



JONES DAY
COMMENTARY

HEADING FOR A HARMONIZATION OF THE EUROPEAN LEGISLATION ON THE PROTECTION OF TRADE SECRETS

On November 28, 2013, the European Commission published a proposal for a Directive to protect trade secrets and confidential business information against misuse by third parties.¹ The Directive applies to the “unlawful acquisition, disclosure and use of trade secrets and the measures, procedures and remedies that should be made available for the purpose of civil law redress.”

MAIN OUTCOME

This proposal, the first of its kind on a European level, is designed to harmonize the law and its enforcement across all 28 Member States of the European Union.

If adopted, the Directive will dramatically reform the law of trade secrets across the European Union—which, to date, is a diverse patchwork of unequally sophisticated legal systems—and strengthen legal certainty for players on the unified market. Indeed, the new legal text would introduce:

- A series of uniform definitions, notably of the terms “trade secret”² and “unlawful acquisition,³ use or disclosure⁴”;
- A common set of remedies for trade secret misuse, including interim and permanent injunctions, seizure and destruction of suspected infringing goods, and compensatory damages;
- A two-year limitation period in which to bring claims, running from the date on which the claimant became aware (or should have been aware) of the last fact giving rise to the action; and
- Measures to preserve the confidentiality of trade secrets in dispute in the course of legal proceedings.

BACKGROUND FOR THE PROPOSAL

The Unequal Protection of Trade Secrets Across the EU. It is commonly acknowledged that research and development within the EU is not sufficiently supported and protected when compared to some

major trading partners, in particular the U.S. and Japan. Such imperfect protection adversely affects investments and ultimately, the introduction of new products, services, and processes.

In this context, economists have pointed out that the discrepancies between Member States' legal frameworks on trade secrets constituted a major deterrent and partly accounted for the EU's limited competitiveness.

Indeed, trade secrets are a particularly interesting asset for small and medium-sized businesses that lack the resources to apply for, manage, and enforce a large portfolio of intellectual property rights. This applies as well to businesses that use fast-paced models and choose to protect their information by keeping it secret rather than (if appropriate) applying for patents or other types of intellectual property titles.

Unlike an intellectual property right owner, a holder of a trade secret—whatever its nature: formula, manufacturing process, recipe, marketing or pricing strategy, training material, etc.—is not the owner of a publicly known exclusive right. Indeed, a trade secret is protected, and is therefore exclusive to its owner, only to the extent that its secrecy is preserved. Nevertheless, trade secrets, as well as intellectual property rights, need to be protected so as to promote innovation by ensuring that creators are in a position to be rewarded for their investments.

In order to help economic players preserve such secrecy and entice them to pursue their innovative efforts, legal defenses are provided against unfair practices aimed at illegally obtaining, using, and/or disclosing such confidential information in order to free-ride on innovative solutions, while saving R&D or reverse engineering investments.

To address this issue, each Member State has legislated in its own way, creating discrepancies not only as regards definitions and applicable grounds, but also as regards enforcement modalities and relevant remedies. Only Sweden has an Act wholly directed to trade secrets misappropriation; in most other countries, specific provisions are scattered in different pieces of legislation, and other Member States merely rely on general provisions not specifically designed

to punish trade secrets violations (unfair competition law, contractual law, tort law, etc.). Some Member States protect trade secrets under a broad definition, while others, like France, protect only manufacturing and process secrets ("*secrets de fabrique*") via criminal proceedings against misappropriation by an employee. The available remedies also vary dramatically—in most Member States, misappropriation of trade secrets may give rise to criminal penalties, but not in the UK, for example.

These differences tend to hinder cross-border R&D projects and the sharing of innovative knowledge within the EU and to deter victims of trade secrets violations from initiating lawsuits against infringers.

