

WOUTER PORS

Bird & Bird The Hague

## 1. Introduction and general issues

The law on trade secrets varies widely even among EU Member States. For instance, in The Netherlands it has always been a part of the general law on tort and to a limited extent of employment law, whereas Sweden has a specific law on trade secrets. Although the WTO Agreement on Trade Related Intellectual Property Rights (TRIPs) has proclaimed in Article 1(2) and Article 39 that trade secrets are intellectual property rights, that does not mean that they are always well-protected throughout the world.

For Europe, a big move towards proper protection is now being developed. The European Commission has published a proposal for a Trade Secrets Directive on 28 November 2013.<sup>2</sup> This has the potential to bring protection to the same level as in the US, where the Uniform Trade Secrets Act has been around for quite a while. It was also necessary since so far most Member States have not taken sufficient steps to implement Article 39 TRIPs, which requires a minimum level of trade secret protection.

The initial proposal still had many faults, but has now been improved considerably by a compromise that was agreed upon by the Council of the European Union on Monday 26 May 2014.<sup>3</sup> However, as will be discussed below, there still is room for further improvement. This text will now be submitted to the European Parliament, which will most likely start working on it after the summer. The proposed Directive is quite comprehensive and a large part of it aims at full harmonization, not a minimum level of harmonization. On the enforcement side, much of the Directive is minimum harmonization, so Member States can take further steps when implementing the Directive. The level of harmonization is now specified in Article 1, which defines the boundaries for awarding further protection at national level. The exceptions to trade secret protection cannot be limited, including the right to check persona data, and the balancing provisions, such as Articles 5, 6(1), 10, 12 and 14(3) have to be respected, but otherwise there is room for additional measures under national law. That indeed is something to consider, since the Directive does not provide for the same level of protection that other IP rights enjoy, nor that trade secrets enjoy in other countries, such as the US.

The title of the Directive says that it is “*on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure*”. The terms “know-how and business information” are used in the explanatory memorandum on the original Commission proposal of November 2013 and in some of the recitals, but not in the provisions of the Directive. The term generally used in the provisions is “trade secret”, which is intended to have the same meaning as “undisclosed information” in Article 39 TRIPs. The title is intended to make it clear

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<sup>1</sup> This is an updated version of previous publications by the author.

<sup>2</sup> COM(2013) 813 final, 2013/0402 (COD), see <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0813:FIN:EN:PDF>

<sup>3</sup> <http://register.consilium.europa.eu/doc/srv?!=EN&f=ST%209870%202014%20INIT>

that these trade secrets include know-how and business information, but the term is not intended to limit the scope of the Directive. Basically, any confidential information with an economic value will be protected.

The urgency of the project is clearly demonstrated by the impact assessment, according to which *“40% of EU companies would refrain from sharing trade secrets with other parties because of fear of losing the confidentiality of the information through misuse or release without their authorisation”*.<sup>4</sup> This negatively affects innovation. Besides, the divergence in protection throughout Europe, and to a certain extent the current lack of protection, means that valuation of trade secrets is very difficult. In some cases this leads to filing patent applications before the technology at hand is completely developed, just to be able to raise funds for further research and development. This may result in patents that do not fully protect the relevant technology. The Commission also found that the lack in uniform protection undermines competitiveness. Also, due to the lack of protection, knowledge is shared less.

At the same time, the Commission felt that no exclusive rights should be granted, meaning that anyone remains free to acquire the knowledge that is protected by the trade secret, including through reverse engineering. In addition, hiring of highly skilled labour should also not be negatively impacted, where it is obvious that these people will take their knowledge and skills with them when moving from one company to another. Normally, IP rights are exclusive rights. TRIPs does not make any difference between various categories of intellectual property rights; they are all treated in the same way in Article 1(2). That was a highly debated political compromise within WTO, but it is the law now. This raises the question whether the proposal really is in conformity with TRIPs.

Recital 27 provides that the Directive should not affect the application of competition law rules, in particular Articles 101 and 102 of the Treaty on the Functioning of the European Union and that the measures provided for in this Directive should not be used to restrict competition unduly in a manner contrary to that Treaty. The Court of Justice has already developed a careful approach towards intellectual property rights, striking a balance between the protection of intellectual property and free competition. According to that case law, the scope of intellectual property rights is not to be extended beyond their specific subject of protection. The same apparently applies to trade secrets, which of course is no surprise.

