

Presentation of the new EU directive on trade secrets

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Outline

1. Project's genesis
2. Scope of protection
3. Measures and remedies
4. Controversial issues

1. Project's genesis

- The problem: a fragmented landscape
- However, no full harmonization has been achieved: (Dir. art. 1):“Member States may, in compliance with the provisions of the TFEU, provide for more far-reaching protection against the unlawful acquisition, use or disclosure of trade secrets than that required by this Directive »

2.1 Scope of protection: Trade secret and trade secret holder

‘trade secret’ means: (Dir. art. 2) “information which meets all of the following requirements:

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

‘trade secret holder’ means: (Dir. art. 2) “any natural or legal person lawfully controlling a trade secret”

2.2 Scope of protection: misappropriation acts

Dir art. 4.2 « The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:

(a) unauthorized access to, appropriation of, or copying 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) any other conduct which, under the circumstances, is considered contrary to honest commercial practices ».

Dir. art. 4.3 « The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder, 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 ».

3. Measures and remedies: the influence of IP law

- **Damages calculation:** (Dir. art. 14) “when setting the damages referred to in paragraph 1, the competent judicial 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”.
- **The concept of infringing goods:** (Dir. art. 2) ‘infringing goods’ means goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed”.

4.1 Controversial issues: Evidence collection

- 43% of the companies which decided not to seek legal remedies against the misappropriation of a trade secret did so because they experienced difficulties in collecting evidence (Baker and McKenzie Study)
- This issue remains out of the scope of the directive

4.2 Controversial issues: exceptions and limits

- Dir. Art. 5: «Member States shall ensure that an application for the measures, procedures and remedies provided for in this Directive is dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:
 - (a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;
 - (b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest».

4.3 Preservation of confidentiality during legal proceedings

- One third of the companies which decided not to seek legal remedies against a trade secret's misappropriation in the EU did so because initiating legal action would bring the case to the public attention (Baker and McKenzie Study)
- The first draft of the directive on trade secrets stated that « In exceptional circumstances, the competent judicial authorities may restrict the parties' access to hearings and order them to be carried out only in the presence of the legal representatives of the parties and authorized experts subject to the confidentiality »
- The final version of the directive states that the persons who have access to documents or hearings “shall include, at least, one natural person from each party and the respective lawyers or other representatives of those parties to the legal proceedings”

Presentation of the New EU Directive on Trade Secrets

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Is Trade secret law the « orphan » of intellectual property law?

The question was raised by an American author, M. MC Dougall.

It is true that trade secrets, which are very important to European corporations haven't been given much attention for a long time. While they are not generally regarded as intellectual property rights, they are not part of the IP family in Europe.

However, here we find a paradox.

Although, weaker in nature when compared to IP law, trade secrets protection can turn out to be much more advantageous.

In fact, this protection is of unlimited duration and can extend to ideas. Besides, and by definition, it does not require any disclosure.

In this respect, trade secret protection can go further than IP protection.

They also complement IP protection very efficiently: all intellectual property rights (trademarks, copyrights, patents, designs, etc.) start by being a trade secret.

Trade secrets are also used after a patent is obtained.

For example, to protect valuable information relating to an invention, that is not included in the patent specification.

Realizing that these secrets are of the utmost importance, the European legislator has recently adopted a directive on the topic.

Let's have a look at this directive in four parts: First of all, the directive genesis, then the scope of protection, then the study of the measures and remedies and, lastly, the controversies.

I. Project's genesis

The lack of a common legal framework has been the main driving force behind this directive. Indeed, there is a real fragmentation in Europe as far as trade secrets law is concerned.

Each European country has its own definition of trade secrets.

Measures and remedies can also vary considerably from one state to another. For example, injunctions and damages can be found everywhere but, on the contrary, the seizure of infringing good is not so common.

Another issue is that some member states do not address the problem of preservation of confidentiality during legal proceedings.

This fragmentation has threatened the enforcement of trade secrets within Europe and this is one of the primary reasons this directive has been voted.

However, it is worth noting that no full harmonization has been achieved. The directive (art 1) states that “Member States may, in compliance with the provisions of the TFEU, provide for more far-reaching protection against the unlawful acquisition, use or disclosure of trade secrets than that required by this Directive ».

The directive provides for a minimal protection, so Member states have the freedom to go one step further. However, there are a small number of mandatory provisions, notably regarding exceptions.

Another key driver for the enactment of the European directive has been a move towards more convergence between trade secrets law and IP law. During his hearings before the European Parliament, a lawyer from bird and bird stressed, i quote, « the protection of trade secrets and patents are closely linked. It is very unfortunate if a Court then has to apply two different sets of tools for enforcement in a single action ».

Let’s have a look at the scope of protection.