AN INITIATIVE ORIGINATING FROM THE EUROPEAN COMMISSION

Recognizing these shortcomings and the need for consistency, in October 2010, the European Commission undertook to create an innovation-friendly environment, under the flagship initiative "Innovation Union."⁵ Within this framework, it commissioned a study relating to the treatment of trade secrets and confidential business information within the internal market.⁶

This study confirmed the need for harmonization:

Firms are often required to adopt different measures to protect their trade secrets depending on the relevant jurisdiction; in case of infringement, they have to initiate separate proceedings in each jurisdiction where their trade secrets have been violated. These costs are not sustainable for SMEs, and for all firms the consequence is a reduced inclination to share secret information and cooperate with other players for R&D and innovation purposes. [...] the current fragmented system undoubtedly has adversely affected the aggregate level of engagement in innovation by EU firms and cross-border investment and growth. Based on the above, we found that an initiative at the EU level to harmonise national legislation is perceived as beneficial.⁷

Published only seven months after the release of the study, the “Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets)” lays the foundation for a similar scope of protection within the European Union.

MAIN FEATURES OF THE FUTURE DIRECTIVE

Homogenous Definitions. To date, Member States have adopted different definitions of protectable trade secrets and illicit conduct. Indeed, the general definition provided by Article 39.2 of the TRIPS Agreement⁸ has been expressly acknowledged by only a few countries (Czech Republic, Greece, the Netherlands, and Spain). Therefore, the first chapter of the Proposal is dedicated to providing definitions of the key concepts that are intended to equally apply to all Member States.

In compliance with the recommendations included in the study, the definition of a “trade secret” proposed by this text follows the one of “undisclosed information” contained in article 39.2 of the TRIPS Agreement. Similarly, the definition of “trade secret” contains three elements: (i) the information must be confidential; (ii) it should have commercial value because of its confidentiality; and (iii) the trade secret holder should have made reasonable efforts to keep it confidential.⁹

Also based on the TRIPS definition, the definition of “trade secret holder”¹⁰ incorporates the concept of lawfulness of control of the trade secret as a key element. It therefore ensures that not only the original owner of the trade secret but also licensees can defend the trade secret. This precision reflects the legislator’s will to provide causes of action to as many victims as possible.

Article 3 of the Proposal follows the same line by encompassing not only direct infringers but also, under conditions, the persons benefiting from the unlawfully obtained trade secret. Indeed, this article determines that the use of a trade secret by a third party not directly involved in the original unlawful acquisition, use, or disclosure is also unlawful, “whenever [...], at the time of use or disclosure, [it] knew or should, under the circumstances, have known that the trade

secret was obtained from another person who was using or disclosing the trade secret unlawfully [...]”¹¹

Limitation Period. On the flipside, article 7 establishes a two-year limitation period in which to bring claims, running from the date on which the claimant became aware (or should have been aware) of the last fact giving rise to the action.¹² This time frame is shorter than the limitation period provided by most Member States’ legislations.

Available Measures. The Proposal also provides for a series of measures that should be made available to the holder of a trade secret in case of unlawful acquisition, use, or disclosure of that trade secret by a third party.

Section 2 provides for provisional and precautionary measures in the form of interlocutory injunctions or precautionary seizure of infringing goods.

Section 3 provides for measures that may be ordered with the decision of the merits of the case, among which are the prohibition of use or disclosure of the trade secret and the prohibition to make, offer, place on the market, or use infringing goods (or import or store infringing goods for those purposes). The text also provides for a common set of corrective measures such as destruction or delivery to the original trade secret holder of all of the information the infringer holds with regard to the unlawfully acquired, used, or disclosed trade secret.

The awarding of damages for the prejudice suffered by the trade secret holder is included in Article 13, which calls for the taking into consideration of all the relevant factors, including the unfair profits obtained by the defendant. The possibility of calculating the damages on the basis of hypothetical royalties is also made available, in line with what is foreseen in the case of infringements of intellectual property rights. Punitive damages are not provided for under the proposed directive.

Finally, Article 14 empowers the competent judicial authorities to adopt publicity measures at the request of the plaintiff, including the publication of the decision on the merits of the case—provided that the trade secret is not disclosed and after considering the proportionality of the measure.

