



Trade Secrets Directive

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The Law Society of England and Wales is the independent professional body, established for solicitors in 1825, that works globally to support and represent its 159,000 members, promoting the highest professional standards and the rule of law

The Law Society of Scotland is the professional body for Scottish solicitors, established in 1949. It is not only the representative and regulatory body for all practising Scottish solicitors but also has an important duty to work towards the public interest

Introduction and general comments

1. The Law Societies of Scotland, England & Wales ('the Societies') support the aim of the proposal to create a common European legal framework for the protection of trade secrets¹.
2. Trade secrets represent an important asset to a variety of businesses, across business sectors and sizes. For this reason, albeit in different ways, all Member States have protections in place for trade secrets through civil or criminal law, in particular through unfair competition law, industrial property codes or tort law². In the UK and Ireland trade secrets are protected through common law of confidence (*Coco v Clark*)³ and contract law. On a global level, trade secrets are also recognised and protected in the WTO TRIPS Agreement.
3. The Commission proposal would therefore not create a new protection but rather ensure a common approach to the protection of trade secrets across the EU. For business this should increase legal certainty and lower costs when trading cross-border. However, it is important to strike the right balance in marrying the different national approaches into an EU Directive, in particular considering the significant differences in national approaches⁴. The main challenge is to create legal certainty around what is protected and how to evidence this and in doing so striking the right balance between protecting innovation and preventing a disproportionate exposure to litigation.
4. In achieving this balance it must be made clear in the Directive that the purpose is not to create a new exclusive right. The Commission proposal does recognise this in recital 10 but further clarity would be helpful to ensure a uniform interpretation by Member States and national courts. In addition to the proportionality and abusive protections contained

¹ Commission proposal for a [Directive on the protection of undisclosed know-how and business information](#) (trade secrets) against their unlawful acquisition, use and disclosure

² Germany, Poland, Spain and Austria; Italy, Portugal and France; Netherlands and Luxembourg respectively. Sweden is the only EU country which currently has specific trade secrets legislation in place.

³ Three elements are required for a breach of confidence (apart from contract): 1) the information itself must have the necessary quality of confidence about it. 2) the information must have been imparted in circumstances importing an obligation of confidence and 3) there must be an unauthorised use of that information to the detriment of the party communicating it.

⁴ Other national rights (patents, designs, trade marks) were more similar at the national level and consequently their harmonisation did not represent as big a change as the trade secrets Directive will.

in Art. 6, it could be added, for instance to recital 10, that 'inference of copying' does not suffice to prove unauthorised use of undisclosed knowhow.⁵

5. There will also be a transitional period during which the Directive will be 'new' and where a lack of case law and common interpretation may increase uncertainty vis-a-vis existing national systems that are well-known to businesses and their legal advisers.
6. In short, a Directive on trade secrets may bring important benefits to Europe's business in further incentivising innovation and cross-border trade and as such the Law Societies support the Commission proposal. The devil is however as always in the detail and there are a number of concepts that in our view require further clarification.

Definition (Art 2)

7. The type of information or know-how covered by the concept 'trade secret' is potentially very wide covering a combination of technical knowhow- and commercial information, e.g. prototypes, designs, client data bases etc. The first challenge is therefore to get the definition correct.
8. There are some determinants that are common all the different kinds of information that could amount to trade secrets and that apply across Member States: 1) the information is technical or commercial related to the business 2) it is secret in that it is not generally known or easily accessible 3) it brings economic value in conferring a competitive advantage to the owner and 4) that the owner has taken appropriate and reasonable steps to keep the information secret⁶.
9. The WTO Agreement on trade-related aspect of intellectual property (TRIPs agreement) also defines trade secrets as information that (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.* (Art 39.2) The Commission definition clearly builds on the TRIPS agreement.
10. The Law Societies agree that the TRIPS Agreement is a sound starting point to build a common EU definition considering that all EU Member States have, or least should have, implemented TRIPS and in that sense have some degree of familiarity with its concepts⁷.
11. However, we question the need to have to establish the causal link between the commercial value of the information and its confidentiality, i.e. that it '*has commercial value because it is secret*' in Art. 2(1)b.
12. While trade secrets in most cases do confer some degree of competitive advantage on the trade secret holder, they are an intangible asset the value of which is not easily quantifiable. Other IP rights also have commercial value but whether or not a protection is afforded to the (applicant) right holder does not depend on quantifying or otherwise evidencing this commercial value.
13. If the holder of the information in question has taken steps to ensure its confidentiality (to keep it secret) it would in our view be because the holder has deemed the information to be valuable to him. As long as the holder of the information can ascertain that the information is in itself confidential and that he has taken necessary and appropriate steps to keep it confidential, he should be able to rely on the Directive.

