

The Trade Secrets Directive

By Kevin Nachtrab

1. Trade Secrets Protection: Legal Framework

With its publication in the Official Journal of the European Union on 8 June 2016, the European Parliament and the Council of the European Union adopted Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (“the Directive”).

The Directive is a so-called “minimum harmonisation directive” meaning that Member States have the possibility—if they wish—to put in place wider trade secret protection, provided that the safeguard measures expressly provided for in the Directive to protect the interests of third parties are respected. However, even if a Member State does not put such protection in place, pursuant to Article 288 of the Treaty on the Functioning of the European Union (TFEU), the wording and the goals of the Directive must be observed when national law is applied.

The Directive should have been transposed into national law by the Members of the European Union by 9 June 2018. By virtue of its treaty with the Members of the European Economic Area (the Agreement on the European Economic Area), the Directive is also to be transposed into the national law of the three members of the European Free Trade Association (EFTA): Iceland, Norway and Liechtenstein. On 29 March 2019 this was done via Decision No. 91/2019 of the EEA Joint Committee amending Annex XVII (Intellectual property) to the EEA Agreement.

2. Definitions

Article 2 of the Directive has furnished a three-part definition of what constitutes a trade secret that:

- (a) *it 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) *it has commercial value because it is secret;*
- (c) *it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;”*

3. Lawful Acts

Article 3 of the Directive enumerates those acts that should be considered as being lawful acts concerning the acquisition of a trade secrets:

- (a) *independent discovery or creation;*
- (b) *observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret;*
- (c) *exercise of the right of workers or workers’ representatives to information and consultation in accordance with Union law and national laws and practices;*
- (d) *any other practice which, under the circumstances, is in conformity with honest commercial practices.*

In addition, the Directive provides that the acquisition, use and disclosure of a trade secret is lawful to the extent that such acquisition, use or disclosure is required or allowed by Union or national law.

4. Unlawful Acts

Article 4 of the Directive sets forth those acts concerning the acquisition of a trade secret that should be considered as being unlawful:

- (a) *unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced; and*
- (b) *any other conduct which, under the circumstances, is considered contrary to honest commercial practices.*

The Directive further specifies that the use and disclosure of a trade secret should be considered as being unlawful when carried out by:

- (a) *having acquired the trade secret unlawfully;*
- (b) *being in breach of a confidentiality agreement or any other duty not to disclose the trade secret; and*
- (c) *being in breach of a contractual or any other duty to limit the use of the trade secret.*

In addition, the Directive specifies that either the acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of the acquisition, use or disclosure, knew or ought, under the circumstances, to have known that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully. Finally, Article 4 provides that the production, offering, importation, export, storage or placing on the market of infringing goods, shall also

be considered an unlawful use of a trade secret where the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used unlawfully.

5. Exceptions

Article 5 of the Directive provides that an application for the measures, procedures and remedies provided for in the Directive should be dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:

- (a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;
- (b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;
- (c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise; or
- (d) for the purpose of protecting a legitimate interest recognised by Union or national law.

6. Enforcement: Measures, Procedures and Remedies

Article 6 of the Directive provides that measures, procedures and remedies necessary to ensure the availability of civil redress against the unlawful acquisition, use and disclosure of trade secrets should be provided for which are: (a) be fair and equitable; (b) not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays; and (c) be effective and dissuasive. Article 7 further provides that these procedures and remedies should: (a) be proportionate; (b) avoid the creation of barriers to legitimate trade in the internal market; and (c) provide for safeguards against their abuse.

To this end, Member States are to ensure that:

“...competent judicial authorities may, upon the request of the respondent, apply appropriate measures as provided for in national law, where an application concerning the unlawful acquisition, use or disclosure of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith. Such measures may, as appropriate, include awarding damages to the respondent, imposing sanctions on the applicant or ordering the dissemination of information concerning a judicial decision [concerning the infringement of a trade secret].”

