Bird & Bird

Trade Secrets Protection update

January 2015

The European Parliament's work on the Trade Secrets Directive – state of play and input from industry and experts

Introduction and history of the Directive proposal

The European Commission published a proposal for a Trade Secrets Directive in November 2013, following some in-depth studies on the legal protection of trade secrets in the Member States and discussions with stakeholders and experts.[1] This proposal was discussed extensively with stakeholders, experts and the Member States, which resulted in an improved proposal that was adopted by the Council on 19 May 2014.[2]

The Council proposal indeed was a considerable improvement, which has made the Directive a much more practical tool.[3] The most important improvement was the new definition of infringement, which now is any unlawful acquisition, use or disclosure of trade secrets without the consent of its holder. There is no longer a requirement of intent or gross negligence, which would have been almost impossible to prove in most cases. Instead the criterion now is whether the infringement is contrary to honest commercial practices. The combination of the definition of trade secrets, which basically is a copy of Article 39 of the TRIPs Agreement and the definition of infringement provides the Courts with a flexible tool for an effective protection of trade secrets.

In addition, there is a catalogue of exceptions which protect the justified interests of third parties as well as the public interest, although some of these exceptions still require some fine tuning.

Thus, this revised proposal is a good starting document for the European Parliament. Of course, there was some delay because of the elections, but in the meantime also the parliament has discussed the proposal with stakeholders and has now started the public discussions, which should lead to a plenary session that currently is indicatively planned for 28 April 2015.[4]

Once the Directive has entered into force, the Member States will have to implement it in their national laws within two years. This will require serious consideration at national level, as the Directive is a mix of full harmonization and minimum harmonization. Basically the exceptions and limitations to trade secret protection are fully harmonized, leaving no room for the Member States to decide differently, whereas the scope of the right and the tools for enforcement are now planned as minimum harmonization. Member States could for instance decide that absence of consent to use a trade secret is sufficient for infringement, regardless of whether the actual use is contrary to honest commercial practices. They can also provide for seizure of evidence, a tool which is currently not included in the Council proposal. And there will be much more to decide at national level.

[1] See for comments on the November 2013 proposal www.ie-forum.nl 6-3-2014, IEF 13607.
[2] COM(2013) 813 final, 2013/0402 (COD), see http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0813:FIN:EN:PDF.
[3] See for detailed comments www.ie-forum.nl 3-6-2014, IEF 13895.
[4] See http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2013/0402(COD)

As part of the parliamentary process, the Committee on Legal Affairs of the European Parliament has held a hearing on 20 January 2015, for which it invited seven speakers, four industry representatives and three legal experts.

Presentations at the Committee on Legal Affairs hearing

Mr. Alain Berger, Vice President European Affairs and Head of the Brussels office of Alstom stressed the importance of proper trade secret protection for a large company like Alstom. He explained that trade secrets are vital to Alstom projects, of which no less than 2/3 would be vulnerable without such protection, including projects that are vital to the European infrastructure.

Massimo Gresele, Managing Director of Acciaierie Valbruna, a large steel company, and Valter Viero, Deputy Financial Director of the company, presented an example of trade secret theft from their company that represents a claimed value of more than € 230 million, as claimed in litigation. They made it quite clear that companies like theirs do need the protection of the Directive.

Dimitri Stoffels, Finance, Intellectual Property and Legal Manager of Nanocyl, an SME spin-off from two universities that has developed innovative carbon nanotubes presented the small and medium sized business (SME) view. Only a small part of the developments are patented. Some information is publicly shared, but a lot is considered to constitute trade secrets. However, it's Nanocyl's policy to often share such information with its partners in projects, which requires proper legal protection. With limited financial resources on the one hand and project cooperation on the other hand, trade secret protection is essential for SME's like Nanocyl. In fact, this presentation clearly demonstrated that trade secrets certainly are not just yet another asset for large companies, but may actually support co-operative innovation of start-ups.

Prof. Alain Strowel presented a detailed analysis of the current proposal. In line with Mr. Stoffels' presentation, he started by saying that paradoxically sharing information requires some control, so open innovation also requires intellectual property. He stressed that he was strongly in favour of full harmonization and pleaded for improvements in the definitions as included in the proposal. According to Prof. Strowel, the relation with the Enforcement Directive is currently not clear and especially tools to collect and preserve evidence are missing. On the other hand, over-protection should be avoided in his view, meaning for instance that trade secret protection should not interfere with transparency regulations. He also proposed that there should be a presumption that goods coming from outside the European Union are infringing on trade secrets protection within the EU if the source of those goods has been sentenced abroad.

