The Trade Secrets Directive—Italy

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1. Trade Secrets Protection: Legal Framework

Legislative Decree no 63/2018, (the **"Decree"**), implemented the trade secret directive (the **"Directive"**).

In Italy, trade secrets are intellectual property rights ("IPRs") and are protected both under the civil law (art. 98, 99, 120, 124, 126, 128, 129, 131 of the Italian Code of Industrial Property, "ICIP") and under criminal law (art. 623, Italian Criminal Code, "ICC").

2. Definition

The definition of trade secrets is provided in art. 98 ICIP:

"Trade secrets include commercial information and technical-industrial experience, also the commercial ones, subject to the legitimate control of the owner, whether such information:

a) is confidential, in the sense that as a whole or in its precise configuration and combination of its elements it is not generally known or easily accessible for experts and operators in the field;

b) has an economic value inasmuch as it is confidential;

c) is subject, to the persons to whose legitimate control it is subject, to measures to be considered reasonably adequate to keep it confidential.

Protection shall also be granted to data relating to tests or other confidential data, whose processing entails a considerable effort and whose presentation is conditional upon the marketing authorization of chemical, pharmaceutical or agricultural products implying the use of new chemical substances.".

The provision has not been amended by the Decree, except for the use of the term "trade secrets" instead of "confidential information" to indicate the scope of protection.

Requirements for the qualification of an information as "trade secret" are consistent with art. 39 TRIPS and art. 2 of Directive.

3. Lawful Acts

While art. 99 ICIP considers lawful behavior the acquisition of trade secrets only through "independent discover or creation", *i.e.*, when the information is obtained without the involvement of any third-party knowledge/information, it is possible to consider, by mean of interpretation, that lawful acts also include: (i) reverse engineering, (ii) trade union rights, (iii) any other lawful practice.

4. Unlawful Acts

Art. 99.1 states that:

"Without prejudice to the provisions on unfair competition, the legitimate owner of trade secrets as per Art. 98, has the right to prohibit third parties, subject to his consent, from acquiring, revealing to third parties or using that secrets in an unauthorized manner, except for the cases in which the third party has obtained it in an independent manner by the third party."

The Decree added paragraphs 1*bis* and 1*ter* to art. 99 ICIP.

Art. 99.1*bis* states that:

"The acquisition, use or revealing of the trade secrets referred to in Article 98 shall be considered unlawful even when the subject, at the time of acquisition, of use or revelation, was aware of or, according to the circumstances, should have been aware of the fact that trade secrets had been obtained directly or indirectly by a third party who used them or revealed them unlawfully pursuant to paragraph 1."

Art. 99.1ter states that:

"The production, the offer, the commercialization of goods infringing, or the import, export or storage of the same goods constitutes an unlawful use of trade secrets referred to in Art. 98, when the subject that carried out such conduct was aware or, according to the circumstances, he should have been aware of the fact that trade secrets had been used unlawfully under the terms of paragraph 1. For goods constituting violation are intended the goods which design, features, function, production or marketing benefit in a significant manner of the aforementioned business secrets unlawfully acquired, used or unlawfully revealed".

A significant benefit occurs even if there is no connection between the product and the trade secret (*i.e.* client list, supplier lists, etc.).

5. Exceptions

By mean of interpretation, the "Exceptions" included in art. 5 of the Directive can be considered encompassed by art. 99, even if not expressly recalled.

6. Enforcement: Measures, Procedures and Remedies

In a proceedings on the merits (art. 124 ICIP), the

application of the following civil measures can be requested: (i) injunction against the manufacture, sale and use, (ii) definitive withdrawal from the market, (iii) destruction; and (iv) assignment of the ownership of the trade secret to the owner of the right without prejudice of the right to compensation for damages.

When considering which remedies and civil sanctions should be ordered in case of unlawful acquisition, use or disclosure of trade secrets under art. 98, the judge shall apply the specific criteria laid down in art. 124, paragraph 6-*bis* of ICIP (which mirror those of art. 11(2) of the Directive).

Furthermore, the judge shall decide whether to order the publication of his ruling and the suitability of the claimed measures considering also: (i) the value of the trade secrets, (ii) the actions carried out by the wrongdoer to acquire, use or revealing the trade secrets, and (iii) the risk that the wrongdoer carries on the unlawful use or reveals the trade secrets.

The judge shall also consider whether a natural person may be identified as the actual wrongdoer and, if so, whether the interest in the publication of such information is balanced with the potential damages that may be caused to the wrongdoer's private life and reputation.

The competent Court shall be determined according to art. 120 ICIP, which has not been amended by the Decree.

7. Preliminary Injunctions

In *ante causam* proceedings (art. 129 and 131 ICIP) the protective measures applicable are: (i) *ante causam* search orders, (ii) seizures, (iii) injunctions against manufacture, sale and use, (iv) definitive withdrawal from the market.

