

What You Need to Know About Emerging Protections for Trade Secrets under the EU Trade Secrets Directive and the Trans-Pacific Partnership

This paper is provided by way of an update to a paper prepared for the AIPLA Trade Secret Law Summit held in Boston in November 2015. That paper addressed the then proposed Directive on "*the protection of undisclosed know-how and business information*", more commonly known as the EU Trade Secrets Directive.

Since then much in the world has changed. Initially 2016 looked to be shaping up to be *the* year for the protection of trade secrets. In February 2016 12 Pacific Rim countries¹ signed the Trans-Pacific Partnership Agreement, the provisions of which require member nations to "*ensure that natural and legal persons have the legal means to prevent trade secrets lawfully in their countries from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices.*". In spring 2016 we saw President Obama sign the Defend the Trade Secrets Act into US Federal law and, shortly afterwards, the Council of the European Union unanimously adopted the EU Trade Secrets Directive.

Then 2016 *really* happened.

On 23 June 2016, following a referendum on the question of its continued membership of the European Union, the UK voted to leave the international economic and political union it had been part of for over 40 years. By the end of 2016 the USA had its own election news story, with the election of President Trump. In the weeks following his election, President Trump announced his intention to abandon the Trans-Pacific Partnership deal as soon as he takes office.

And so we have arrived in 2017.

While the UK pieces together a plan to leave the European Union and the USA prepares for the inauguration of President Trump, intellectual property practitioners and businesses alike are reflecting on what this all means. Including, of course, what it all means for the protection of trade secrets.

This paper provides an update on EU Directive 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (the "EU Trade Secrets Directive"), and the implications it has for business in 2017 and beyond.

Timing is Everything

As I set out in my 2015 paper, trade secret protection initially received increased interest in Europe following the conclusions drawn by the European Commission Study on Trade Secrets and Confidential Business Information published in 2013 (the "Study").

Conducted as part of the European Commission's 'Innovative Union' initiative, the Study identified inconsistencies in the protection afforded to trade secrets by Member States. It concluded that, notwithstanding the existence and requirements of Article 39(2) of the 1994 Trips Agreement, protection for trade secrets varied considerably from Member State to Member State.

¹ USA, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru.

**Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs Agreement"), Section 7, Art. 39, Annex 1C to
Agreement Establishing the World Trade Organization**

SECTION 7: PROTECTION OF UNDISCLOSED INFORMATION

Article 39

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2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practice so long as such information:

(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; and

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

While all Member States offered some degree of protection for trade secrets, there was no harmonisation in the manner of the protection offered, the laws from which any such protection found basis or, indeed, in the procedure by which that protection could be enforced.

By way of example, the Study identified Sweden as the only Member State with specific legislation on trade secrets. The remaining Member States offer protection for trade secrets through other civil law sources and, in some instances, under criminal law. Countries including Germany, Austria, Poland and Spain, for instance, have trade secrets protection built in to legislation directed to unfair competition, in labour law and in the criminal code. Italy and Portugal provide protection for trade secrets in legislation directed to industrial property. France adopts a similar approach for trade secrets relating to manufacturing, but not necessarily to trade secrets more generally. The Netherlands affords protection to trade secrets by way of the law of tort, while the UK relies upon the common law of breach of confidence, on contract law and on principles of equity.

In an increasingly competitive global marketplace, this 'patchwork' of protection falls short of what is required to truly incentivise Europe's businesses to invest in innovation. Accordingly, the Study recommended a legislative initiative offering European Union wide protection.

The initial draft of the EU Trade Secrets Directive was published in November 2013. Following a period of consultation, the publication of a compromise draft and a period of negotiation (or 'trilogue') between the European Parliament, Council and the Commission, the text of the draft EU Trade Secrets Directive was eventually settled.

The Directive was formally adopted by the European Council on 27 May 2016. It was published in the Official Journal of the European Union on 15 June 2016 and entered into force in July 2016.

Member States now have until 9 June 2018 to incorporate the provisions of the Directive into national law.

What does that mean for the UK?

Despite the outcome of the UK referendum, at the time of writing the UK remains a member of the European Union. As such it has all the rights and obligations associated with that membership.

The UK Prime Minister, Theresa May, has indicated an intention to trigger Article 50 of the Treaty of Lisbon (necessary to commence the process of the UK's withdrawal from the EU) at the end of March 2017, meaning that the UK's membership of the European Union could come to an end as soon as the summer of 2019, depending on the timetable for exit negotiations. In reality, much is left to be decided upon in terms of the UK's exit from the Union and it remains uncertain as to when and on precisely what terms the UK's membership will formally come to an end.

Given that the UK has indicated its intention to leave the Union, the question arises as to whether the UK Government will now proactively choose to implement the Directive into national law?

Absent any indication to the contrary, it must be assumed that the UK Government will comply with the obligations imposed by its membership of the European Union up until the date of departure. In view of the timing, this would include taking such steps as are considered necessary to implement the Directive.

