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ALERT MEMORANDUM

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European Commission Proposal for Harmonization of the Law on the Protection of Trade Secrets

I. INTRODUCTION

The European Commission announced on 28 November 2013 the adoption of a "Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure" (the "Proposal"), as part of its efforts to facilitate cross-border innovation and the exchange of knowledge within the EU. The Proposal aims to harmonize laws across the EU relating to the protection of commercially valuable confidential information, also referred to as "trade secrets", "business confidential information" and "proprietary know-how".

II. EXECUTIVE SUMMARY

The Proposal provides for:

- a uniform definition of "trade secret";
- a common set of circumstances under which the acquisition, use or disclosure of a trade secret is unlawful;
- a common set of civil remedies and interim measures for misuse of trade secrets and factors for the court to consider when granting remedies;
- a limitation period for bringing claims; and
- mechanisms to preserve the confidentiality of trade secrets during and after the course of litigation.

III. BACKGROUND

The Proposal identifies trade secrets as being amongst the most-used forms of protection of intellectual creation by businesses and a vital means of safeguarding commercial information and knowledge, which are of substantial economic and competitive value but do not qualify for intellectual property protection. The preservation of trade secrets secures for businesses the results and competitive benefits of their innovations, thus encouraging research and development. The Proposal notes that, in recent years, factors such as globalization, longer supply chains and increased use of information and communication technology have increased the risk of misappropriation of trade secrets, reducing the ability of innovators to benefit from their efforts and, thereby, the incentive for businesses to engage in innovative cross-border activity within the EU.

There are currently large discrepancies between the protections granted by Member States against misuse of trade secrets. The majority of Member States do not currently provide for specific civil causes of action in respect of misappropriation of trade secrets, but rely instead on a patchwork of different civil causes of action, including contract law, tort law, unfair competition law and the common law of confidence. The current protections offered by Member States differ, therefore, in respect of their legal nature and extent. The Proposal recognizes that these inconsistencies lead to fragmentation of the internal market, which further lowers the incentives of businesses to exchange knowledge and innovate across borders. Harmonization of the law of trade secrets has therefore been identified as an important step in the Commission's continued drive to create a legal framework in the EU that is conducive to innovation.[1]

IV. KEY PROVISIONS OF THE PROPOSED DIRECTIVE

A. DEFINITION OF "TRADE SECRET"

A uniform definition of "trade secret" has been provided in Article 2 of the Proposal, which conforms with the definition in Article 39 of the Agreement on the Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods. A trade secret consists in information that is: (i) confidential; (ii) of commercial value due to its confidentiality; and (iii) subject to efforts by the controller of the information to maintain its confidentiality.

A "trade secret holder" is defined as a person "lawfully controlling" a trade secret, which allows licensees of the trade secret, as well as the owner, to benefit from the protections in the Proposal. However, it is not clear whether non-exclusive licensees (who merely benefit from a right to use the trade secret without being sued by the owner) would be deemed to "lawfully control" the respective trade secret such that they would have standing to sue third parties for infringement.

B. UNLAWFUL ACQUISITION, USE AND DISCLOSURE OF TRADE SECRETS

Article 3 of the Proposal sets out broad circumstances in which acquisition, use or disclosure of trade secrets is unlawful. Unauthorised access to a trade secret, and the use or disclosure of a trade secret without the trade secret holder's consent by a person that acquired it unlawfully or is subject to duties of confidentiality, will be unlawful under Article 3 if done intentionally or with gross negligence. The intentional sale, import, export or storage of infringing goods, i.e. goods whose design, manufacturing process or marketing significantly benefited from misappropriated trade secrets, will also be considered as unlawful use of a trade secret.

[1] Commission Press Release, IP/13/1176 (November 28, 2013)

The Proposal also specifies circumstances of lawful acquisition, use and disclosure in Article 4. The independent discovery or creation of a trade secret, including by reverse engineering, is expressly made lawful, thereby confirming the current prevailing position that trade secrets do not confer rights of exclusivity. Furthermore, the acquisition, use or disclosure of trade secrets will not be subject to civil sanctions in circumstances where such action was necessary to exercise a fundamental freedom, reveal misconduct or protect a legitimate interest.

