and required all EU Members States to introduce specific regulation regarding the protection of trade secrets.

Member States had until June 9, 2018 to implement the Directive and France did so with Act n°2018-670 dated July 30, 2018 on protection of trade secrets (the "Act").

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The Act was then completed by Decree n°2018-1126 dated December 11, 2018 (the "Decree").

The Act and the Decree introduce into the French legal corpus the first comprehensive set of rules that ensures efficient protection of trade secrets.

1. Modeling the Act

1.1 An American inspiration

Although no one in France or Europe will admit any American influence on the regulation of trade secrets, one can consider the U.S. as a model that has had an impact on the European approach of trade secrets protection. Indeed, in the U.S., trade secrets are protected by various regulations, starting with the 1979 Uniform Trade Secrets Act. Such regulations have been adopted in almost every American state, with the notable exception of New York and Massachusetts. This layer of protection has been supplemented by The Defend Trade Secrets Act of 2016 (DTSA), which the American Congress had voted unanimously on, marking the importance the U.S. places in protecting trade secrets. With the DTSA, trade secrets owners can seek redress for misappropriation or misuse not only before state courts but also before federal courts.

On the criminal side, the U.S. lawmaker also created an arsenal of protection with the Economic Espionage Act of 1996 (a.k.a. the Cohen Act). The Cohen Act makes the theft or misappropriation of a trade secret a federal crime with heavy fines and imprisonment of up to 15 years for individuals. The Cohen Act was supplemented with the Foreign and Economic Espionage Penalty Enhancement Act of 2012, which has amended the federal criminal code to increase the maximum fine for economic espionage committed by individuals (from \$500,000 to \$5,000,000) or by organizations (from \$10 million to the greater of \$10 million or 3 times the value of the stolen trade secret to the organization). Undoubtedly, reading the Directive and the Act gives American lawyers a sense of déjà vu.

> *"In France, the least we can say is that, before the 2018 Act, the legislation on Trade Secrets was, if anything, scattered. "*

1.2 A scattered set of rules

In France, the least we can say is that, before the 2018 Act, the legislation on Trade Secrets was, if anything, scattered. Articles L311-1 *et seq.* of the French Penal Code punishes the fraudulent appropriation of "a thing" belonging to another person with imprisonment and fines (commonly known as theft). This rule, however, does not apply to trade secrets, which are not considered a "thing" under the law. This is a consequence of the *nulla poena sine lege* rule.

Article L1227-1 of the Employment Code regulates the prohibition against unlawful use and disclosure of manufacturing secrets for managers or employees affiliated with an enterprise. This text, however, has a very limited scope, since (1) it applies to persons with a contract of employment, and (2) it relates specifically to "manufacturing secrets," which are only one type of trade secrets. Case law on this penal offense is scarce with no clear direction.

The doctrine of fraudulent breach of trust, following article L314-1 of the Penal code, is committed when a person, to the prejudice of other persons, misappropriates funds, valuables or any property that were handed over to him and that he accepted subject to the condition of

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returning, redelivering or using them in a specified way. On some occasions, fraudulent breach of trust has been applied to punish the fact to save a copy of professional data on a personal computer.[1]

Also, following article L 323-1 of the Penal code, fraudulent access to or remaining in all or part of an automated data processing system is punished by two years imprisonment and a fine of €30,000. If this behaviour causes the suppression or modification of data contained in that system, or any alteration of the functioning of that system, the sentence increases to three years imprisonment and a fine of €45,000.[2] Case law shows that the concept of "access to an automated data processing system" remains difficult to apply.

Several attempts to regulate trade secrets misappropriation never came to fruition: back in 2012, a bill was drawn up with the aim of creating a comprehensive set of rules for the protection of trade secrets under both civil and criminal laws. This project was abandoned. Another bill went out for consultation in 2014, which, again, was dropped after massive lobbying from the media industry on behalf of the freedom of the press. The bill stoked fears that the exercise of the right to freedom of expression and information could be restricted, in particular with regard to investigative journalism and the protection of journalistic sources. A last attempt was made in 2015 with the so-called "*Loi Macron*" that introduced various measures to boost the economy and which contained a section on trade secrets protection. Yet again, the media industry got the better of the lawmaker.

Eventually the Directive forced French lawmakers to adopt relevant rules.

1.3 From a Directive to National Legislation

In short, the aim of the Directive is to provide for rules at the European Union level to approximate the laws of the Member States so that there is a sufficient and consistent level of civil redress in the internal market in the event of unlawful acquisition, use or disclosure of a trade secret.[3] Member States had to bring into force the laws, regulations and administrative provisions necessary to comply with the Directive by June 9, 2018.[4] France arrived a little bit late with the Act enacted on July 30, 2018, and the Decree following on December 11, 2018.

2. Defending Trade Secrets

2.1 Definitions

As a result of a long-established codification tradition in France, the Act has been introduced into the Commercial Code in Articles L 151-1 et seq. (the "Code").

Following article L 151-1 of the Code, a trade secret is information that meets the three following criteria:

- It is not, by itself or in the precise configuration and assembly of its components, generally known among or readily accessible to persons who are familiar with the kind of information in question because of their occupation;
- It has commercial value, effective or potential, because it is secret; and
- It has been subject, by the person lawfully in control of the information, to reasonable steps to keep the secret.

This definition of trade secret in the Act reproduces in a quasi-servile manner the text of the Directive. The only discrepancy appears when the Act states that a trade secret is information with "effective or potential" commercial value. This is clearly to protect the trade secret holder: effectiveness of commercial value is not a must; protection is awarded where it can be justified that a potential value can be derived from the information.

"Learned mistakes, process failures, setbacks can also be considered trade secrets. Conversely, patents are not considered trade secrets since they are made public by the IP authority."

Accordingly, the following types of information and data, when complying with the definition under the Act, can be regarded as trade secrets: information concerning product specifications, patent applications, know-how, graphs, drawings, sketches, current and planned research and development, samples, designs, compositions, discoveries, inventions, improvements or developments on existing technology, systems, devices, computer software and programs, data, formulae, manufacturing processes, works of authorship, writings, overheads, taped discussions or conversations, notes, mask works, product lists, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, databases, vendor lists, and financial, business or technical information, notes, analyses, compilations, studies, summaries, etc. Learned mistakes, process failures, setbacks can also be considered trade secrets. Conversely, patents are not considered trade secrets since they are made public by the IP authority.

The Act does not protect trade secrets *per se*. To the contrary, the Act requires trade secrets holders to implement appropriate measures to protect their information if they want to proceed against any subsequent misappropriation. Consequently, if a business broadcasts information on its official website or, if an employee reveals the existence of a new project during an interview at a trade show, this information can no longer be considered a trade secret.

The Act carries on with a definition of what can be considered a lawful acquisition of trade secrets and what should be considered a misappropriation of trade secrets.

First, Article L151-2 of the Code states that a legitimate holder of a trade secret is any natural or legal person that controls the trade secret in a lawful way. This sounds as pure tautology, but remains relevant since by opposition with patents where protection arises with filing of an application, it might be less obvious to decide whether an information is lawfully in the possession of a person or not. This point is solved with Article L151-3 of the Code which depicts lawful ways of acquiring trade secrets:

- An independent discovery or creation;
- Any observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information, unless there is a legally valid duty to prohibit or restrict the acquisition of the trade secret.

To the contrary, misappropriation of trade secrets arises in the following scenarios depicted in Article L151-4 of the Code:

- An unauthorized access to any document, object, material, substances or digital file containing the trade secret or from which the trade secret can be deduced, or an unauthorized appropriation or copying thereof;
- Any other conduct which, under the circumstances, is considered unfair and contrary to commercial practices.

Lastly, the Code gives a definition of what is considered an unlawful use or disclosure of trade secrets. Article L151-5 states: "[The] use or disclosure of a trade secret is unlawful whenever carried out, without the consent of the trade secret legitimate holder, by a person who have acquired the trade secret under the conditions specified under article L151-4 or, is in breach of a duty not to disclose the trade secret or to limit the use thereof." Article L151-5 paragraph 2 adds: "[The] production, offering or placing on the market as well as the importation, export or storage for those purposes of any good resulting from a significant infringement of a trade secret are also considered an unlawful use of a trade secret where the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used unlawfully within the meaning of paragraph 1 of this article." Article L151-6 adds: "The acquisition, use or disclosure of a trade secret is also considered unlawful whenever a person, at the time of the acquisition, use or disclosure, knew or ought, under the circumstances, to have known that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully within the meaning of paragraph 1 of article L151-5."

We now understand the definition of a trade secret, a legitimate holder of a trade secret, the concepts of lawful acquisition, misappropriation and unlawful use or disclosure of a trade secret. We can properly address the remedies proposed by the Act in case of infringement of a trade secret.

2.2 Civil remedies

In the occurrence of infringement of the Act, a range of civil remedies are available to protect trade secret holders. The Act also includes specific provisions applicable where trade secrets require protection in the course of legal proceedings.

Following on the Directive, the Act allows courts to provide for provisional and precautionary measures against the infringement of a trade secret. These may consist of:[5]

- The prohibition of the use or disclosure of the trade secret;
- The prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes; or
- The destruction of all or part of any document, object, material, substance or electronic file containing or embodying the trade secret or, where appropriate, the delivery up to the applicant of all or part thereof.

The insertion of the word "including"[6] in the text of the Act means that measures of other nature can be enjoined. These measures shall be left to the judgment of the courts. The only requirement is for these measures to be "proportionate."[7] Although there are currently no court decisions available applying this requirement, one can imagine that in deciding to order a measure, the court will have to take into account the value of the trade secret, the conduct of the infringer in acquiring, using or disclosing the trade secret, the impact of the unlawful use or disclosure of the trade secret and the likelihood of further unlawful use or disclosure of the trade secret by the infringer. The Act however goes beyond the Directive since it provides for remedies in case of threatened misappropriation of trade secret.[8] The Decree depicts the panel of measures the court may enjoin.

Following the Directive, the Act addresses the situation where a person could have originally acquired a trade secret in good faith but become aware at a later stage that her knowledge of said trade secret was derived from sources using or disclosing the relevant trade secret in an unlawful manner. In order to avoid the corrective measures provided for causing disproportionate harm to that person, the Act provides for the possibility of pecuniary compensation being awarded to the injured trade secret holder as an alternative measure. This pecuniary compensation is not a damages reward, but it is, rather, the equivalent to the "reasonable royalty" provided for under UTSA.[9] Accordingly, the Act anticipates that such compensation should not exceed the amount of royalties or fees which would have been due had the infringer obtained the authorization to use the trade secret in question, and for the period of time for which use of the trade secret could have been prevented by the original trade secret holder.[10]

The Act further moves on to speak of damages and provides insights into assessing how damages are paid to the injured party by the infringer in response to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret. The Act requires the court to consider separately the following factors:[11]

- The negative economic consequences, including lost profits, which the injured party has suffered, including the loss of opportunity;
- The moral prejudice caused to the trade secret holder; or
- Any unfair profits made by the infringer, including the savings resulting from the avoidance of intellectual, material or promotional investments resulting from the unlawful acquisition, use or disclosure of the trade secret.

Alternatively, the court may, on request of the injured party, set the damages as a lump sum based on the amount of royalties that would have been due had the infringer requested authorization to use the trade secret in question. The Act adds that said royalties shall not exclude the compensation of the moral prejudice caused to the injured party.[12] This lump sum shall not be seen as punitive damages. This is because the French conception of tort liability ignores punitive damages and considers damages strictly equal to the harm suffered by the injured party.[13] This is also because of a statement in the Directive explaining that the aim of that alternative method is not to introduce an obligation to provide for punitive damages, but to ensure that compensation is based on an objective criterion while taking into account the expenses incurred by the trade secret holder, such as the costs of identification and research.[14]

It is interesting to observe how the language on damages in the Act is inspired by the Directive[15] but also, and maybe more remarkably, by the French regulation on infringement of intellectual property rights.[16] This is a testament to the French lawmakers' commitment to give trade secrets the same level of protection as intellectual property rights.

