



Progress on the EU Trade Secrets Directive

Introduction

Following major developments during December 2015, we can now report that the EU Trade Secrets Directive has moved to a near-final stage, with the final legislation looking likely to be passed early in the New Year. Although much remained to be finalised as recently as late autumn, a sustained push by the out-going Luxembourg Presidency of the EU Council led to several “trilogue” meetings in the early winter 2015, with a “provisional agreement” being reached on 15 December. The text in question was then released for public consumption on 22 December, allowing us to assess the quality and likely impact of the Directive. We can also report on the effectiveness of the IP Federation’s efforts to engage with the legislative process, which appear to have had a positive impact.

Developments during 2015

At this time last year, the legislative “baton” in relation to the Trade Secrets Directive had just been handed to the Legal Affairs Committee of the European Parliament (aka “JURI”), after the EU Council had arrived at a common position (and an associated set of amendments to the Commission’s original proposal) shortly before the parliament’s 2014 summer recess.¹ The JURI committee (via the Rapporteur, Constance Le Grip) then had the unenviable task of fielding views from all other interested parties, including other European Parliament committees, parliamentary groupings and industry stakeholders.

Perhaps unsurprisingly, given the importance of the subject matter, there were rumours of extensive lobbying of the Rapporteur and Shadow Rapporteurs in relation to the Directive. In particular, it was clear that many within the European Parliament were resistant to any new form of intellectual property legislation that could potentially impact on fundamental freedoms or issues such as worker mobility. As a result, there were extensive sets of amendments proposed to the various European Parliament committees tasked with examining the Directive.²

Following a number of discussion sessions and a hearing within JURI, the committee finally voted on the Directive and finalised its report on 22 June 2015, proposing an extensive set of amendments, including a number that appeared potentially problematic (or at least dangerously ambiguous) from the IP Federation’s perspective.³ Consistent with earlier policy papers, our comments at this stage focussed on the following areas (all of which remained in contention based on JURI’s proposed amendments to the Directive):

¹ Council for the European Union document 9870/14, dated 19 May 2014 (see: <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209870%202014%20INIT>).

² A total of 105 amendments were included in an Opinion from the European Parliament’s Committee on Industry, Research and Energy (ITRE) dated 29 April 2015 (several hundred amendments had been fielded and considered by the Committee in the course of producing its opinion). A further 45 amendments were included in an Opinion from the Committee on the Internal Market and Consumer Protection (IMCO) dated 30 March 2015.

³ See: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bREPORT%2bA8-2015-0199%2b0%2bDOC%2bPDF%2bV0%2f%2fEN>

- **Setting a minimum standard:** We continued to push for an express provision making clear that Member States could apply more stringent protection of trade secrets under national law if they wished (a provision to this effect had been included in the EU Council's common approach, following comments by the IP Federation and others).
- **Employees / labour mobility:** We expressed the view that some of the amendments introduced by the European Parliament in relation labour mobility were overly broad and could potentially have made it more difficult for companies to defend trade secrets against former employees.
- **Whistleblowing:** We noted that the drafting proposed by the European Parliament contained no linkage between the supposed wrongdoing and the information that was disclosed, meaning that purported whistleblowing could serve as an excuse for unnecessarily broad disclosures.
- **Freedom of expression:** We noted the various references to "media freedom" (and similar) which had been added by JURI were unnecessary, given that media freedom is protected under Article 11 of the Charter of Fundamental rights in any event.
- **Limitation period:** We expressed the view that the European Parliament's proposed limitation period of 3 years was potentially too short and that we supported the maximum limitation period of 6 years, as in the EU Council's compromise text.

The "provisional agreement" of 15 December

As mentioned, the last two weeks of 2015 saw the trilogue deadlock broken, with the EU Council and European Parliament announcing a "provisional" agreement on the Directive on 15 December 2015. The agreed form of text (which remains subject to a legal linguistic review) has also now been released. The outcome in relation to each of the main contentious issues is considered in turn below.

i) Minimum standard or full harmonisation?