The same considerations about the proceedings on the merits are valid also for preliminary injunction and other interim measure.

Also, in this case, the competent Court shall be determined according to art. 120 of the ICIP.

8. Alternative Measures

The Decree introduced an indemnification, alternative to the measures applicable under art. 124 ICIP, which may be granted upon interested party's application, provided that all of the requirements laid down in new paragraph 6-*ter* of article 124 of the Italian Code of Industrial Property are met: (i) at the time of the use or revealing, the claimant was not, nor should have been, aware that the trade secrets had been obtained by the third party unlawfully using or revealing them, (ii) the execution of these measures would be unduly burdensome for the claimant, (iii) the indemnification is commensurate to the damages suffered by the party seeking the application of relieving measures.

Art. 124 ICIP limits such compensation in new paragraph 6-quarter, which states that:

> *"Compensation paid pursuant to paragraph 6-ter cannot, in any case, exceed the amount of the rights that should have been paid by the party in case it requested the authorization to use the trade secrets for the period of time for which the use of such secrets could have been forbidden".*

Furthermore, according to the new paragraph 5-*bis* of article 132 ICIP, in all proceedings aimed at seeking protective measures, the judge may authorize the defendant to continue to use the trade secrets, subject to providing an appropriate security as compensation of any damages suffered by the legitimate owner. If this measure is applied, the prohibition to reveal the trade secrets remains valid and effective.

The Decree also states that in cases listed in the first part of art. 10.5 of the Directive, the applicant ought to provide compensation for injury caused by those measures (art. 132, paragraph 5-*quarter*). Even though not specified, the compensation is due only if stated in a specific judicial decision and the civil proceedings' rules on the burden of proof are applicable.

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9. Limitation Period

Art. 99.1-*quarter* states that the rights and the actions connected to the misconducts listed in such article expire in five years.

The precautionary measures adopted may be forfeited either for failure to commence the proceedings on the merits within the mandatory deadline (set out in article 132.2 ICIP), or as a result of the claimant's actions or omissions.

10. Trade Secrets as an Object of Property

Trade secrets are protected as specific industrial property rights (IPRs).

In accordance with art. 2 ICIP, trade secrets are protected as "untitled" IP Rights only if the requirements set out in articles 98 and 99 of the ICIP are met (see above).

If the trade secret belongs to multiple persons, then: *"the relevant rights are regulated, except as established by conventions with rules to the contrary, by the provisions of the Civil Code relating to joint ownership to the extent they are compatible"* (art. 6.1 ICIP*). Therefore "the shares of participants in common ownership are*

presumed to be equal" (art. 1101.1 of Civil Code) and *"each participant can dispose of his rights and grant to others the enjoyment of the things within the limits of his share"* (art. 1103.1 of Civil Code).

Some scholars believe that each co-owner is not entitled to use the jointly-owned rights without other owners' consent, pursuant to art. 1105 or 1108 of Civil Code, while others believe that each co-owner is entitled to such use since IPRs are intangible and, therefore, simultaneously and independently exploitable.

Trade secrets may be the subject matter of a contract, such as "assignment" or "license", in which the *"ownership or right is transferred and acquired by virtue of the lawfully expressed agreement of the parties"* (art. 1376 of Civil Code). Both types of contract do not require any signature formalities.

A license of trade secrets may be limited to specified fields of activity or products (the so called "field of use restrictions") but are limited in duration to the moment in which the entire know-how falls under public domain. If only some of the information which form the trade secrets fall under public domain, the validity of the license will be proportionally reduced.

When the transfer or license of a trade secret is part of a franchise agreement, in accordance with art. 3.1 of Law no 129/2004 (the "Franchising Act") the agreement must be executed in writing to be legally valid and must be expressly indicated in the contract: (i) the know-how to be transferred to the franchisee and (ii) the criteria for the recognition of know-how added by the franchisee (art. 3.4 of the Franchising Act).

A new paragraph of art. 99 ICIP impacts upon contracts related to trade secrets:

> *"The acquisition, use […] of trade secrets referred to in Article 98 shall be considered unlawful even when the subject, at the time of acquisition or use […] was aware of or, under the circumstances, had to be aware of the fact that the trade secrets were obtained directly or indirectly from a third party who used them or revealed them unlawfully".*

11. Protection of Trade Secrets in Court Proceedings

After the Directive, a new article 121-*ter* was inserted into the ICIP providing specific safeguards in proceeding relating to the acquisition, use or disclosure of trade secrets, that reads as follows:

> *"1. In legal proceedings relating to the unlawful acquisition, use or revealing of a trade secret referred to in Article 98, the court may prohibit the persons appointed or delegated by him, the parties and their representatives and consultants, the defenders, the administrative staff, witnesses, and other persons who, for whatever reason, have access to the provisions, documents and documents in the office file, the use or revealing of the trade secrets which are the subject of the proceeding considered confidential. The prohibition measure referred to in the first sub-paragraph is adopted at the request of a party and remains effective even after the conclusion of the proceedings in the course of which it was issued.*
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> *2. The provision referred to in paragraph 1 loses its effectiveness:*
>
> *a) if the judgment has become final, it is established that the trade secrets at issue did not meet requirements set out in Article 98;*
>
> *b) if trade secrets become generally known or readily accessible to experts and operators in the sector.*
>
> *3. In the legal proceedings referred to in paragraph 1, the judge, upon request of a party, may adopt measures that, in compliance with the regulatory principles of fair trial, appear more appropriate to protect the confidentiality of the trade secrets at issue, and in particular:*
>
> *a) restrict access to hearings and to documents and documents in the office file to a limited number of persons;*
>
> *b) arrange, in the provisions defining proceedings referred to in paragraph 1, made available also to persons other than the parties, that passages containing trade secrets are removed or redacted.*
>
> *4. For the purposes referred to in paragraph 3, letter b), the judge, with the ruling, indicates parts of the same that the Registrar is required to remove or redact at the time of issuing a copy to subjects other than the parties. For the same purposes, the judge orders that, when the measure is published, the registry will attach a note indicating the prohibition on the parties to spread the non-confidential version".*

In addition to art. 121-*ter* ICIP, another specific provision governs the access to confidential information involved in proceedings for damages caused by the infringement of antitrust rules. In accordance with art. 3 of the Legislative Decree no 3/2017, indeed, when the object of the request or exhibition order is confidential information, the judge is to set out specific measures in order to protect confidentiality including:

> *"the duty to maintain secrets information disclosed in the proceeding, the possibility of not making visible confidential parts of a document, the conduct of hearings not in public ["confidential hearings"], the limitation of the number of people authorized to have access to evidence, the appointment to experts to provide with a summary of information in aggregate form or in other non-confidential form".*

Confidential information is considered to be doc-

uments that contain personal as well as commercial, industrial and financial confidential information about individuals and businesses, as well as *"trade secrets"*.

The Decree introduced the following paragraphs in art. 126 ICIP about the publication of judicial decisions that involve trade secrets:

> *"1-bis. In proceedings related to unlawful acquisition, use or revealing of trade secrets referred to in Article 98, the judge, in deciding whether to adopt one of the measures referred to in paragraph 1 [the publication of the judicial decision] and in assessing its proportionality, shall take in account the concrete circumstances of the case and, in particular:*
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> *a) the value of trade secrets;*
>
> *b) the conduct of the infringer in acquiring, using or revealing trade secrets;*
>
> *c) the impact of unlawful use or revealing of trade secrets;*
>
> *d) the danger of further unlawful use or revealing of trade secrets by the infringer.*
>
> *1-ter. For the purposes referred to in paragraph 1-bis, the judge also considers whether the information on the author of the violation is such as to allow the identification of a natural person and, if so, whether the publication of such information is justified also in consideration any damage that the measure may cause to the private life and reputation of the same author."*

12. Recommendations for Corporate Trade Secrets Policies

To obtain a given protection of trade secrets under the Italian law (even after the implementation of the Directive) companies should proceed step by step:

First, identify, track down and define the knowledge created and/or used by the company that can be considered a trade secret, through interviewing management and professionals to map the information they handle and understanding how it flows inside and outside the company.

Once identified, it is advisable to segregate and mark trade secrets as confidential (*i.e.*, "warning marks").

Some Italian case-law states that certain information is confidential because of its nature, therefore there is no need to classify it as such explicitly. Opposite case-law states that the secrecy of the information is not innate, therefore without warning mark, trade secret risk to be not protectable.

Lastly, according to art. 98 let. c) ICIP, companies should protect trade secrets by reviewing their confidentiality policies, defining processes for an organizational-specific trade secret protection management system and implementing facility and information security systems.

"Appropriate measures" shall be detected through a risk assessment that highlights the main risk areas and consider the real needs and possibilities of the company.

Italian case-law before the Directive (that we do not expect will change after its implementation), considered the use of a password and the entering into a non-disclosure agreement with employees and suppliers an insufficient tool to protect trade secret.

Security measures commonly adopted are: (i) multiple passwords, (ii) internal procedure for the processing of trade secrets, (iii) control and limit of the accesses where the trade secrets are used/stored, (iv) implementation of "clean desk" policy, (v) periodic destruction of the documents, (vi) use of encoding and encrypting software systems, remote storage and data loss prevention (DLP) and (vii) training employees to manage confidential data appropriately and in a responsible manner. ■

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