II. Scope of protection

The scope of protection is very broad both as regards the definition of trade secrets, their holders, and misappropriation acts.

Let’s have a look at the European definition of trade secret, inspired by the TRIPS agreement:

Trade secrets are defined as information that

- a) is secret in the sense that it is not generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- b) it has commercial value because it is secret;
- c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;

It is worth noting that the secret does not have to be an absolute one. European courts only require a secret that is not generally known or easily accessible.

The fact that the information is shared with a limited group of people does not negate its confidential nature.

On the contrary, the disclosure of the information to the general public would certainly mean that the information is no longer confidential.

The scope of protection is wide, encompassing commercial as well as technical secrets such as the legendary formula of « Coca-Cola » or Nutella.

Regarding the commercial value of the information, it bears noting that even negative information may be of commercial value. For example, the information that a process does not work in practice.

It is also necessary to prove that protective measures were taken by the holder of the secret. These measures can be:

- a “private” or “confidential” mention on a file,
- access restrictions, fences,
- confidentiality agreements with employees or third parties,
- encryption and the like...

These measures must be sufficient, no protection would be granted to a negligent holder.

Let's move on to the definition of trade secret's holders.

According to article 2 of the directive, the ‘trade secret holder’ can be any natural or legal person lawfully controlling a trade secret;

This is also a very vague definition that raises some unanswered questions:

- Who is the holder of a trade secret devised by an employee in the performance of his duties? The employee or his superior?
- What about the situation in which the trade secret results from the work of several people, is the last contributor the holder of the trade secret?

Each jurisdiction will respond differently to these questions.

Now, let's say a few words regarding the misappropriation acts that are forbidden under the directive:

According to its article 4, the acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:

1. (a) unauthorized access to, appropriation of, or copying 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;
2. (b) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.

The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder, by a person who is found to meet any of the following conditions:

1. (a) having acquired the trade secret unlawfully;
2. (b) being in breach of a confidentiality agreement or any other duty not to disclose the trade secret;
3. (c) being in breach of a contractual or any other duty to limit the use of the trade secret.

I would like to make 4 remarks regarding this article:

Firstly, the unlawful acquisition of a trade secret refers to the situation of economic espionage. By contrast, the unlawful use or disclosure of a trade secret means that a person was entitled to access the secret but subsequently diverts it, for example as in a breach of contract case.

Secondly, these behaviors have one thing in common: there are done without the consent of the trade secret holder.

Thirdly, in the first draft of the directive there was a requirement that unlawful acts be carried out intentionally or with gross negligence. The burden of proof of this element of intent rested with the plaintiff. This requirement raised criticism, in particular from the IP federation, and was subsequently dropped.

Lastly, the provision according to which the misappropriation can derive from any other conduct that, under the circumstances, is considered contrary to honest commercial practices deserve our attention. As you can see, the approach of the protection under the directive is behavioral and very much inspired by unfair competition law. It is the use of unlawful means which is sanctioned and not the mere acquisition of a trade secret.

For this reason, the acquisition of a trade secret is lawful under the directive when it stems from independent discovery or creation. And the directive explicitly states, in its preamble, that it doesn't create any exclusive right to know-how or information protected as trade secrets.

Now, let's move on to measures and remedies.

III. Measures and remedies

Regarding measures and remedies, there is a paradox.

Despite the fact that trade secrets are not generally protected under intellectual property law, the directive promotes an approximation. When it comes to damages calculation, available injunctions, corrective measures and so forth, the remedies are often the same.

We are facing a hybrid protection: removed from intellectual property in nature but very similar by its regime.

Let's look at two examples:

When it comes to damages calculation, most of the European jurisdictions apply the basic rule of tort liability: damages should be in proportion with the actual prejudice suffered by the claimant who must be placed in the position he would have been had the wrongful conduct not taken place.

Damages will usually reflect the loss of business which derives from the trade secret misappropriation.

Therefore, the plaintiff must demonstrate the loss suffered.

However, as this can prove quite difficult to achieve, the directive provides that damages should be similar to those awarded in intellectual property cases under the enforcement directive. And this, despite the fact that trade secrets are not regarded as intellectual property.

In this way, the judge will be faced with two possibilities:

Either, they can take into account the unfair profits made by the defendant and the moral prejudice suffered by the claimant or, they can set the damages as a lump sum. This lump sum is set on the basis of elements such as, at a minimum, the amount of royalties or fees which would have been due if the infringer had requested authorization to use the trade secret.

The phrase « at a minimum » is important. The amount of damages awarded must be higher than the license fee. Otherwise, the trade secrets enforcement system would lose its deterring power.

- Another example of the influence of IP law is the concept of infringing goods.

According to the directive, they are defined as « goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed ».

