

# Keeping it secret: start preparing for Trade Secrets Directive

Trade secrets are an important asset for all businesses as they are at the core of their competitiveness. A trade secret can be any information that is of value to the business whether technical, such as a certain process, or commercial, such as client lists and business strategies. The proposed EU Trade Secrets Directive is now quickly winding its way through the legislative process. Protection will only be afforded to undisclosed information where reasonable steps have been taken to keep this information secret. Therefore, it is imperative for any business to make sure that appropriate measures are taken to safeguard trade secrets. If these measures have not yet been taken, this should become a priority. Moreover, companies should be aware that the arsenal of remedies available under the Trade Secrets Directive is similar to that for IP rights under the Enforcement Directive.

## Current situation in the EU

Trade secrets are currently afforded a minimum level of protection under Article 39 (2) of the Agreement of Trade Related Aspects of Intellectual Property rights (TRIPS). TRIPS provides protection for information that in brief:

- is secret; that is, not generally known or readily accessible;
- has a commercial value because of the fact that it is secret; and
- has been subject to reasonable steps to keep it secret.

However, the protection of trade secrets is not yet regulated on a European level. This has led to a patchwork of different regimes across Europe. The actions and remedies available in the case of a trade secrets violation vary widely. This makes it difficult for companies to protect their trade secrets in an effective way.

## Imminent European legislation

*The latest step in the legislative process: proposed amendments of the EU Parliament*

The Commission proposed a directive for the protection of trade secrets in November 2013 (see our legal alert about the Commission Proposal [here](#)). The Council followed with its own draft in May 2014, while the EU Parliament voted on the Trade Secrets Directive in June 2015.

*The importance of the proposed EU Trade Secrets Directive: a wide and robust range of remedies*

The directive will provide a range of new and robust remedies to enforce trade secret rights, provided that there is unlawful acquisition, use or disclosure of a trade secret. These remedies include obtaining an injunction against further use or disclosure and the award of damages. In addition, the trade secret holder can take action against “infringing goods”. These are goods where the design, characteristics, functioning, manufacturing process or marketing significantly benefits from the use of a trade secret. Remedies include seizure of the infringing goods and a court order prohibiting these goods from being produced, marketed,

sold, stored, imported or exported. The infringing goods may also be recalled and all documents, objects or data embodying the trade secret may be destroyed. In other words: trade secrets in the sense of the directive gain, for practical purposes, the status of a quasi IP right.

## *Definition of a trade secret*

The directive will be setting uniform minimum rules on what constitutes a trade secret. It defines a “trade secret” as undisclosed know-how and business information. There are three elements that need to be taken into account for information to qualify as a trade secret (similar to article 39(2) TRIPS). The information must:

- be secret, meaning it is not generally known or readily accessible to people in the wider community than normally deal with that kind of information;
- have an actual or potential commercial value because it is secret; and
- have been subject to reasonable steps under the circumstances to keep it secret.

The definition does not specify what information can qualify as a trade secret and can therefore be anything that meets the three elements, both technical and commercial.

## *Infringement of trade secrets*

The directive provides an objective test for the infringement of a trade secret. Any acquisition of a trade secret carried out by unauthorised access, copying or appropriation, or any other conduct considered contrary to honest commercial practices will constitute infringement of a trade secret. Use or disclosure of a trade secret by a person who unlawfully acquired that trade secret will also constitute infringement, as will the use or disclosure of a trade secret in breach of a contractual obligation.

The acquisition, use or disclosure of a trade secret is also unlawful whenever a person knew or should have known that the trade secret was directly or indirectly obtained from someone else that unlawfully obtained it. The same applies to the production, marketing, import, export or storage of infringing goods. This means that the scope of protection under the directive also covers secondary infringement. It explicitly encompasses protection against abuse by third parties, including passive receivers of trade secrets, even if they initially acted in good faith.

## *Limited exceptions for infringement of trade secrets*

The directive provides limited exceptions to infringement of a trade secret, notably:

- independent discovery
- reverse engineering
- legitimate use of freedom of expression or information
- legitimate whistle blowing
- obligation to disclose

## **The legislative process – next steps**

The different EU bodies will now start informal talks to try to reach a first-reading agreement. The first meeting is set for 25 November 2015. If an agreement is reached, the final text of the directive is likely to be in place soon. Once the directive has been adopted, Member States will need to implement it within two years.

## *Points of discussion*

An interesting point is whether the directive will provide minimum

or maximum harmonisation. The Council draft reflected the compromise that member states may provide, under certain circumstances, a higher level of protection, but neither the Commission's proposal nor the draft from the Parliament contains this provision.

Another point for discussion is worker mobility. One of the key elements for the European Parliament is guaranteeing workers' professional mobility, which has led to several amendments. In these amendments, the European Parliament expressed that trade secrets should not provide any grounds for limiting the use of experience and skills honestly acquired by employees in the normal course of their employment when switching to a competitor to occupy a new position. Of course, this affects the directive itself but does not limit the possibility of concluding confidentiality and non-compete clauses with employees. Regardless of whether these amendments will make their way into the directive, it will always be difficult to strike a balance between deciding what constitutes a trade secret, and what should be considered as knowledge and experience gained by the employee during the normal course of employment. This provides all the more reason to reconsider the way in which your company deals with new arrivals and departing employees in trade secret sensitive positions. Preferably, dealing with these matters would be a combined effort by HR, Legal and IP.

### Protecting your trade secrets

As mentioned above, protection of trade secrets is only afforded to undisclosed information that has been subject to the taking of reasonable steps to keep it secret. The secrecy measures should be reasonable under the circumstances. What "reasonable" entails in a specific situation will probably have to be determined on a case-by-case basis.

#### *Is your company ready for the challenge?*

Each company should, in preparation for the new legal framework, at a minimum:

- identify, document and classify any trade secrets of their business
- verify (the paper trail of) ownership of those trade secrets
- regulate, control, monitor and log any physical and logical access to the trade secrets and the areas where they are stored
- review applicable technical and security arrangements and the company's ability to evidence them
- audit, update and refine the company's know-how management system and trade secret protocol where these are inadequate
- make sure that appropriate legal arrangements are made for all persons and parties that information is or might be shared with, from staff, contractors, freelancers and affiliates to suppliers, business partners and licensees.

Taking these protective measures is not only important in view of the imminent directive, but also in connection with existing and new US legislation. On 29 July 2015, a bill regarding the [Defend Trade Secrets Act 2015](#) was introduced in the US. This bill aims to create a more transparent and clear regime for the protection of trade secrets. Currently, misappropriation of trade secrets in the US is regulated on a State level, but the bill aims to create a federal civil remedy for the misappropriation of trade secrets. Much like the directive, the bill provides for a wide range of

remedies, including the possibility to obtain injunctions and ex parte seizures. In the case of wilful misappropriation, the bill provides for treble damages (similar to the wilful infringement doctrine in relation to patent infringement).

In conclusion, companies are advised to devise a trade secret protection strategy and incorporate this into their IP strategy.