Available Measures. In the past, trade secret holders were often deterred from bringing legal actions against infringers because of their fear that the trade secrets at stake would be publicly disclosed in the course of the proceedings.

In order to address this issue, Article 8 of the “Proposal for a Directive” requires that Member States provide judicial authorities with mechanisms to preserve the confidentiality of trade secrets disclosed in court for the purpose of litigation. The possible measures must include: restricting access to documents submitted by the parties or third parties, in whole or in part; restricting access to hearings and hearing records; ordering the parties or third parties to prepare nonconfidential versions of documents containing trade secrets and also preparing nonconfidential versions of judicial decisions.

The confidentiality measures must apply during litigation, but also after litigation in the case of requests for public access to documents for as long as the information in question remains a trade secret.

LIMITS OF THE PROPOSITION

The “Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets)” against their unlawful acquisition, use, and disclosure is therefore an ambitious step toward a more effective protection of trade secrets and could significantly encourage trade secret holders to bring legal actions against infringers.

However, there remain some noticeable gaps.

The fact that the European Commission has not proposed rules to facilitate the gathering of evidence of unlawful acquisition, use, or disclosure in court proceedings is disappointing. In the past, the difficulty of proving an alleged violation of trade secrets in court has been an obstacle for many companies to enforce their claims. Such difficulty would persist, even if the Proposal is to be implemented.

Doubts were also expressed as to whether harmonization would simplify matters, or whether it would in fact introduce greater uncertainty and multiple references to the Court of Justice of the European Union on the new laws. One hopes that this attempt to harmonize the law will improve the European Union’s competitiveness and facilitate cross-border operations.

It is now in the hands of the Council of Ministers and the European Parliament to determine whether the proposed Directive shall be adopted, under the ordinary legislative procedure. If approved, it could enter into force by the end of 2014.

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ENDNOTES

- 1 “Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure,” November 28, 2013, n°2013/0402 (COD)
- 2 Chapter I, Article 2 provides the following definition of a “trade secret” embodied in an information: “(i) the information must be confidential; (ii) it should have commercial value because of its confidentiality; and (iii) the trade secret holder should have made reasonable efforts to keep it confidential.” This definition follows the definition of “undisclosed information” in the TRIPS Agreement.
- 3 Chapter II, article 3.2 provides that : “The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful whenever carried out intentionally or with gross negligence by: (a) unauthorized access to or copy of any documents, objects, materials, 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; (b) theft; (c) bribery; (d) deception; (e) breach or inducement to breach a confidentiality agreement or any other duty to maintain secrecy; (f) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.”
- 4 Chapter II, Article 3.3 provides that: “The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder, intentionally or with gross negligence, by a person who is found to meet any of the following conditions: (a) has acquired the trade secret unlawfully; (b) is in breach of a confidentiality agreement or any other duty to maintain secrecy of the trade secret; (c) is in breach of a contractual or any other duty to limit the use of the trade secret.”
- 5 “The Innovation Union – turning ideas into jobs, green growth and social progress” (project included in the frame of the “Europe 2020 Strategy,” which set five ambitious objectives—on employment, innovation, education, social inclusion, and climate/energy—to be reached by 2020), European Commission - IP/10/1288, October 6, 2010.
- 6 Study on Trade Secrets and Confidential Business Information in the Internal Market, Final Study, April 2013, Prepared for the European Commission, Contract number: MARKT/2011/128/D.
- 7 Cf. above reference no. 6.
- 8 Article 9.2 of the TRIPS agreement: “Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such 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; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.”
- 9 Cf. above reference no. 2.
- 10 Article 2 (2) of the Proposal for a Directive: “‘trade secret holder’ means any natural or legal person lawfully controlling a trade secret”.
- 11 Article 3, 4 of the Proposal for a Directive: “The use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully within the meaning of the paragraph 3.”
- 12 Article 7 of the Proposal for a Directive: “Member States shall ensure that actions for the application of the measures, procedures and remedies provided for in this Directive may be brought within at least one year but not more than two years after the date on which the applicant became aware, or had reason to become aware, of the last fact giving rise to the action.”