



EU Consultation on trade secrets

Introduction

In December 2012, the EU Commission launched a public consultation on the protection against misappropriation of trade secrets and confidential business information in the EU, which initially took the form of an online questionnaire. The Commission had previously (in March 2011) appointed a law firm to study the legal framework and practices in the 27 Member States regarding trade secret protection. This was published in January 2012¹. The Commission had also organised a conference on the subject in June 2012.

The IP Federation submitted a response to the questionnaire in March 2013 (see policy paper PP3/13), indicating our views that (amongst other things):

- The misappropriation of trade secrets and confidential business information should be addressed at EU level, as there is currently no EU legislation addressing the issue and national rules differ;
- Our preferred legislative approach would be to achieve a harmonised minimum standard of protection across Member States by way of an EU Directive;
- Such a Directive could include protection against commercialisation in the EU of goods and services derived from trade secrets/confidential information misappropriated elsewhere; and
- Any form of criminal penalties for the misuse or disclosure of confidential information would be inappropriate, save for extreme cases involving, for example, computer hacking (such activities already being covered by criminal provisions in the UK).

The IP Federation was of the view that the positive effects of EU legislation in this area would include: (i) more investment in R&D and innovation; (ii) better cross-border law enforcement; (iii) a safer business environment conducive to collaboration between different players on R&D projects; (iv) greater expected returns from sharing, licencing and transferring know-how; and (v) better conditions for SMEs to finance R&D projects. We also commented that introducing EU legislation could influence governments outside Europe to improve protection in their countries, particularly in misappropriation hot-spots such as China.

Meanwhile, the IP Federation perceived potential negative impacts from: (i) more court cases arising from companies trying to erect/maintain barriers to entry; and (ii) risk of abusive behaviour by competitors.

Results of the consultation

The consultation ultimately gathered the views of 386 respondents, with the results being published by the Commission in summary form in July 2013 on the EU Commission's website². It is notable that the IP Federation was one of only four respondents from the UK,

¹ See http://ec.europa.eu/internal_market/iprenforcement/docs/trade/Study_Trade_Secrets_en.pdf

² See http://ec.europa.eu/internal_market/consultations/docs/2012/trade-secrets/130711_summary-of-responses_en.pdf

which can be contrasted with a total of 111 responses from Germany and 70 from France.

The Commission's summary report also suggests that political parties in certain Member States had encouraged their supporters to answer the questionnaire, resulting in a significant number of responses from individual citizens (39% of all respondents). Many of these also appear to have followed a published template / answering guide, which will no doubt have distorted the results somewhat (the extent of this is unclear from the Commission's summary of the results).

Overall, the survey identified mixed views on many issues. There was however a clear division between the views of corporate respondents and individual citizens, with many citizens apparently believing that protection of trade secrets / confidential information has an undesirable effect on commerce and innovation. Some notable findings included the following:

- 52% of all respondents were in favour of the EU addressing the issues. This is generally favoured by companies, SMEs, professionals, business associations and research entities. However, a vast majority of citizens do not see a need for EU action.
- As for the appropriate legislative approach to addressing these issues, the most favoured approach was uniform EU legislation (i.e. a Regulation), with 55% of respondents in favour. The next most popular initiative was EU legislation establishing a comparable level of protection (i.e. a Directive). However, only 24% of respondents favoured this option.
- As for the provisions that might be included in any EU legislation:
 - 53% of respondents were in favour of the prohibition of acts of misappropriation and definition of such acts, compared to 42% against;
 - 51% of respondents were in favour of rules ensuring that confidentiality of trade secrets is maintained during court proceedings and hearings, compared to 41% against;
 - 49% of respondents were in favour of the courts being empowered to injunct the unlawful use of misappropriated trade secrets in the whole of the EU, compared to 42% against;
 - 48% of respondents were in favour of the courts being empowered to order all EU customs authorities to stop imports of products manufactured outside the EU using misappropriated trade secrets, compared to 43% against.
- A majority of respondents believed that the EU should not include provisions in the following areas:
 - uniform contractual rules on non-compete and/or non-disclosure clauses between trade secrets owner and employees; and
 - rules on criminal penalties and/or fines for individuals/organisations responsible for misappropriation of trade secrets.
- No conclusive result was obtained as to whether the EU should provide uniform rules on the calculation of damages so as to consider all relevant factors such as lost sales and unjustified profits by the defendant etc. (43% of respondents were in favour and 43% were against this proposal).
- In contrast to the respondent body as a whole, over 60% of corporate respondents supported all of the above options (apart from the possibility of uniform contractual rules). Indeed, 62% of companies were even in favour of the EU introducing criminal penalties. Also, where the respondents as a whole were in favour of an option, the majority of companies in favour was generally far greater (e.g. 82% of companies were in

favour of the prohibition of acts of misappropriation and definition of such acts compared to 53% of respondents as a whole).

- As for the potential positive and negative effects of EU legislation:
 - 51% of respondents felt that EU legislation would have positive effects. Overall 58% of research entities and 81% of companies indicated more than one positive effect. Conversely only 6% of citizens felt that EU legislation would have specific positive effects.
 - 95% of companies felt that EU action would result in better protection against misappropriation. A majority of companies also indicated that EU action would create a safer business environment which in turn would create: better opportunities for network innovation (78%); more investment in R&D and innovation (68%); and greater expected returns from sharing, licencing and transferring know-how (55%). However, only 33% of companies thought EU legislation would result in more effective cross-border enforcement and lower litigation costs in other EU Member States.
 - 43% of respondents attach at least one potential negative effect to EU legislation. The negative effect most often mentioned was an increase in the number of court cases as a result of companies trying to raise barriers to entry.

Other developments

In parallel with the above consultation, the Commission also appointed a law firm to carry out a study on the role of trade secrets and confidential business information as drivers for innovation, competitiveness and economic growth. This incorporated a survey of 537 companies and provided a detailed review of the legal frameworks governing trade secrets in 27 of the Member States, as well as the United States of America, Japan and Switzerland. The final version of this study was made available via the Commission website in July 2013³.

The legislative progress was also discussed at the IP Federation's meeting with Kerstin Jorna in Brussels in early September, during which Ms Jorna indicated that the Commission intends to announce a legislative initiative in November. It was also indicated that the Commission is trying to improve the available remedies in order to encourage greater reliance on NDAs and thereby greater cooperation, rather than seeking to create any further right or indeed any further protection. It was also indicated that the Commission is concentrating solely on civil remedies in this area.

Consistent with the above, at the time of publication, the Commission had just (on 28 November) adopted a proposal for a directive in this area, with the aim of establishing a common definition and ensuring that, in cases of unlawful acquisition, use or disclosure of a trade secret, a sufficient and comparable level of redress across the EU is provided. The approach would therefore seem to be largely aligned with the IP Federation's position, although review of the detailed provisions is needed and we may seek to comment further in due course.

Mark Ridgway, 2 December 2013

³ See http://ec.europa.eu/internal_market/iprenforcement/docs/20130711/final-study_en.pdf