

## CONGRESS CONSIDERS CLOSING TRADE SECRET “DISCOVERY LOOPHOLE”: SECTION 1782

Date: 15 November 2018

### IP Litigation

By: Carolyn Branthoover, Max Gelernter

Imagine that your company is located in the United States and owns a valuable trade secret. Half way across the world, in Europe, two parties are involved in an arbitration. Your company is not a party to the arbitration, but information about your trade secret is relevant to the parties' claims. The parties have no way of obtaining your trade secret through their local laws and procedures. But now imagine that you have been served with a subpoena and a district court in the United States forces you to produce documents related to your trade secret. Seem fair? Probably not. And yet, this can be a reality under 28 U.S.C. § 1782.

Section 1782 is a federal statute that authorizes a U.S. district court, upon application by a foreign tribunal or any party with an interest in a proceeding before a foreign tribunal, to order a person found or resident in the U.S. district to provide information or documents for use in the foreign proceeding. In a prior *Arbitration World* article, we discussed Section 1782 and noted that a party unconnected to a foreign proceeding may nonetheless be subjected to costly and burdensome discovery in connection with an arbitration to which it never consented. This article furthers that argument. In addition to high discovery costs for U.S.-based parties, Section 1782 can result in significant, less-tangible costs as well, such as disclosing the crown jewels of a company: its trade secrets.

In 1964, Congress expanded the scope of Section 1782 to its present day form and, in doing so, hoped that foreign countries would be encouraged to pass similar laws so that American citizens would have similar access to information considered important to the resolution of their disputes by foreign tribunals. See Act of Oct. 3, 1964, § 9(a), 78 Stat. 997; Senate Report No. 1580, 88th Cong., 2d Sess. 7–8 (1964). Congress's hoped-for result has not materialized. No other countries have passed a comparable law. Nevertheless, Section 1782 remains a valuable tool for parties engaged in foreign proceedings, and it continues to be employed in U.S. district courts to obtain court-ordered discovery from third parties unconnected to the foreign proceedings.

According to economists, trade secrets comprise approximately two-thirds of companies' intellectual property portfolios (statement of Chairman Darrell Issa at the hearing "*Safeguarding Trade Secrets in the United States*," before the Subcommittee of the House of Representatives on Courts, Intellectual Property, and the Internet, on April 17, 2018, as described further below). In the United States, trade secrets are protected by the Defend Trade Secrets Act, 18 U.S.C. § 1836, et seq., and courts regularly issue protective orders to safeguard trade secrets. Courts outside the United States, however, do not offer comparable protections. As recognized by the European Union, "[t]he main factor that hinders enforcement of trade secrets in [European] Court[s] derives from the lack of adequate measures to avoid trade secrets leakage in legal proceedings." (The European Commission, *Study on Trade Secrets and Confidential Business Information in the Internal Market* (April 2013)). This presents a significant issue of concern for American companies subjected to Section 1782 subpoenas requesting production of trade secret information. As one commentator puts it, Section 1782 has become a "one-way street for the

acquisition and export of U.S. information." (statement of James Pooley at the April 17, 2018 hearing before the Subcommittee of the House of Representatives, referred to above).

To address this predicament, in April 2018, the U.S. House Judiciary Committee's Subcommittee on Courts, Intellectual Property, and the Internet held a hearing on "*Safeguarding Trade Secrets in the United States*" and considered potential remedies to close "the discovery loophole", as described by Chairman Issa, that is Section 1782. The subcommittee considered a wide range of remedies potentially available from each branch of government: The executive branch could enter reciprocal trade agreements, the courts could issue Section 1782 protective orders, and Congress could amend Section 1782.

The conversation to protect American trade secrets continues. The Intellectual Property Owners Association ("IPO") (a trade association for owners of patents, trademarks, copyrights, and trade secrets) has resolved to support amending Section 1782 to require:

1. That information produced pursuant to the statute be subject to adequate protections for confidential information, including trade secrets, in the foreign proceedings;
2. That the information is discoverable or admissible in the foreign proceeding; and
3. That prior to the application having been made, the applicant could have been subject to an equivalent order for production under the rules of this jurisdiction or the foreign jurisdiction.

No legislative solutions, however have yet been formally proposed, and Section 1782 remains in its 1964 form. Accordingly, Section 1782 will continue to be used as a vehicle to support international arbitration and other foreign proceedings and thus obtain the trade secrets of U.S.-based companies that would otherwise be protected. This is emblematic of how costly Section 1782 can truly be. Until Congress closes this "discovery loophole," companies need to be prepared to defend against Section 1782 subpoenas to protect their prized trade secrets.

Section 1782 includes some measure of possible protection. It provides that any order issued pursuant to Section 1782 "may prescribe the practice and procedure, which may be in whole or part the practice and procedure of the foreign country or the international tribunal, for taking the testimony or statement or producing the document or other thing." It may be of limited comfort but, to the extent that a U.S. court is persuaded that trade secret information should be produced for use by third parties in a foreign proceeding, it should be prevailed upon to require that production take place pursuant to various protective measures, including the protections afforded by a confidentiality order. Just such a precaution was recently suggested by the Third Circuit in *In re: Application of Biomet Orthopaedics Switzerland GMBH*, No. 17-3787, 2018 WL 3738618 (3rd Cir. Aug. 6, 2018). In *Biomet*, the federal appeals court saw "no reason to foreclose potential 1782 aid just because trade secrets are involved." At the same time, however, the court was sympathetic to the proprietary nature of the information that was the subject of discovery and remanded the case to the district court "to consider whether a more tailored request, and the imposition of conditions on the use of and access to information, might address" these concerns.

The amendment of Section 1782 to provide heightened protection for proprietary information will continue to be the subject of discussion. Until that discussion leads to concrete legislative action, parties should take advantage of the discretionary authority conveyed by Section 1782 and the apparent willingness of the federal courts to provide safeguards for the protection of a company's trade secrets.

## KEY CONTACTS



**CAROLYN M. BRANTHOOVER**  
PARTNER  
PITTSBURGH  
+1.412.355.8902  
CAROLYN.BRANTHOOVER@KLGATES.COM



**MAX A. GELERNTER**  
ASSOCIATE  
PITTSBURGH  
+1.412.355.8930  
MAX.GELERNTER@KLGATES.COM

---

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.