

# Bird & Bird & The New Business Secrets Act in Spain



## *New Business Secrets Act is (finally) approved in Spain, transposing the Trade Secrets Directive*

### Introduction

On 6 February 2019, the Spanish Senate approved the text of the new Business Secrets Act submitted by the Congress. It will be published in the Official State Gazette (BOE) over the coming days and will come into force 20 days after its publication.

This Act transposes Directive (EU) 2016/943 on Trade Secrets into Spanish law, albeit with a delay of almost eight months, since the term for implementation expired on 9 June 2018 and Spain is one of the last countries to implement the Directive. However, there are other countries that still have yet to do so, such as Germany and the Czech Republic. For more information about the implementation of this Directive in other Member States, we recommend you visit our Trade Secret Directive Tracker tool, which can be found here: <https://www.twobirds.com/en/in-focus/trade-secrets/trade-secrets-directive-tracker>.

### Origin and initial situation

The obligation to ensure the protection of business secrets was already enshrined in Article 39 of the TRIPS Agreement, which was signed in 1994 within the framework of the World Trade Organisation<sup>1</sup>. The protection of business secrets provided by the Member States of the EU has been very inconsistent, which is why the EU deemed it was necessary to harmonise trade secret regulations at the EU-level, which resulted in Directive 2016/943. It should be pointed out that **the Directive is a minimal rule** and expressly foresees that Member States may provide for far-reaching protection (Recital 10 and Article 1, paragraph two of the Directive).

In Spain, the new Business Secrets Act is the first Spanish law dedicated entirely and specifically to regulating business secrets. However, business secrets had already been protected by the Spanish legal system previously. Up to now, regulation of this concept was dispersed, mainly in the Criminal Code (Article 278 and Article 279) – which will remain in force as the criminal regulation of this legal figure –, in the Spanish Unfair Competition Act<sup>2</sup> (Article 13) and in the application of the regulations interpreted under the principle of good faith (Article 7 of the Spanish Civil Code and Articles 5, 20 [2], 54 [2d] of the Spanish Workers' Statute<sup>3</sup>). In addition, there are provisions protecting business secrets in other regulatory texts,

<sup>1</sup> Agreement on Trade-related Aspects of Intellectual Property Rights, Annex 1C of the Agreement establishing the World Trade Organisation, Uruguay Round 1994.

<sup>2</sup> Spanish Unfair Competition Act 3/1991 of 10 January 1991.

<sup>3</sup> Legislative Royal Decree 2/2015 of 23 October 2015, which approved the Redrafted Text of the Spanish Workers' Statute.

such as the Spanish Civil Procedure Act<sup>4</sup> (in particular Articles 259 [3] and [4], 307, 328 [3], 332 and 347 [1] and 371) or the Spanish Patent Act<sup>5</sup> (Articles 18 [3], 21 [3] and [4]; 69, 73 [2], 84, 124 [4]).

## Analysis of the new Act

### A) Particular terminology in the Spanish Act

As a purely linguistic issue, the Spanish legislator has changed two terms in the Directive when transposing it into Spanish law: instead of “trade secret” (*secreto comercial*), the term “business secret” (*secreto empresarial*) is used and instead of the term “holder” (*poseedor*) of the secret, the term “owner” (*titular*) is used. However, the definitions of these terms were taken from the Directive and the concepts are the same. In this article, we will use the terminology employed in Spanish law.

### B) Concept, nature and limitations of business secrets

Business secrets are considered a **subjective right of an economic nature**. Unlike the more typical industrial property rights such as patents, utility models or designs, **this is not an exclusive right**, in that “*the independent discovery of the same know-how or information should remain possible. Reverse engineering of a lawfully acquired product should be considered as a lawful means of acquiring information, except when otherwise contractually agreed*” (Recital 16 of the Directive). **There is also no registration granting the right**: The reason that the other rights (patents, utility models or designs) are registered is that the exclusive right acts as consideration for disclosing the know-how. In the case of the secret, the opposite is sought: to avoid disclosure thereof. **The right to business secrets arises from the mere creation thereof, providing the information** in question –regardless of its nature, be it technical, scientific, commercial or another – **cumulatively meets the following requirements** set out in the Directive (see Article 2 [1] of the Directive and 1 [1] of the Act):

- 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, and such commercial value may be actual or potential (see Recital 14 of the Directive);
- c) it has been subject to reasonable steps, under the circumstances, taken by the person lawfully in control of the information, to keep it secret.

