

THE NEW EUROPEAN REGIME ON THE PROTECTION OF TRADE SECRETS¹

1. On June 8, 2016, the European Parliament and Council adopted Directive 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure,² the Trade Secrets Directive, herein after: TSD. This Directive prescribes that the Member States should implement it in their national legislation by June 9, 2018. In the meantime most Member States did so. For example, on October 23, 2018, the Dutch law on the protection of trade secrets entered into force.³ Why was the Directive adopted? First of all the TSD says in Whereas clause 4: *“Innovative businesses are increasingly exposed to dishonest practices aimed at misappropriating trade secrets, such as theft, unauthorised copying, economic espionage or the breach of confidentiality requirements, whether from within or from outside of the Union. Recent developments, such as globalisation, increased outsourcing, longer supply chains, and the increased use of information and communication technology contribute to increasing the risk of those practices. [...]”*. In fact from a survey carried out among companies in the EU it appears that 75 % considers trade secrets to be strategically important for growth and for competitive power and innovation of their business, furthermore that approximately 1 out of 5 companies has been confronted during the last 10 years with illegal use of trade secrets and finally that approximately 2 out of 5 companies declared that the risk of illegal use of trade secrets increased over the last 10 years.

2. With all this in mind the EU legislator decided to take initiatives. The reason is clearly explained in Whereas clause 8: *“The differences in the legal protection of trade secrets provided for by the Member States imply that trade*

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² Official Journal 2016, L157,

³ Wet van 17 oktober 2018, houdende regels ter uitvoering van Richtlijn 2016/943/EU van het Europees Parlement en de Raad van 8 juni 2016 betreffende bescherming van niet-openbaar gemaakte knowhow en bedrijfsinformatie (bedrijfsgeheimen) tegen het onrechtmatig verkrijgen, gebruiken en openbaar maken daarvan.

secrets do not enjoy an equivalent level of protection throughout the Union, thus leading to fragmentation of the internal market in this area and a weakening of the overall deterrent effect of the relevant rules. The internal market is affected in so far as such differences lower the incentives for businesses to undertake innovation-related cross-border economic activity, including research cooperation or production cooperation with partners, outsourcing or investment in other Member States, which depends on the use of information that enjoys protection as trade secrets. Cross-border network research and development, as well as innovation-related activities, including related production and subsequent cross-border trade, are rendered less attractive and more difficult within the Union, thus also resulting in Union-wide innovation-related inefficiencies.” The TSD of course also refers to art. 39 of the TRIPS-Agreement. This provision deals with the protection of trade secrets against their unlawful acquisition, use or disclosure by third parties, which is a common international standard. All Member States, as well as the Union itself, are bound by this Agreement. Notwithstanding this provision, there are major differences between member states in the ways trade secrets are being protected. In order to avoid these differences there should be approximation of such laws so as to ensure that there is a sufficient and consistent level of civil redress in the case of abuse.

3. Before discussing the most important aspects of the new regime, I will briefly touch upon the question as to how trade secrets are qualified. The TRIPS-Agreement makes it absolutely clear that trade secrets are intellectual property. Art. 1.2 says that the term “intellectual property” refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II, which covers among other the protection of undisclosed information provided for in art. 39. The provisions on enforcement refer to IP-rights; see for example art. 41.1 providing: “*Members shall ensure that enforcement procedures ... are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement.*” However, the TSD makes it clear that trade secrets should not be considered as IP-rights. I quote Whereas clause 16: “*In the interest of innovation and to foster competition, the provisions of this Directive should not create any exclusive right to know-how or information protected as trade secrets.*” But it is striking that the different provisions make trade secrets look like IP. For example, art. 2(3) and (4) TSD speak of “*infringer*” and “*infringing goods*” respectively, terms that are normally reserved for IP rights. The reason behind

this is that the Member States could not agree on the qualification of IP-rights. The result is that the provisions of the so called Enforcement Directive are not applicable to trade secrets.⁴ The TSD has its own enforcement regime and Member States are free to provide for other remedies than those found in the TSD.

4. There are three basic requirements before certain information can be called a trade secret and can enjoy the benefit of protection under the TSD. Those requirements, to be found in art. 2(1), are, that the information:

- (a) 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) has commercial value because it is secret;
- (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret

Art. 2(2) provides that the person lawfully in control of the information is the so called “trade secret holder” and that person is entitled to act in the case of abuse. It is clear that the notion “information” is broad. Whereas clause 14: “[...] *Such definition should therefore be constructed so as to cover know-how, business information and technological information [...]*” and furthermore it: “... *excludes trivial information and the experience and skills gained by employees in the normal course of their employment, and also excludes information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question.*”

5. The requirement that protectable information should have commercial value because it is secret is explained in Whereas clause 14 saying: “*Such know-how or information should be considered to have a commercial value, for example, where its unlawful acquisition, use or disclosure is likely to harm the interests of the person lawfully controlling it, in that it undermines that person's scientific and technical potential, business or financial interests, strategic positions or ability to compete.*” Also, this description shows that commercial

⁴ Directive 2004/48 of the European Parliament and of the Council of 27 April 2004 on the enforcement of intellectual property rights, OJ 2004, L157/45.

value is readily be accepted. One can for example think of information regarding the holiday dates of the CEO of a company as disclosure thereof could harm business interest of a company.