French lawmakers have responded in their own distinctive way to Article 7.2 of the Directive that requires Member States to ensure that competent courts be able to apply appropriate measures where an application concerning the unlawful acquisition, use or disclosure of a trade secret that is manifestly unfounded and the applicant is found to have initiated the legal proceedings either abusively or in bad faith. Indeed, following Article L152-8 of the Code, the court now enjoys unrestricted authority to levy a civil fine upon any party who makes manifestly dilatory or abusive use of the procedure. The amount of the civil fine cannot exceed higher than 20% of the damages claimed by the aggrieved party, or 60,000 if there is no claim for damages. It is important to note that with regard to a "civil fine" the money is not awarded to the claimant but to the French Treasury. Thus, Article L152-8 adds that damages may be awarded to the injured party on top of the civil fine. Although the civil fine cannot be treated as punitive damages, as stated earlier, some voices argue that such fines are very similar thereto.[17]

"This is because the French conception of tort liability ignores punitive damages and considers damages strictly equal to the harm suffered by the injured party."[13]

2.3 No Criminal Remedies

Unlike the Economic Espionage Act (1996) and the Theft Trade Secrets Clarification Act (2012), the French Trade Secrets Act does not provide for criminal remedies for trade secret misappropriation. Yet, the Directive does not prevent the Member States from incorporating crimes for violation of trade secrets into their domestic legislation.

Such possibility had been contemplated by the French lawmaker. Indeed, the French Senate proposed to introduce into the Penal Code a specific provision that imposed a €375,000 fine and up to three years of imprisonment for the unlawful acquisition, use or disclosure of a trade secret, but only to obtain an economic advantage.[18] The Joint Committee (a specific body with seven members of the Parliament and seven members of the Senate) eventually dropped the economic espionage incrimination portion, arguing that it might appear too early to introduce such incrimination into the French legal corpus.[19] Lack of time to properly assess the pros and cons of this incrimination was also highlighted, as the minutes of the discussions reveal. It is believed that the proposal will be subject to further reflection.

2.4 Preservation of Secrecy

The Directive enjoins the Member State to take relevant measures to ensure the preservation of confidentiality of trade secrets in the course of legal proceedings. Accordingly, the Act contains a range of measures guarantying for the same. In short, these measures include restricting access to the files containing alleged trade secrets, holding in-camera hearings, sealing the records of the action, ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval and drafting appropriate judicial decision.[20]

3. Exceptions and Limitations

The European Union had anticipated that the provisions in the Directive shall not affect the exercise of the right to freedom of the media (3.1), the right to reveal misconducts for the purpose of protecting the general public interest to protect whistleblowers (3.2), the right for workers to disclose trade secrets to their representatives (3.3) and the right to disclose trade secrets to protect a legitimate interest (3.4).[21] The European Union also commanded Member States to lay down rules on the limitation periods applicable to judicial actions regarding trade secrets misappropriation (3.5).[22] These requirements have all been implemented in the Act.

3.1 Journalists

As already mentioned, the media industry had raised fears that any legislation on protection of trade secrets in France would restrict the right to freedom of the press. These concerns have been expressed at a European level and the European lawmaker could not avoid addressing them. Consequently, the Directive states that it is essential that the exercise of the right to freedom of expression and information, which encompasses media freedom and pluralism, as reflected in Article 11 of the Charter of Fundamental Rights of the European Union,[23] not be restricted, in particular with regard to investigative journalism and the protection of journalistic sources.[24]

The Act applies these principles and refers to the Charter of Fundamental Rights of the European Union.[25] This express reference to the Charter should be able to enhance the doctrine developed over the years by the European Court of Human Rights in favour of the protection of medias.[26]

3.2 Whistleblowers

On December 9, 2016, France enacted an important act (known as "*Loi Sapin 2*"), which deals with a wide range of issues, including resounding provisions on whistleblowers protection among a series of political and financial scandals. In short, Sapin 2 provides immunity from prosecution to persons who, in good faith and in a disinterested way, reveal wrongdoings they have been aware of.[27]

In continuance with Sapin 2 and in accordance with the Directive requirements, the Act states that trade secret protection is unenforceable when appropriation, use or disclosure of a trade secret is made with the aim of revealing, in good faith, a wrongdoing for the purpose of protecting the general public interest.[28]

Although the requirement of good faith was not included in the Directive it survived in the Act as a legacy of Sapin 2. In deciding to draft the Act in such a manner, French lawmakers have put whistleblowers in a less convenient position compared to journalists.

3.3 Workers and Their Representatives

The exercise of the rights of workers and their representatives to information, consultation and participation in the determination of working conditions has been considered by the Directive and has been implemented by the Act into the Code. Article L151-9 states that the protection provided by the Act cannot be invoked where:

- The acquisition of a trade secret occurred in the context of the exercise of the right to information and in consultation with the workers or of their representatives;
- The disclosure of a trade secret by workers to their representatives was made as part of the legitimate exercise by those representatives of their functions provided that such disclosure was necessary for that exercise.

The "necessary for that exercise" language will probably raise a lot of discussion in the future since it might be difficult to assess whether the condition of necessity is met or not. French courts and ultimately the French *Cour de Cassation* will have to rule on the matter.

Article L151-9 adds, however, that a trade secret that has been acquired by or disclosed to workers or their representatives shall further be treated as a trade secret with respect to any third party. This is in line with long-established rules incorporated in the Labour Code[29] and in the Monetary and Financial Code[30] that impose a commitment of secrecy on workers' representatives when they are aware of inside information, whether they concern a specific aspect of the business of the company, a potential IPO or buy-out, a redundancy plan, etc.

3.4 Legitimate Interest

Following the Directive, the protection of trade secret shall not affect the right to disclose a trade secret to protect a legitimate interest recognized by Union or national law. The French lawmakers have slavishly reproduced this language in the Act and consequently the same has been introduced under Article L151-8 3°/ of the Code.

This would probably be daring, if not disrespectful, to assert that this posture of the lawmakers reveals a lack of interest for this measure. This provision, however, raises questions so it is extensive and it seems like it will give rise to very broad interpretations. The future will show how litigation attorneys will leverage this opportunity in defending their clients in lawsuits for trade secrets infringement.

3.5 Statute of Limitations

The Directive leaves it to the Member States to restrict substantive claim and actions to a limited time; such a time limit, however, should not exceed six years.[31]

Under the Act, an action for misappropriation must be brought within five years after the misappropriation.[32] This 5-year period implemented in the Act by the French lawmakers is completely in line with the general principles of statute of limitation adopted in France since 2008.[33] The manner in which time is computed, however, is different: the general law refers to the moment the fact is discovered or should have been discovered. The Act is more stringent since it only considers the moment of perpetration of the infringement without consideration to the discovery of facts by the trade secrets holder. This is to the detriment of the injured party.

4. Conclusion

The Directive and the Act will be of significant importance for businesses both in France and across Europe, since they introduce a comprehensive set of rules for the protection of information and data, that previously suffered a lack of coherent regulation. One of the challenges of the new regulation will be to create a balance between trade secret protection and other fundamental principles such as the freedom of the press, whistleblowers protection or the rights of workers and their representatives to information.

Businesses have largely developed the use of the Non-Disclosure Agreement (NDA) before the Act entered into force. These shall have a bright future. Indeed, the Act undoubtedly refers to NDAs when calling for "reasonable steps" to keep the information secret.

The behaviour of employees, executives, sales managers and more will also be of paramount importance: Businesses must create, implement and foster a strong culture of trade secrets protection within the company if they want to take advantage of the new regulation.

Endnotes

1. Crim. 22 octobre 2014, n°13-82.630.
2. CA Paris, 12ème Chambre, Section A, 30 octobre 2002.
3. Directive, Recital (8).
4. Directive, article 19.
5. Code of commerce, article L152-3.
6. In French : "notamment."
7. Code of commerce, Article L152-3 I. : " toute mesure proportionnée."
8. Code of commerce, article L152-4.
9. Uniform Trade Secret Act (drafted by the National Conference of Commissioners on Uniform State Laws, as amended 1985), §2 (b).
10. Code of commerce, article L152-5.
11. Code of commerce, article L152-6 § 1.
12. Code of commerce, article L152-6 § 2.
13. Civil code, article 1240.
14. Directive, Recital (30).
15. Directive, article 14.
16. *See* Code of Intellectual Property: article L331-1-3 for copyrights, and article L615-7 for patents.
17. JCP G 2019, 152, Benoît Javaux: l'amende civile, entre sanction pénale et punitive damages?
18. Sitting of the Senate—Minute on the discussions—April 18, 2018 - http://www.senat.fr/seances/s201804/s20180418/s20180418018.html#section2445.
19. Sitting of the Joint Committee—Minute on the discussions—May 24, 2018 - http://www.senat.fr/compte-rendu-commissions/20180521/cmp.html.
20. Code of Commerce, articles L153-1 and L153-2.
21. Directive, Article 5.
22. Directive, Article 8.
23. Charter of fundamental rights of the European Union (2007/C 303/01), article 11 « 1. Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers. 2. The freedom and pluralism of the media shall be respected.
24. Directive, Recital (19).
25. Code of commerce, Article L151-8, 1°.
26. *Goodwin v. the United Kingdom*, judgement of 27 March 1996; *Fressoz v. France*, judgement of 21 January 1999.
27. Loi n° 2016-1691 du 9 décembre 2016, article 6 et seq.
28. Code of commerce, Article L151-8, 2°.
29. Labour Code, article L2325-5.
30. Financial and Monetary Code, article L465-1.
31. Directive, Article 8, § 2.
32. Code of commerce, Article L151-2.
33. *See* : Loi n° 2008-561 du 17 juin 2008 portant réforme de la prescription en matière civile.

The New German Trade Secrets Act—Germany Modernizes Its Law on Trade Secret Protection

By Sebastian Heim and Christian Hess

I. Introduction

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On 21 March 2019, the German Parliament finally complied with its obligation under European law to implement the European Union Directive (EU) 2016/943 into German law and passed the German Trade Secrets Act (also known in German as "*Geschäftsgeheimnisschutzgesetz*" or "*GeschGehG*") which subsequently entered into force in Germany on 26 April 2019. The German Trade Secrets Act (the "Trade Secrets Act") implements said Directive of the European Union with a delay of almost one year and thus incorporates pan-European minimum standards for the protection of trade secrets into German law.[1] As a consequence, the German Trade Secrets Act establishes and implements harmonized European standards for the protection of trade secrets in Germany.[2]

Under European law, directives do not apply directly in the member states but must be implemented into national laws.[3] The aim of the European Union Directive (EU) 2016/943 is to eliminate the fragmented legislation in the member states, to strengthen cross-border information exchange, to ensure legal certainty, and to eliminate existing enforcement deficiencies.[4] Therefore, similar to the Uniform Trade Secrets Act in the United States, the European Union Directive (EU) 2016/943 on trade secrets seeks to set uniform standards for trade secrets across the member states of the European Union.

The transposition of the Directive into national laws in all member states of the European Union is well advanced. Twenty-seven member states out of 28 member states have enacted legislation to implement the Directive into their respective national laws.[5]

Interestingly, public interest in the legislative process of the German Trade Secrets Act was only raised when concerns arose that the German Trade Secrets Act could create too far-reaching restrictions on whistleblowing and journalistic work. In order to address these concerns, the definition of a trade secret in the Trade Secrets Act was amended and now includes the requirement of a "legitimate interest in keeping information confidential."[6] However, the Act does not give a definition for what it considers to be a legitimate interest. Also, there are some questions as to whether this prerequisite is in line with the Directive since the Directive does not explicitly contain this limitation (see below for more details).

