

Bird & Bird & Trade Secrets

Implementation of the Trade Secrets Directive – Some comments from Italy

This is the 6th in a series of articles written by members of our International Trade Secrets Group, highlighting points of note regarding the protection of Trade Secrets in various jurisdictions. This article focusses on Italy.

Italian law has provided strong protection for trade secrets since the late '90s following the implementation of the TRIPs Agreement, when secret information was protected according to unfair competition rules, and particularly after the entry into force of the Italian IP Code ("**IPC**") in 2005, which defined trade secrets as Intellectual Property Rights ("**IPR**").

Therefore, some provisions of the Trade Secrets Directive (the "**Directive**") were not implemented by the Italian legislator in 2018, but others are worth noting, in particular since some of them may impact the Italian IPR legal system as a whole.

Trade secrets prior to the Directive

Unlike in many countries, in Italy trade secrets are included in the definition of IPRs - together with trademarks, designs, patents, etc. Consequently, they enjoyed all the judicial remedies - both in ordinary and precautionary proceedings ("**PI**") - provided for IPRs: injunction, seizure, penalties, withdrawal from the market, destruction, damages and publication of the decision. PI proceedings were - and still are - a common way to enforce trade secrets in Italy. In particular, as a first step, trade secrets' holders usually start with "*descrizione*" proceeding, which lead to an evidentiary seizure ordered by the Court, allowing a Bailiff to access the alleged infringer's premises - usually without prior notice - to search and collect evidence of the alleged infringement to be used in PI or ordinary proceedings.

Moreover, Italian law already listed the three requirements to be met by information to be considered trade secret: it is secret, has commercial value and has been subject to reasonable steps to keep it secret.

Unlawful acquisition, use and disclosure of trade secrets were also criminal offences under certain circumstances. However, the Italian Criminal Code did not include specific provisions in this regard and Italian Courts applied rules destined to punish different crimes.

It is also worth pointing out that, since 2015, resident and non-resident taxpayers carrying out R&D in Italy can benefit, under certain conditions, from a tax exemption for income arising from direct use or licensing of intangible assets, including trade secrets (via the so called "*Patent Box*").

As a result a significant level of attention was paid to trade secrets' regulation, including under transactional and contractual perspectives, by companies operating in Italy.

Main changes to Italian law following the implementation of the Directive

1. Infringing goods definition

As Italian law already provided for judicial remedies protecting trade secrets, a change in the IPC was made to include the definition of infringing goods, now being those whose "*design, characteristics, functioning, production process or marketing of*

which significantly benefits from trade secrets unlawfully acquired, used or disclosed".

This is likely to have several implications.

Identifying the "significant benefit" requires a proportionality assessment and the evaluation of the trade secret's impact on the quality, value or price of goods, or on reducing the cost of, facilitating or speeding up their production or marketing processes (as outlined in recital 28 of the Directive).

Therefore, there could be cases where commercial information (e.g. a list of clients) provides a significant benefit to the marketing of certain goods, but does not exploit any specific technical feature. Moreover, the need to perform this proportionality assessment would give even more relevance to the opinion of the Court Technical Expert, who is usually appointed by Italian Judges to deal with the technicalities of IP matters.

2. Confidentiality regime during proceedings

Italian Judges were already used to setting up confidentiality rules during proceedings concerning trade secrets, especially during the *descrizione*.

It is reasonable to expect that, while the new rules allowing Courts to prohibit the use of certain information, restrict the attendance to certain hearings, obscure decisions and regulate their publication are addressed to proceedings concerning trade secrets, Italian Courts will also take these measures in proceedings involving different IPRs, but involving confidential information, thus making them general rules.

3. Non-gross negligence is the new liability threshold

The IPC extends the infringer's liability from cases of intent or gross negligence to non-gross negligence, i.e. when the person carrying out the unlawful acquisition, use and 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.