C. **CIVIL REMEDIES AND INTERIM MEASURES**

The ability of Member State courts to grant injunctions against an infringer, and to make mandatory orders in respect of infringing goods, are provided for on both an interim and a permanent basis in Articles 9 and 11 of the Proposal respectively. In each case the court is required to take into account factors such as the value of the trade secret, the conduct of the infringer, the impact of the disclosure or use and the legitimate interests of the parties and the public.

Damages commensurate to the actual prejudice suffered by the trade secret holder are made available under Article 13 of the Proposal. When calculating damages, Member State courts may take account of lost profits of the trade secret holder, unfair profits made by the infringer, moral prejudice caused to the trade secret holder and the amount of royalties which would have been payable had the infringer requested authorisation to use the trade secret.

D. **LIMITATION PERIOD**

A limitation period of two years is provided in Article 7 of the Proposal. The Explanatory Memorandum to the Proposal justifies the relatively short timeframe for bringing proceedings as being in the interest of legal certainty and a reflection of the duty of trade secret holders to preserve the confidentiality of their trade secrets.

E. **PRESERVATION OF CONFIDENTIALITY IN LITIGATION**

The Proposal identifies that the risk of trade secrets being publicly disclosed during litigation often deters trade secret holders from bringing proceedings against infringers. Article 8 provides for mechanisms for Member State courts to preserve the confidentiality of trade secrets during and after the course of legal proceedings. These include the possibility of restricting access to documents containing trade secrets, restricting access to hearings when trade secrets may be disclosed and the publication of a redacted version of any judicial decision in respect of trade secrets.

V. IMPLICATIONS

The aim of the Proposal in harmonizing trade secrets protection across the EU is to encourage cross-border innovation and sharing of information by ensuring effective protection of trade secrets and eliminating barriers to trade caused by differences in national laws.

With regard to ensuring effective protection of trade secrets, the Proposal addresses one of the key factors that traditionally prevents trade secret holders from seeking recourse in the courts, i.e. the risk that trade secrets will be further disclosed in the course of litigation proceedings, by providing mechanisms for preserving confidentiality. However, the difficulty in proving misappropriation of trade secrets, another factor preventing the institution of claims for infringement, is not addressed by the Proposal, since there is no provision for a pre-trial discovery process beyond that already existing in the civil procedure laws of individual Member States. This is at variance with the provisions in Sections 2 and 3 of the Directive on the enforcement of intellectual property rights, which grant to Member State courts the power to order the presentation and preservation of evidence, and the provision of information, by an infringer of intellectual property rights.[2]

It is also worth noting that the Proposal does not attempt to harmonize the criminal law framework in relation to trade secrets. Currently, the majority of Member States' national laws provide for criminal law sanctions for misuse of trade secrets in some form but, as with civil remedies, the relevant laws differ greatly between Member States.

With regard to eliminating barriers to trade caused by differences in national laws, the introduction of the common legal provisions contained in the Proposal can only serve to reduce the inconsistencies in Member State laws protecting trade secrets, which currently differ greatly in the scope and legal nature of the protection provided. However, as demonstrated by the implementation of the Uniform Trade Secrets Act ("UTSA") in the U.S., which reveals a continued divergence in the way that state legislatures and courts have adopted and interpreted the UTSA (indeed, some states, including New York, have not adopted the UTSA at all), there is scope for Member States within the EU to continue to take differing approaches to trade secrets protection, particularly given the high degree of discretion afforded to Member State courts in the Proposal.

The Proposal will now be passed through the Council of Ministers and the European Parliament for adoption under the ordinary legislative procedure. Given the importance of trade secrets law to business competition and innovation, the European Commission's

[2] Corrigendum to Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L 157

attempt at harmonization has the potential to generate significant benefits in encouraging cross-border innovative activity, as well as bringing homogeneity and legal certainty to a disparate area of law. Its success in meeting the European Commission's aims will, however, depend to some extent on the manner of its implementation and application by Member States, which remains to be seen.

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Please feel free to call any of your regular contacts at the Firm or any of our partners and counsel listed under "Intellectual Property" in the Practices section of our website (http://www.clearygottlieb.com) if you have any questions.

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