II. Overview of the New System of Protection

The German Trade Secrets Act sets the law governing the protection of business and trade secrets on a new civil law foundation. Previously, this statutory protection regime was rather inconspicuously integrated at the very end of the German Act on Unfair Competition (a set of criminal law provisions which are now no longer in force).[7] Nevertheless, the violation of these criminal law provisions could be transformed to civil law remedies due to provisions of the German Act on Unfair Competition and the Civil Code, which provided for civil law remedies for criminal offences.[8] In the course of time, the courts provided for a viable system for the protection of

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trade secrets.[9] Now, under the new regime of the Trade Secrets Act, specifically in chapter 2 of the Trade Secrets Act, owners of trade secrets are awarded statutory civil law remedies, which resemble those of the conventional IP rights, i.e., injunctive relief (section 6 of the Trade Secrets Act), delivery and destruction of infringing goods or, where appropriate, their withdrawal from the market (section 7 of the Trade Secrets Act), as well as the right to detailed information on its misappropriation (section 8 of the Trade Secrets Act) as well as payment of damages (section 10 of the Trade Secrets Act).

Moreover, chapter 1, section 2 of the Trade Secrets Act sets out definitions of important terms such as "trade secret," "trade secret holder," "infringer" and "infringing goods." Further, section 3 ("permitted acts") sets out how a trade secret may be rightfully obtained, used or disclosed, while section 4 defines *forbidden acts* with respect to a trade secret. Finally, section 5 stipulates exceptions to the *forbidden* acts pursuant to section 4 and also sets out requirements for the protection of whistleblowers as well as the freedom of the press under the Trade Secrets Act.

The Trade Secrets Act further introduces new procedural rules for trade secret infringement proceedings in chapter 3. The aim of these new procedural rules is to facilitate trade secret infringement actions while safeguarding the trade secret holder's legal interests in keeping the trade secret confidential.[10] Section 15 stipulates that the sole jurisdiction for trade secret proceedings lies with the District Courts.[11] Sections 16 to 19 set out procedural rules for protecting the confidentiality of a trade secret during and after infringement proceedings as well as sanctions for breaching the confidentiality while section 20 details the procedure to obtain a court ruling on confidentiality during infringement proceedings.

Finally, section 23 of the Trade Secrets Act also stipulates a penal provision, so that the infringement of trade secrets is furthermore subject to criminal penalties.

III. Trade Secret—Central Term

The central term of the German Trade Secrets Act is the term "trade secret," which is defined in section 2 no. 1 of the Trade Secrets Act as "any information,

a) that is not, in the precise configuration and assembly of its components, generally known or readily accessible to persons within the circles that normally deal with this kind of information so that the information therefore has commercial value, and

b) that the lawful owner has taken reasonable steps, under the circumstances, to keep it secret, and

c) for which there is a legitimate interest in keeping it confidential."

This definition is based on the definition as set out in Article 2 no.1 of the European Union Directive (EU) 2016/943. The definition of the Directive was taken from Article 39 of the TRIPS-Agreement which itself had sourced this definition from US law, namely Section 1 (4) Uniform Trade Secrets Act.

The German legislators chose to slightly deviate from this definition as set out in the European Union Directive (EU) 2016/943.[12] The decisive difference lies in lit. c) of the definition in section 2 no. 1 Trade Secrets Act, which requires a *legitimate interest* in keeping the information confidential. In the absence of such a legitimate interest, the information in question will not qualify as a trade secret. This requirement was introduced rather late in the legislative process and was meant to address public concerns regarding the freedom of the press and whistleblowers.[13] From the European law point of view, this addition is quite problematic.[14] According to Recital no. 14 in the preamble to the Directive (EU) 2016/943, the Directive aims to implement a "homogenous definition of a trade secret." This homogenous definition is subsequently set out in Article 2 no. 1 of the Directive which—at least from its wording – dose not require a legitimate interest. The protection regime envisioned by the Directive takes legitimate interests into account only in Article 5 lit. d) as a defense against the allegation of unlawful acquisition, use or disclosure of a trade secret according to section 4 of the Trade Secrets Act.

Irrespective of the above explanations, all three protection requirements as set out in section 2 no. 1 of the Trade Secrets Act must be met and, in case of an infringement action, be argued and proven in court in order for any information to qualify as a trade secret under the Trade Secrets Act.

Trade secrets can comprise technical know-how as well as other business-related secrets, such as customer and supplier lists, business figures, prices, etc. However, the protection does not extend to the practical experience of employees.[15] Section 2 no.1 of the Trade Secrets Act stipulates that information is to be regarded as secret if it is "not, in the precise configuration and assembly of its components, generally known or readily accessible to persons within the circles that normally deal with this kind of information." The feature "precise configuration and assembly of its components" implies that even if all components of a multi-component set of information are publicly known but not in their exact assembly, the information can still qualify as a secret. This, for example, is the case, if the individual ingredients of a secret spice rub are known but the mixing ratio of the individual spices is not. Information is not generally known if only the proprietor or persons bound to secrecy have knowledge of it. If the information can only be obtained at considerable cost and effort, it may still qualify as being secret.[16] However, this is a question of fact and subject to a case-by-case assessment.

Perhaps the most important requirement for protection under the Trade Secrets Act is that the owner of the information in question is required to take reasonable steps according to the particular circumstances to keep the information secret (section 2 no. 1 lit. b). This requirement is a novelty in German trade secret law and consequently requires clarification by the courts. In any case, this requirement is likely to have the greatest practical relevance.

The wording of section 2 no. 1 lit. b) of the Trade Secrets Act implies that there is no blueprint for universally sufficient measures but rather that it must be determined on a case-by-case basis which steps are adequate. Hence, section 2 no. 1 lit. b) requires "reasonable steps according to the circumstances." This wording also implies that it is not always mandatory to apply the optimum in the sense of the most effective protective measure.[17] Rather, the steps must be reasonable under the respective circumstances. A decisive factor could, for example, be how important and/or valuable the information in question is for the company. For instance, construction plans for the company's most important product must be awarded a higher standard of protection in the sense of more effective measures than a customer list for a mass-produced article.

As a result, it is not only recommended, but necessary to implement a graded system of protection. This requires, in a first step, the identification of the respective information within the company in order to determine whether this information is a potential trade secret. In a second step, the potential trade secret has to be classified according to its importance and value to the company, and the risk of unintentional disclosure to third parties, so that adequate technical and legal protective measures can be arranged. In order to contain the risk of unintentional disclosure of trade secrets by employees, it is necessary to train them to raise their awareness in this respect.[20]

IV. Permitted and Prohibited Acts and Exceptions Thereof

The German Trade Secrets Act contains a non-exhaustive list of possible actions that can result in the lawful obtaining of a trade secret.[21] Naturally, independent parallel or in-house development or creation is permitted.[22] A real novelty in German law is the permission of reverse engineering, provided that, however, further requirements are met.[23] Further, section 4 of the Trade Secrets Act stipulates that trade secrets may *not* be obtained, disclosed or used against the will of the trade secret holder or in violation of a contractual obligation. This includes acts such as unauthorized access to a trade secret, unauthorized appropriation of a trade secret or unauthorized copying of documents, articles or materials which contain a trade secret.[24] According to section 4 para. 2 no. 1 of the Trade Secrets Act, it is prohibited to use or disclose a trade secret which has been unlawfully obtained by any of the actions set out in section 4 para. 1 no. 1 and 2.[25] In addition, it is also prohibited to use or disclose a trade secret in violation of an obligation restricting the use of the trade secret, or in violation of an obligation not to disclose the trade secret. This prohibition pertains to contractual obligations in non-disclosure agreements as well as for example in employment contracts.[26]

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The explanatory notes of the Trade Secrets Bill issued by the Federal Government[18] describes possible protection measures such as physical access restrictions and precautions, distribution of the information on a *need-to-know* basis or restricted access to the information protected by a pass code. Contractual security mechanisms such as non-disclosure agreements also play a role when discussing appropriate means of protection. According to said notes, it is not necessary to separately mark each piece of information as confidential. Adequate measures can be taken for certain categories of information (e.g. technical access barriers). Additionally, general internal guidelines and instructions or guidelines or individual instructions in employment contracts may be suitable means of protection depending on the particular information in question.

Whether the measures taken are considered reasonable under the circumstances according to section 2 no. 1 of the Trade Secrets Act may be assessed by taking into account, *inter alia*, the size of the company in question and its capabilities with respect to implementing measures to protect trade secrets.[19]

Finally, according to section 4 para. 3 of the German Trade Secrets Act, in case a trade secret is received from third parties, the trade secret must not be used or disclosed, if the recipient of the trade secret knew or ought to have known that the third party obtained the trade secret through a prohibited act as set out in section 4 para. 2 of the Trade Secrets Act. It is noteworthy that section 4 para. 3 of the Trade Secrets Act requires at least negligent conduct on the part of the recipient. However, the exact specification remains to be determined by the European Court of Justice, which has the final say in the interpretation of the legal concepts derived from the European Union Directive (EU) 2016/943.

V. Legalization of Reverse Engineering

A relevant and important change in Germany with respect to the legal situation prior to the Trade Secrets Act is, that *reverse engineering* is now generally allowed. Formerly, reverse engineering was prohibited under German law. This prohibition was derived from a court decision in 1935.[27] The—in any case controversial—adherence to this decision led to a divergence of German law compared to for example US law. In addition, it was impractical, considering that reverse engineering is common in many industries.

According to section 3 para. 1 no. 2 lit a) of the German Trade Secrets Act reverse engineering, i.e., the observation, study, disassembly or testing of a product or object, is permitted when the holder of the trade secret placed the product in question on the market, thus making it available to the public. Further, reverse engineering is allowed according to section 3 para. 1 no. 2 lit b) of the German Trade Secrets Act, when the respective product is lawfully in the possession of the person who is performing the reverse engineering, provided that no restrictions, such as through a relevant contractual provision, have been placed on such a lawful owner.

However, even if reverse engineering is not a trade secret violation, under certain circumstances reverse engineering may be prohibited under other laws. For example, reverse engineering can be prohibited according to the Unfair Competition Act if it constitutes an unfair deception of origin of the products in question.[28] The same pertains to a possible copyright infringement for reverse engineering software because German copyright law—and also the copyright laws in other countries—permits decompiling only under specific circumstances.[29]

VI. Exceptions in Favour of the Freedom of the Press and Whistleblowing

Section 5 no. 1 of the German Trade Secrets Act stipulates an important exception from prohibited acts as set out in section 4. The prohibitions of section 4 of the Trade Secrets Act do not apply when they impede the freedom of expression or the work of the press. The purpose behind this is to ensure the protection of journalistic sources and thus to prevent an impairment of investigative journalism.[30] It is noteworthy, that this defense does not per se have priority over the basic human rights of a trade secrets holder such as the right to property and the right to entrepreneurial freedom. Therefore, the courts are required to balance the conflicting rights, bearing in mind the specific importance of the right to free speech and the freedom of the press.[31]

A further important exception to section 4 of the German Trade Secrets Act can be found in section 5 no. 2 of the Act. This exception pertains to so-called whistleblowing and permits the acquisition, use or disclosure of a trade secret in order "to detect an unlawful act or professional or other misconduct where its obtaining, use or disclosure is likely to protect the general public interest." Unfortunately, the explanatory notes of the German Government for the Trade Secrets Bill do not define the scope of such an unlawful act. The range may vary from a statutory criminal offensce to a mere misdemeanor or even a tort under civil law. It will be the task of the courts to specify the exact scope. Further, the concept of "professional misconduct" covers a violation of professional standards. "Other misconduct," according to the explanatory notes for the Trade Secrets Bill, may include activities which could lead to unethical behaviour but do not necessarily contravene legal provisions such as a company's activities abroad, which may not necessarily be illegal in the countries concerned but which are nevertheless seen by the general public as misconduct, such as child labour or health or safety issues, or environmentally harmful production conditions. Another example cited by the explanatory notes for the Trade Secrets Bill is systematic and dishonest avoidance of tax payments.[32]

"A relevant and important change in Germany with respect to the legal situation prior to the Trade Secrets Act is, that reverse engineering is now generally allowed.