Article 12 provides such enforcement measures should provide for:

- (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret;
- (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;
- (c) the adoption of the appropriate corrective measures with regard to the infringing goods;
- (d) the destruction of all or part of any document, object, material, substance or electronic file containing or embodying the trade secret or, where appropriate, the delivery up to the applicant of all or part of those documents, objects, materials, substances or electronic files.

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The types of corrective measures envisioned include: (a) recall infringing goods from the market; (b) depriving infringing goods of their infringing quality; (c) destruction or, where appropriate, withdrawal of infringing goods from the market, provided that such withdrawal does not undermine the protection of the trade secret in question.

7. Preliminary Injunctions

Article 10 of the Directive requires Member States to ensure that competent judicial authorities may, upon request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer:

- (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis;
- (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;
- (c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.

In doing so, the competent judicial authorities must have, in respect of such provisional and precautionary measures, the authority to require the applicant to provide evidence that may reasonably be considered available in order to satisfy themselves with a sufficient degree of certainty that: (a) a trade secret exists; (b) the applicant is the trade secret holder; and (c) the trade secret has been acquired unlawfully, is being unlawfully used or disclosed, or that such unlawful acquisition, use or disclosure of the trade secret is imminent.

The Directive further provides in Art. 11(2) that Member States shall ensure that, in deciding on granting or rejecting the application and assessing its proportionality, the competent judicial authorities take into account the specific circumstances of the case, including, where appropriate: (a) the value and other specific features of the trade secret; (b) the measures taken to protect the trade secret; (c) the conduct of the respondent in acquiring, using or disclosing the trade secret; (d) the impact of the unlawful use or disclosure of the trade secret; (e) the legitimate interests of the parties and the impact which the granting or rejection of the measures could have on them; (f) the legitimate interests of third parties; (g) the public interest; and (h) the safeguard of fundamental rights.

Article 11(3) of the Directive requires that Member States ensure that the measures referred to in Article 10 are revoked or otherwise cease to have effect, upon the request of the respondent, if:

- (a) *the applicant does not institute legal proceedings leading to a decision on the merits of the case before the competent judicial authority, within a reasonable period determined by the judicial authority ordering the measures where the law of a Member State so permits or, in the absence of such determination, within a period not exceeding 20 working days or 31 calendar days, whichever is the longer; or*
- (b) *the information in question no longer meets the definition of a trade secret for reasons that cannot be attributed to the respondent.*

Member States are also required to ensure that the competent judicial authorities may make ordered measures (be they measure to either continue allegedly unlawful uses of a trade secret or those referred to in Article 10) subject to the lodging by the applicant of adequate security or an equivalent assurance intended to ensure compensation for any prejudice suffered by the respondent and, where appropriate, by any other person affected by the measures. However, the disclosure of a trade secret in return for the lodging of guarantees is not to be allowed.

Finally, where the measures of Article 10 are revoked the competent judicial authorities shall have the authority to order the applicant, upon the request of the respondent or of an injured third party, to provide the respondent, or the injured third party, with appropriate compensation for any injury caused thereby. This request for compensation may be dealt with in separate legal proceedings.

8. Alternative Measures

Article 13(3) of the Directive requires Member States to provide, at the request of the person subject to the measures provided for in Article 12, that the competent judicial authority may order pecuniary

compensation to be paid to the injured party instead of applying those measures if all the following conditions are met:

- (a) *the person concerned at the time of use or disclosure neither knew nor ought, under the circumstances, to have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully;*
- (b) *execution of the measures in question would cause that person disproportionate harm; and*
- (c) *pecuniary compensation to the injured party appears reasonably satisfactory.*

Pecuniary compensation ordered instead of the measures referred to in points (a) and (b) of Article 12(1) is not to exceed the amount of royalties or fees which would have been due had that person requested authorisation to use the trade secret in question, for the period of time for which use of the trade secret could have been prohibited

9. Limitation Period

Article 8 of the Directive provides that Member States are to establish rules on the limitation periods applicable to substantive claims and actions for the application of the measures, procedures and remedies provided for in the Directive. The rules are to determine when the limitation period starts, the duration of the limitation period and the circumstances under which the limitation period is interrupted or suspended. Finally, Article 8 mandates that the duration of the limitation period shall not exceed six years.