## **2. Substantive law**

Article 2 contains the definition of trade secrets and of some other crucial terms. The definition of trade secrets is identical to that in Article 39 TRIPs. All other elements of Article 39(2) TRIPs can also be found here; it has to be a secret which has commercial value because it is secret and has been subject to reasonable steps to keep it secret. Recital 8 now says that *“such information or know-how has commercial value especially insofar as its unauthorized acquisition, use or disclosure is likely to harm the interests of the person lawfully controlling it in that it undermines his or her scientific and technical potential, business or financial interests, strategic positions or ability to compete”*, but these are only examples; a trade secret may have value for other reasons too. The definition of “trade secret holder” implies that only someone who legitimately holds a trade secret qualifies, but on the

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<sup>4</sup>[http://www.europarl.europa.eu/meetdocs/2009\\_2014/documents/swd/com\\_swd\(2013\)0472\\_/com\\_swd\(2013\)0472\\_en.pdf](http://www.europarl.europa.eu/meetdocs/2009_2014/documents/swd/com_swd(2013)0472_/com_swd(2013)0472_en.pdf)

other hand includes licensees, meaning that they can take action themselves. That is not always the case for other intellectual property rights, certainly not for non-exclusive licensees.

Infringement of a trade secret is any unlawful acquisition, use or disclosure of the trade secret. According to the Commission's Explanatory Memorandum the key element for those acts to be unlawful simply is the absence of consent of the trade secret holder. The acquisition of a trade secret is considered to be unlawful if it is contrary to honest commercial practices. Subsequent use or disclosure is also unlawful, if it is done by a person who has acquired the trade secret unlawfully, is in breach of a confidentiality agreement or any other duty to not disclose the trade secret or is in breach of a contractual or any other duty to limit the use of the trade secret.

Initially there was a requirement of intent or gross negligence, but fortunately this has now been dropped, as the Member States felt that, *"while an element of dishonest behaviour would be needed, no intentionality or gross negligence criteria should be required for the unlawful conduct to exist in the case of primary infringers (e.g. the one that takes steps to acquire the information, the one that breaches a confidentiality duty); however, in principle a knowledge criterion should be required in the case of passive receivers of information (third parties) for their conduct to be unlawful"*. However, the knowledge requirement for passive receivers in Article 3(3) is not part of the full harmonization and the Council opinion states that the Member States can decide not to incorporate that requirement into their national law. All of this is a very important improvement. In some situations it may be possible to prove that a trade secret was used without permission while the user knew that this was not supposed to happen, for instance if an employee moves to a competitor and provides him with secret information of his former employer. In such a case it may also be possible to demonstrate that the competitor could not have obtained such information in any other way. However, in many cases where no movement of employees is involved it would be very hard to prove intent, gross negligence or other subjective factors. TRIPs does not make any material distinction between the various IP rights protected by it, so it would be strange and maybe a violation of TRIPs to introduce an additional requirement for violation of trade secrets that does not exist for other IP rights. I think it would indeed be better to simply provide in national law that *"the use or disclosure of a trade secret shall be considered unlawful whenever carried out without the consent of the trade secret holder"*, without the limitation provided in the rest of Article 3(3). This would allow for granting an injunction for any type of trade secret infringement just like for infringements of other IP rights, although subject to the specific limitations of Articles 10 and 12. Of course, when deciding if an infringer is liable for damages, the court should be able to take into account whether the infringer acted in good faith, for which the criteria of Article 3(3) under (a) – (c) could still be useful.

Under Article 3(4) subsequent use or disclosure is also unlawful if the subsequent user knew or should, under the circumstances, have known that the prior use or disclosure was unlawful. If that third party initially acted in good faith but obtained knowledge of the infringement later on, an injunction might cause disproportionate harm according to recital 18 and damages would be the preferred remedy, which is developed further in Article 12(3). Of course, in that case the question arises what would be the ground for awarding damages. Thus it seems that the Directive carries the risk that trade secret protection might be lost by selling trade secrets to innocent third parties. In that case, trade secrets would in practice enjoy far less protection than other intellectual property rights. However, the courts can be expected to develop sensible case law on this issue.

The exceptions to protection are fully harmonized. Of course, there is no infringement in case of independent development. Article 4(1)(b) makes it clear that reverse engineering is allowed, which apparently was an issue in some countries. However, some new wording has been added to provide that this can be excluded by contract, as further explained in recital 10, except where that is blocked by law, such as Article 5(3) of the software Directive.<sup>5</sup> This means that confidentiality agreements and licence agreements may need to be reviewed accordingly before this Directive is implemented.

