

## **Trade secrets consultation**

### **Protection of business and research know-how**

#### ***Introduction***

The IP Federation represents the views of a significant number of major innovative UK companies in matters concerning intellectual property policy. A list of members is attached. Not only do our companies own considerable numbers of IP rights, both in Europe and internationally, but they are affected by the activities and IP rights of competitors. They may be either plaintiffs or defendants in IP related court actions.

#### ***The consultation***

Keeping valuable information secret is often the only or the most effective way that companies have to protect their intellectual property (such as the results of their research and innovation efforts). Although patents play a decisive role in this area, there are limitations as to what can be patented. New business solutions, marketing data and many incremental technological improvements, for example, are not patentable). Concerns regarding the effectiveness of the legal protection against the misappropriation of trade secrets in the Internal Market are already being voiced.

The differences between national laws of Member States are claimed to be such as to make it difficult to ensure that the right protective measures against such misappropriation are being applied in cross-border business. The current redress possibilities are claimed not to represent a sufficiently strong deterrent against theft of such confidential business information. This could dissuade the sharing of confidential business information across borders with business partners who could offer valuable possibilities to develop new markets for innovative products.

In view of these concerns, the European Commission has decided to analyse the current situation in the Union in more detail and to collect views with regard to the protection of business and research know-how in the Union.

A new [consultation](#) in the form of an on-line questionnaire was launched on 11 December 2012. The deadline for submissions was **8 March 2013**.

#### ***IP Federation response***

The IP Federation responded, indicating that trade secrets / confidential business information are of high importance in all the following areas:

- Research and development.
- Exploitation of innovation, i.e. turning an invention into a marketable product.
- Innovative and competitive performance of SMEs.
- Innovative and competitive performance of large companies which operate internationally.
- Growth and jobs in the EU economy in general.

Furthermore, we think that trade secrets / confidential business information influence a number of areas, especially the following:

- Research in research institutions.
- Research and development in companies.
- Exploitation of innovation, i.e. turning an invention into a marketable product.
- SMEs innovative and competitive performance.
- The innovative and competitive performance of large companies which operate internationally.
- Growth and jobs in the EU in general.
- Competitiveness of the EU in the world.

### ***EU Action***

There is no EU legislation specifically addressing the misappropriation of trade secrets, and national rules on this issue differ. Thus we think that the legal protection against the misappropriation of trade secrets / confidential business information should specifically be addressed at EU level. A European body could provide easily accessible, reliable and accurate information on the differences in national legislation, e.g. via a dedicated website. An EU Directive could also be passed, providing a common harmonised minimum standard of protection that all Member States will abide by. The Directive could beneficially include protection in Europe against the commercialisation of goods and services derived from trade secrets / confidential business information misappropriated in other parts of the world. However, we do not believe this should require Member States to treat the misuse or disclosure of confidential information as a criminal act.

### ***Effects and impact of EU level legislation***

In our view, positive effects or impacts of EU level legislation include:

- Better protection against the misappropriation of trade secrets / confidential business information.
- Companies / researchers could better rely on effective cross-border law enforcement and costs would be lower when litigating in other EU Member States.
- A better legal protection of the results of innovative activities would trigger more investment in R&D and innovation.

- Safer business environment would create better opportunities for different players to cooperate in R&D and innovation projects (“network / collaborative innovation” as opposed to “in-house innovation”).
- Greater expected returns from sharing, licensing or transferring know-how.
- Better conditions for SMEs to raise funding or venture capital.

By setting a positive example on protection of trade secrets and confidential business information, the EU will influence governments outside Europe into improving the situation in their countries, notably in “misappropriation hot-spots” such as China.

However, negative effects or impacts include:

- more court cases where companies try to raise market barriers for competitors; and
- risk of abusive behaviour by competitors.

We believe that any attempt to impose consistent / minimum standards in relation to employer / employee restrictive covenants would endanger the existing balance in the labour market for mobility.

### ***Final comment***

The IP Federation would make the following specific points that are not covered by our answers to the questionnaire.