Moreover, **it is not an absolute right**, but is limited by the exercise of other rights. These include freedom of expression and information, which includes the freedom and pluralism of the media and other obligations in the public interest, such as disclosure thereof to protect a legitimate interest or reveal misconduct, wrongdoing or illegal activity. In addition, a clear line must be drawn regarding know-how acquired by workers that does not constitute a business secret, in order to prevent the protection of business secrets from acting as a hindrance to job mobility. This latter aspect has already been dealt with in well-established Spanish case law, among which we mention the Judgement ruled by the High Court of Barcelona on 26 October 2005 (Division 15) [AC 2006\365], in the Pronovias case.

### C) Overview of the Act

The new Act incorporates the entire text of the Directive while adding some new aspects. Below we set out its contents, highlighting some issues we deem important without, however, having any intention of being exhaustive.

## Chapter I (Article 1). Description of the subject matter of the Act.

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<sup>4</sup> Spanish Civil Procedure Act 1/2000 of 7 January 2000.

<sup>5</sup> Spanish Patent Act 24/2015 of 24 July 2015.

## **Chapter II (Article 2 and Article 3). List of lawful and unlawful acts in relation to business secrets.**

The scope of the exceptions from violations will depend on the interpretation made of the list included in Article 5 of the Directive and Article 2(3) of the Act, as some exceptions are defined in rather broad terms, such as “*for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest, for exercising the right to freedom of expression and information as set out in the Charter<sup>6</sup>, including respect for the freedom and pluralism of the media*”.

Regarding the unlawful acts set out in the regulation, we highlight the inclusion of the concept of infringing goods as “*products and services the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed*” (Article 4(5) of the Directive and Article 3(4) of the Act). Moreover, it should be pointed out that the consideration of infringer is applied not only to persons acting with fraud but also to persons acting with neglect as, at the time they acquired, disclosed or used a business secret they knew or, under the circumstances, ought to have known it was obtained directly or indirectly from another person who was using or disclosing the business secret unlawfully (Article 4(4) of the Directive and Article 3(3) of the Act).

## **Chapter III (Articles 4 to 7). Subsidiary system of provisions in cases of co-ownership and licensing of business secret rights.**

In addition to the aspects directly concerning licensing, the provisions in Article 13 regarding legal standing to bring actions should also be borne in mind.

The parties may freely agree on how co-ownership and licensing systems are established; however, the Act sets out a subsidiary system in the event that co-ownership and licensing have been left unregulated. This regulation is an addition to the Directive, which does not address these aspects.

It is highly advisable that the parties concerned analyse this subsidiary system and regulate any aspects that may affect them, as the subsidiary system contains some dangerous rights. We highlight the right of co-owners to exploit the business secret by simply “*previously notifying the other co-owners*”, which could directly destroy a business secret.

## **Chapter IV (Articles 8 to 11). Catalogue of defence actions against business secret violations and limitation period.**

The actions are very similar to those provided in relation to patent infringement and acts of unfair competition.

We should point out the possibility of filing actions “*against acquiring third parties acting in good faith, deeming these to mean, for the purposes of this Act, parties who, at the time of the use or disclosure, did not know or, under the circumstances, ought not to have known they had acquired the business secret directly or indirectly from an infringer*” (Article 8, paragraph three). In these cases, the action for compensation of damages is not appropriate, as it is only foreseen for cases in which the infringer has acted wilfully or culpably (Article 9 [1] “g”). However, there is the possibility that, at the request of the defendant, the measures taken against it (normally measures for cessation, prohibition from performing the infringing acts and removal) may be substituted “*with payment of monetary compensation to the plaintiff, providing such compensation is reasonably satisfactory and adopting these measures would cause disproportionate damage to the defendant. The monetary compensation replacing the cessation or prohibition shall not exceed the amount it would have had to pay the owner of the business secret for the grant of a licence that would have allowed it to use it for the period during which the use thereof would have been able to be prohibited*” (Article 9[7]).

Regarding the action for damages, there is no provision that the calculation and settlement thereof takes place when a judgement is enforced, as is provided in the Spanish Patent Act. We hope the courts will apply

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<sup>6</sup> This refers to the Charter of Fundamental Rights of the European Union and specifically Article 11 thereof (Recital 19 of the Directive).

this rule analogically or by virtue of the procedural laws, as they have already done so on occasion before such provision was introduced in the Spanish Patent Act. This measure introduced in the Spanish Patent Act 2015 (in force since 1 April 2017) avoids unnecessary debates and submission of evidence in the main proceedings, where it may be decided that there is no infringement and therefore all resources spent on calculating the compensation were futile.