I was invited to present a practitioner's perspective. Since practitioners are not acting on their own behalf, but for their clients, I attempted to include a focus on industry needs. My presentation is attached as an annex to this article. In response to Prof. Strowel's call for full harmonization I argued that I would only support that if the current shortcomings in the proposal would be repaired, especially with regard to the applicability of the Enforcement Directive. If that does not happen, the "roadmap provision" of Article 1, which enables Member States to provide better protection and especially better enforcement tools at national level is my preferred solution.

The final speaker, Byrial Bjorst of the Teknisk Landsforbund (the Danish Association of Professional Technicians) gave a worker's perspective on the proposal. He correctly emphasized that innovation comes from individuals with innovative ideas. Those individuals should not be limited in the creation of new technology when they move from one company to another, also if that new company is a start-up in which they participate. Open innovation is a strong tool that should be respected.

Q&A with Members of the European Parliament

Following the presentations there was a very fruitful Q+A sessions with the members of the committee. A very important remark was that trade secrets should not be used to prevent disclosure of information to regulators that would be essential for the enforcement of for instance environmental law. Allegedly this would have happened with regard to shale gas projects in the US (which as such I cannot confirm). I pointed out that the purpose of trade secret protection is the prevention of unfair competition; it does not affect the obligations of companies towards government institutions, nor the laws governing such obligations. However, I do have one concern in this

field, namely the disclosure of trade secrets provided to government institutions through freedom of information provisions or transparency regulations. In this respect especially recital 10a of the proposal, which appears to give unlimited priority to freedom of information is problematic. Here, the issue is not providing information to the government, which is subject to other laws, but disclosure of trade secrets provide under such obligations. Fortunately, there was also a question whether the current limitations to protection do not go too far. Indeed, here too a proper balance is important.

A next question was whether a more precise definition of trade secrets and of knowhow would be preferable, adding further detail to the TRIPs definition. However, that TRIPs definition is the result of long negotiations and it would probably be very hard to reach consensus on further details. Moreover, Courts are now used to working with that definition and have generally developed balanced case law on that basis. Flexibility is needed to cover future developments, too much detail might cause undesirable restrictions.

Some members stressed the importance of exceptions to trade secrets protection, like for whistle blowing. However, this is already covered by Article 4, which to my understanding is based on a careful survey of existing Union law and its possible interference with the Trade Secrets Directive, but also contains a number of equitable limitations, including any legitimate interest recognised by either Union or national law. Thus, Article 4 is quite comprehensive, but may need some tweaking.

The position of workers was also addressed, including the position of workers representatives. The Directive as such does not turn an innovative idea of a worker into a company property. There are no provisions on employer's rights, like in patent and copyright law. Besides, ideas of individuals are their ideas, which under the Directive they can keep exploiting when they move from one employer to another. Any restrictions that may apply to that will not result from the Trade Secret Directive, but from restrictive covenants and non-compete clauses that are covered by employment law. However, one has to take into account that in many sectors innovation nowadays is rarely the result of the creativity of a single individual. Research is predominantly teamwork and will also depend on the resources provided by a company, university or other organisation. However, the ownership of innovation is not affected by the Trade Secrets Directive, from which it is a totally separate issue. Taking that into account, the proposal sufficiently covers the position of workers.

The position of workers representatives is also covered by the Directive. However, as I have said before, these representatives should have an obligation of confidentiality with regard to the trade secrets disclosed to them in the course of their representation. They should be able to fully perform their duties, but this should not lead to a disclosure that would benefit competitors.

Conclusion

The hearing was held in a very positive atmosphere. All of the views and concerns expressed are in my opinion very legitimate. Actually, the current proposal for a Trade Secrets Directive already takes most of those views into account in a balanced way. As with all legislative projects, there is room for improvement, but apart from the applicability of the Enforcement Directive – which in my view is the major political issue – this will be in the details rather than in the principles. In comparison to TRIPs, the US Uniform Trade Secrets Act and legislation in for instance China and South-America, the EU law will most likely indeed develop into the best and most modern law on trade secrets available around the world.

As I concluded my initial presentation, the sooner it will become available, the better.

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Bird & Bird Trade Secrets Group

Unlike many of our competitors, our Trade Secrets Protection group takes a highly integrated approach to confidentiality and trade secrets issues to form one team combining skills drawn from our Intellectual Property, Employment, Dispute Resolution and Commercial practice groups, and balanced according to the needs of each assignment.

We can justly make the claim that few other international firms have our track record when it comes to the range, quantity and quality of trade secrets experience. As one of the world's leading technology firms, we are comfortable and familiar with the technical and business issues, as well as the legal and commercial imperatives that underpin them.

Our work includes audits and preventative advice on protecting valuable information and data in an organised and integrated way, the exploitation of trade secrets, and prosecuting and defending the various types of action that arise in this sensitive area (which can include injunctions, search orders, disclosure orders, delivery up and destruction orders, as well as damages actions and account of profit remedies). t.

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