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TRADE SECRETS' PROTECTION IN THE EUROPEAN UNION IN LIGHT OF THE PROPOSED DIRECTIVE

HERBERT SMITH FREEHILLS

MARCH 2016

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PART 1:

WHY A TRADE SECRETS DIRECTIVE IN THE EU?

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WHY A TRADE SECRETS DIRECTIVE IN THE EU?



WHY A TRADE SECRETS DIRECTIVE IN THE EU?

AN UNEVEN LEVEL OF PROTECTION OF TRADE SECRETS IN EU MEMBER STATES

- **Definition of a “trade secret”:** only a few member states define the “trade secret” in their legislations.
- **Special legislation:** only Sweden provides for a special legislation to protect trade secrets; the other member states refer to their common civil and/or criminal laws.
- **Injunctions/damages:** most member states (i) do not offer the possibility to obtain an injunction to halt the illegal use of trade secrets, (ii) do not provide for special damages calculation rules (e.g. calculation of the royalties which would have been due if a licensing agreement had been signed).
- **Confidentiality of trade secrets during proceedings:** only the UK, Hungary and Germany ensure the confidentiality of trade secrets during proceedings. As a result, in most member states, victims are deterred from taking action in court.
- **The theft of trade secrets** is a criminal offence in many member states, but sanctions vary a lot.

WHY A TRADE SECRETS DIRECTIVE IN THE EU?

INCREASED THREATS FOR THE PROTECTION OF TRADE SECRETS

New threats for the protection of trade secrets:

DISCLOSURES BY EMPLOYEES



In an increasingly digitalized society, discontent employees can, much more easily than in the past, disclose their employers confidential information through the web.

CYBERCRIME



Trade secrets are more vulnerable to cyber attacks/espionage than before.

High costs for companies:

- 55% of companies in the EU have invested in protection measures following misappropriation or attempt of misappropriation of their trade secrets.
- 56% of companies in the EU consider that misappropriation or attempt of misappropriation of their trade secrets have lead to lower sales.

Source: survey of the European Commission, 2013

WHY A TRADE SECRETS DIRECTIVE IN THE EU?

FOSTERING INNOVATION AND THE COMPETITIVENESS OF EU COMPANIES

➤ Innovation:

- **Startups, SME's and research centers rely more on trade secrets than traditional IP rights** to protect their innovations, because of the costs of protection of IP rights.
- **EU companies invest less in R&D than US and Japanese companies.**

➤ Competition: the proposed Directive aims at ensuring the protection of the trade secrets of EU companies, and therefore their competitiveness, **at least as efficiently as foreign legislations:**

- **in the USA**, the Uniform Trade Secrets Act (UTSA) and the Economic Espionage Act (EEA) provide for a definition of trade secrets, special injunction measures, sanctions and compensation, and confidentiality of trade secrets during legal proceedings;
- **in Japan**, the Prevention of Unfair Competition Act (19 May 1993) provides for special injunction measures, sanctions and compensation. The Civil Procedure Code ensures the confidentiality of trade secrets during legal proceedings;
- **in China**, the Protection Against Unfair Competition Act (2 September 1993) provides for a definition of trade secrets, special injunction measures, sanctions and compensation. Illicit behaviors are also sanctioned by the administrative authority and on criminal grounds.



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PART 2:

A BROAD DEFINITION OF « TRADE SECRETS »

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A BROAD DEFINITION OF « TRADE SECRETS »

Proposal for a Trade Secret Directive (November 2013), article 2:

“ ‘trade secret’ means information which meets all of the following requirements:

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



This definition is identical to the definition of « undisclosed information » in the TRIPS Agreement (article 39.2).

DIFFERENCES AND SIMILARITIES IN EU JURISDICTIONS

DEFINITION OF A “TRADE SECRET” UNDER THE PROPOSED DIRECTIVE

➤ **Secret:**

- what must be secret ? The information in its entirety or the “*precise configuration and assembly of its components*”.
- « secret » in what sense ? The information must not be “*generally known*” or “*readily accessible*”, which means that even if the information is known by a third party, it is still “secret” as long as it stays difficult to access.
- secret among whom ? The information must be secret among “*persons within the circles that normally deal with the kind of information in question*”.

➤ **Commercial value:** means that the information must be commercially exploitable, which is restrictive. With regard to the economy of the proposed Directive, this condition will probably be interpreted to include all information with potential or actual economic value.

➤ **Reasonable steps to keep it secret:** the proposed Directive does not require that extreme procedures be taken to protect trade secrets. Reasonable use of a trade secret, including controlled disclosure to employees and licensees, is permitted.

A BROAD DEFINITION OF « TRADE SECRETS »

WHAT INFORMATION CAN BE PROTECTED?

- Article 2 of the proposed Directive simply refers to “*information*”.
- From the title of the proposed Directive (“*Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure*”), and following its Recitals 1 and 8, **it is clear that the Commission aimed at covering both commercial, economic and technical information.**
- In June 2015, the European Parliament adopted changes to the Proposal:
 - it broadened the definition of a “trade secret” by adding “*know-how and business information*”;
 - it specified that “*experience and skills honestly acquired by employees in the normal course of their employment shall not be considered a trade secret*”.
- **Neither the Commission nor the European Parliament specified that the information had to be written.** Thus, proving the existence and usurpation of a trade secret could be very difficult in practice.