Under the German Trade Secrets Act, it is not necessary that a whistleblower acted for the purpose of protecting the general public interest as is required by the Directive (EU) 2016/943. Rather, it is sufficient if the acts of the whistleblower are merely suitable to protect the general public interest. A consequence of this lowering of standards in the German Trade Secrets Act compared to the Directive (EU) 2016/943 could be that even selling trade secrets may be covered by the exception.[33]

VII. Remedies for Trade Secret Infringement

The German Trade Secrets Act provides trade secret holders with comprehensive and wide-reaching means to prohibit the distribution of trade secret infringing products and claim compensation for damages suffered as a result of infringement. Therefore, the Act defines "infringing goods" very broadly. Section 2 para. 4 of the

German Trade Secrets Act sets forth that infringing goods are those for which the conception, features, functioning, production process or marketing is based, to a considerable extent, on a trade secret, which has been unlawfully obtained, used or disclosed.

To prevent future infringements, according to section 6 of the Trade Secrets Act, the trade secret holder is entitled to **injunctive relief** against infringers, in accordance with the rights, which apply to other intellectual property rights such as patents, trademarks, or copyrights.

Further, according to section 7 no. 1 of the Trade Secrets Act, the trade secret holder has a **right to request** the **destruction or surrender** of documents, objects, materials, substances or electronic files containing or embodying the trade secret in. Section 7 no. 2 to no. 5 of the Trade Secrets Act entitle the trade secret holder to demand r**ecall of the infringing product**, permanent removal of infringing products from the distribution channels, **destruction of the infringing products** or, withdrawal of the infringing products from the market, if the protection of the trade secret is not affected by this.

Section 8 para. 1 of the Trade Secrets Act provides the holder of a trade secret a right to detailed information. However, the European Union Directive (EU) 2016/943 does not provide such a right to information on the infringement of the trade secret. Since the Directive (EU) 2016/943 only provides for minimum legal protection, the German legislator was entitled to extend the protection for the benefit of the trade secret holder and to provide for a right to information as stipulated in section 8 para. 1 of the Trade Secrets Act. The background to the right to information is that the right holder will often have difficulties in obtaining the necessary information.[34] The German Trade Secrets Act pretty much provides the same remedies to trade secret holders already known from trademark law and copyright law. In addition, any false information given by the infringer entitles the trade secret holder to claims for damages.[35]

The remedies set out in sections 6, 7 and 8 para. 1 of the Trade Secrets Act, however, are subject to certain restrictions stated in section 9 of the Act. This provision explicitly assumes that any claims are subject to the principle of proportionality, which means that, due to the weighing of conflicting legal interests, at times remedies may be precluded. Section 9 of the Trade Secrets Act enumerates on a non-exhaustive basis potential legal interests that can be considered in this context, that is:

1. the value or other specific characteristic of the trade secret,
2. the secrecy measures taken,
3. the conduct of the infringer in obtaining, using or disclosing the trade secret,
4. the consequences of the unlawful use or disclosure of the trade secret,
5. the legitimate interests of the holder of the trade secret and of the infringer, as well as the consequences that the fulfilment of the claims might have for both,
6. the legitimate interests of third parties, or
7. of public interest.

For any negligent infringement, section 10 para. 1 of the Act grants trade secret holders a right to claim damages from infringers. For the calculation of damages, the trade secret holder may choose between three methods of calculation and select the one which he deems most favourable.[36] These methods include compensation for lost profits of the trade secret holder, damages based on a fictitious, reasonable license fee, or skimming the infringer's profits made with the misappropriation of the trade secret.

VIII. Protection of Trade Secrets During Trade Secret Infringement Proceedings

Before the German Trade Secrets Act came into force, bringing an action before the courts on trade secret infringement bore the risk that the trade secret holder would have to disclose the trade secret in order to win the case.[37] The Act now addresses these concerns in sections 15 to 19 and provides for a number of protective measures available to trade secret holders in trade secret infringement proceedings.

In such proceedings, the court can, upon the request of one of the parties, declare certain information in dispute, in whole or in part, as confidential.[38] According to section 20 para. 3 of the Act, the party making this request must credibly demonstrate that the respective information is a trade secret. In the affirmative, the court will instruct the parties, their lawyers, witnesses and experts to treat this information as confidential. In addition, according to section 18 of the Act, this information may not be used or disclosed outside of the court proceedings. Section 17 of the Trade Secrets Act furthermore stipulates that fines of up to €100,000 can be imposed in case of noncompliance. Further, according to section 19 of the Act, the court can order limited access to documents and oral hearings, only allowing a set number of trustworthy persons from both parties. However, one representative of each party as well as the parties' legal counsel are always allowed to access those documents or attend oral hearings.

Unfortunately, these procedural rules only apply to trade secret proceedings as the German legislator has not extended the scope of these rules to proceedings such as patent infringement proceedings or other proceedings where trade secrets also play a role when certain information has to be disclosed. This is considered a legislative mishap.

IX. Summary

The German Trade Secrets Act, which implements the European Union Directive (EU) 2016/943, is a big step toward a pan-European uniform system of trade secret protection. Not only are the same standards of protection applicable throughout the entire European Union, but in light of the fact that the definition of a trade secret originated in the Uniform Trade Secrets Act from the USA and subsequently incorporated into the TRIPS Agreement, this definition now appears to be almost universally applicable.

The German Trade Secrets Act, as a novelty in German law, introduces a separate Act governing the law of trade secrets. Therefore, the Act aligns the law on trade secret protection with the special German laws that provide for the protection of intellectual property rights, such as patents, trademarks and copyrights. As a consequence, trade secret holders are now awarded comprehensive statutory rights under the Trade Secrets Act, allowing them to take action against infringers and recover any damages suffered.

In order to qualify for protection under the Act, the trade secret holder must carefully handle any information containing trade secrets. Therefore, a graded protection scheme must be implemented tailored to the individual circumstances. This also includes securing trade secrets against third party use or disclosure through the adoption of detailed confidentiality and use restriction agreements, which should be customized to the individual case. Whether such measures meet the requirements set forth in the Act depends on the particular circumstances and the importance and value of the information in question.

The German Trade Secrets Act provides for procedural safeguards for the benefit of the trade secret holder in trade secret infringement proceedings to prevent unintended disclosure of the trade secrets at issue.

Endnotes

1. Article 1 para. 1 of the European Union Directive (EU) 2016/943.
2. Apel/Walling, Der Betrieb 2019, 891.
3. *See* Article 288 para. 3 of the Treaty on the Functioning of the European Union (TFEU); https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=DE.
4. Cf. Recital no. 8 in the preamble to the Directive (EU) 2016/943.
5. An overview of the state of implementation in the EU member states can be found at https://eur-lex.europa.eu/legal-content/DE/NIM/?uri=CELEX:32016L0943.
6. Ohly, GRUR 2019, 441, 442.
7. Cf. Sections 17 to 19 of the Unfair Competition Act in its former version.
8. Section 3a Unfair Competition Act and section 823 para. 2 of the German Civil Code.
9. Rehaag/Straszewski, Mitteilungen der deutschen Patentanwälte 2019, 249.
10. Cf. Recital no. 24 in the preamble to the Directive (EU) 2016/943.
11. District Courts (“Landgerichte”) are mid-level courts as opposed to the courts of the lowest level, so-called “Amtsgerichte.” The sole jurisdiction of the District Courts for trade secret proceedings allows the concentration of these proceedings at courts with a higher specialization.
12. According to the European Union Directive (EU) 2016/943 a “trade secret” means information which meets all of the following requirements:

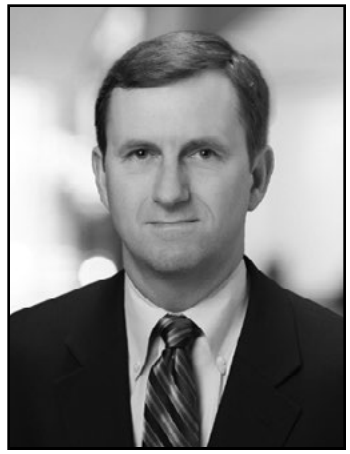
    (a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

    (b) it has commercial value because it is secret;

    (c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.
13. Ohly, GRUR 2019, 441, 444.
14. *See also* Ohly, GRUR 2019, 441, 444; Alexander, WRP 2019, 676, margin number 35; McGuire, WRP 2019, 679, margin number 3.
15. Cf. Ohly, GRUR 2019, 441, 442.
16. This also applies in case of reverse engineering which is now principally permitted if the product which has been reverse engineered has not been made available to the public and reverse engineering was contractually prohibited. In this case the secret is still not generally known even though it has been reverse engineered.
17. Cf. Maaßen, GRUR 2019, 352, 353 f.
18. Cf. Pages 24 *et seq.* of the explanatory notes for the Trade Secrets Bill; available in German under https://dip21.bundestag.de/dip21/btd/19/047/1904724.pdf.
19. Cf. Page 25 of the of the explanatory notes for the Trade Secrets Bill.
20. Ann/Loschelder/Grosch, Praxishandbuch Know-how-Schutz [in English: Practical Guide to Know-how Protection], first edition 2010, 603, margin numers 54 et seq.; Rehaag/Straszewski, Mitteilungen der deutschen Patentanwälte 2019, 249, 254.
21. Cf.section 4 para. 1 no. 2 of the Trade Secrets Act which reflects Article 39 para. , sentence 1 of the TRIPS Agreement and which prohibits “any other conduct which, in the particular circumstances, does not comply with the principle of good faith, having regard to honest market practice.”
22. Section 3 para. 1 no. 1 of the Trade Secrets Act.
23. Section 3 para. 1 no. 2 of the Trade Secrets Act; reverse engineering will be dealt with in more detail below.
24. Section 4 para. 1 no. 1 of the Trade Secrets Act.
25. Cf. the enumeration above.
26. Ohly, GRUR 2019, 441, 446.
27. Reichsgericht, GRUR 1936, 183 – Stiefeleisenpresse.
28. Cf. Page 26 of the explanatory notes for the Trade Secrets Bill; available in German under https://dip21.bundestag.de/dip21/btd/19/047/1904724.pdf.
29. *See* section 69e of the German Copyright Act, which is an implementation of Article 6 European Union Directive 2009/24/EG on the legal protection of computer programs into German law.
30. Cf. Page 28 *et seq.* of the explanatory notes for the Trade Secrets Bill.
31. *See* Ohly, GRUR 2019, 441, 448.
32. Cf. Page 29 of the explanatory notes for the Trade Secrets Bill.
33. Ohly, GRUR 2019, 441, 448.
34. Cf. Page 31 of the explanatory notes for the Trade Secrets Bill.
35. Cf. Page 31 of the explanatory notes for the Trade Secrets Bill.
36. Cf. section 10 para. 2 of the Trade Secrets Act.
37. Cf. Ohly, GRUR 2019, 441, 449.
38. Section 16 para. 1 of the Trade Secrets Act.