While the formalities remain uncertain, in practice the question of implementation may be academic. English common law is generally thought to already offer the minimum protection for trade secrets that is required by the Directive. This means that it may be unnecessary for the UK to introduce substantive legislation to implement its terms into national law, save in respect of some minor changes to the Civil Procedure Rules to implement specific procedural aspects of the Directive relating to court proceedings involving trade secrets.

If steps are taken to implement the Directive into national law, quite what the status of it will be following Brexit remains unclear. In October 2016 the UK Government announced plans to introduce a 'Great Repeal Bill' into the UK legislative programme for 2017. Although there is very little information available about the provisions of the Bill at this stage, it is intended to repeal the European Communities Act of 1972 (which gives effect to EU law in the UK). The Bill is also intended to incorporate any applicable EU law directly into UK law, allowing Parliament to then decide, on a measure by measure basis, whether to repeal, amend or retain the measure so incorporated.

Whatever the procedural route, it seems likely that the terms of the EU Trade Secrets Directive will take effect in UK law in due course, if only on a pro tem basis.

The Terms of the Directive

The Directive aims to foster cross-border research, development and innovation by providing a minimum standard of protection for trade secrets in all EU Member States. In addition, the Directive provides (for the first time) a single EU wide definition of what constitutes a trade secret and of those activities which amount to the unlawful acquisition, use or disclosure. It goes on to provide a set of civil law remedies for these unlawful activities and requires Member States to offer certain protections to trade secrets during the litigation process.

Definition of "trade secret"

The definition of what constitutes a "trade secret" is set out in Article 2. To be regarded as a trade secret, information must (i) be secret; that is, not generally known or readily accessible to persons within the circles that normally deal with the kind of information in question; (ii) have commercial value because it is secret; and (iii) have been subject to reasonable steps to keep in secret. It is this final limb of definition that is particularly important for business, since it gives rise to a positive obligation to actively manage trade secrets so as to bring them within the scope of the Directive.

Article 2
Definitions

For the purposes of this Directive, the following definitions apply:

(1) 'trade secret' means information which meets all of the following requirements:

(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;

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

Recital 14 gives further guidance on the scope of the Directive and, specifically, the types of information that might qualify for protection. Know-how, business information and technological information are all covered, while trivial information and the experience and skills gained by employees in the normal course of their employment are not. The latter has been a feature of English common law for some time but is not necessarily a familiar concept in all Member States. Even in the UK it is this complex relationship between trade secrets and an employee's skill and knowledge which gives rise to much of the litigation in this field. It seems likely that this trend will be mirrored in national courts as they seek to apply the terms of the Directive pending any reference on interpretation to the Court of Justice of the European Union.

Unlawful Acts

Acts which are rendered unlawful by the Directive fall broadly into two categories. Those acts considered unlawful irrespective of the state of knowledge of the alleged wrongdoer, and those requiring knowledge. The former are addressed in Articles 4(2) and (3), the latter in Articles 4(4) and (5).

Unlawful acquisition of a trade secret includes "unauthorised access"(Art.4(2)(a)) to the trade secret and "any other conduct which is considered to be contrary to honest commercial practices" (Art.4(2)(b)). The Directive offers very little additional guidance on the scope of Article 4(2)(b) and it seems likely that this will be another aspect of the Directive upon which guidance from the Court of Justice of the European Union will be required.

Article 4
Unlawful acquisition, use and disclosure of trade secrets

2. The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:

(a) unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced;

(b) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.

3. The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder, by a person who is found to meet any of the following conditions:

(a) having acquired the trade secret unlawfully;

(b) being in breach of a confidentiality agreement or any other duty not to disclose the trade secret;

(c) being in breach of a contractual or any other duty to limit the use of the trade secret.

4. The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of the acquisition, use or 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 within the meaning of paragraph 3.

5. The production, offering or placing on the market of infringing goods, or the importation, export or storage of infringing goods for those purposes, shall also be considered an unlawful use of a trade secret where the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used unlawfully within the meaning of paragraph 3.

The requirements for establishing secondary liability for the unlawful acquisition of trade secrets are set out in Article 4(4). Here the alleged wrongdoer must be shown to have actual or imputed knowledge of the primary wrongdoing. Again, it will be interesting to see how national courts apply Article 4(4), in particular whether there will be any consistency in the circumstances in which knowledge will be imputed to an alleged wrongdoer. Article 4 seems also to be fertile ground for potential references to the Court of Justice of the European Union.

Defences

Article 3 sets out the circumstances in which the acquisition of a trade secret by an unauthorised party will nevertheless be considered lawful. The concept of 'honest commercial practices' again comes through in the Directive to provide grounds for a potential defence (Article 3(1)d)). As noted above, the scope of what 'honest commercial practices' means will have to be interpreted by national courts which will have varying degrees of familiarity with that concept from their own national law and other international obligations, and in time guidance may well need to be sought from the Court of Justice of the European Union on the interpretation of the provision before the Directive can be applied consistently across all Member States.

Article 3
Lawful acquisition, use and disclosure of trade secrets

1. The acquisition of a trade secret shall be considered lawful when the trade secret is obtained by any of the following means:

(a) independent discovery or creation;

(b) observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret;

(c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices;

(d) any other practice which, under the circumstances, is in conformity with honest commercial practices.