Art 12 of the directive provides that Member states shall ensure that these infringing goods can be recalled, destroyed or withdrawn from the market in certain conditions.

As you can see, these infringing goods resemble very much those of the 2004 directive on the enforcement of IP rights.

Lastly, let's switch to my last point, the controversies.

IV. The controversies

Evidence collection is key to ensure an effective enforcement of trade secrets.

All the studies recently published by the European Commission stress this fact.

For example, a study published by Baker and McKenzie underlines that almost 43 % of the companies which decided not to seek legal remedies against the misappropriation of a trade secret did so because they experienced difficulties in collecting evidence.

It should come as no surprise that relevant proof of the misappropriation is hard to come by. The infringer has absolutely no interest in cooperating with the claimant. Therefore, the latter will have great difficulty collecting evidence to substantiate his claim.

This issue is not unique nor specific to trade secrets litigation. But, where intellectual property rights are concerned, it can be overcome by specific remedies under the enforcement directive of 2004, and notably the right of information.

This right allows the competent judicial authorities to order that information on the suppliers be provided by the infringer or any other person involved in the distribution of infringing goods.

But, as we saw earlier, trade secrets are not generally regarded as works protected by intellectual property rights. Therefore, this measure is not available in a vast majority of European countries.

This is indeed a significant hindrance to trade secrets enforcement. There is no harmonization when it comes to evidence collection.

Therefore, the fragmented landscape described above will endure.

Some member states address this issue by promoting the use of Ex-parte orders to trade secrets, such as in Germany or in France where they are available.

Other European countries such as the UK (for the moment at least) and Ireland have a strong discovery procedure. According to this procedure, all relevant documents, which are at the disposal of a party, have to be disclosed to the other party, unless there are privileged documents.

But in many jurisdictions, evidence collection will remain a challenging area and a piecemeal approach will continue to prevail.

Another controversial issue is that of exceptions and limits.

In particular, the need to reconcile the protection of trade secrets with the journalist's freedom of information was a highly sensitive issue during the creation of the directive. Since the beginning, journalists have expressed their fear that a far-reaching protection of trade secrets could jeopardize their freedom of information.

This is why a safeguard has been introduced in the directive. Its article 5 states that Member States shall ensure that an application for the measures, procedures and remedies provided for in this Directive is dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:

1. (a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;
2. (b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;

This provision means that journalists and whistleblowers can disclose trade secrets at certain conditions.

It is a significant limitation to the protection of trade secrets.

As you may have heard, almost 28.000 tax rulings and other sensitive documents were recently leaked to the media in the Luxleaks scandal.

Last June, two French whistleblowers were convicted to suspended sentences by a court in Luxembourg.

In that case, criminal proceedings were brought against the whistleblowers, and the directive could not apply.

However, in the context of civil procedures, the remedies provided for in the directive would not apply to a journalist or a whistleblower if he acted for the purpose of protecting the general public interest.

And, as you can see, this provision does not only refer to the disclosure of an illegal activity but extends to the disclosure of a “wrongdoing” or a “misconduct” which are pretty vague and broad concepts.

The last controversial issue i would like to tackle is the preservation of confidentiality during legal proceedings.

This is a serious matter. According to the Baker & McKenzie Study, one third of the companies which decided not to seek legal remedies against a trade secret’s misappropriation in the EU did so because initiating legal action would bring the case to the public attention.

This illustrates how the lack of adequate protection, during legal proceedings, is one of the main concerns of trade secrets holders.

But, on the other hand, the open court principle is the rule within Europe. Therefore, debates must be held in public. There are a few exceptions with respect to privacy or when a matter of national security is at stake.

This « open court » principle creates a sensitive paradox when it comes to trade secrets: either you further disclose your secret or you loose your trade secret’s case.

Initially, the draft directive on trade secrets stated that « In exceptional circumstances. the competent judicial authorities may restrict the parties’ access to hearings and order them to be carried out only in the presence of the legal representatives of the parties and authorized experts subject to the confidentiality ».

This provision raised serious concern.

Indeed, in this case, it is not one but two fundamental principles which would have been violated:

There is the open court principle as we have just seen.

And there is also the principle that no person can be judged without a fair hearing. During this hearing each party is meant to be given the opportunity to respond to the evidence against them.

It allows each party to challenge the evidence presented by the other party. This right is recognized by the European convention on human rights.

The final text of the directive is more lenient regarding this issue.

It states that the persons who have access to documents or hearings “shall include, at least, one natural person from each party and the respective lawyers or other representatives of those parties to the legal proceedings ».

In conclusion, I would like to highlight that there are many issues unanswered by this directive. Therefore the role of the European Court of Justice will be of the utmost importance and its future rulings should be analyzed with great care.

Thank you for your attention.

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