An Overview of Trade Secrets Laws in the United States

By Paul D. Ackerman and Aimee N. Soucie



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Trade secrets are ubiquitous and can be a critically important intellectual property asset for a company. Famous examples of trade secrets include the formula for Coca Cola® and the spice blend for Kentucky Fried Chicken.® While these two examples deal with formulations, trade secret protection extends broadly and can include nearly any business information that is not generally known, has value because it is not generally known, and the rightful holder of the trade secret has taken reasonable steps to keep the information secret.[1] The range of information that can be protected as a trade secret, from customer lists to complex manufacturing methods, is vast. The nature of trade secret theft is also vast, ranging from acts of international state-sponsored industrial espionage to the more common, but no less damaging, cases of trade secret misappropriation through everyday employee mobility. Across all these examples, the common denominators are that the secret information in question has value to the rightful owner and there can be significant civil and criminal liability to those who misappropriate a trade secret.

This article provides an overview of the current statutory and common law framework in place to protect trade secrets in the United States and discusses current trends in trade secrets enforcement in both the civil and criminal settings.

Part I: Statutory and Common Law Framework for Trade Secrets Protection

Trade secrets are protected by an array of federal and state laws that provide for both civil and criminal penalties for misappropriation of a trade secret. With deep-rooted common law origins, not surprisingly the law of trade secrets developed somewhat unevenly over the years in various jurisdictions.

State Trade Secrets Laws

In an effort to bring some much-needed degree of uniformity in trade secrets law from state to state, in 1979 the Uniform Law Commission first published the Uniform Trade Secrets Act (UTSA). The UTSA defines a trade secret as:

> information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Since being released, the UTSA, with some variations, has been adopted by every state except New York. Although there are some variations from state to state, and these variations need to be understood prior to bringing suit, a discussion of the UTSA provides a solid foundation for understanding the core state laws protecting trade secrets.

Unlike patents, there is no registration requirement for protecting a trade secret. But, the trade secret must remain a secret in the relevant trade, and the rights holder must take reasonable steps to maintain the secrecy of the information. What this means exactly will vary from case to case since the standard is one of "reasonable under the circumstances." Certainly, identifying trade secret information as confidential, limiting access to information to those individuals who "need to know" it, and having employees enter nondisclosure agreements are reasonable starting points. Also, unlike patents, which provide exclusive rights, multiple parties may hold rights to the very same trade secret, so long as they each (i) obtained it properly, such as through independent development or

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permissive reverse engineering, (ii) continue to maintain the information's secrecy, and (iii) continue to derive value from the information. A trade secret loses protectable status if it becomes common knowledge within the relevant community in which it has value.

The UTSA provides a civil cause of action for misappropriation of a trade secret, which includes the acquisition of a trade secret of another by "improper means," as well as the improper disclosure of a trade secret.[2] Under the UTSA, "improper means" includes "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." In contrast, the UTSA recognizes "proper means" of obtaining a trade secret, such as through reverse engineering.

The UTSA provides a trade secret owner with a range of remedies including injunctive relief, damages, and attorney's fees. Injunctive relief may include a suitably tailored injunction to enjoin "actual or threatened misappropriation."[3] The UTSA further provides that "in exceptional circumstances, an injunction may condition future use" of the misappropriated trade secret on payment of a reasonable royalty. This compulsory license is intended for those cases when "a prohibitive injunction is inequitable."[4] Monetary damages may include damages for both an actual loss caused by the misappropriation as well as unjust enrichment.[5] In the alternative, damages can be in the form of a reasonable royalty.[6] Finally, in the case of "willful and malicious" misappropriation, the UTSA provides for exemplary damages up to twice the award of damages.[7]

In addition to compensatory damages and injunctive relief, the UTSA authorizes the award of attorney's fees to a prevailing party in certain circumstances. This includes potential liability against a party asserting trade secrets misappropriation, if the claim is made in bad faith. A party misappropriating a trade secret may be liable for attorney's fees if it is determined that "willful and malicious misappropriation exists."[8]

Trade Secrets in New York State

Unlike the other 49 states, New York has yet to adopt the UTSA. In fact, New York has no statute governing the protection of trade secrets. Instead, New York relies on a body of common law, including Section 757 of the Restatement of Torts.

As a result, there are some notable differences in trade secrets enforcement in New York as compared to other states, starting with the definition of a trade secret. New York courts have adopted a definition of a trade secret as any "formula, pattern, device or compilation of information which is used in one's business, and which gives [the employer] an opportunity to obtain an advantage over competitors who do not know or use it."[9] In determining whether information qualifies as a trade secret in New York, courts apply a six-factor inquiry found in the Restatement of Torts. Unlike the UTSA, there is no requirement for the rights holder to engage in "efforts that are reasonable under the circumstances to maintain its secrecy," in order to qualify as a trade secret. This is weighed as one of the factors, however, which looks at "the extent of measures taken by [the rights holder] to guard the secrecy of the information."

An additional departure from the UTSA is that in New York, a trade secret must be for "a process or device for *continuous use* in the operation of the business."[10] Under the UTSA, there is no such requirement, and a single use of the trade secret, so long as the company derived value from it, would qualify.

Another notable difference between New York law and the UTSA is the availability of attorney's fees. When compared to the UTSA, an award of attorney's fees for a trade secrets violation is far more limited under New York law. Absent a contractual provision expressly providing for an award of attorney's fees, such fees can only be recovered if the misappropriation is "entirely motivated by disinterested malevolence."[11] Since there are typically economic motivations behind most trade secrets thefts, this is generally a difficult standard to meet.

Federal Civil Trade Secrets Law—Defend Trade Secrets Act (DTSA)

Although broad implementation of the UTSA has helped harmonize trade secrets law, there is still a considerable range of differences among various state laws and there was no clear path to jurisdiction in federal courts under these laws unless the case satisfied the requirements for diversity jurisdiction. Recognizing the need for federal protection of trade secrets, in 2016 the Defend Trade Secrets Act (DTSA) was enacted as part of Chapter 90 of Title 18 of the United States Code, also known as the Economic Espionage Act. Significantly, the DTSA is complementary to the existing body of state law and does not preempt it.

Since the DTSA is modeled on the UTSA, there are substantial similarities, but there are also several significant differences. Like the UTSA, the DTSA provides traditional remedies, such as injunctive relief and money damages. With respect to injunctive relief, however, two provisions of the DTSA that vary from the UTSA are particularly noteworthy.

First, the statute expressly provides for *ex parte* civil seizure "in extraordinary circumstances" in order "to prevent the propagation or dissemination of the trade secret that is the subject of the action."[12] The *ex parte* seizure is a powerful tool for rights owners but is tempered with several protections for defendants, such as requirements for a prompt hearing following the seizure, the use of a special master to facilitate the return of any seized property unrelated to the allegedly misappropriated trade secret, and the requirement that the rights holder post security in the event of a "wrongful or excessive seizure."[13]

In the three years since the DTSA has been enacted, several courts have granted *ex parte* seizures. One early example of an *ex parte* seizure order under the DTSA comes from the Southern District of New York in *Mission Capital Advisors LLC v. Christopher D. Romaka*.[14] In *Mission Capital Advisors*, the plaintiff had attempted to engage in self-help to recover alleged trade secrets from a departing employee and alleged that the defendant falsely represented that he had deleted all the computer files in question, when in fact he actually renamed them and masked the file type. Moreover, the defendant stopped responding to plaintiff and allegedly actively avoided service of the complaint and an order to show cause why *ex parte* seizure should not be granted. The court ordered the United States Marshal Service to seize computer records containing the trade secrets. The seizure order required the plaintiff to pay a $2,000 fee to the U.S. marshal to cover the cost of the seizure, recommend a neutral technical expert to assist the marshal with the seizure, pay the neutral technical expert, and post a bond for $1,000 as security against any wrongful or excessive seizure.

The second significant departure from the UTSA with respect to injunctive relief is an express limitation on the scope of injunctions. Specifically, while courts are granted broad latitude to issue an injunction "to prevent any actual or threatened misappropriation," the resulting injunction may not "prevent a person from entering into an employment relationship," or place limits on employment based "merely on the information a person knows," rather than on evidence of threatened misappropriation, or conflict with applicable state law prohibiting restraints on employment.[15] This limitation is intended to strike a balance between the competing legitimate interests of protecting trade secrets and protecting an employee's right to work. In many states, the so-called "inevitable disclosure doctrine" allows trade secrets owners to obtain an injunction preventing an employee from working for a direct competitor on the theory that the employee would "inevitably disclose" the company's trade secrets in the course of his employment for the competitor. Other states expressly reject the inevitable disclosure doctrine.[16] The language in the DTSA does not preclude an injunction limiting an employment relationship, but is intended to require that any such injunction is based on evidence of threatened misappropriation and not merely an inference based on the employee's knowledge.

An interesting addition to the DTSA is a safe harbor provision intended to protect "whistleblowers." If the trade secrets allegedly misappropriated are considered evidence of wrongdoing and the information is turned over to the government by the employee or former employee, the DTSA provides that the individual taking the information is immune from both civil and criminal penalties. The DTSA requires employers to notify employees of this whistleblower immunity in relevant employment contracts and the failure to provide such notice can preclude the recovery of attorney's fees and exemplary damages.

Trade Secrets in the U.S. International Trade Commission

While trade secret owners may be content to bring an action in state or federal district court, there is another venue available in the United States through which to pursue trade secret misappropriation claims: the U.S. International Trade Commission (ITC).[17] The ITC, an administrative agency, conducts investigations to resolve disputes regarding allegations of unfair competition related to intellectual property rights—such as patent and trademark infringement, or trade secret misappropriation—with respect to products that are imported into, sold for importation into, and/or sold in the United States from abroad. Section 337 of the Tariff Act of 1930, as amended, is the trade statute that governs these unfair acts.[18]

Importantly, a trade secret owner has a cause of action in the ITC even if misappropriation occurs entirely abroad.[19] This makes it an attractive venue because foreign companies that might not otherwise be subject to U.S. jurisdiction can be named as respondents (and subject to jurisdiction) in the ITC.

In addition, the only remedy in the ITC is injunctive relief, which comes in the form of an exclusion order preventing importation into and/or sale in the United States of the offending products (and a cease and desist order to prevent sale of existing U.S. inventory), a powerful threat to those alleged to be engaging in such unfair competition with U.S. manufacturers. Exclusion orders in trade secret-related investigations can be in force for up to 10-25 years.[20]

Because the question in the ITC is whether conduct constitutes "unfair methods of competition" and "unfair acts" in importation in violation of Section 337, the Federal Circuit (the court that reviews ITC determinations) held in 2011 that the issue of trade secret misappropriation in the ITC "is one of federal law and should be decided under a uniform federal standard, rather than by reference to a particular state's tort law."[21] Prior to enactment of the DTSA, the ITC interpreted this to mean that the ITC should apply the UTSA, Restatement (Third) of Unfair Competition, and/or federal common law.[22] While no ITC opinions on trade secret misappropriation have yet issued subsequent to the DTSA, some parties have begun including it in their trade secret-based ITC complaints (along with the UTSA and other federal laws) as a basis for violation of Section 337.[23]

There are two other aspects of trade secrets investigations in the ITC that are particularly interesting: the injury and industry requirements and the preclusive effect (or lack thereof) of ITC determinations.

First, a party injured by misappropriation of its trade secret(s) may seek relief from the ITC even if that party is not using the trade secret in the United States, as long as the accused products (the products alleged to use the misappropriated trade secret) were imported and compete with any products manufactured domestically by the injured party. To prevail on a trade secret claim in the ITC, the party filing the complaint, also known as the "complainant," must demonstrate (1) the existence and the complainant's ownership of a trade secret (information of economic value, not generally known to others, that complainant has taken reasonable precautions to protect); (2) the "respondent" (accused trade secret stealer) had access to the trade secret as a result of a confidential relationship with the complainant, or obtained it through wrongful or unfair means; and (3) the respondent's use or disclosure of the misappropriated trade secret caused or threatened injury to the complainant.[24] There must be a nexus between the injury and the unfair act.[25] This means that the respondent must import products or sell imported products that use the stolen trade secret, but the complainant's products need not use the trade secret (the complainant need only have an industry in the United States that is injured by the misappropriation).

