



What Nordic Companies Should Know About Trade Secrets

February 26, 2020

Steve Grimes | Partner, Hong Kong

Uri Doron | Partner, New York

Jared Manes | Partner, New York



Understanding Trade Secrets & the Risks



Lots of Information Can Be a Trade Secret

Employees Do Not Protect Data

82%

of respondents acknowledged that it was “very likely” that high value company assets had been breached



79%

of CEOs and 65% of employees believing that the company’s assets are now in the hands of a competitor



72%

of CEOs admitted to taking intellectual property from their previous employers



50%

of employees admitted to keeping confidential information of previous employers



44%

of employees do not believe it is a crime to use a competitor’s trade secrets



40%

of employees plan to use at new job



Potential Threats

- Insiders

- Employees
- Contractors/temporary employees

- Partners

- Manufacturers
- Vendors/Suppliers
- MnA Opportunities
- Investors
- Joint-venture partners
- Joint development partners

- Outsiders

- Hackers
- Foreign governments

REVERSE THREAT: new employees injecting trade secrets from former employer into company's systems/products

Former Employee Cases

- When former employees take trade secret information from the company and either start their own business with the information, or take it to a competitor.
- Examples:
 - In February 2020, Motorola won a \$764.6 million verdict against a company that infringed copyrights and misappropriated trade secrets after “luring” former Motorola engineers and using Motorola's proprietary documents.
 - In 2019, a 30-year employee of a cast-iron manufacturing firm stole trade secrets and attempted to take them to his new employer, a rival Chinese company. He was apprehended, criminally convicted, and sentenced to a year and a day in prison.

Former Employee Case: Uber v. Waymo

- In 2017, self-driving car company Waymo sued Uber, accusing it of stealing technology trade secrets. The case settled four days into trial; Uber provided a percentage of stock to Waymo.
- Subsequently, the case was referred to the DOJ for criminal investigation. In 2019, one of Uber's head engineers, Anthony Levandowski, was criminally indicted for stealing 14,000 engineering, manufacturing, and business files from Waymo and taking them to his new job at Uber.
 - “All of us have the right to change jobs, none of us has the right to fill our pockets on the way out the door. Theft is not innovation.” – Assistant U.S. Attorney David Anderson, Northern District of California

Former-Employee Case in Finland

- 9 former employees of Nokian Tyres transferred tens of thousands of confidential records to competitor Black Donuts Engineering group, including factory technology and product development secrets
- 8 defendants were sentenced to 4-12 months imprisonment in June 2019
- Black Donuts Engineering was sentenced to EUR 100,000 fines imposed on corporation, and lost benefits from criminal activities to the state of EUR 556,800.