6. The last requirement of the “reasonable steps” probably is the most important one. Experience shows that many court cases stumble over this requirement. One of the things that are mandatory to fulfil this requirement is that the information to be protected by the trade secrets provisions is clearly identified and defined. This requires setting up a documentation system and procedure so that it can later be explained to courts what information is to be protected. This also includes the identification of possible sources of unlawful divulcation (employees, partners, competitors, etc.). Of course, the “reasonable steps” requirement involves appropriate legal as well as practical measures. Legal measures involve confidentiality and non-disclosure clauses as well as no-use clauses in employment and partnership agreements, furthermore the development of a trade secrets policy (for example including an obligation to discuss trade secrets as part of yearly assessment of employees and of exit interviews, monitoring confidentiality and non-disclosure agreements, etc.). Practical measures involve internal trainings, limited access to certain areas, policy for external visitors, passwords, restricted visibility and removal of information on white or blackboards, give only “need to know” access, encryption, etc.

7. If one compares these requirements with art. 39 TRIPS-Agreement, it is not surprising that they are almost identical. It is also clear that art. 39 is mainly based on United States law where similar requirements are valid.⁵ In interpreting the requirements of the TSD, it can therefore be helpful to look into US case law.

8. According to art. 4(1) the trade secret holder should be able to prevent or to gain redress in the case of the unlawful acquisition, use or disclosure of his trade secret. In further defining this, the TSD makes a distinction between “acquisition” on the one hand and “use or disclosure” on the other. The acquisition shall be considered unlawful whenever carried out by unauthorised access to, appropriation of, or copying of any documents, objects, materials,

⁵ See the Uniform Trade Secrets Act of 1979, amended in 1985 on the basis of which most US states have enacted state laws. See also the The Defend Trade Secrets Act of 2016 (DTSA) (Pub.L. 114–153, 130 Stat. 376, enacted May 11, 2016, codified at 18 U.S.C. § 1836, et seq.) which now allows proceedings on trade secrets to be brought before federal courts.

substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced, or any other conduct which, under the circumstances, is considered contrary to honest commercial practices (art. 4(2)). As one can see the notion unlawful acquisition is very broad. For use or disclosure to be unlawful it should be carried out by a person who is found to meet any of the following conditions: (a) having acquired the trade secret unlawfully; (b) being in breach of a confidentiality agreement or any other duty not to disclose the trade secret; (c) being in breach of a contractual or any other duty to limit the use of the trade secret (art. 4(3)). What happens if a person is not the one, who first unlawfully acquired, uses or disclosed a trade secrets, but is the second hand, so to speak. For that case art. 4(4) provides that the acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever such 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 art. 4(3). Art. 4(4) makes it clear that the production, offering or placing on the market of infringing goods, or the importation, export or storage of infringing goods for those purposes by such a person, shall also be considered as unlawful use.

9. Let us assume that such a person at the time of acquisition, use or disclosure was in good faith but is informed later that the trade secret has originally been acquired unlawfully? In such a situation, art. 13(3) provides that the competent judicial authority may order pecuniary compensation (not more than normal royalties) to be paid to the injured party instead of applying measures like an injunction etc. as further provided for in art. 12. Whereas clause 29 say about this: *“A person could have originally acquired a trade secret in good faith, but only become aware at a later stage, including upon notice served by the original trade secret holder, that that person's knowledge of the trade secret in question derived from sources using or disclosing the relevant trade secret in an unlawful manner. In order to avoid, under those circumstances, the corrective measures or injunctions provided for causing disproportionate harm to that person, Member States should provide for the possibility, in appropriate cases, of pecuniary compensation being awarded to the injured party as an alternative measure.”* It is to be noted that the term “infringing goods is defined as goods, the design, characteristics, functioning, production process or

marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed (art. 2(4)).

10. From the above it follows that the rights of a trade secrets holder are rather broad. However, there are a few exceptions to these rights. These can be found in art. 3 and 5. Art. 3 provides for cases in which the acquisition is considered lawful:

- Independent discovery or creation of information
- Reverse engineering (of a lawfully acquired product/object)
- Exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices
- Any other practice which, under the circumstances, is in conformity with honest commercial practices

Art. 5 gives circumstances under which remedies shall be refused where the alleged acquisition, use or disclosure of was carried out

- Freedom of expression and information (incl. whistleblowing “*for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest*“)
- Disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise
- Information which must legally be communicated

11. As said before, the TSD provides for a number of measures that should be available for trade secrets holders in the case of abuse. The Member States are free to provide for other measures. Following general principles on procedures as provided for in art. 21 and 42 TRIPS-Agreement, the TSD provides that measures should (a) be fair and equitable; (b) not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays; and (c) be effective and dissuasive (art. 6). Furthermore, the measures provided for in the TSD shall be applied in a manner that: (a) is proportionate; (b) avoids the

creation of barriers to legitimate trade in the internal market; and (c) provides for safeguards against their abuse.