Second, a recent decision by the Federal Circuit in *Swagway v. ITC* has called into question the preclusive effect of ITC determinations in Section 337 investigations based on allegations of trade secret misappropriation.[26] It is often the case that, when a party files a complaint in the ITC, it contemporaneously files a corresponding complaint in federal district court. District court litigation is almost always stayed until after an ITC investigation involving the same issues concludes.[27] For a long time, it was generally agreed that non-patent-based ITC determinations, such as those made in trademark and trade secret cases, are binding on district courts (whereas patent-based determinations by the ITC have no preclusive effect).[28] Thus, a party who prevailed in the ITC on trade secret misappropriation claims could obtain summary judgment in district court on the same issue; in fact, this is what happened in the *Crawler Cranes* case in 2017.[29] However, in May 2019, the Federal Circuit held in *Swagway* that there is no reason to differentiate between ITC patent-based and trademark-based decisions,[30] creating a circuit split for non-patent-based determinations, along with the potential for forum shopping by those filing corresponding ITC and district court actions.

Federal Criminal Trade Secrets Statutes

In addition to the various state and federal laws providing for civil remedies for trade secret misappropriation, there are several federal statutes imposing criminal penalties for trade secrets theft that are also important for trade secrets owners. Most notable are the Economic Espionage Act of 1996 (EEA)[31] and the Computer Fraud and Abuse Act (CFAA).[32]

The EEA separately criminalizes two distinct forms of trade secrets misappropriation, "economic espionage," which requires a theft "knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent,"[33] and "theft of trade secrets," which applies more generally to intentional theft of trade secrets "intending or knowing that the offense will, injure any owner of that trade secret."[34] In both cases, the potential penalties are severe. For cases of economic espionage, individuals may face up to $5 million in fines and up to 15 years of imprisonment. Organizations guilty of economic espionage can face fines up to $10 million or three times the value of the stolen trade secret.[35] For commercial theft of trade secrets, individuals may face fines and up to 10 years of imprisonment and organizations may be fined up to $5 million or three times the value of the stolen trade secret.[36]

As noted in the prosecutive policy of the Department of Justice (DOJ), the "EEA is not intended to criminalize every theft of trade secrets for which civil remedies may exist under state law" and U.S. attorneys exercise discretion in pursuing criminal charges.[37] Factors that may be considered in deciding whether to bring charges include:

a) the scope of the criminal activity, including evidence of involvement by a foreign government, foreign agent or foreign instrumentality;

b) the degree of economic injury to the trade secret owner;

c) the type of trade secret misappropriated;

d) the effectiveness of available civil remedies; and

e) the potential deterrent value of the prosecution.

A more thorough discussion on criminal prosecutions for the theft of trade secrets can be found in the DOJ's Criminal Division manual entitled *Federal Prosecution of Violations of Intellectual Property Rights (Copyrights, Trademarks and Trade Secrets)*.

Although not specifically directed to the theft of trade secrets, the CFAA has been used in criminal prosecutions in which trade secrets in electronic form are taken from a rights owner's computer system. The CFAA provides criminal penalties for knowingly accessing a computer without authorization or exceeding authorized access. The CFAA further requires that through the unauthorized access, the person obtains "information contained in a financial record of a financial institution" or "information from any department or agency of the United States or "information from any protected computer."[38] The CFAA's definition of a "protected computer" includes any computer "which is used in or affecting interstate or foreign commerce or communication."[39] This may be broadly read to include nearly any computing device or smart phone that is used by a business and is connected to the internet. The exact nature of the violation, fines and penalties under the CFAA varies based on the specific offense, but in cases "where the offense was committed for purposes of commercial advantage or private financial gain," an individual may be fined and face up to five years of imprisonment.[40]

In addition to fines and imprisonment, there is also an opportunity for "restitution" of the victim of a crime under the CFAA or the EEA under the Mandatory Victims Restitution Act (MVRA).[41] Restitution can include payment for "expenses related to participation in the investigation or prosecution of the offense or attendance at proceedings related to the offense." In *United States v. Sazonov*, following a guilty plea under the CFAA related to unauthorized computer access and stealing trade secrets from SIG, the court ordered restitution in the amount of $132,817 related to expenses incurred by SIG for outside counsel and a technical consultant it used to assist the DOJ in the investigation.

Part II: Recent Trade Secrets Cases and Enforcement Trends

Recent Civil Trade Secrets Cases

According to a report by Lex Machina, there were over 1,100 trade secrets cases filed in 2017, which reflected an increase of over 30% from the approximately 900 cases filed in 2016 (a number that had been relatively constant in prior years).[42] The report also showed cases with DTSA claims steadily increasing in 2017. Thus, it seems clear that the enactment of the DTSA has led to broader enforcement of trade secrets rights.

One of the higher-profile trade secret cases over the last few years is *Waymo v. Uber*.[43] This case, filed in the Northern District of California by Waymo in February 2017, alleged massive trade secret theft (in violation of both the DTSA and California's UTSA) by a former engineer, Anthony Levandowski, who was a prominent engineer on Waymo's self-driving car project. The complaint alleged that Levandowski downloaded thousands of files before leaving Waymo to start his own self-driving technology company, Ottomotto (Otto). Within months of Levandowski's forming Otto, the company was acquired by Uber. The complaint alleges that former Uber CEO Travis Kalanick encouraged Levandowski's theft of trade secrets and that Uber's due diligence regarding the purchase of Otto uncovered the likelihood that Levandowski had five disks of information downloaded from Waymo, yet Uber ignored this report. Waymo allegedly learned of the theft of its trade secrets when it was inadvertently copied on an email from a component supplier that attached drawings of an Uber circuit board, which Waymo found to be strikingly similar to its own design. As the litigation developed, allegations surfaced that an Uber security analyst had prepared a 37-page letter describing an organization within Uber called "marketplace analytics" that was said to exist for the purpose of training employees in acquiring trade secrets, computer code, and competitive intelligence. Waymo was reportedly seeking nearly $2 billion in damages. The case ultimately settled five days into the trial with Uber issuing a written apology and paying Waymo with equity that was reported as being valued in excess of $200 million at the time. The *Waymo* case is noteworthy for its scale and high-profile technology, and for being widely reported in the mainstream media, but at its core it actually represents a very common and recurring issue—theft of trade secrets through employee mobility.

A case recently decided under Florida's UTSA, *Yellowfin Yachts v. Barker Boatworks*, provides guidance on what may, and may not, constitute "efforts that are reasonable under the circumstances to maintain [a trade secret's] secrecy."[44] In rejecting one of plaintiff's trade secrets claims, the Eleventh Circuit pointed out how a lapse in following reasonable efforts to maintain secrecy can be fatal to a trade secrets claim. Yellowfin alleged that certain "customer information" was a trade secret that was taken by its former vice president of sales, Kevin Barker, who founded a competing company. Yellowfin further alleged that it took reasonable steps to protect the secrecy of this information by limiting employee access to its customer information and by maintaining the information on a password-protected computer system. But, Yellowfin also provided a copy of the customer information to Barker, who had not signed a confidentiality agreement, and encouraged him to maintain the information on his personal laptop. The court held that:

> with mere verbal statements that the Customer Information should not be given to outsiders, Yellowfin relinquished the information to Barker, who refused to sign a confidentiality agreement, with no instruction to him as to how to secure the information on his cellphone or personal laptop. In doing so, Yellowfin effectively abandoned all oversight in the security of the Customer Information…[and] that no reasonable jury could find that Yellowstone employed reasonable efforts to secure the information."[45]

A takeaway from *Yellowfin* is that it is not enough to have reasonable systems in place to protect the secrecy of a trade secret. Those systems need to be consistently followed to ensure that a court will recognize a trade secret.

A recent decision from the Northern District of California provides guidance on awards of exemplary damages and attorney's fees under the California Uniform Trade Secrets Act (CUTSA). In *Bladeroom Group v. Emerson*

Electric, the court found that the defendant, Emerson, should pay $30 million in exemplary damages and pay Bladeroom's attorney's fees following a jury verdict awarding $30 million in compensatory damages, after finding that "Emerson's misappropriation of trade secrets was willful and malicious."[46] After evaluating the three factors used to guide an award of exemplary damages under CUTSA—the nature of the misconduct, the amount of compensatory damages, and the defendant's financial condition—the court found exemplary damages were warranted, but declined to award the maximum penalty permitted by statute, which is up to twice the damages award. In summarizing Emerson's conduct, the court found that "after Facebook expressed to Emerson the desire for a data center consistent with Bladeroom's technology, employees from Emerson (and Facebook) lured Bladeroom into revealing its trade secrets under the guise of a potential data center contract or corporate acquisition, and then used the information it obtained to surreptitiously design and build Facebook's data center at Lulea 2."[47] The court noted that "from a commercial ethics perspective, the misconduct certainly falls within the category of reprehensible."[48] Noting that CUTSA provides that a court may award attorney's fees when "willful and malicious misappropriation" exists, the court readily awarded Bladeroom its attorney's fees and costs.[49]

Recent Criminal Trade Secrets Enforcement

Historically, the DOJ has prioritized prosecutions that involved acts of foreign espionage, as opposed to actions involving private, domestic actors. Over the last several years, there has been an increased focus on acts of economic espionage with ties to China. On November 1, 2018, then U.S. Attorney General Jeff Sessions announced the "China Initiative." The purpose of the initiative is to "identify priority Chinese trade theft cases, ensure that we have enough resources dedicated to them, and make sure that we bring them to an appropriate conclusion quickly and effectively."[50]

Following the announcement of the China Initiative, there have been a number of high-profile indictments. Indeed, on the same day the initiative was announced, the DOJ unsealed an indictment against United Microelectronics, a Taiwan-based semiconductor foundry; Fujian Jinhua Integrated Circuit Co.; and three Taiwan nationals, alleging theft of trade secrets from U.S. company Micron Technology. In addition to the criminal indictment, the DOJ took the further step of filing a civil action to prevent the defendants from exporting the allegedly stolen technology to the United States to compete with U.S. firms.

In January 2019, the DOJ unsealed a ten-count indictment in the Western District of Washington against Huawei "alleging theft of trade secrets conspiracy, attempted theft of trade secrets, seven counts of wire fraud, and one count of obstruction of justice." The indictment alleges that Huawei engaged in a "concerted effort to steal information on a T-Mobile phone-testing robot dubbed 'Tappy'" by having its engineers who were provided with confidential access to Tappy violate nondisclosure agreements with T-Mobile by taking photos, measurements and even stealing a piece of Tappy so that Huawei could replicate it. This is an example of the somewhat unusual case of corporate espionage where trade secrets were allegedly stolen by employees of a competitor, rather than a current or former employee.