The new Article 4(1a) makes it clear that there is no infringement if a party discloses a trade secret due to a requirement under national or EU law, such as disclosure to a regulator as part of an investigation. In as far as this means that there is no infringement if disclosure is mandatory due to a provision in the law or to a court order, this is not new for business, since this is a standard provision in any confidentiality agreement. Actually, even without an explicit provision in the law or in a contract, a court would not find a violation of a secrecy obligation in such a situation, at least under civil law. However, the scope of this provision extends far beyond what could reasonably be needed. Recital 10a says that *“the acquisition, use or disclosure of trade secrets, whenever imposed or permitted by law should not be treated as unlawful. As a result, the acquisition or disclosure of a trade secret by administrative or judicial authorities for the performance of their duties should be lawful. Also, disclosure by Union’s institutions and bodies or national public authorities of business-related information they hold pursuant to the obligations of Regulation (EC) No 1049/2001 of the European Parliament and of the Council or to other rules on the public access to documents or on the transparency obligations of national public authorities should not be considered unlawful disclosure of a trade secret. (...)The acquisition or disclosure of a trade secret in the context of statutory audits performed in accordance with Union or national law should not be considered an unlawful conduct either.”* This is totally wrong. Trade secret protection should in general take priority over the freedom of information obligations of both the European Union and its Member States. Businesses should not run the risk that their trade secrets are published just because they had to disclose them to government institutions, such as regulators. That is also the gist of Article 39(3) TRIPs, even though the wording of that provision is unfortunately limited to pharmaceutical and agricultural chemical data. This limitation of the protection of trade secrets in my view is a clear violation of the TRIPs agreement, especially since it does not provide for any conditions. Of course, there may be situations where the nature of the information or other circumstances of the case do warrant that it is made public by a government institution, but they should not have carte blanche to do so. The European Parliament should redress this and come up with a fair *balance* between protection of trade secrets and disclosure by government authorities, in as far as *“necessary in a democratic society, in the interests of national security, territorial integrity or public safety, for the prevention of disorder or crime or for the protection of health or morals”*, to quote Article 10(2) European Convention on Human Rights (ECHR), which also mentions the protection of trade secrets.

Article 4(2)(a) provides for a general exception for making legitimate use of the right to freedom of expression and information. As such this is fine, but in practice it should be applied rather limited; there should at least be a public interest at stake, otherwise it could be abused to distort competition. However, although public interest is mentioned in subsection (b), but not in subsection (a), it might be included in the requirement that such use is legitimate.

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<sup>5</sup> Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs

Article 4(2)(c) is somewhat alarming. There is no infringement in acquisition, use or even disclosure if the trade secret was disclosed by workers to their representatives as part of the legitimate exercise of their representative functions.<sup>6</sup> I can understand that, if the representative uses the trade secret in the course of a legitimate exercise of his representative functions, this would not be an infringement. However, even in doing so, he should maintain the secrecy, so disclosure should still constitute an infringement. Of course, there may be a case where such disclosure would really be necessary in the performance of such representative functions, but that would fall within the exception of Article 4(2)(b) – which includes legitimate “whistle-blowing”<sup>7</sup> – and should also be limited to such situations. However, it seems that this has been recognized by the Council, since recital 10a now provides that this applies “without prejudice of any duty of confidentiality imposed on the recipients of information so acquired”. However, this is not quite clear, as the text says “without prejudice of” instead of “without prejudice to”, so it may even mean the opposite. This is yet another example that trade secrets are treated as some second rate right; nobody ever needed or even thought of a provision that a patent cannot be infringed by a workers’ representative.

Article 4(2)(e) adds legitimate interests as exceptions, in so far as provided by law. This seems merely to be some kind of safety valve.

### 3. Enforcement

The Trade Secrets Directive according to recital 28 will take priority over the Enforcement Directive and will have its own, more limited enforcement system. This is a political compromise that cannot be changed anymore at the European level. Some tools for collecting evidence that are available under the Enforcement Directive for other intellectual property rights are lacking in the Trade Secrets Directive. That is all the more problematic, since trade secrets are not exclusive rights, so the fact that identical information is used is not sufficient for finding infringement; there must be some kind of illegal disclosure, acquisition or use and that always requires additional evidence, especially in respect of the way in which the alleged infringer has acquired his information. Article 41 section 1 TRIPs provides that “Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights”, but it is not clear from this provision whether the same procedures should be available for all types of intellectual property rights. Nevertheless, since the difference in available tools makes the enforcement of trade secret protection considerably less effective, the Directive might not be in compliance with TRIPs. This may also lead to awkward situations, because very often in one action both a patent and the accompanying know how are at stake, in which case two different enforcement regimes will apply within that single action. Fortunately, the articles providing the tools for enforcement are only a minimum harmonization, so Member States may take this a step further in their implementation and extend the scope of the implementation of the Enforcement Directive to trade secrets provided that, according to recital 8, “the safeguards protecting the interests of other parties are respected”. These safeguards can be found in Articles 10, 12, 13(1) and 14(3), but do not block the applicability of the Enforcement Directive as such, which is currently being debated in a number of Member States.