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PART 3:

« QUASI IP RIGHTS » ON TRADE SECRETS

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« QUASI IP RIGHTS » ON TRADE SECRETS

NEW RIGHTS THAN CAN BE ENFORCED AGAINST (NEARLY) EVERYONE

- Like IP rights, **trade secrets' rights can be enforced against (nearly) everyone** under the proposed Directive:
 - in a predictable way, against the persons who unlawfully obtained the trade secret from its holder (article 3, § 2);
 - in an innovative way, against any third party who consciously produces, offers, or places on the market “infringing goods”, or exports or stores “infringing goods” for those purposes (article 1, § 5).
- To be unlawful, the obtaining, use or disclosure of the trade secret must deliberate or must result from a grave negligence.
- The use of “infringing goods” is unlawful only when the person “*should have been aware of the fact that unlawful use had been made of the trade secret*” (precision added by the European Parliament in June 2015)

« QUASI IP RIGHTS » ON TRADE SECRETS

NEW RIGHTS THAN CAN BE ENFORCED AGAINST (NEARLY) EVERYONE

- The proposed Directive offers “quasi IP rights” to the trade secret’s holder:
 - the right, on a provisional and precautionary basis, to order the cessation of the use or disclosure of the trade secret (article 9, § 1);
 - the right, on a provisional and precautionary basis, to seek the prohibition to produce, offer, place on the market or use “*infringing goods*”, or to export or store “*infringing goods*” for such purposes (article 11, § 1).
- **The definition of infringing goods** (“*goods whose conception, characteristics, functioning, manufacturing process or marketing significantly benefits from trade secrets unlawfully acquired, used or disclosed*”, article 2, § 2) **is broad**. The criteria of “conception” or “marketing” could lead to abuses: a product could be infringing just because (1) it uses the market sales techniques or pricing-model allegedly protected by a third party’s trade secret, or (2) it incorporates a product allegedly protected by a third party’s trade secret.
- All claims may be brought “*no more than two years after date on which the applicant became aware, or had reason to become aware, of the last fact giving rise to the action*” (article 7).



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PART 4:

TRADE SECRETS' DISPUTES: A BETTER PROTECTION FOR ALL PARTIES ?

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TRADE SECRETS' DISPUTES: A BETTER PROTECTION FOR ALL PARTIES ?

THE PRESERVATION OF TRADE SECRETS DURING LEGAL PROCEEDINGS

- Article 8 of the proposed Directive sets forth procedural rules for the preservation of trade secrets in the course of legal proceedings.
- **Any party which participates in the trade secret's related proceedings, or which has access to documents containing trade secrets, must be bound by an obligation of confidentiality and non-use during and after the proceedings** (article 8, § 1).
- The proposed Directive suggests, by way of a minimum measure of protection, that member states offer to their courts **the ability to restrict access to the evidence and the court hearing to a limited group of individuals** (which would comprise the counsels and at least one of the parties' representatives).
- Before applying a measure of restriction of access to evidence and court hearing, the court is required to assess the proportionality of the measure, taking into account rights to an effective remedy and to a fair trial, legitimate interests involved and potential harm to the parties and, possibly, to third parties (article 8, § 3).

TRADE SECRETS' DISPUTES: A BETTER PROTECTION FOR ALL PARTIES ?

AN UNANTICIPATED PROBLEM: TRADE SECRETS TROLLS

- **Unlike a trademark or a patent, a trade secret is a self-proclaimed right that is not put under scrutiny by any authority.** Only the courts are able to determine its existence, following the legal proceedings. Furthermore, **the definition of a “trade secret” under the proposed Directive is broad.**
- As a result, some companies may try to request money from other companies (e.g. competitors), by claiming that they infringed their alleged trade secrets and by offering a quick settlement, even if the claim is “shaky”.
- The financial risk is high: trade secret litigation will be **complex, time-consuming and costly**, because of the specific guarantees offered to the holder of the alleged trade secret against the risk of unlawful dissemination (in particular, the provisional and precautionary measures that the alleged holder may demand).

TRADE SECRETS' DISPUTES: A BETTER PROTECTION FOR ALL PARTIES ?

SANCTIONS

- **Judicial authorities have the power to impose sanctions on the persons who do not comply with the obligations set out in the Directive** (article 15). These sanctions are:
 - a fine and the publication of the judicial decision, to sanction the **abuse of litigation** (e.g. claims which are intended to restrict access to the market, to harass, to intimidate);
 - the prohibition to use or disclose the trade secret (article 9, § 1; article 11);
 - the prohibition to produce, offer, place on the market or use “*infringing goods*”, or to export or store “*infringing goods*” for such purposes (article 11, § 1);
 - the payment of damages commensurate to the prejudice suffered by the injured party (article 13).
 - the publication of the judicial decision at the expense of the infringer, without disclosing the trade secret (article 14).

TRADE SECRETS' DISPUTES: A BETTER PROTECTION FOR ALL PARTIES ?

SANCTIONS

- **Damages**: the judicial authority may
 - set the damages by taking into account all relevant factors, including **the unfair profits made by the infringer and the moral prejudice suffered by the trade secret holder**
 - or
 - set the damages as a lump sum, on the basis of the *“amount of royalties or fees which would have been due if the infringer had requested authorization to use the trade secret”* (article 14).
- Sanctions shall be **“effective, proportionate and dissuasive”** (article 15).

CONCLUSION: WHAT SHOULD COMPANIES DO TO PREPARE THEMSELVES ?

- Introduce tools and procedures to identify (i) trade secrets and (ii) the risks of misappropriation and dissemination.
- Carefully keep and protect all written tracks of your trade secrets.
- Implement hiring and firing procedures, which draw the line between: (i) the IP rights and trade secrets of the employer, (ii) the IP rights and trade secrets of the employee, and (iii) the experience and skills honestly acquired by the employee in the normal course of his/her employment.



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