



DG INTERNAL MARKET AND SERVICES – Intellectual property

**Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.
COM(2013)813, 28.11.2013.**

Paris, 13 March 2014

A) THE ISSUE: reason to act

INTRODUCTION

POLICY MANDATE: in its 2011 Intellectual Property strategy (COM(2011)287), the Commission undertook to look at the issue of trade secrets.

WHAT ARE TRADE SECRETS?

Trade secrets ("business confidential information", "proprietary know-how") concern information not generally known that companies, researchers, inventors and creators treat as confidential in order to gain or preserve a competitive advantage.

Trade secrets are not exclusive Intellectual Property Rights (IPRs), BUT

- Trade secrets are at the origin of every patent, design and all IPRs.
- Trade secrets cover a broader subject matter than IPRs (innovation in services, etc)
- The reasons why they should be protected are similar to those that justify IPRs

THE AIMS OF TRADE SECRET PROTECTION

- **Ensuring fair, honest competition and equal standing**

Only genuine innovation will provide market leadership. Stealing and cheating is not permitted (by stealing a trade secret a competitor can profit from the innovative solutions without incurring in the initial investment)

- **Providing creators and innovators with means of defence against attacks on their know-how assets.**

- **Creating a safe environment conducive to innovation, and in particular open innovation**

(*i.e.* innovation resulting from the collaborative efforts of several players who share their know-how and expertise on a confidential mode).

- **Favouring full exploitation of know-how as an economic asset.**

Trade secrets, when shared, can create revenues (through license agreements) and can also be used to attract funding – but this requires a trustworthy environment

THE PROBLEM

**Knowledge and information
are ever more central to the performance of the EU economy**

At the same time the exposure to misappropriation of trade secrets has been increasing.

- In 2012 18% of companies reported theft of information, in 2013 the percentage increased to 25% (2013/2014 Global Fraud Report, Kroll)

This is due to several factors, such as

- Globalisation and fierce competition, offshoring,
- Outsourcing, increased use of external consultants, longer supply chains,
- Increased use of ICT,
- Increased job mobility

[See recitals 1-3]

THE PROBLEM

National Laws on the protection of trade secrets against misappropriation feature substantial differences, important gaps and shortcomings.

Article 39 of TRIPS defines trade secrets (named "undisclosed information") and requires its signatories to provide protection against their misappropriation.

[See recital 4]

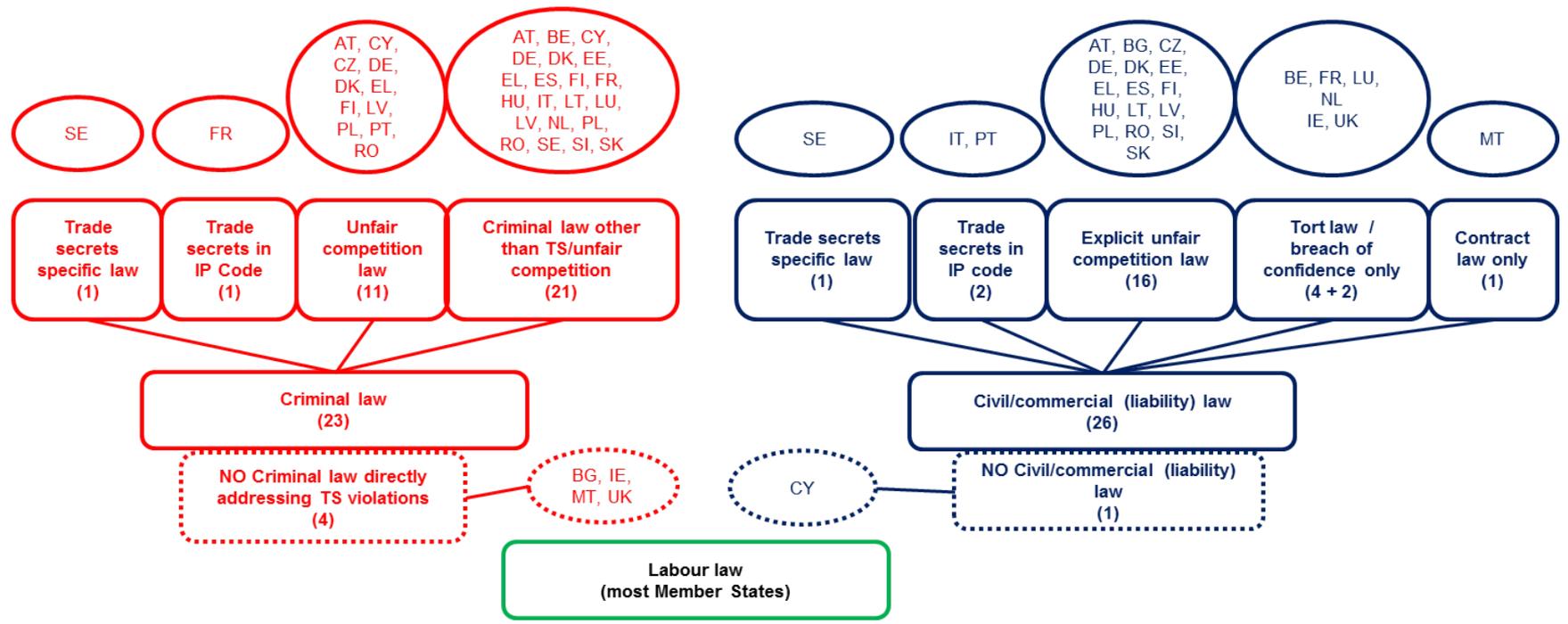
HOWEVER,

- Some Member States do not have specific legislation on misappropriation of trade secrets, relying instead on general laws as interpreted by the judiciary.
- In some Member States trade secrets are only protected against misappropriation by competitors
- Not all appropriate remedies are present in all Member States,
- Courts do not always have mechanisms to ensure confidentiality of trade secrets during and after litigation

[See recitals 5-6]

Diversity of Member States Laws protecting trade secrets

[source: impact assessement]



Fragmentation of the legal protection

Figure 4 – The fragmentation of the legal protection (selected measures)
Source of data: Baker & McKenzie (2013).