Fortunately, this issue has been resolved in favour of a minimum standard, with language from the EU Council's common position being included - Article 1 of the Directive will state that Member States may provide "for more far-reaching protection" provided that compliance with certain safeguards set out in the Directive is ensured.⁴

The safeguards listed include the "freedom of expression" and whistleblowing provisions in Article 4 (discussed below), giving those provisions added importance. This is because those safeguards will now effectively serve as a mandatory limit on trade secret protection throughout Europe.

ii) Trade secrets and employees / labour mobility

The European Parliament's proposed amendments in this area were arguably the most dangerous from the point of view of business, because they potentially limited the protection of *any* confidential information against employees / former employees.

The most problematic provision in this respect was an amendment to Article 1, which provided that: "*This Directive shall not affect ... the use of information, knowledge, experience and skills honestly acquired by employees in the normal course of their previous employment or in some other contractual relationship, which are not covered by the definition of a trade secret as provided for in point (1) of Article 2.*" (Emphasis added.)

This provision could have been interpreted to mean that, if an employee had acquired information honestly and in the normal course of his/her work, the information should

⁴ Compliance with Articles 4, 5, 6(1), 7, the second sub-paragraph of Article 8(1), Articles 8(3), 8(4), 9(2), Articles 10, 12 and Article 14(3) must be ensured

never be protected against that employee no matter how sensitive the information in question was (e.g. if the employee knew the Coca Cola recipe through the normal course of his/her work then that recipe could not be protected).

This would have represented a significant weakening of the current position under English law and would have been a bad outcome for business. Fortunately, however, the broadest version of the language proposed by the European Parliament has been rejected. Instead, the agreed text of the Directive contains a new Article 1(2a) providing that:

Nothing in this Directive shall be understood to offer any ground for restricting the mobility of employees. In particular, in relation to the exercise of such mobility, this Directive shall not offer any ground for:

- (a) limiting employees' use of information not constituting a trade secret as defined on point (1) of Article 2;*
- (b) limited employees' use of the experience and skills honestly acquired in the normal course of their employment;*
- (c) imposing any additional restrictions on employees in their employment contracts other than in accordance with Union or national law.*

Relevant text also appears in Recitals 2, 8a, 13 and 27a, which further emphasise that the Directive should not hinder labour mobility and should not prevent employees from using their skills and experience.

The upshot would therefore appear to be that:

1. The Directive will have no impact on labour mobility;
2. For information that is not "trade secret" (as defined), the Directive will have no impact on employees (or indeed on anyone);
3. The Directive will also have no impact on employees' ability to make future use of "*experience and skills honestly acquired in the normal course of ... employment*"; and
4. The Directive will impose no additional contractual restrictions on employees.

On the other hand, the Directive leaves open the possibility that there will be *some* information that *is* a trade secret and which is *not* part of an employee's "*experience and skills honestly acquired*". In such cases, provided that the employee is able to use his/her "*experience and skills*", the issue of labour mobility also arguably does not arise - since the employee is perfectly able to move between jobs using *just* their skills / experience. The operative provisions of the Directive should therefore apply against such employees, which would broadly align with the current English law approach to trade secrets and former employees (whereby sufficiently sensitive and distinct information can be protected indefinitely).

It is relevant to note that Recital 27a and Article 1(2a)(c) also refer to contractual obligations that might be placed on employees. In this regard, Recital 27a records that the Directive is not intended to "*affect the possibility of concluding non-competition agreements between employers and employees, in accordance with applicable law*". Sensitive issues in relation to restrictive covenants / non-compete clauses (and the enforceability thereof) are therefore left as a matter for national law. No harmonisation is attempted.

iii) The whistleblowing defence

The text of the Commission's original proposal for the Directive effectively provided a public interest defence in Article 4(3)(b). This applied whenever a trade secret was acquired, used or disclosed:

... for the purpose of revealing an applicant's misconduct, wrongdoing or illegal activity, provided that the alleged acquisition, use or disclosure of the trade secret was

necessary for such revelation and that the respondent acted in the public interest.
(See Article 4(3)(b) of the original text).