Regarding the **limitation period** of the action, the Directive merely establishes the limit that it shall not exceed six years (Article 8(2)). The new Act provides a term of **three years** as of the time the plaintiff became aware of the person violating the business secret (Article 11). This term is halfway between the term of five years provided for patent infringements and the term of one year provided for acts of unfair competition, with the latter term of one year being the term regulating business secret violations up to now as these were treated as acts of unfair competition.

#### **Chapter V (Articles 12 to 25). Procedural tools for enforcing the protection of the rights of the business secret owner during court proceedings.**

There are measures related to both general matters of the proceedings as such (jurisdiction, legal standing and competence) and specific measures for protecting the information during the proceedings, along with possible inquiries to substantiate facts, access to sources of evidence, measures for securing evidence and preliminary injunctions. Apart from the specific measures for protection during the proceedings, in general terms, the remaining measures refer to pre-existing regulations in such fields.

The **specific measures for protecting the information during the proceedings** are crucial. In order to hear a case on business secret violation, the violated secret must be identified. In this respect, we point out the Judgement ruled by the Provincial Court of Barcelona (Division 15) on 17 November 2011. The plaintiff alleged that acts of unfair competition due to violation of secrets (Article 13 of the Spanish unfair competition Act (LCD)) and inducement of irregular termination of employment contracts (Article 14(2) of the LCD) and, in addition, the general clause (then Article 5 of the LCD, now Article 4 of the LCD) had been committed. However, the plaintiff did not identify the allegedly violated secrets nor did it submit any expert evidence regarding the violation in question (which, in any case, would have had to identify the allegedly violated secrets). The claim was dismissed in full at both the first instance and on appeal. It was clearly stated at both instances that it is implausible to try to exercise an industrial secret violation action without identifying the allegedly violated secrets.

The lack of sufficient and effective measures to prevent the secret from being disclosed during court proceedings may result in a new violation during the proceedings, which would mean that there is no judicial protection for business secrets in practice if such measures do not exist, as a result of the owner's concern that its secret could be violated again. In line with the above considerations, disclosing secrets when there are no effective measures to protect them during the proceedings is just as implausible as intending to file an industrial secret violation action without identifying the allegedly violated secrets, which explains the importance of the new measures incorporated into the new Spanish Act. In any case, it should be pointed out that the courts have been adopting certain measures at the parties' request in order to prevent any possible information leaks.

Moreover, we highlight the **particularities** regarding the system for **preliminary injunctions**, which, although they seem logical, are very appropriate to be included in the regulation. Above all, we point out the following:

1. Following the provisions in Article 11 [2] of the Directive, the inclusion of a requirement for the adoption of preliminary injunctions *“to particularly assess the specific circumstances of the case and the proportionality thereof, bearing in mind the value and the other characteristics of the business secret, the measures taken to protect it, the conduct of the opposing party in the acquisition, use or disclosure thereof, the consequences of the unlawful use and disclosure thereof, the legitimate interests of the parties and the consequences for such party if the measures are adopted or not adopted, the legitimate interests of third parties, the public interest and the need to safeguard the fundamental rights “* (Article 22 of the Act).

2. Inadmissibility of the substitute guarantee to avoid interim measures aimed at preventing business secrets from being disclosed (Article 10[2] of the Directive and Article 23, paragraph two of the Act).

It should also be pointed out that **the measures that judges and the courts are able to take due to breaches of the rules of good faith in proceedings have been strengthened in general terms**, in order to prevent that, under the guise of an alleged defence of a business secret, the actions provided by the law are used for the purpose of exerting undue pressure on the person that has obtained any kind of information the disclosure of which could fall under any of the exceptions included in the Directive and transposed in the Act. This is set out in the recitals of the Act. Fines may be up to the third of the amount at issue (in contrast with the general provisions of the Spanish Civil Procedure Act, which sets the limit at “*a fine that may reach one hundred and eighty to six thousand euros. However, such fine may under no circumstances exceed a third of the amount at issue*”, Article 247 [3]) and, in addition, judges and the courts may order dissemination of the decision determining the abusive and obviously abusive nature of the action (see Article 16).

#### **D) Application of the new regulation**

Finally, the regulation contains one transitional provision and six final provisions.

Regarding these provisions, it should be pointed out that the Act is applicable to “*any business secrets, regardless of the date when ownership thereof was lawfully acquired*” (Sole Transitional Provision [1]). However, “*actions to defend business secrets filed before this Act comes into force shall continue within the same proceedings pursuant to which they were initiated*” (Sole Transitional Provision [2]).

Lastly, we recall that since this Act transposes a Directive, any questions arising in relation with the Directive must be interpreted by the European Court of Justice.



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