Protecting Trade Secrets – A practitioner's perspective

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Dear Members of the European Parliament,

The protection of trade secrets is very important for the European innovative industry. Of course, inventions can be protected by patents, but these are at a higher level of abstraction. Only the invention that is at the core of the innovation is protected, subject to tough criteria for patentability. All the knowhow that is needed in addition to develop an actual product or system that can be marketed is not protected by the patent. Further innovations that are developed after the patent application has been filed are not protected. And most importantly, business methods are excluded from patentability in Europe, which means that innovations in professional services, which are crucial for Europe, in general can only be protected through protection of the underlying knowhow.

Experience from practice as well as discussions with industry representatives confirm that a good system of protection of trade secrets is seen as essential in a large part of the innovative industry. The effectiveness of such protection does not only depend on a proper definition of the protected substance, but also on the available means of protection.

The draft Trade Secrets Directive is an essential tool for the protection of innovation, which can bring this protection at a level similar to or even better than that in the United States and, in the meantime, even in China. Currently national law in the Member States varies widely in its approach and in general lacks effective tools. It is very hard to prove abuse of a trade secret by a third party and there is no common substantive standard for trade secrets. In general, trade secrets can be protected against disclosure by former employees, but protection against abuse by third parties is extremely difficult.

The Directive will change this. Not only will it bring a harmonized system throughout the Union, it will provide a clear definition of the subject of protection and above all it will provide a clear and new concept of infringement through unlawful acquisition, use and disclosure.
Especially the concept of unlawful use will make it possible to enforce the protection of trade secrets against third parties and thereby protect the value of innovation, including for the very important sector of professional services. For me, it will add an essential tool that has been missing from my legal tool box for too long. I therefore fully support adopting the proposed Trade Secrets Directive.

However, there is still some room for improvement. I will focus on two issues.

The first issue I would like to discuss is the right of parties in trade secrets litigation to prepare and discuss such litigation with their representatives. This touches on Article 47 of the Charter of Fundamental Rights of the European Union and Article 6 of the European Convention on Human Rights. On the one hand, parties should be able to freely discuss their case with their lawyers and other professional representatives. In trade secrets litigation those representatives will often include patent attorneys. On the other hand, it should of course be prevented that a trade secret is disclosed merely because it is litigated, also taking into account that not all defendants will be bona fide companies.
It is the intention of Article 8 of the Directive to strike a fair balance between those two interests, and especially of section 2 under (b). This provision will allow the Court to restrict access to the trade secrets at hand to specific officers of the alleged infringer, which in some cases will indeed be necessary for the protection of the trade secret at hand. On the other hand it allows such officers to discuss the case with their lawyers and other representatives in the Court action. However, it does not take into account clearly enough that cases like these are not always handled by a single lawyer but rather by a team. Thus it does not provide clearly enough that access may need to be granted to more than one lawyer and also to additional professional representatives, such as patent attorneys.

I would therefore like to propose, on my own account but after having consulted on this with both CCBE (The Council of Bars and Law Societies of Europe) and AIPPI (Association Internationale pour la Protection de la Propriété Intellectuelle) that the Parliament would adopt the following amended text:

> "(b) to restrict access to hearings, when trade secrets or alleged trade secrets may be disclosed, and their corresponding records or transcript, to a limited number of persons, provided that at least one person from each party <u>and for each party the respective lawyers, and where applicable other representatives to the proceedings who are subject to professional secrecy or whose client communications are subject to a legal privilege, as well as</u> court officials are given full access to such hearing, records or transcript"
>
> (proposed changes are underlined)

In my view, this would strike a fair balance between effective protection and enforcement of trade secrets on the one hand and proper representation as guaranteed as a fundamental right on the other hand. The requirement of professional secrecy or legal privilege for non-lawyers guarantees the protection of the trade secret, whereas in practice such representatives are always subject to a disciplinary system, just like lawyers. I believe this proposal is of a merely technical nature and should not be controversial.

A second, more far reaching issue is the enforcement as such. The Directive envisages a specific system of enforcement, which deviates in many ways from the Enforcement Directive 2004/48/EC. This is quite unfortunate. Not only are some essential tools for enforcement missing, it also creates practical problems in litigation.

As I have mentioned, the protection of trade secrets and patents are closely linked. In fact, it will be quite common to allege both patent infringement and trade secret infringement in one action, as this will relate to closely related aspects of the same innovation. It is very unfortunate if a Court then has to apply two different sets of tools for enforcement in a single action, depending on the alleged right on which it bases its various decisions. This will make litigation much more complicated and more expensive and will thus create an unnecessary burden for the industry, especially for SME's. Industry representatives have also asked me to raise this issue.
Besides, it creates the risk that the two systems will grow further apart in the near future, for instance when the Enforcement Directive is revised.

In my view, the best solution would be to simply apply the Enforcement Directive to trade secrets enforcement. Experience with the Directive since its implementation in 2006 shows that Courts throughout the European Union have adopted a balanced approach towards such enforcement, properly taking into account the interests of the defendants. Thus, this would provide a clear and manageable system without any important downsides.
Also, this would enable the Court of Justice to build a coherent and transparent interpretation of the enforcement of intellectual property rights.

I know that in the preparatory discussions some Member States were opposed to this solution, as I have understood because it would create too much interference with national law. However, having a double system will undoubtedly be much more burdensome and also carries the risk that Europe is seen as less attractive than other regions, which may have a negative impact on research, development and innovation. You now have the opportunity to create a coherent and balanced system that meets the industry needs, both from a perspective of protection of intellectual property and from a perspective of free competition. Adding complications may be good for lawyers, but not for their clients.

There are some other issues. For instance, recital 10a carries the risk that freedom of information takes unwarranted priority over the protection of trade secrets; this requires a more balanced approach. Also, worker's representatives have access to trade secrets under Article 4(2)(c), but of course should maintain the confidentiality themselves, which is currently not provided. These issues require some further consideration. For the sake of

time I will not go into these issues any further, but refer to my online publication on the Council proposal.[1]

In my opinion, the proposed Trade Secrets Directive is a very important asset for the innovative European industry. With some tweaks it may create the best and most modern system available and thus may set an example for other countries and regions around the world. The sooner it will become available, the better, both for the industry and for practitioners.

[1] See the Dutch IP blog IE-Forum, "The Trade Secrets Directive – The new Council Proposal", IEF 13895, http://www.ie-forum.nl/index.php?//The+Trade+Secrets+Directive+-+the+new+council+proposal////32776/