Potential Partners: Non Disclosures Agreements

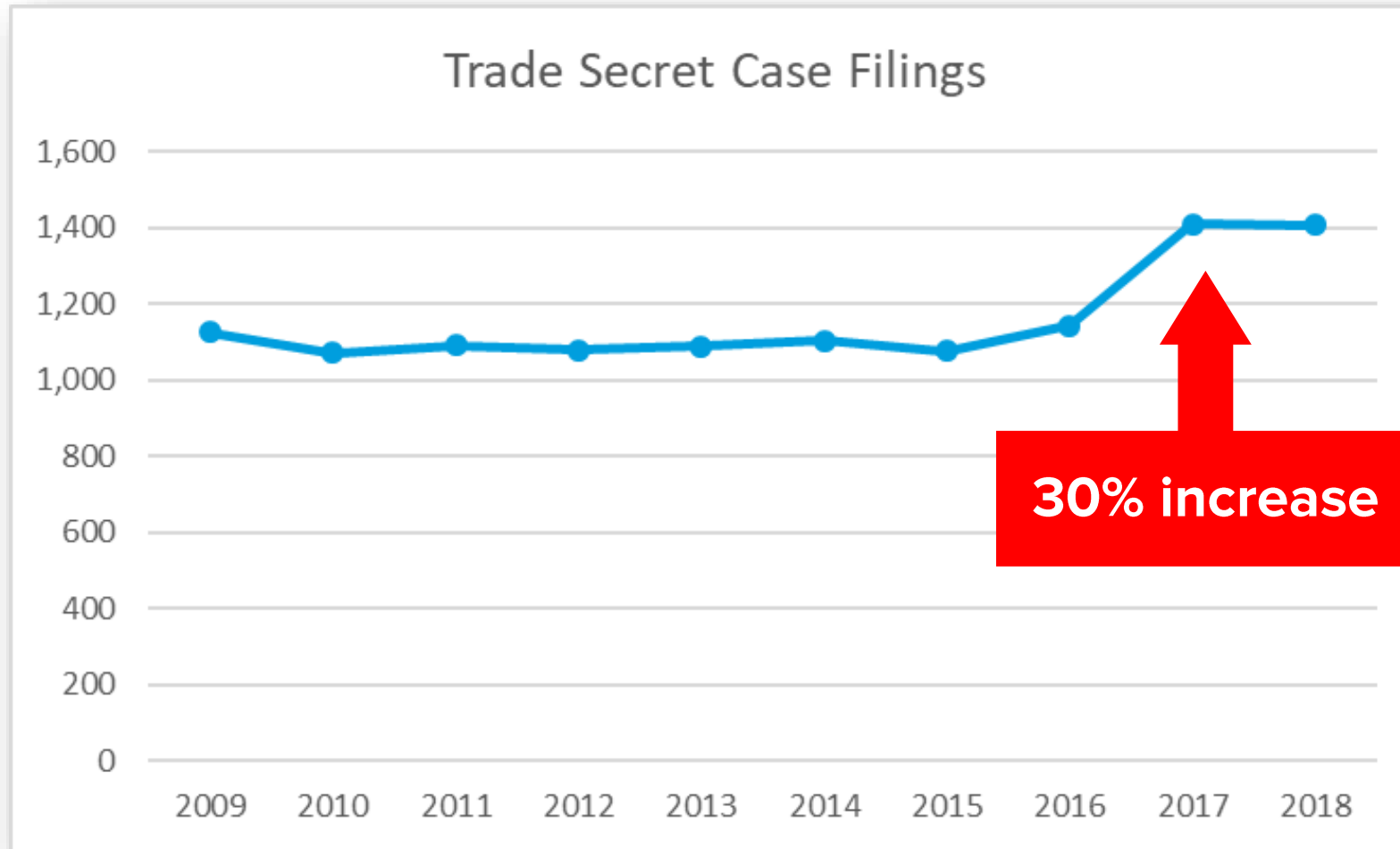
- A company shares trade secret information with a potential partner or investor, who uses the information to his or her own advantage
- Examples:
 - In January 2020, a freight rail company sued a large private equity group, claiming the PE group used its confidential trade secrets to compete against it in a bidding war with a third-party.
 - In 2019, a jury gave a \$93 million verdict to Olaplex, after finding that L'Oreal breached an NDA and infringed trade secrets and patents. The two companies shared information while discussing a potential acquisition of Olaplex by L'Oreal, or a licensing deal of Olaplex's hair products by L'Oreal. L'Oreal misappropriated the shared confidential information to create similar products in violation of the parties' NDA.

Partnership/Supplier Relationships

- A company shares a trade secret with a joint development or joint venture partner, a supplier, or a consultant and then that partner uses the trade secret to create a competing product
- Examples:
 - In 2019, a high-tech parts manufacturer (JST Corp.) alleged that it designed an auto technology part and supplied it to Bosch, who in turn shared the trade secret design with Foxconn and TEC. Foxconn and TEC then submitted bids to supply Bosch with the same connector part at a lower price. One case was dismissed on procedural grounds, the other is still pending.
 - In 2019, a food technology company sued Walmart for \$2 billion, alleging the company shared trade secrets with Walmart for improving and maintaining shelf life for produce, which Walmart misappropriated to create their own, similar product. Discovery is ongoing.