In April 2019, an indictment was unsealed in the Northern District of New York charging a Chinese businessman and former General Electric (GE) engineer with "economic espionage and conspiring to steal GE's trade secrets surrounding turbine technologies, knowing and intending that those stolen trade secrets would be used to benefit the People's Republic of China."[51] The indictment alleges that the former employee "exploited his access to GE's files by stealing multiple electronic files, including proprietary files involving design models, engineering drawings, configuration files, and material specifications having to do with various components and testing systems associated with GE gas and steam turbines." There are also specific allegations that the "thefts of GE's trade secrets surrounding various turbine technologies were done knowing and intending that the thefts would benefit the People's Republic of China and one or more foreign instrumentalities, including LTAT, NTAT, Shenyang Aerospace University, Shenyang Aeroengine Research Institute, and Huaihai Institute of Technology."[52] The criminal complaint details the measures that GE had in place to protect its trade secrets and the elaborate measures used by the defendant to attempt to circumvent those measures, including moving and renaming computer files and even using a process of steganography to conceal files with the trade secrets into a JPEG file of a photo of a sunset and emailing the modified file to himself.[53]

Conclusions

Trade secrets can be a critically important asset to nearly any business. The United States enjoys a wide range of legal options to protect these valuable assets. However, to fully enjoy the protection available for their "crown jewels," businesses must take affirmative steps—to both recognize and protect their trade secrets. A company must understand what information it views as a trade secret and engage in reasonable steps to ensure the secrecy of that information is adequately safeguarded. Those steps include enacting policies so that employees recognize, respect, and are aware of the company's confidential information and restrictions regarding trade secrets (particularly when it comes time to depart the company), and also ensuring that incoming employees don't bring trade secrets from a prior employer with them.

Endnotes

1. Specific definitions of trade secrets vary from jurisdiction to jurisdiction, but generally fall within this broad definition found in Art. 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).
2. UTSA § 1.2.
3. UTSA § 2(a) (with 1985 Amendments).
4. UTSA § 2(b) (with 1985 Amendments).
5. UTSA § 3(a) (with 1985 Amendments).
6. *Id.*
7. UTSA § 3(b) (with 1985 Amendments).
8. UTSA § 4 (with 1985 Amendments).
9. *Ashland Mgt. v. Janien*, 82 N.Y.2d 395, 407 (1993).
10. *Softel, Inc. v. Dragon Med. & Scientific Commc'ns, Inc.*, 118 F.3d 955, 968 (2d Cir. 1997) (emphasis added).
11. *Brook Shopping Ctrs., Inc. v. Bass*, 107 A.D.2d 615 (1st Dep't 1985).
12. 18 U.S.C. § 1836(b)(2)(A)(i).
13. *See* 18 U.S.C. § 1836(b)(2)(B), (C)&(D).
14. 16 c.v. 5878, seizure order dated 7/29/2016.
15. 18 U.S.C. § 1836(b)(3)(A)(i).
16. A thorough discussion of the inevitable disclosure doctrine, including a state-by-state summary can be found at https://www.ipo.org/wp-content/uploads/2013/04/DoctrineofInevitableDisclosure.pdf.
17. The ITC is "an independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade." *See* https://www.usitc.gov/press_room/about_usitc.htm.
18. Trade secret misappropriation is governed by 19 U.S.C. § 1337(a)(1)(A).
19. *Tianrui v. U.S. Int'l Trade Comm'n*, 661 F.3d 1322, 1332 (Fed. Cir. 2011)
20. *See, e.g., Organik Kimya v. U.S. Int'l Trade Comm'n*, 848 F.3d 994, 1004-1006 (Fed. Cir. 2017) (affirming ITC issuance of 25-year exclusion order); *Crawler Cranes and Components Thereof*, Inv. No. 337-TA-887, Comm'n Op. at p. 70-72 (May 6, 2015) (issuing 10-year exclusion order).
21. *Tianrui*, 661 F.3d at 1327.
22. *Crawler Cranes and Components Thereof*, Inv. No. 337-TA-887, Comm'n Op. at p. 34 (May 6, 2015).
23. *See, e.g., Foodservice Equipment and Components Thereof*, Dkt. No. 3390, Complaint at ¶ 58 (filed May 30, 2019).
24. *Crawler Cranes and Components Thereof*, Inv. No. 337-TA-887, Comm'n Op. at pp. 34, 51-52 (May 6, 2015).
25. *Rubber Resins and Processes for Manufacturing Same*, Inv. No. 337-TA-849, Comm'n Op. at pp. 60-61 (Feb. 26, 2014). Factors likely to lead to a determination of injury include a complainant's loss of sales, profits, customers, and/or royalties; loss of potential sales or income from licensees; declining employment and/or productivity resulting from accused imports; price undercutting by accused imports; a significant degree of market penetration by accused imports; and, a respondent's foreign cost advantage and production capacity. *See, e.g., id.* at 60-64.
26. *Swagway, LLC v. U.S. Int'l Trade Comm'n*, No. 2018-1672 (Fed. Cir. May 9, 2019).
27. Under 28 U.S.C. § 1659(a), upon the timely motion of a party in a civil action who is also a section 337 respondent, a "district court shall stay, until the determination of the [ITC] becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission."
28. The First Circuit (in *Aunyx Corp. v. Canon U.S.A. Inc.*, 1992), Second Circuit (in *Union Manufacturing Co. v. Han Baek Trading Co.*, 1985), and Fourth Circuit (in *Baltimore Luggage Co. v. Samsonite Corp.*, 1992) have all found non-patent-based ITC determinations to be binding on district courts.
29. *Manitowoc Cranes LLC v. SANY Am. Inc.*, Case No. 13-C-677, Decision and Order (E.D. Wis. Dec. 11, 2017).
30. *Swagway*, No. 2018-1672 at p. 13.
31. 18 U.S.C. §§ 1831-1839.
32. The Computer Fraud and Abuse Act is codified as 18 U.S.C. § 1030 as part of the Comprehensive Crime Control Act of 1984.
33. 18 U.S.C. § 1831.
34. 18 U.S.C. § 1832.
35. 18 U.S.C. § 1831.
36. 18 U.S.C. § 1832.
37. Justice Manual, 9-59.000 at https://www.justice.gov/jm/jm-9-59000-economic-espionage.
38. 18 U.S.C. § 1030(2).
39. 18 U.S.C. § 1030(e)(2).
40. 18 U.S.C. § 1030(c)(2).
41. 18 U.S.C. § 3663.
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The New Gold Rush Is Here: Legal Aspects of the Israeli Cannabis Industry

By Shay Rosemberg

Shay Rosemberg

If the name "James W. Marshall" would be uttered in a room full of people, chances are no one in that room would actually know who Marshall was, let alone the fact that he was partly responsible for California becoming the state it is today. However, Marshall was no politician, nor philosopher, not even a scientist. James Marshall was a mere carpenter. So how did a simple carpenter contribute to the making of the state of California? Simple: he found gold.

The year was 1848, and California was nothing more than a frontier land with little chance of ever becoming the most populated state in the United States. Yet, as soon as word was out that gold was found, the state had more than tripled its population from 100,000 to 380,000 in just a few years. The promise of fortune lurking within the land had more impact than mere wealth; it created a gold rush that contributed to establishing the State of California as it is today.

True, it is no surprise that potential begets investments and gold rushes of all forms and kinds popped all around the world throughout history, generating centers of investment for all those who wanted part in the new wealth. This is still raising the eternal question on everybody's lips: where is the next gold rush?

For the past couple of decades, the State of Israel has been the focus of curious eyes and interest for most of those seeking to find the next gold rush. Israel received the unofficial title of "Start-up Nation," and the land of "milk and honey" soon became the land of "tech and money" as the country birthed new ideas and technologies. Meanwhile, however, Israel has been quietly cultivating, literally, the next big thing: cannabis. No, Israel had not legalized the use of recreational cannabis and the use of medical marijuana requires a permit that cannot be easily obtained. Nonetheless, Israel has supported and even encouraged the professional research of the illegal plant, and gradually established itself as an authority on medical cannabis.

For years, this small country, with no more than six million people, has allowed the cultivation and production of medical cannabis, with its only market being the six million residing in the country. This changed in January 2019, when in a bold and financially brilliant move, the Israeli parliament passed a law that enabled the exportation of medical cannabis products, throwing a game-changer into the world of cannabis and simultaneously a curveball to law firms that represent individual and corporate investors in Israel. In a single night, the Israeli cannabis stocks skyrocketed and pharma companies from around the world realized that the best product was about to be available for international trade. The only problem, not readily apparent to the "gold seekers," concerned the legal aspects that curved this new frenzy, since not one, but *three*, separate licenses would be required for setting up a fully functional cannabis farm. Additionally, the security regulations around such a business are stricter than in other countries, thus adding to the costs of the endeavor. The mountain that stood before the eager gold seekers seemed high, and the Israeli government had no intention of allowing just anybody to climb and reach the peak.

Cannabis, according to Israeli law, is an illegal drug[1] and the Israeli courts stated their opinion on cannabis, defining it as "a dangerous drug," regardless of the fact that it is not considered a "hard drug."[2] This, in turn, established the security requirements on cannabis farms, considered by some to be too harsh and expensive. Background checks on anyone who owns more than 5% of the shares of any cannabis company were instituted, in order to prevent any illegal entities from obtaining control over the cannabis industry or segments thereof. Under Israeli law, even the disposal of the plant leftovers requires a specific license.

"Is that all I need? Three licenses?" a dismissing and grinning client asked, believing he had but a few more steps until reaching the epic peak. Suddenly, reality revealed the true size of the mountain: cannabis is highly regulated, in all its aspects—cultivation, processing and distribution. The Israeli law stipulates that the same company cannot own both a farm and a production facility. A different legal entity, which owns the production and processing facility, is necessary and it too requires its own licenses. Foreign investors can also take part in the new Israeli "gold rush"; however, with the caveat that any foreign investment in an Israeli cannabis company with 5% or more is subject to a regulatory approval process.

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Hence, the apparent question is why any foreign investor would want to invest in Israeli cannabis. Some would say that the unique Israeli climate, appropriate for agricultural growth, is reason enough. Others would point to the governmental subsidies for further research and development, while others still would mention the high-profile public figures who bought shares in Israeli cannabis companies, like the former Israeli prime minister, Ehud Barak, who joined Intercure Ltd.

However, Israel is probably mere months away from fully setting the legal framework for exporting medical cannabis, thus starting a new era that would, without a doubt, change the global cannabis market. Also, the Israeli law does not institute tax deduction restrictions for cannabis companies, unlike the United States federal statute regulating this issue (26 U.S. Code § 280E—which states that a business engaging in the trafficking of cannabis is barred from taking tax deductions or credits).[3] In short, the ground is set for a new gold rush and Israel is the new mountain that holds the gold. Yet, gone are the days in which gold rushes were unregulated, lawless and adventurous. Today, governmental regulations define what, where and even how one may "mine," and the Israeli cannabis industry is no different. True, the "new gold" is already here, under a different form and color, but in order to get to this "new gold," one must not carry a pan to filter out the mud and rocks, but a lawyer to guide him through the rocky terrain of laws and regulations.

Given the fact that Israel is about to become a major (if not *the* major) player in the international cannabis arena, in large due to its latest legal setting for exporting medical cannabis, the Israeli legal industry has been preparing itself for the new prospectors. The legal nuances, which were very briefly mentioned in this article, are about to become central to the new gold rush, and there is no doubt, in my opinion, that, should James Marshall be alive today, he would be seeking an Israeli law firm to help him invest in the current gold rush—Israeli cannabis.

