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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Protecting Trade Secrets In Nanotech Info Requests

Law360, New York (April 8, 2011) -- Nanotechnology is emerging as a landmark advance of science. Its promise and use is widespread, ranging from medical devices, to household products, to foods. And as with other new technologies that gain societal ubiquity like cellular phones and vaccination teach, with prevalence often comes assertions of human or environmental risk and attendant governmental investigation.

The pattern is holding true for nanotechnology. Recent developments serve as a reminder to environmental practitioners that trade-secret concerns must be considered and integrated when responding to agency requests for information.

As part of its review of nanotechnology in December of last year, the California Department of Toxic Substances Control (DTSC) issued its second round of chemical information requests to 48 California nanotech manufacturers requiring them to submit information regarding analytical test methods which identify and quantify certain nanomaterials, their metabolites, and environmental breakdown products.

While these requests are limited to a half-dozen nanomaterials, broader requests are possible in the future. And while the most recent request is to 48 manufacturers of nanomaterials, the governing statute allows for the casting of a broader net to encompass any California based company that produces nanomaterials or imports them for sale the state. Given the ever-expanding application of nanomaterials, even companies that do not consider themselves “nanotech” may find themselves called on to respond.

Responding to what at first blush look to be environmentally focused requests actually raises thorny trade-secret issues. This is so because, unlike many other chemicals of environmental concern, the specifics of nanomaterials are in many respects themselves trade secrets.

Responses to the DTSC could require the submission of documentation regarding laboratory procedures for sampling, preparing and analyzing a specific matrix to determine the identity and concentration of the specified chemical. Given the potential economic value of nanotechnology, manufacturers will want to protect the details of their research and development from public disclosure while still complying with valid information requests.

Companies requested to provide information to an environmental agency regarding nanotechnology should take appropriate steps to prevent public disclosure of any trade secret, meaning information that "derives independent economic value, actual or potential, from not being generally known to the public or to the other persons who can obtain economic value from its disclosure or use" and is maintained with reasonable secrecy.

Unqualified disclosure, even if civic-minded, risks not only revealing the information to competitors but jeopardizing the legal trade secret status of the information.

Fortunately, in responding to agency requests, manufacturers may designate the material as a "trade secret," after which the agency must protect the trade secret from public disclosure. The DTSC has stated that "a trade-secret determination is a question of fact, not of law," and a manufacturer attempting to designate the requested information as a "trade secret" must "supply supporting documentation."

Thus, proper identification and classification of the information as a trade secret is essential for a company trying to avoid disclosure, and the company should provide a clear explanation in its supporting documentation for why such information qualifies for protection.

Even trade-secret qualified disclosure carries risks that counsel must consider, particularly from inadvertent disclosure by the agency. (Further, the information may be turned over for inspection by other agencies.) Though information properly identified as a trade secret should not lose trade secret protection through the agency's inadvertent disclosure, once disclosed, the company has limited options to limit disclosure by the agency.

Before responding to a California Public Records Act request, which affords "every person a right to inspect any public record," including "any writing containing information relating to the conduct of the public's business prepared, owned, used or retained by any state or local agency regardless of physical form or characteristics," the DTSC must provide the submitter of the requested information with notice of the request. To maintain work product protection, the company must file within 30 days for declaratory judgment that the information qualifies as a trade secret or a preliminary injunction prohibiting the DTSC's disclosure and notify the DTSC.

Moreover, safeguarding its trade secrets from public disclosure before submitting them does not necessarily have a private right of action to compel the DTSC to withhold disclosure — even if a company submits records properly identified as containing trade secrets.

Indeed, courts have refused to rule on whether records are exempt from disclosure in advance of a specific request. And a manufacturer that misses the deadlines discussed above and later seeks to challenge an agency public disclosure of its trade secrets may be faced with an uphill battle, as a public agency's procedural rules protecting confidential information are generally given deference by the courts.

A company opposing disclosure of its trade secrets by the DTSC should be prepared to show the court that "substantial competitive harm would result from the agency's disclosure of the requested information. This requires a showing of both "actual competition and a likelihood of substantial competitive injury," which is one "flowing from the affirmative use of proprietary information by competitors."

The court need not conduct a sophisticated economic analysis of the likely effects of disclosure, but conclusory and generalized allegations of substantial competitive harm, of course, are unavailing. The company seeking trade secret protection should demonstrate more than a showing of mere embarrassment in the marketplace or reputational injury as the likely result of agency disclosure.

If the company opposing disclosure identifies specific technical information it believes that its competitors can use in their own operations, the court is probably more likely to grant trade-secret protection. In its supporting documentation justifying protection, the company should provide evidence of the trade secret's economic value, which may include the time, money and research efforts to develop the test method.

Additionally, the company should consider providing evidence of specific prejudice or harm that will result from disclosure of its trade secrets, identifying all procedures in place to maintain their confidentiality. Additionally, the company should identify any prior efforts to maintain the secrecy of the trade secrets.

Companies can also help prevent inadvertent disclosure by the agency in several ways. When responding to an agency information request, a company may submit all confidential trade secret materials separately from nontrade-secret materials.

Keeping trade secrets separate from other materials submitted to the agency may prevent the agency from inadvertently including a company's trade secret with nonconfidential information when responding to a public records request.

Finally, a company may also consider summarizing information, or using other options that can provide the environmentally relevant information sought while minimizing the commercially sensitive information disclosed, thereby limiting production to that which is necessary to comply with the agency requests.

There is no formula for melding the disclosure obligations imposed by an environmental agency's requests with the general nondisclosure necessarily required of a trade secret. Cognizance of both the tension and the options can help the environmental practitioner meet the former while still protecting the later.

--By Alan N. Bick and Aneal Ganta, Gibson Dunn & Crutcher LLP

Alan Bick is a partner in Gibson Dunn's Orange County, Calif., office and co-chairman of the firm's environmental litigation and mass tort practice group. Aneal Ganta is an associate in the firm's Orange County office.

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