10. Trade Secrets as an Object of Property

While the Directive provides for protecting trade secrets in a manner similar to the protection of intellectual property rights, it does not provide that trade secrets are IP rights in that it does not confer a trade secret holder with an exclusive right to prohibit the use of a trade secret.

Information classified as a trade secret is therefore not strictly speaking the “property” of its holder: it will only be protected as long as it is secret, and the holder will not be able to oppose its lawful acquisition, use and/or disclosure.

In view of the above, the Directive does not, strictly-speaking, provide that a trade secret could be the subject of an assignment and/or licence since it does not confer a subjective right as such, but would, at most, be the subject of a bilateral contract obliging the original holder of the secret to disclose the information and the receiver to keep it confidential.

11. Protection of Trade Secrets in Court Proceedings

Preservation of Confidentiality in Court Proceedings

The preservation of Confidentiality in Court Pro-

ceedings is addressed by Article 9 of the Directive. Article 9 mandates Member States to ensure that all persons participating in legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who have access to documents which form part of those legal proceedings, are not permitted to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a duly reasoned application by an interested party, identified as confidential and which they have become aware of as a result of such participation or access. To this end, Member States are permitted to allow competent judicial authorities to act on their own initiative. This obligation is to remain in force even after the legal proceedings have ended, only ceasing: (a) when the alleged trade secret is found, by a final decision, not to meet the requirements of a trade secret; or (b) when, over time, the information in question becomes generally known among or readily accessible to persons within the circles that normally deal with that kind of information.

Member States are also to ensure that competent judicial authorities may, either on their own initiative or on a duly reasoned application by a party, take specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret. Such measures are to at least include the possibility of: (a) restricting access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties, in whole or in part, to a limited number of persons; (b) restricting access to hearings and the corresponding records and transcripts thereof, when trade secrets or alleged trade secrets may be disclosed therein to a limited number of persons; and (c) making available to any person other than those comprised in the limited number of persons referred to in points (a) and (b) a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed or redacted. The number of persons referred to in points (a) and

(b) shall be no greater than necessary in order to ensure that the parties to the legal proceedings have the right to a fair trial and an effective remedy, including, at least, one natural person from each party and their respective lawyers or other representatives to the legal proceedings.

When deciding on these measures and assessing their proportionality, the competent judicial authorities are to take into account the need to ensure the right to a fair trial and an effective remedy, the legitimate interests of the parties (and, where appropriate, of third parties), and any potential harm for either of the parties (and, where appropriate, for third parties), resulting from the granting or rejection of such measures. Finally, the Directive mandates that any processing of personal data disclose in court proceedings shall be carried out in accordance with Directive 95/46/EC.

Publication of Decisions of Proceedings

Article 15 of the Directive mandates Member States to ensure that, in legal proceedings instituted for the unlawful acquisition, use or disclosure of a trade secret, competent judicial authorities may, at the request of the applicant and the expense of the infringer, order appropriate measures to preserve the confidentiality of trade secrets in the dissemination of information concerning the decision, including publishing it in full or in part.

In deciding whether to order such measures, the competent judicial authorities are to take into account, where appropriate, the value of the trade secret, the conduct of the infringer in acquiring, using or disclosing the trade secret, the impact of the unlawful use or disclosure of the trade secret, and the likelihood of further unlawful use or disclosure of the trade secret by the infringer. In addition, the authorities are to take into account whether information about the infringer would be such as to allow a natural person to be identified and, if so, whether publication of that information would be justified, in particular in the light of the possible harm doing so may cause to their privacy and reputation. ■

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