Trade Secret Law Around the World

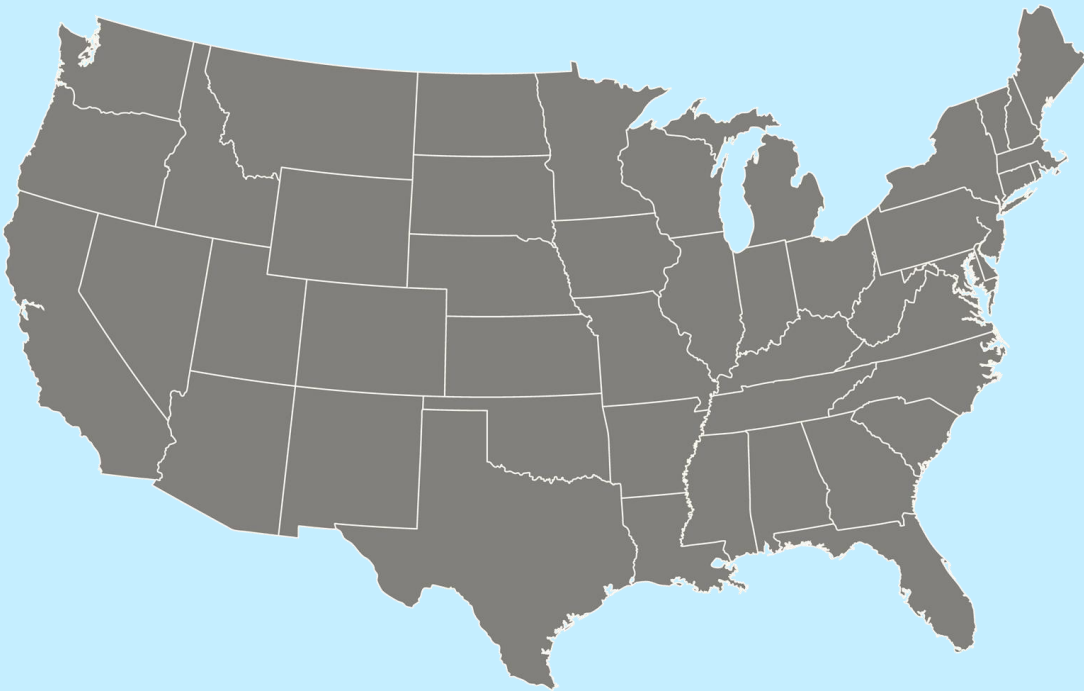
Increasing Number of Cases



Increasing Criminal Cases Worldwide

- **United States:** In 2018, the U.S. DOJ announced the “China Initiative,” which aims to combat economic espionage and the theft of American trade secrets perpetrated by Chinese actors. Since the announcement, numerous criminal cases have been filed against Chinese actors.
- **Europe:** In 2018, German prosecutors charged a Chinese engineer in an industrial espionage case, alleging he stole trade secrets to set up a “copycat chemical reactor” in China.
- **Taiwan:** In 2019, former top designer and vice president of the product design department, was sentenced to 7 years and 10 months in prison, for violating Taiwan’s Securities and Exchange Act and Trade Secrets Act

Federal Law: Defend Trade Secrets Act



- United States Federal Law – May 11, 2016
 - 18 U.S.C. §1836
 - Amendment to the Economic Espionage Act
- Defend Trade Secrets Act (DTSA)
 - Creates a new Federal Trade Secret Law applicable to all states and territories in the United States.
 - Ex parte seizure remedy
 - Whistleblower protection: new notice requirements for non-disclosure or confidentiality agreements
- Does not change or preempt state laws

Mainland China, Taiwan, Japan and Korea

Defined and protected by statute

Mainland China:

- Anti-Unfair Competition Law of the PRC (Art. 9 et seq.)
- Revised in 2019, giving more protections to companies

Taiwan:

- Trade Secrets Act (Art. 2 et seq.)

Japan:

- Unfair Competition Prevention Act (Art. 2(6) et seq.)

Korea:

- Unfair Competition Prevention & Trade Secret Protection Act (Art. 2(2) et seq.)

Similar definitions of Trade Secret as UTSA/DTSA

International Trade Commission



- Section 337 of the Tariff Act of 1930 – four elements:
 - An imported product
 - The importation or sale of which arises from an unfair act or method of competition
 - Includes theft of trade secrets
 - A U.S. industry would be seriously harmed or prevented from forming
 - A specific injury to the complainant
- “Proper for the Commission to find a section 337 violation based in part on acts of trade secret misappropriation occurring overseas.”
- Uptick in trade secret cases in recent years

EU Law: Trade Secrets Directive

- EU Trade Secrets Directive – June 2016
- Implemented by June 9, 2018
 - UK introduced The Trade Secrets (Enforcement, etc.) Regulations 2018
 - Sweden, Finland, and Denmark introduced Regulations in 2018
- The requirement that the trade secret needs to be subject to reasonable protection measures was a change for some jurisdictions
- The Directive harmonized the protection of trade secrets across the EU
- Information is considered a trade secret if:
 - it is not generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
 - it has commercial value because it is secret;
 - it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Sweden, Finland & Denmark