12. As far as the measures are concerned, the TSD provides for both provisional and precautionary measures (art. 10) as well as injunctions and corrective measures on the merits (art. 12) as well as for appropriate damages (art. 14). The provisional and precautionary measures include: (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis; (b) 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; (c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market. Art. 11 prescribes that for a successful application for such measures evidence should be provided such that the authorities can be satisfied with a sufficient degree of certainty that (a) a trade secret exists; (b) the applicant is the trade secret holder; and (c) the trade secret has been acquired unlawfully, is being unlawfully used or disclosed, or unlawful acquisition, use or disclosure of the trade secret is imminent. In case provisional or precautionary measures are being granted, they shall be revoked if the trade secrets holder did not start a case on the merits within a reasonable period.

13. As to cases on the merits the following measures can be ordered: (a) the cessation of, or, as the case may be, the prohibition of the use or disclosure of the trade secret; (b) 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; (c) the adoption of the appropriate corrective measures with regard to the infringing goods (including (1) recall of the infringing goods from the market; (2) depriving the infringing goods of their infringing quality; (3) destruction of the infringing goods or, where appropriate, their withdrawal from the market, provided that the withdrawal does not undermine the protection of the trade secret in question); (d) 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 of those documents, objects, materials, substances or electronic files.

14. According to art. 11(2) and 13(1) the authorities when considering the application for provisional and precautionary measures as well as measures on the merits and assessing their proportionality shall take into account the specific

circumstances of the case, including, where appropriate: (a) the value and other specific features of the trade secret; (b) the measures taken to protect the trade secret; (c) the conduct of the respondent in acquiring, using or disclosing the trade secret; (d) the impact of the unlawful use or disclosure of the trade secret; (e) the legitimate interests of the parties and the impact which the granting or rejection of the measures could have on the parties; (f) the legitimate interests of third parties; (g) the public interest; and (h) the safeguard of fundamental rights.

15. As far as damages are concerned, art. 14 provides that the infringer can be ordered to pay damages to the trade secret holder appropriate to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret. When setting the damages the authorities shall take into account all appropriate factors, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the trade secret holder by the unlawful acquisition, use or disclosure of the trade secret. Alternatively, the competent judicial authorities may, in appropriate cases, set the damages as a lump sum on the basis of elements such as, at a minimum, the amount of royalties or fees which would have been due had the infringer requested authorisation to use the trade secret in question. Finally, art. 15 provides that the authorities may order, at the request of the applicant and at the expense of the infringer, appropriate measures for the dissemination of the information concerning the decision, including publishing it in full or in part.

16. The final topic in this overview concerns the difficult relation between the need to keep certain information secret and enforcing trade secrets through (in principle) public hearings for which rules of fair trial are applicable. As Whereas clause 24 rightly puts it: *“The prospect of losing the confidentiality of a trade secret in the course of legal proceedings often deters legitimate trade secret holders from instituting legal proceedings to defend their trade secrets, thus jeopardising the effectiveness of the measures, procedures and remedies provided for.”* The TSD provides for safeguards aiming at protecting trade secrets also in the course of civil proceedings. Art. 9(1) provides that: *“Member States shall ensure that the parties, their lawyers or other representatives, court officials, witnesses, experts and any other person participating in legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal*

proceedings, are not permitted to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a duly reasoned application by an interested party, identified as confidential and of which they have become aware as a result of such participation or access.”

Subsequently, art. 9(2) outlines that the authorities can order specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of legal proceedings on the unlawful disclosure or use of trade secrets. Such measures shall at least include: *(a) of restricting access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties, in whole or in part, to a limited number of persons; (b) of restricting access to hearings, when trade secrets or alleged trade secrets may be disclosed, and the corresponding record or transcript of those hearings to a limited number of persons; (c) of making available to any person other than those comprised in the limited number of persons referred to in points (a) and (b) a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed or redacted.* But whatever measures will be ordered, the general principle remains: (art. 9(4)): *When deciding on the measures referred to in paragraph 2 and assessing their proportionality, the competent judicial authorities shall take into account the need to ensure the right to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate, of third parties, and any potential harm for either of the parties, and, where appropriate, for third parties, resulting from the granting or rejection of such measures.* With this toolbox a trade secret holder does have guarantees that his trade secrets will not be lost because he had to disclose them to a court and his opponent. A very effective procedure can be that the courts use experts who look into specific questions on the use of particular secret steps for example in a recipe by both the trade secret holder and the alleged infringer. The expert then reports back to the court whether or not a specific step is made in that recipe. One problem can be that before a court will order certain protective measures, the trade secret holder might have to divulge the trade secret in order to be able to get such an order. But at that time there are no protective measures yet and the trade secret could be lost. It is therefore advisable that national laws do provide for a mechanism by which the court issues protective orders before such divulgation takes place.

17. It will be interesting to see how the case law under the national laws that implemented the TSD develops. The European Commission will follow such

developments in order to see whether the TSD indeed is an effective instrument for the protection of trade secrets.

November 22, 2018