First, we note that the IP Federation is generally opposed to the introduction of criminal penalties for the misuse or disclosure of confidential information. These matters do not currently carry criminal penalties in the UK, save in extreme cases where the relevant activities also fall within criminal offences directed to computer misuse (i.e. hacking) and/or fraud. Misuse and/or disclosure of confidential information is therefore dealt with almost exclusively as a civil matter. We believe the current balance is broadly correct and, moreover, we believe there are serious dangers in introducing wider criminal penalties.

Our reason for the above view is that we believe criminal sanctions should be reserved for only the most serious offences and those where wrongdoing can be clearly and readily established. Whilst misuse of confidential information is undoubtedly a serious matter, the issues of fact and law to be decided are often finely balanced and difficult to predict. In this context, we believe it is crucial that businesses are able to make commercial and pragmatic decisions, without the undue fear of criminal consequences. Indeed, we believe the possibility of criminal penalties would engender overly conservative behaviour amongst businesses and would have a dampening effect on innovation (e.g. it would reduce companies’ willingness to share confidential information).

In line with the above, we do not believe the protection of confidential information should necessarily be considered alongside the issues cybersecurity. Whilst the issues overlap to some extent, the legal framework relating to misuse of confidential information must deal with a much broader spectrum of scenarios, most of which have nothing to do with cybercrime - for instance, it must deal with disputes between employers and employees, R&D / collaboration / joint venture partners, individuals / companies and the media, etc. Likewise, the law must cater for different degrees of sensitivity of confidential information - some that will be a company's most important and valuable information, and other information that will be more mundane. It should not be assumed that the same framework and/or penalties should apply in all cases.

A related concern we note is that the Commission's consultation appears to be intended (at least in part) to improve the position for SMEs. However, whilst SMEs (like companies of all sizes) benefit greatly from IPR protection, it does not follow that SMEs will necessarily benefit from, for example, the introduction of criminal sanctions for the misuse of confidential information. On the contrary, we believe that SMEs will just as often be on the receiving end of proceedings (whether civil or criminal). However, they will typically have less financial resource to deal with them and any legal reform could therefore be counterproductive.

As for how the Commission address these matters across Europe, we believe that, overall, the English common law has struck a reasonable balance. Its weakness is that the position has been arrived at purely through case law and has never been set out in statute. Codification could therefore help to raise public awareness and aid clarity. In addition, we are aware that the position across Europe is disparate (with protection being inferior in some countries) and this will inevitably act as a barrier to cross-border sharing of confidential information. Subject to the points made above, the IP Federation is therefore generally in favour of setting a minimum standard of protection in Europe.

IP Federation  
11 March 2013

## **IP Federation members 2013**

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. Its Council also includes representatives of the CBI, and its meetings are attended by IP specialists from three leading law firms. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

AGCO Ltd  
ARM Ltd  
AstraZeneca plc  
Babcock International Ltd  
BAE Systems plc  
BP p.l.c.  
British Telecommunications plc  
British-American Tobacco Co Ltd  
BTG plc  
Caterpillar U.K. Ltd  
Delphi Corp.  
Dyson Technology Ltd  
Element Six Ltd  
Eli Lilly & Co Ltd  
ExxonMobil Chemical Europe Inc  
Ford of Europe  
Fujitsu Services Ltd  
GE Healthcare  
GKN plc  
GlaxoSmithKline plc  
Hewlett-Packard Ltd  
IBM UK Ltd  
Infineum UK Ltd  
Merck Sharp & Dohme Ltd  
Microsoft Limited  
Nokia UK Ltd  
Nucletron Ltd  
Pfizer Ltd  
Philips Electronics UK Ltd  
Pilkington Group Ltd  
Procter & Gamble Ltd  
Rolls-Royce plc  
Shell International Ltd  
Smith & Nephew  
Syngenta Ltd  
The Linde Group  
UCB Pharma plc  
Unilever plc  
Vectura Limited