⁵ See for instance *Wade & Perry v. BSKyB*: <http://www.baillii.org/ew/cases/EWHC/Ch/2014/634.html>

⁶ Baker & McKenzie (for the European Commission) [Study on Trade Secrets and Confidential Business Information in the Internal Market](#), April 2013.

⁷ We note in this regard that the Council has kept to the Commission wording in its General Approach

14. Art. 2(1)b could helpfully be amended to *'has commercial value or is otherwise significant and useful to the recipient of the information.'*

Unlawful Acquisitions (Art. 3)

15. The Commission proposes that the acquisition and use of trade secrets shall be considered unlawful whenever carried out intentionally or with gross negligence. The acquisition can occur through unauthorised access, theft, bribery, deception, breach or inducement to breach a confidentiality agreement or any other duty to maintain secrecy and finally through any other conduct which is considered to be in breach of honest commercial practices.
16. The concept of 'honest commercial practices' again derives from the TRIPS agreement and actions that are seen to be contrary to honest commercial practices include breach of contract and breach of confidence.⁸ For legal clarity we support specifying these actions in Art. 3(2) as opposed to the Council text which has deleted these points. This would also help clarify that the trade secrets Directive is intended to sit alongside any confidentiality agreements and that indeed the two can be used together to create greater legal certainty and more tightly defined obligations, avoiding some of the uncertainty raised by the Directive's definition and concepts.
17. Further, the Commission requires 'intention' or 'gross negligence' in the use or disclosure of a trade secret for it to be considered unlawful. The Council has in its General Approach deleted these criteria. The concept of 'gross negligence' in particular is not well-established in commercial law. The burden of proof to establish that the acquisition or use of a trade secret is unlawful rests on the holder of the trade secret and it therefore appears unnecessary to also have to establish intent/gross negligence. We therefore support the Council approach in deleting these.
18. Art. 3(4) appears to be disproportionate. It is also not clear to us how this provision would be enforced. Though a judicial remedy has been included in Art 12(3) of the proposal certain safeguards should be put in place, notably that the burden of proof rests on the holder of the trade secret to produce evidence to the fact that the person knew or should have known.

Lawful Acquisition (Art. 4)

19. The Commission proposal also defines the means and circumstances in which the acquisition of a trade secret is lawful. Some of the concepts introduced by the Commission in this article are in our view too broad or vaguely defined. Too wide or unclear exemptions risk undermining the effectiveness of the Directive as trade secrets holders would hesitate to rely on it. It also counters the principal purpose of the Directive to create a more coherent approach to the protection of trade secrets as unclear definition subsequently become subject to 28 national legal systems' interpretation of the legislation (at least until CJEU case law becomes established).
20. We in particular question the inclusion of para 2 points d and e. It is unclear what the non-contractual obligation exemption in point d is aimed at capturing and it appears to be a catch-all phrase included 'just in case'. We do not in principle have any objections to providing the exemption if the Commission is able to show the need and the legitimate cases when a trade secret would need to be disclosed to fulfil such an exemption. However, unless this could be specified we would not support a general blanket exemption and propose to delete it as done in the Council text.

⁸ According to this [agreement](#) such practices shall at least include *'breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition'*.

21. The legitimate interest exemption in point e also needs further clarification; simply providing for an exemption for any legitimate interest leaves much too wide a scope for interpretation, in particular considering that exemptions for freedom of expression, whistle blowing and worker representation are already in the text. We therefore welcome the Council's text to specify that it has to be a legitimate interest '*recognised by Union or national law*'. It may also be worth considering whether non-binding guidance on this could be issued.
22. The exemption for disclosure by a worker to worker representatives as part of the their representative function could helpfully have a clarification added to it that the worker representative who receives the information should maintain secrecy beyond the representative functions in Art. 4(2)c. Failing to do so should constitute an infringement.
23. Finally, we question the need for a new general exemption added by Council that the acquisition, use and disclosure of trade secrets should be lawful if '*required or allowed by Union or national law*.' This again appears as a catch-all, blanket exemption that could undermine the legal certainty and effectiveness of the Directive. The exemptions should be limited to what is necessary to ensure a balanced approach and they should be clearly defined.