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<sup>6</sup> The European Commission felt a need for this exception as a consequence of Directive 2002/14/EC.

<sup>7</sup> See for this issue for instance [http://ec.europa.eu/justice/policies/privacy/docs/wpdocs/2006/wp117\\_en.pdf](http://ec.europa.eu/justice/policies/privacy/docs/wpdocs/2006/wp117_en.pdf)

The chapter on enforcement starts with provisions that any measure should be proportionate, not create barriers to legitimate trade and provide safeguards against abuse, actions started in bad faith and manifestly unfounded claims. Those safeguards may now include awarding damages to the defendant, imposing sanctions on the plaintiff and publication of the judgment. According to the Council's opinion that precedes the draft Directive, Member States found it important to incorporate this. Who could disagree in case of a true abuse, but on the other hand, why do we need this in the text of the Directive? It seems that the concept of abuse is not harmonized, but it is safe to assume that any EU Member State has options to redress abuse of legal remedies. The Trade Mark Directive and the Design Right Directive do not contain provisions on the possible abuse of those rights and Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society only mentions a possible abuse of right in its recitals. Again, the TRIPs Agreement does not support such a distrustful approach of trade secrets.

Article 7 now states that the limitation period for bringing a claim shall not exceed 6 years. Initially this was just 2 years, which is far too short. If for example two globally operating, but US based companies have a dispute over a trade secret infringement where all the relevant facts happened in the US, they should be allowed to have a US court decide the case before they start litigation on the use of the trade secret abroad. If the limitation period would only be 2 years, they could be forced to start court actions in Europe before a US court had reached a decision. This has now been repaired, but under the current wording, Member States are still allowed to have shorter limitation periods, which would be very unfortunate.

Article 8 contains provisions aimed at preserving the confidentiality of trade secrets in litigation. This is a novelty for many Member States. This includes setting up a so-called confidentiality club, in which case the court restricts access to documents and to the hearing to selected officials of the parties and their lawyers. Compared to the initial proposal, this now is a balanced system. Next to the lawyer representing the party, at least one person from each party shall be granted access. According to recital 14, the court should ensure proper representation in setting the number of people who will get access. This guarantees that the lawyers can discuss all documents in the case file with their client. A party who wants to invoke protection of a document in litigation needs to file "a duly reasoned application". Of course, there still is some tension with Article 6 ECHR and Article 47 of the Charter of Fundamental Rights of the European Union, but the current provisions are proportional in relation to the protection of trade secrets as intellectual property rights, which is also a fundamental right. Article 8(3) now requires the courts to take these factors into account, which probably would already happen under national law and national case law on conflicting fundamental rights. According to the Council's opinion, indeed *"the new wording strikes the balance between the protection of trade secrets and the right of the parties to a fair trial"*.

Article 9 provides that provisional and precautionary measures shall be available in all Member States, including preliminary injunctions, seizures and delivery up of suspected infringing goods. That is an improvement, but it still does not provide the same tools as the Enforcement Directive, especially for gathering evidence. As mentioned above, this is a political compromise that cannot be changed at the European level, but it could be resolved at national level.

Article 10, which deals with such provisional measures, provides that a claimant, when applying for interim measures, can be ordered to provide further evidence of his rights and of the alleged

infringement. That is fair enough; it would seem that any judge in the EU can apply such conditions when an application for an interim injunction is filed and refuse the injunction if these are not met. On the other hand, the fact that this is included so explicitly in the Directive makes it even more conspicuous that the other side of the coin is missing; the court is not entitled, at least not under the Directive, to require the defendant to produce available evidence or even to allow the claimant to seize such evidence at the defendant's premises, as provided for in Article 6 and 7 of the Enforcement Directive. Again, this is wrong and may render the protection of trade secrets in Europe insufficient.

