



## Progress on the EU Trade Secrets Directive

### **Introduction**

2014 has seen significant progress in relation to the EU's legislative efforts on trade secrets. Since the December 2013 edition of *Trends and Events* went to press, we have seen: (i) the publication of the Commission's initial proposal for legislation;<sup>1</sup> (ii) negotiations within the Council of the European Union resulting in an agreed compromise text for the Directive;<sup>2</sup> and (iii) early exchanges of views and draft opinions within the European Parliament.<sup>3</sup>

However, much remains to be done as the proposed Directive continues its progress through the European Parliament. In particular, the potential impact of the Directive on labour law has prompted heated debate within the parliamentary committees. As such, there is a significant risk that, through the influence of European parliamentary groupings, the final Directive will be less desirable than businesses originally hoped. Whilst the IP Federation was very successful in ensuring that its views were taken on board within the EU Council discussions, it remains to be seen whether business's concerns will carry the same weight in future.

### **The Commission's original proposal**

As for the substance of the proposed Directive, when it was originally published by the Commission in late November 2013, it was met with general approval by business, including by the IP Federation. Key points from the proposal can be summarised as follows:

- Consistent with the IP Federation's position (although going against the majority of responses to the Commission's consultation), the Commission proposed legislation in the form of a Directive.
- The foundation of the proposal was a "*common definition of trade secrets*"<sup>4</sup> (something the Commission felt had previously been lacking, including in the UK). This tracked wording from Article 39 of TRIPs and potentially covered a broad range of confidential information, consistent with that which is protected under English law.
- A further important definition was that of "*infringing goods*",<sup>5</sup> which covered those goods "*whose design, quality, manufacturing process or marketing significantly*

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<sup>1</sup> COM(2013) 813 final (see: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0813:FIN:EN:PDF>)

<sup>2</sup> See: <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209870%202014%20INIT>

<sup>3</sup> Exchanges of views took place within the JURI committee on 13 October and 10 November 2014. Draft reports from ITRE and IMCO committees are available on the relevant committees' web pages.

<sup>4</sup> In Article 2(1). The definition specifies that information will be a "trade secret" if it: "(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."

<sup>5</sup> In Article 2(4).

*benefits from trade secrets unlawfully acquired, used or disclosed*". This potentially allowed upstream trade secret misuse to attach to the goods themselves, making it possible to take action to, for example, prevent the importation of such goods into the EU (a strengthening of the current position).

- In terms of what would constitute an unlawful act in relation to a trade secret, the Directive dealt with this by reference to acts of "*unlawful acquisition*"<sup>6</sup> and, separately, acts involving "*unlawful use or disclosure*"<sup>7</sup>.
- The provisions on "*unlawful acquisition*" were largely aimed at espionage-type activities. For example, the draft specified that acquisition by "*unauthorised access to or copying of documents*", "*theft*", "*bribery*" or "*deception*" was unlawful. However, more generally, it was also specified that it would be unlawful to acquire trade secrets by "*breach or inducement to breach a confidentiality agreement or any other duty to maintain secrecy*" or "*any other conduct which, under the circumstances, is considered contrary to honest commercial practices*".
- The provisions on "*unlawful use and disclosure*", meanwhile, covered acts that would breach confidentiality agreements or other obligations to maintain secrecy. In addition, they covered circumstances where "*... at the time of use or disclosure, [the person] 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 ...*". Downstream users of confidential information were therefore potentially caught. Further, there was a provision relation to the "*conscious and deliberate production, offering or placing on the market of infringing goods, or import, export or storage of infringing goods for those purposes*".
- In relation to remedies, the proposal effectively provided a scaled down version of the IP Enforcement Directive.<sup>8</sup> It allowed for interim and final remedies, including injunctions against use and disclosure of trade secrets, as well as against the production, offering for sale, use, import and export of infringing goods. Precautionary seizures of suspected infringing goods were also catered for. The proposal sought to plug various gaps in national court procedures, regarding the protection of confidentiality during proceedings (the Commission had identified this as an obstacle to effective enforcement).<sup>9</sup> However, some tools were notably absent, such as pre-action disclosure, search orders, *ex parte* proceedings and "loser pays" provisions (despite being included in the IP Enforcement Directive and in some national laws).
- In keeping with the Enforcement Directive, there was also an emphasis on the need for remedies to be effective and dissuasive, yet also proportionate.<sup>10</sup> In this regard, judicial authorities were given a series of factors to take into account when deciding on interim or final remedies.<sup>11</sup> Further, there were specific safeguards against abusive litigation, with sanctions against claims that were "*manifestly unfounded...in bad faith with*

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<sup>6</sup> In Article 3(2).

<sup>7</sup> In Articles 3(3)–3(5).

<sup>8</sup> Most Member States taking the view, as the Commission clearly does, that the IP Enforcement Directive does not apply to trade secrets.

<sup>9</sup> In Article 8.

<sup>10</sup> In Articles 5(2) and 6(1).

<sup>11</sup> In Articles 10(2) and 12(1). The factors include the value of the trade secret; the measures taken to protect the trade secret; the conduct of the respondent; the impact of the unlawful use/disclosure; the legitimate interests of the parties and the impact of granting or rejecting the measures; the legitimate interests of third parties; and the public interest and the safeguarding of fundamental rights, including freedom of information and expression.