Article 5 sets out a series of exceptions to liability under the Directive which find basis in the fundamental freedoms guaranteed under other aspects of EU law. These include the freedom of expression and the freedom of movement of workers. Article 5 also introduces a safe harbour for whistleblowers, provided a public interest test is satisfied. This was much discussed during the drafting and negotiation of the legislation. However, once again the drafting of the provision leaves open the question of what will or will not constitute as "general public interest", and it remains to be seen how national courts will seek to interpret that provision.

Article 5
Exceptions

Member States shall ensure that an application for the measures, procedures and remedies provided for in this Directive is dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:

(a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;

(b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;

(c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise;

(d) for the purpose of protecting a legitimate interest recognised by Union or national law.

Finally, Article 8 addresses the limitation period for claims brought under the EU Trade Secrets Directive. By Article 8 Member States are required to lay down rules on the applicable limitation periods for claims under the Directive, with the proviso that such period should not extend beyond 6 years. A 6 year limitation period accords with the position under UK law and so has been much welcomed by UK business. However, the flexibility inherent in the drafting of Article 8 falls short of providing the consistency of protection for trade secrets that business operating in a cross-border environment require in that it foreshadows a situation where the limitation period for claims will differ from Member State to Member State.

Article 8
Limitation period

1. Member States shall, in accordance with this Article, lay down rules on the limitation periods applicable to substantive claims and actions for the application of the measures, procedures and remedies provided for in this Directive.

The rules referred to in the first subparagraph shall determine when the limitation period begins to run, the duration of the limitation period and the circumstances under which the limitation period is interrupted or suspended.

2. The duration of the limitation period shall not exceed 6 years.

Remedies

The remedies for the unlawful acquisition use or disclosure of a trade secret are set out in Articles 10 to 14 of the Directive. The remedies include provisional and precautionary measure (Articles 10 and 11), final injunctions and corrective measures (Articles 12 and 13).

The remedies are broadly consistent with those in the IP Enforcement Directive, albeit that the Trade Secrets Directive sets out a series of evidential requirements and safeguards which must be met and factors that the courts are required to consider in granting relief, beyond those required by the IP Enforcement Directive. It remains to be seen whether, in time, any of these requirements flow back into the Enforcement Directive. One additional point of distinction over the Enforcement Directive is that found in Article 10(2) relating to provisional and precautionary measures. Article 10(2) makes provision for an alleged infringer to continue to use a trade secret, pending trial, upon payment of a guarantee (to meet the damages suffered by the trade secrets holder if such use is later determined by the court to be unlawful). No such provision is found in the Enforcement Directive and it remains to be seen how readily national courts will be prepared to allow alleged infringers to rely on Article 10(2).

As to final remedies, the measures envisaged by Article 12 of the Directive include the recall, destruction and delivery up of articles incorporating or disclosing a trade secret plus the somewhat vaguely expressed "adoption of the appropriate corrective measures with regard to the infringing goods". This provision suggests that national courts will have the power to order adaptation or alteration of infringing goods. Once again this raises the question of whether business will, in practice, see harmonisation in the practical implementation of the Directive across Member States.

Procedure

The ability to preserve the confidentiality of a trade secret during litigation has long been taken for granted in the UK. The UK Courts are well versed in adopting measures to sensibly restrict the disclosure of confidential information to named individuals in 'confidentiality clubs', to holding hearings or parts of hearings in private, and to disseminating redacted judgments and transcripts of proceedings. However this level of protection for trade secrets during the litigation process is now in place across Member States and it is often this important factor, the potential risk of having to disclose the very things that a business is seeking to protect, that has prevented businesses from seeking to enforce their trade secrets more widely in Europe. Accordingly, Article 8 seeks to remedy that deficiency by adopting measures to preserve the confidentiality of trade secrets during and, if appropriate, after the litigation process. This will no doubt make the prospect of the cross-border enforcement of trade secrets a more viable option for business.

What does the Directive not cover?

Finally, following the above review of the principle provisions of the EU Trade Secrets Directive, it is also important to briefly acknowledge those aspects of trade secret law the Directive does not address.

The Directive does not address the criminal law which protects trade secrets in a number of EU Member States (although not the UK). Nor does it address the private international law aspects of the protection of trade secrets, for example the questions of applicable law and jurisdiction to disputes. The Directive is also silent as to the nature of trade secrets (whether they ought to be considered a property right) and of transactions in them. All of these remain the domain of national law.

The Directive in 2017 and Beyond

The coming year will see Member States take steps to implement the EU Trade Secrets Directive into national law and the UK take steps to leave the Union. In preparation for the Directive, businesses looking to protect and enforce their trade secrets in Europe should be considering what practical steps they can take to protect their undisclosed know-how and business information against unlawful disclosure, so as to be in a position to take advantage of the Directive in due course.

It seems likely that there will be significant variation in the nature of national application of the Directive, not least because of the widely differing legal bases across Member States for current trade secret law. Accordingly, the role of the Court of Justice of the European Union in interpreting the terms of the Directive will likely become increasingly important as we leave 2017 and pass into 2018 and all that it has to offer.