Proportionality and abuse of litigation (Art. 6)

24. Article 6 provides safeguards against abusive litigation where a claim is '*manifestly unfounded*' and is made in 'bad faith' to delay or restrict the defendant's access to the market or otherwise to intimidate or harass the defendant. The judicial authority should in such a case be able to impose sanctions on the claimant or order the dissemination of the information subject of the claim.
25. The Societies fully support the view that safeguards should be introduced to protect against unmeritorious claims; we believe this is essential to ensure the Directive does not over time and through litigation create a new right beyond current IPRs. We are however concerned that a claim could be made which was '*manifestly unfounded*' but not made in bad faith, for example by a person not aware of the law or just careless. A remedy in such situations would in our view still be justified though perhaps less severe than in a case of bad faith.
26. Further, it is not clear to us whether the sanctions in para 2 are to be imposed by the judicial authority following an examination out of its own accord or following a request from the defendant. In our view, the defendant to a claim should be able to make such a request.
27. It should also be clarified that once the judicial authority, on its own accord or following evidence produced by the defendant, has found that the claim is manifestly unfounded the onus should shift to the claimant to exculpate himself by proving that it had not initiated the proceedings in 'bad faith'. Finally, Member States should be permitted to provide that these measures should be dealt with in separate proceedings⁹.

Limitation Period. (art. 7)

28. The Commission is proposing a limitation period of two years after the date when the claimant became aware or had reason to become aware of the facts giving rise to the claim.
29. Two years seems too short a limitation period and contradicts practice or national law in a number of Member States. For instance Sweden, as the one Member State that already has specific trade secret legislation in place, has set a limitation period of five years. For the UK the limitation period for contract and tort claims (either of which might be relevant to a breach of confidence claim) is 6 years. A typical period found in

⁹ As provided for in the Council text.

international confidentiality agreements is 5 years from disclosure of the information, though longer periods are encountered in some industry sectors, e.g. pharmaceuticals where 10 year periods are often seen. We therefore suggest Parliament should extend the limitation period, as the Council has to done in its position to six years.

30. It is also not sufficiently clear when the limitation period begins to run or the circumstances under which it can be interrupted or suspended, in particular the wording had '*reason to become aware*'. This should be clarified in the Directive itself and not as the Council suggest to be determined in national law only. This would undermine the objective of the Directive to ensure a uniform protection for trade secrets and the effectiveness of the Directive as businesses operating cross-border would still have to comply with varying national procedural rules.

Confidentiality (art. 8)

31. One of the key obstacles to trade secrets holders enforcing their rights is the fear that the trade secret would be publically disclosed in the course of judicial proceedings. The Commission is therefore proposing that Member States must make certain measures available to restrict access to documents and to the hearing. The Commission is also proposing to permit the judicial authorities to limit disclosure of certain evidence in control of one of the parties, where this is material to the outcome of the action, to the legal representative of the counterpart.
32. We agree that it is necessary to ensure trade secrets holders are not deterred from enforcing their rights. Without the possibility for judicial authorities, or between the parties themselves, to limit disclosure, there would be little point in conferring protection on trade secrets if there are no effective means of enforcing this protection.

Remedies and damages (Art. 9 - 14)

33. As trade secrets are not strictly speaking an IP right and are also not proposed to be established as such, the Directive on civil enforcement of IPR does not clearly apply to trade secrets. Consequently significant differences in remedies exist between Member States and the Commission is therefore proposing to include available remedies in the Directive.
34. We agree that it is necessary to include this into the scope of the Directive and welcome the inclusion of both interim and final measures, including injunctions, recall of infringing goods from the market and destruction as well as destruction of documents, objects etc. that contains or implements the trade secret.
35. The Directive also allows for the award of damages in line with the actual damage sustained, taking all relevant factors into consideration. In addition to the economic factors, e.g. lost profits or profits made by the infringer, the Commission is also proposing that the 'moral prejudice' caused to the holder of the trade secret could be taken into account. The same concept appears in the IPR Enforcement Directive (IPRED) but has proven difficult to apply by the judicial authorities¹⁰. It might helpfully be clarified in the Directive, if not in the articles in the corresponding recitals, what could constitute moral prejudice, e.g. loss of reputation.

¹⁰ See for instance Commission study [on Damages in Intellectual Property Rights](#), 2009

36. Lump sums are proposed as an alternative manner in which to calculate damages. This may in principle work for the IPRED, notwithstanding the issues this still raises in terms of under-compensation; however it is less clear that it would work under the trade secrets Directive. Trade secrets differ from other classic IPR in the sense that in many cases they are not appropriate for and the purpose is not to create an asset that can be licensed. Take for instance a company's pricing strategy. This would present considerable value to any competitor and might result in a significant market loss. However, it would not be possible to assert this loss based on any lost royalties or license fees.

For any further information and if you would like to discuss any of points raised in the above, please contact:

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