As it stood, this drafting caused some concern amongst businesses - it was felt that the provision was overly broad and could potentially be abused, with purported whistleblowing being used as an opportunity for wider, unnecessary disclosure of companies' confidential information.

Unfortunately, however, amendments proposed by the European Parliament sought to widen the provision yet further. Moreover, those amendments now appear to have been agreed during the trilogue, with the agreed text of Article 4 providing a defence whenever a trade secret is acquired, used or disclosed:

... for revealing a misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest.

Whilst English law in relation to public interest disclosures is rather unclear (some cases suggest a widely-applicable defence, whilst others suggest a much more narrow one), this provision of the Directive has potential to be interpreted very broadly indeed - arguably, any disclosure that is made for the purpose of revealing wrongdoing will be protected under Article 4.

If this is the correct interpretation then it will likely be of some concern to businesses. On the other hand Recital 12a supports a slightly narrower interpretation, stating that:

Measures in this Directive should not restrict whistleblowing activity. Therefore the protection of trade secrets should not extend to cases in which disclosure ... serves the public interest, insofar as directly relevant misconduct, wrongdoing or illegal activity is revealed. This latter should not be seen as preventing the competent judicial authorities from allowing an exception to the application of measures, procedures and remedies where the respondent had all the reasons to believe in good faith that his conduct met the appropriate criteria set out in this Directive. (Emphasis added.)

These provisions will no doubt be subject to litigation sooner rather than later. Further, as with many of the provisions of the Directive, it is likely that they will be the subject of a referral to the CJEU for clarification in due course.

iv) Safeguards for freedom of expression

In comparison to those above, the debate in relation to this issue appears to have been relatively minor. As mentioned, the issue arose because of proposals from the European Parliament to include numerous references to the Charter of Fundamental Rights of the European Union, particularly in relation to freedom of expression and media freedom / plurality.

The debate in this area was really over whether, as a matter of legislative practice, it made sense to include numerous provisions that were strictly unnecessary (they are unnecessary because the EU Charter of Fundamental Rights applies anyway). In any event, it appears that the EU Council have largely acquiesced on the issue, with Article 1(2)(a) providing that:

The Directive shall not affect ... the exercise of the right to freedom of expression and information as set out in the Charter of Fundamental Rights of the European Union, including respect for freedom and pluralism of the media;

Similar provisions can also be found in numerous recitals to the Directive.

v) Limitation periods

Finally, the limitation period issue has been solved in a straightforward way - the Directive provides that Member States must impose a limitation period but does not specify the

period other than by stipulating that it cannot be greater than six years. Member States are also obliged to provide rules as to when the limitation period begins to run and the circumstances in which it may be interrupted or suspended.

Overall outcome

Overall, assuming it remains in its current form, the Directive represents a reasonable attempt at achieving minimum standards of harmonisation in a difficult area of law.

If everything runs smoothly from here, the Directive could be passed as early as March 2016, meaning that it would be implemented in national laws by early 2018 (allowing for a two year implementation period). From the point of view of the UK, however, very little (if anything) will need to change in order for our law to be compliant, save potentially for some broadening / clarification of the public interest defence.

On the other hand, there are certainly dangers ahead if the more ambiguous provisions of the Directive (including those discussed above) are examined by the CJEU. At that point, the law as "clarified" by the CJEU could easily depart from the current UK / English law approach.

As a concluding comment, it seems that the IP Federation's engagement with the legislative process has had a positive impact on the final text of the legislation. Certainly, a significant number of comments made by the IP Federation are addressed in the final text in one way or another.

Mark Ridgway, Allen & Overy LLP, 31 December 2015