Both Article 10(2) on provisional measures and Article 12(1) on final measures provide a catalogue of factors to be taken into account when deciding on applying such measures, from which the Member States cannot deviate. The circumstances to be taken into account first of all are the value and other specific features of the trade secret and the measures taken to protect the trade secret. Also the conduct of the respondent in acquiring, using or disclosing the trade secret should be taken into account, which may mean that good or bad faith may play a role here. On top of that the balance of convenience needs to be considered, as the Directive provides that *"the impact of the unlawful use or disclosure of the trade secret, the legitimate interests of the parties and the impact which the granting or rejection of the measures could have on the parties"* should be taken into account. This will be new for most civil law countries, at least for final measures. Finally also the legitimate interests of third parties, the public interest and the safeguard of fundamental rights should be taken into account.

Article 11 deals with final remedies. Section 3 includes the possibility of donating infringing goods to charity. Recital 17 says that *"corrective measures should not necessarily entail the destruction of the goods when other viable options are present, such as depriving the good of its infringing quality or the disposal of the goods outside the market, for example, by means of donations to by charitable organisations"*. The term outside the market – as opposed to outside the internal market – which used to be a requirement of Article 11(3), but now is only in recital 17, is probably meant to mean outside the course of trade, not outside Europe, since if a good is infringing in Europe, it should be infringing in any country that is a party to the TRIPs agreement.

An issue not dealt with by the Directive is the unlawful acquisition and use of a trade secret that could have been uncovered by legitimate reverse engineering. In a 2012 judgment a Dutch court held that in such a situation a temporary injunction could be imposed that would compensate for the illegal advantage in entering the market at an earlier stage by stealing the trade secret instead of reverse engineering the technology.<sup>8</sup> The Trade Secrets Directive is sufficiently flexible to allow for such solutions; a limitation of the duration of an injunction is even explicitly mentioned in Article 12(1).

Article 12(2) provides that injunctions should be terminated once the trade secret has entered the public domain, which seems logical. However, this should have been limited to the situation where the trade secret has lawfully entered the public domain. Now it already applies if this cannot be attributed to the defendant, but that is too broad, because then it also applies if the trade secret became publicly available through a third party infringement, which should of course not serve to acquit the first infringer.

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<sup>8</sup> District Court 's-Hertogenbosch 21-11-2012, LJN BY4122, *JMK Heating*, IEF 12051

Article 12(3) provides that with regard to an innocent infringer and under strict conditions, a court might only award damages and refrain from imposing injunctions. Such damages *“shall not exceed the amount of royalties or fees which would have been due, had that person requested authorisation to use the trade secret in question, for the period of time for which use of the trade secret could have been prohibited”*. This may be not as easy as the Commission and the Council might think. Many trade secret owners are not willing to licence their trade secrets at all and of course they are not obliged to do so. In such a case it would not be possible to determine an amount of royalties.

The Directive does not aim to introduce punitive damages, but does allow for reclaiming the costs of identification and research in addition to the actual damage to the business of the trade secret holder. Article 13 mentions various methods of calculation of damages, again including the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the trade secret in question.

Article 13(1) also contains a new specific provision for claims for damages against employees. These may be restricted by national law if the employee acted without intent. Since this is an exception, I assume that the burden of proof will be on the employee, but that is for national law to decide. The exception seems to be restricted to current employees. Indeed, there is no reason to protect former employees who are setting up a new company using their former employer’s trade secrets, or who join competitors and provide such trade secrets to their new employer. In such case, the trade secret is usually disclosed by the former employee, but used by the competitor or the new company. It is a matter of national law how damages should be divided among them if both are involved in the infringement.

#### **4. Conclusion**

The proposal for the Trade Secret Directive certainly is a big step forward towards effective protection. It contains a lot of useful tools and provides a comprehensive, though not perfect, delimitation of the scope of trade secrets. At the same time it is an imperfect proposal with a fundamental flaw. It denies trade secrets their full protection as intellectual property rights as required by TRIPs, resulting in the choice not to have trade secrets covered by the Enforcement Directive. This means that different sets of tools apply and essential tools for collecting evidence are missing. It is important to repair this in the national implementation of the Directive. In addition, the Directive provides for an unwarranted safe haven for authorities who disclose trade secrets. In order to protect the climate for investments in Europe, it is important that the European Parliament sets clear limitations to that safe haven.

In view of the proposed new rules on reverse engineering, it is important that businesses review their confidentiality agreements and their licence agreements before the implementation of this proposed Directive comes into force.