Proving that the person ought to have known that the acquisition, use and disclosure were unlawful could often be done only by means of presumptions of law. For this purpose, preparatory activities would be very helpful for both sides. For instance:

- the legitimate holder should include as much reference as possible to origin and ownership of the information in agreements with employees, suppliers and customers to be in a position to claim that third parties could not ignore the secret nature of the information;
- the alleged infringer should ask new employees to confirm that they do not hold information and/or documents belonging to the previous employer or third parties;
- both parties should trace the flow of information through appropriate IT tools and preferably limit authorization to access specific pieces of information to smaller groups of employees.

4. The continuation of the alleged unlawful use of a trade secret subject to a payment or a guarantee

These new options are available in:

- a. ordinary proceedings, where the payment of pecuniary compensation in place of protective measures is limited to cases where the alleged infringer originally acquired a trade secret in good faith but become aware of the unlawful source of the information at a later stage (so called "innocent" third parties);
- b. PI proceedings, where the continuation of use subject to the lodging of guarantees can be authorized also in case the infringer had been aware or could have been aware of the unlawful origin of the information, provided that the use does not cause the disclosure of the information.

These measures do not appear totally in line with the nature of the trade secrets: information are put outside the control of their legitimate holder, who cannot check the implementation of adequate measures and their actual protection; it is unclear whether the infringer authorized to use the information is then allowed to take steps to stop a breach; the spread could impact the economic value of the trade secrets. Therefore, Italian Courts should decide to apply them very strictly.

5. Damages compensation for any injury caused by revoked precautionary measures

The IPC now provides that the holder has to compensate the damage caused by measures obtained to protect trade secrets where they are revoked because: no ordinary proceeding have been started; they lapsed due to any act or omission by the holder; or it is subsequently found that there has been no unlawful acquisition, use or disclosure of the trade secrets.

This is a quite disruptive rule as Italian case law and scholars have debated for a long time whether it is appropriate to provide for compensation in case PI measures are revoked because it is subsequently found that there has been no IPR infringement (apart from cases of intent, gross negligence and lack of prudence, which are punished by Italian law).

Therefore, this provision could be possibly extended to cases involving other IPRs although the peculiar nature of trade secrets could be an argument against it. Trade secrets are unregistered IPRs and their existence, contents and infringement must be proved by the legitimate holder when enforcing them. On the contrary, registered IPRs enjoy a presumption of validity. This is the reason why a higher degree of care and liability can be required of the owners of unregistered IPRs.

6. Criminal rules

a) New scope

The Italian Criminal Code now includes a specific rule punishing

the unlawful acquisition, use and disclosure of trade secrets with imprisonment of up to two years. It also definitively clarifies that criminal law protects the same information falling into the trade secrets' definition provided by IPC.

Therefore, criminal and civil relief can be exploited at the same time, even if the acquisition, use and disclosure of trade secrets amount to a crime only in case of intent (while civil liability also occurs in case of gross and non-gross negligence).

The law also sets an increased punishment for crimes committed using "computerized means". The Italian legislator's goal (outlined in the preparatory works to the law implementing the Directive) was to be particularly strict against cyber theft but this change will probably result in a general increase of punishments as acquisition, use and disclosure of trade secrets nearly always involve the use of IT tools nowadays.

b) Punishment for non-compliance with Courts' decisions

The Italian Criminal Code now punishes with imprisonment of up to three years and a fine up to EU 1.032:

- anyone who circumvents the enforcement of a Court order setting measures aimed at protecting IPRs (including trade secrets);
- anyone who, being subject to confidentiality in compliance with the measures issued by the Court during proceedings concerning IPRs (including trade secrets) breaches the relevant order.

Conclusion

The substance of the Italian law remains unaltered after the Directive but the most significant changes - particularly the new liability threshold - show that preparatory activities by both sides still make the difference, impacting both the existence of the trade secrets, the ability to effectively react to a breach and the arguments to be exploited during litigation.

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