*the purpose of unfairly delaying or restricting the respondent's access to the market or otherwise intimidating or harassing the respondent"*.<sup>12</sup> The proposal also specified numerous ways by which trade secrets could be acquired lawfully (e.g. reverse engineering, independent discovery), as well as circumstances in which they could be lawfully used (e.g. whistleblowing, legitimate free speech etc.).<sup>13</sup>

- Finally, there was also a new limitation period for bringing claims of "*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*".<sup>14</sup>

The proposed Directive did not however deal with jurisdictional issues, meaning that the Brussels Regulation will continue to apply to civil claims for breach of confidence. In this regard, the proposal also did not stray into the territory of the criminal law, which was welcome news (the IP Federation had counselled against this in our response to the Commission's consultation).

### **Discussions at the EU Council**

Overall, the IP Federation and its members were happy with the approach taken, although we proposed a number of points of refinement in policy paper PP02/14. Indeed, many of the points we raised were successfully incorporated in the text of the compromise proposal arrived at by the EU Council. In particular:

- We argued that the Directive should only seek to provide minimum standards of protection, thereby allowing Member States to continue to provide higher levels of protection. This was duly catered for in an express amendment to Article 1 of the draft.
- We urged clarification of recital 8 to ensure that it remained consistent with the definition of "trade secret" in TRIPs, ensuring that trade secret protection was not unintentionally undermined in relation to employees. The recital was subsequently amended.
- We argued that the requirement for acts of acquisition, use or disclosure of trade secrets to be carried out "*intentionally or with gross negligence*" in order for them to be unlawful was unnecessary and confusing, given that intent is not necessary under English law and "gross negligence" is a problematic concept. This requirement was subsequently removed.
- We argued that the provisions in Article 3(2) requiring "*theft*", "*deception*" etc. were unclear and/or unduly complicated in several respects. These provisions were then dropped in favour of more general wording.
- We argued that the 2 year limitation period in Article 7 was too short and would cause unnecessary litigation. This was subsequently amended to 6 years.
- We supported the argument that Article 8 (relating to the protection of confidentiality during court proceedings) should be retained, despite opposition from elsewhere in Europe.

Unfortunately, our suggestion that the legislative process should not be rushed was ignored. Accordingly, an ambitious timetable was pursued, with an agreed Council compromise text being published in late May 2014. This was then picked up by the European Parliament in October 2014, following the parliamentary elections.

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<sup>12</sup> In Article 6(2).

<sup>13</sup> In Article 4.

<sup>14</sup> In Article 7.

***Present position and future timeline***

Within the European Parliament, the JURI (Legal Affairs)) Committee is responsible for reviewing and reporting on the proposed Directive, working from the original Commission draft. At the time of writing, two exchanges of views have taken place within JURI and draft opinions have also been produced by the ITRE (Industry, Research and Energy) and IMCO (Internal Market and Consumer Protection) committees.

A hearing is also due to take place on 20 January 2015, at which other views will no doubt be presented. However, it is already clear that interested parties, particularly those with socialist leanings, have been lobbying hard against various provisions of the Directive. This is reflected in particular in the draft report from ITRE, which tables no fewer than 49 separate amendments to the Directive (which consists of only 19 Articles in the first place). Many of these are dangerous from the point of view of business, since they could serve to undermine the protection of trade secrets in Europe.

The IP Federation has therefore been actively engaging with MEPs working on the Directive, to seek to persuade them of the dangers inherent in some of the amendments. The two main concerns raised, and the IP Federation's position on them, can be summarised as follows:

1. The definition of trade secret: The concern has been raised that the definition of "trade secret" is too broad and that this will lead to abusive litigation against SMEs and/or employees. There have accordingly been calls to narrow the scope of this definition. The IP Federation strongly resists this as we believe a broad definition is necessary for compliance with TRIPs and in order to protect the full range of information that is valuable to business. Further, we believe the risk of abusive litigation is greatly overstated, since the Directive already contains ample safeguards to prevent this.
2. Labour mobility: Concerns have also been raised that the Directive will impact on the free movement of labour, where varying rules already exist under the national laws of the Member States. However, we believe this concern can be dealt with by a simple, clear statement to the effect that the Directive shall not affect national law relating to the right for employees to use information that they have learnt from their former employers. We make this suggestion because we believe the area of labour mobility is too controversial to legislate for at this stage, with a serious risk of making things worse. We also note that a majority of the respondents to the Commission's consultation did not want EU legislation that provided uniform contractual rules for employees on non-compete and non-disclosure clauses (which is essentially what is at issue here).

A myriad of other concerns have also been raised. However, at this stage, our focus is on the major issues, where the damage to the Directive could be greatest. At the time of writing, the IP Federation is producing a position paper to present to the Rapporteur for the Directive summarising our views on these points. We hope that these will be taken on board in her draft report to the JURI committee in February, although we have warned that item 2 above will require some compromise within the European Parliament. Our efforts will continue.

Mark Ridgway, 31 December 2014