- Implemented separate National laws following the EU Trade Secrets Directive (summer 2018)
- Features:
 - Owners must take reasonable steps to protect trade secrets
 - The courts have injunctive powers
 - Bona fide acquirers can request continued authorized use of the trade secret from the court (Sweden)
 - Whistleblower provision allows an employee to disclose a trade secret to reveal illegal activity to protect the public interest (Finland)
 - 6 month statute of limitations (Denmark)

Considerations for International Cases

Potential for success

- US: plaintiffs prevailed 70% of recent cases
- China: plaintiffs prevailed in only 14% of cases
- EU: no statistics yet available for new trade secrets directive

Discovery

- No discovery in China, Taiwan, and Japan
- Consider: Protective order in parallel or preceding U.S. suit could permit use of obtained discovery in later foreign judicial proceedings
- EU: discovery and disclosure will be determined by national procedural rules

Jurisdictional reach

- DTSA applies only where “an act in furtherance of the offense was committed in the United States” 18 USC § 1837

Duration of Proceedings

- ITC proceedings – trial in nine months, conclude in 15-18 months

Proactive Trade Secret Protection: An Element of “Compliance”

Best Practices: **BEFORE** Theft Occurs

1

Identify and **limit access** to trade secrets

2

Draft precise **policies + train**

3

Use **enforceable agreements**

4

Implement ways to **catch theft**

5

Have a response **protocol + preserve evidence**

6

Have sufficient exit **protocols**

7

Scrutinize and monitor **third-party sharing**

A Compliance Focus

As with any other risk, develop a Trade Secrets Strategy

- Designate a team to have ultimate responsibility for protecting trade secrets:
 - A recent study performed by Winston & Strawn and FTI Consulting found that **57.14% of company employees** think that the legal department of a company owns the “trade secrets risk”
- Be alert to the two way risk of trade secrets: both leaving and *entering* the company

Trade Secret Investigations

What to do **AFTER** Theft Occurs

1

Properly preserve **evidence**

2

Cease and desist **letter**

3

Maintain **privilege**

4

Consider hiring **outside counsel**

5

Properly handle **parallel cases**

Trade Secret Investigations

- **Engage legal counsel to preserve attorney-client privilege**
 - Issue a legal hold and preserve custodial emails and files; and
 - (Potentially) engage a **computer forensic firm** to identify specifics of security breaches.
- Determine whether the Company used “reasonable measures” to protect what was stolen
 - The worst outcome is the trade secret was stolen, but Company loses trade secret right for lack of reasonable protections
 - From 2009-2018, **U.S. courts dismissed claims in 11%** of disputed trade secret cases **because the company failed to take reasonable measures** to protect the trade secret

Trade Secrets Investigations

- **Remediate & Consider Venue**
 - Criminal or Civil?
 - Pros and cons of criminal referral
 - Consider forum for civil case (if cross-borders, many options exist);
 - **Implement remedial measures.**



Steve Grimes

Partner
Hong Kong and Chicago
+852 2292 2138
sgrimes@winston.com

Steve Grimes is a partner and a Registered Foreign Lawyer in the firm's Hong Kong office, leading Winston's Asia Litigation practice. Co-located in Hong Kong and Chicago, Steve brings a unique set of global experiences to his clients, having honed his investigation skills as a federal prosecutor in the U.S., demonstrated his courtroom expertise in over ten jury trials, and having developed a pragmatic problem-solving approach in his role as Chief Compliance Officer and senior litigation counsel to a multinational Fortune 500 company.



Uri Doron

Partner
New York
+1 (212) 294-6872
udoron@winston.com

Uri Doron is a partner in the firm's New York office. He focuses his practice on cross-border mergers and acquisitions and complex joint venture transactions around the globe. Uri has experience across a wide variety of industries, including software technology, communications, defense, home appliances, financial services, biomedical, bio-agriculture, pharmaceuticals, nutrition and healthcare, retail, food and beverage, fashion, and media and entertainment.



Jared Manes

Partner
New York
+1 (212) 294-6736
jmanes@winston.com

Jared Manes is a partner in the firm's New York office. He represents privately and publicly held companies in a wide range of corporate matters, including domestic and cross-border M&A transactions, joint ventures, equity investments, securities offerings, capital markets transactions, restructurings, governance issues, and general corporate law. Jared advises his clients across a diverse variety of industries, including manufacturing, pharmaceuticals, food and beverage, defense, software, retail, banking and finance, energy, technology, entertainment, and home improvement.

THE
NORDIC
SESSIONS

WINSTON
& STRAWN
LLP