Endnotes

1. Cannabis and "any plant or part of a plant of the cannabis family, including its roots" appears in the Israeli Dangerous Drugs Ordinance [New Version], 5733 – 1973 (see First Schedule).
2. Former Israeli Supreme court Judge, Mishael Cheshin, stated in the *State of Israel v. Yariv Toledano* (442/96) that "a dangerous drug is a dangerous drug, even if it is not considered a hard drug. We must remind ourselves, less we forget, that the defendant was dealing with the trafficking of a dangerous drug, meaning, he was willing to risk the health and minds of others for greed…."
3. 26 U.S. Code § 280E. Expenditures in connection with the illegal sale of drugs: No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

Weakening the Structure of Economic Sanctions

By Seyed Mohsen Rowhani

Seyed Mohsen Rowhani

On July 14, 2015, following over a year of intensive negotiations on Iran's nuclear program, finally the P5+1 (Five permanent members of the United Nations Security Council—United States, China, Russia, Great Britain, and France—as well as Germany) reached an agreement called the Joint Comprehensive Plan of Action (JCPOA).[1] The nuclear deal, right after it was signed by the member's representatives, received its official support by the U.N. Security Council through Resolution 2231, which placed JCPOA in the realm of international law and made it enforceable. Iran's Nuclear Deal not only brought extraordinary benefits to the national security of the United States, but also created the investment landscape of post-sanctions Iran, for the world's economy.[2] It had resulted in a vast number of commercial contracts till May 8, 2018.[3] Then Donald Trump declared the withdrawal of the U.S. from JCPOA.[4] In response, Hassan Rouhani said, "The Deal will remain in place until we achieve its goal by a cooperation of the other members."[5]

Therefore, the other members of JCPOA decided to establish a three-pronged action plan. It consists of guaranteeing that the European Investment Bank secure service to Iran, reactivating the blocking statute to make a shield for European companies dealing with Iran against the U.S. secondary boycotts,[6] and circumventing the U.S. sanctions by securing the direct credit transfers of Iran's Central Bank.

Meanwhile, despite the objection of the rest of the JCPOA signatories, the United States has designated nearly 1,000 Iranian individuals, including the leader and the foreign affair minister of Iran[7] and entities, for sanctions and is attempting to drive its oil revenue down to "zero." Even though Iran's economy has been damaged, Iran has continued to meet its commitments made in the nuclear deal, according to 15 inspections made by the International Atomic Energy Agency.[8] The reason of their commitment to the JCPOA could be the decision made by the U.S. Democratic Party on February 16, 2019. The U.S. Democratic National Committee adopted a motion solidifying the party's position that the U.S. should rejoin the JCPOA: a sign that this is gearing up to be one of the cornerstone issues of the upcoming 2020 U.S. presidential elections.[9]

Although, Iran has survived all past 40 years of scrimmaging with different types of economic sanctions, this round of sanctions is imposing the most crippling sanctions ever to a country. Also, the European Union and England could not fulfill their commitments based on facilitating the financial transactions and oil exports by Iran. Therefore, Iran said it would decrease the compliance with its obligations under the 2015 nuclear deal. Additionally, as Iran has a crucial role in protecting the E.U. against the entry of drugs and refugees, it's predictable that the Iranian government, under the pressure, may let some refugees, smugglers and human traffickers pass through, while taking advantage of their "dirty money."[10]

It's worth mentioning that after re-imposition of the U.S. sanctions, Iran has established The Supreme Council of Economic Coordination. It promulgated new provisions to facilitate importing gold and foreign bills in cash. The provision proclaims: The entry of foreign currency into banknotes and gold inside the country is permitted without any restriction by the regulations of the Central Bank of the Islamic Republic of Iran and the rules for combating money laundering by persons. Foreign currencies and gold imported are immune to any taxes, legal fees and value-added tax.[11]

Following through to the resolution, all passengers can bring unlimited foreign currencies and gold freely and this gold and money would be exempt from any type of taxes or legal fees.[12] The Council also declared an unprecedented immigration rule in Iran's history that allows foreign citizens to obtain a five-year residency permit by investing $250,000 in Iran.[13] In October 2018, the Council regulated the sale of crude oil in the stock exchange market. It caused one million barrels to be sold in less than a day.[14]

Moreover, the challenge continues to the extent that on the anniversary of the U.S. withdrawal, tensions between Washington and Tehran ratcheted up, and the

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United States deployed an aircraft carrier and bomber group to the Persian Gulf, leading to Iran shooting down a U.S. surveillance drone.[15] Leaders from both the United States and Iran broadcasted their views, each pointing the finger at the other, and saying that neither wants war, but that the aggression cannot stand without a response.[16] President Trump announced that he is not seeking a military confrontation with Iran and is instead aiming for direct talks with Tehran without any preconditions over his plan to negotiate and broaden the country's nuclear deal.[17] But, just two days later, the U.S. Treasury Department sanctioned Iran's largest petrochemical holding group and vast network of subsidiaries and sales agents.[18] In response, Iran has condemned new U.S. sanctions targeting its petrochemical industry, saying that sanctions prove President Trump is not serious about pursuing negotiations.[19]

From the other legal prospective, one of the most significant consequences of sanctions is potential violations of human rights. Crippling sanctions may deprive people of some of their basic human rights, including the right to work, the right to an adequate standard of living, the right to social security and for those who are denied access to foreign medical treatment and medicine, the right to life. Additionally, and to that effect, the inflation caused by the sanctions make it exponentially more difficult for patients to afford necessary medical treatment.[20]

People will suffer due to lack of food and medicine despite the existence of exceptions in the U.S. sanctions; the government cannot buy them because there is no way to transfer the money as all the financial system is blocked. Also, corruption caused by money-laundering, illegitimate sale of oil, untraceable transactions with the neighbors and probable drug smuggling and human trafficking, as long-lasting effects, will remain in the region even after lifting the current sanctions.[21] Therefore, the E.U., with support from Russia and China, has established a legitimate way known as a Special Purpose Vehicle to circumvent the future U.S. sanctions by allowing Iran to continue to trade with European countries.[22] It will result in weakening the structure of the economic sanctions as a preferable way in comparison to war that would be the most important disadvantages of this decision.[23]

Endnotes

1. In European parlance, the P5+1 is alternatively called the EU+3. *See* Joshua Keating, *You Say P5+1, I Say E3+3,* FOREIGN POL'Y (Sept. 30, 2009), http://foreignpolicy.com/2009/09/30/you-say-p51-i-say-e33/; *see also* Michael R. Gordon & David E. Sanger, *Deal Reached on Iran Nuclear Program; Limits on Fuel Would Lesson With Time*, NY Times, (July 14, 2015), http://www.nytimes.com/2015/07/15/world/middleeast/iran-nuclear-deal-is-reached-after-long-negotiations.html; *Joint Comprehensive Plan of Action*, U.S. Dept. of State, http://www.state.gov/e/eb/tfs/spi/iran/jcpoa/ (last visited Aug. 3, 2019) (providing a basic overview of the JCPOA).
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Brazil Chapter Meeting

By Helen Naves

This September the Brazil Chapter held its monthly breakfast meeting at the office of Paul Hastings in São Paolo.

The topic was, "Proxy Contest in Corporate Restructurings: a Brazilian and U.S. Perspective."

The speakers were:

Jonathan E. Kellner, Partner, Paul Hastings
Filipe Lima, Associate, Paul Hastings
João Paulo Minetto, Partner, Demarest Advogados
Leticia Galdino Wanderley, Associate, Demarest Advogados
Renato Anastasia Polizzi Filho, Head of Investment Banking, Banco Modal

The quality of the discussion was excellent and we especially enjoyed the participation of a non-lawyer investment banker, who shared his view on the topic, based on the business side.

Jonathan E. Kellner, a partner at Paul Hastings, was very excited to receive the Brazil Chapter group in their office and they are already looking forward to doing more events with us.

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The International Section is committed to diversity in its membership, officers, Executive Committee, Chapters, and Committees. Diversity is an inclusive concept, encompassing gender, race, color, ethnic origin, national origin, religion, sexual orientation, age and disability.

In applying this policy, the International Section expects that its leaders, including Committee and Chapter Chairs, will actively seek to achieve diversity in all their activities including in seeking members for the Executive Committee, other Committees and Chapters, in selecting speakers for panels and continuing legal education programs, in soliciting contributions to the Section's publications, and in collaborating with other sections and minority and specialty bar associations to pursue diversity initiatives. The Section is grateful for and celebrates the geographic and national origin diversity that its many Chapters outside the United States bring to the Section and, in addition, seeks to promote diversity within each of these Chapters.

We endorse the statement of the Association as applied to our Section that we are a richer and more effective Section because of diversity, as it increases our Section's strengths, capabilities and adaptability. Through increased diversity, our Section can more effectively address societal and member needs with the varied perspectives, experiences, knowledge, information and understanding inherent in a diverse membership.

December 15, 2011

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INTERNATIONAL LAW PRACTICUM

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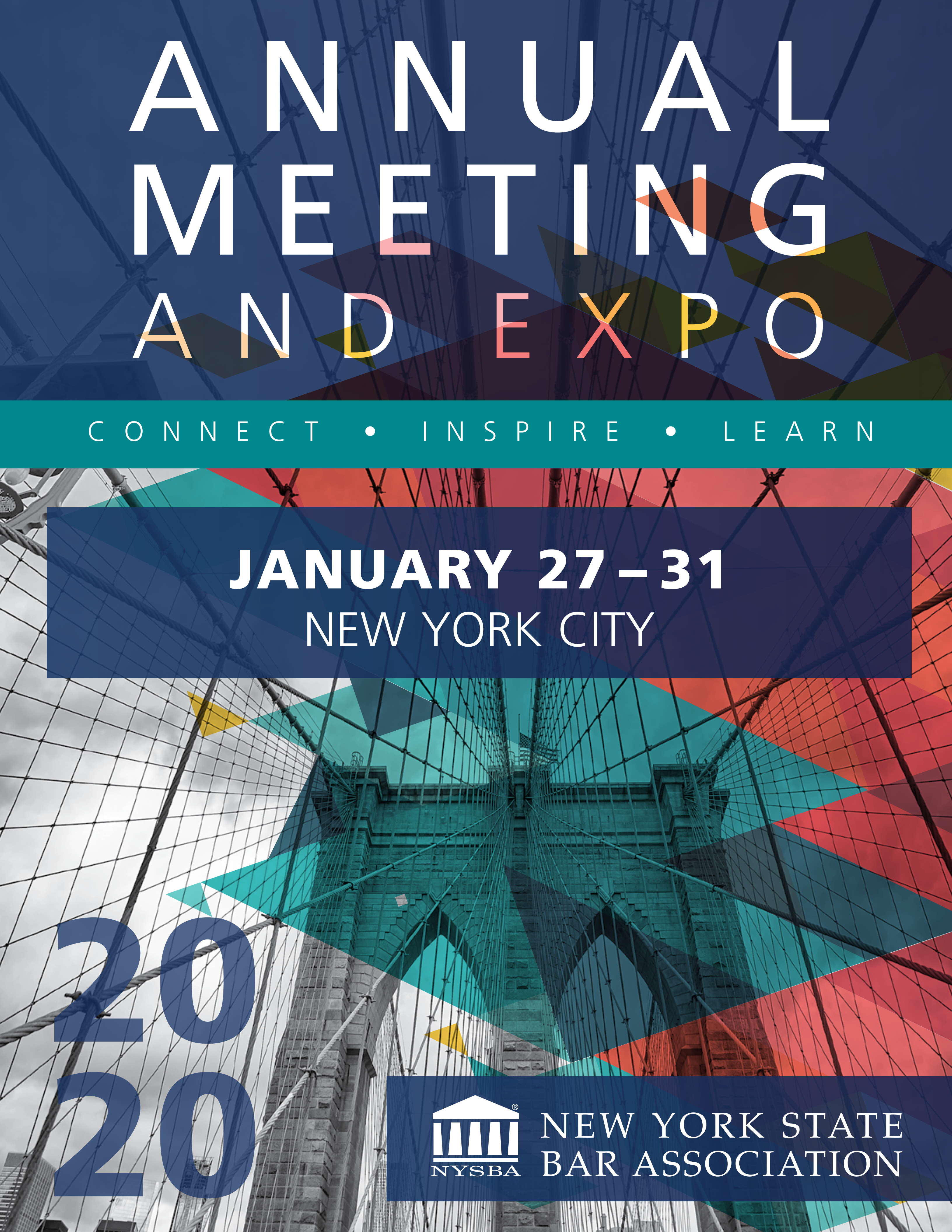
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