<i>Selected measures</i>	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK
Definition of trade secret in civil law legislation																											
Availability of injunctions against third party in good faith																											
Injunctions not limited in time																											
Availability of orders on destruction of TS/resulting goods																											
Calculation of damages based on fair royalty fee																											
Performing rules on preservation of secrecy (civil proceedings)																											
Sufficient criminal legislation																											

N.B. A blank cell means that the measure concerned is not provided for in national legislation

B) THE PROPOSAL

AIM AND SCOPE OF THE PROPOSAL

LEGAL BASIS: 114 TFEU (internal market)

Approximate national laws so to ensure a sufficient and comparable level of civil redress across the internal market in case of unlawful acquisition, use or disclosure of a trade secret.

[See recitals 7-8]

THE PROPOSED DIRECTIVE IN SHORT

The proposal for a Trade Secret Protection Directive (TSPD) is a TRIPS-compliant text comprising the following:

Scope of protection: definitions of trade secrets & of unlawful acquisition, use and disclosure of trade secrets

Measures, remedies and procedures in case of unlawful acquisition, use and disclosure of trade secrets

Preservation of the confidentiality of a trade secret during and after litigation

Rules to ensure **proportionality and safeguards** against abusive litigation and barriers to trade

Complementary issues: on compliance, monitoring etc.

CHAPTER I: SUBJECT MATTER AND SCOPE

Articles 1 (subject matter) and 2 (definitions)

DEFINITION OF TRADE SECRET

Article 2(1) + recital 8

Three cumulative requirements:

- Information must be **not generally known** (including within the specialised circles)
- Information must have a **commercial value**
- Subject to reasonable steps to keep it **secret/confidential**

The definition is taken, word-for-word, from TRIPS Agreement



CHAPTER II: UNLAWFUL ACQUISITION, USE AND DISCLOSURE OF TRADE SECRETS

Articles 3 (unlawful conduct) and 4 (lawful/exempted conduct)

UNLAWFUL CONDUCTS

(1) Acquisition - Article 3(2) + recital 9

Acquisition without consent of the TS holder and with use of dishonest means

(2) Use or Disclosure - Article 3(3) + recital 9

By a person who unlawfully acquired the TS - Art. 3(3)(a)

By employees/licensees who breach their confidentiality duty or duty to limit the use of the TS - Art. 3(3)(b)and(c)

By others who (at the moment of use) know (or should have known) that they got the TS from a person in any of the previous cases - Art. 3(4)

Deliberate marketing/importing of infringing goods amounts to unlawful use of TS – Art. 3(5)

'infringing goods': goods whose design, quality, manufacturing process or marketing *significantly benefit* from trade secrets unlawfully acquired, used or disclosed – Article 1(4) + recital 17

LAWFUL CONDUCTS

Acquisition of a trade secret is not unlawful: Art. 4(1) and Recital 10

- Independent discovery & creation
- Reverse engineering
- Acquisition of the trade secret by honest practices
- Exercise of the right of workers representatives to information and consultation in accordance with Union and national law and/or honest commercial practices

UNLAWFUL CONDUCTS EXEMPTED

There is no entitlement to the application of the remedies, in the following cases:

Art. 4(2) and Recital 12

- legitimate use of the right to freedom of expression and information;
- whistleblowing;
- information passed from workers to their representatives as part of the legitimate exercise of their representative functions;
- fulfilment of a legal obligation of non-contractual nature;
- protection of a legitimate interest;

SPECIFIC ISSUES

Imports of "infringing goods" into the EU: the Regulation on customs enforcement of IPRs does not apply.

- See Article 3(5), on unlawful conduct.
- Need for judicial decision to block imports (see Articles 9 and 11) or destroy goods (see Article 11)

The question of public access to documents held by public authorities which may contain trade secrets:

- For the EU institutions and bodies, this question is regulated by Regulation (EC) No 1049/20001 (see recital 9)

CHAPTER III: MEASURES, PROCEDURES AND REMEDIES

The measures, procedures and remedies (MPRs) in Chapter III of the proposal for a Trade Secrets' Protection Directive (TSPD)

are highly inspired on DIRECTIVE 2004/48/EC on the enforcement of IPRs (IPRED)

TSPD only departs from IPRED where it has to due to the specificity of trade secrets

Chapter III comprises the following three sections:

- Section 1 – General provisions
- Section 2 – Interim and precautionary measures
- Section 3 – Measures resulting from a decision on the merits of the case

MEASURES, PROCEDURES AND REMEDIES

SECTION 1 - GENERAL PROVISIONS

TSPD		IPRED
5(1)	General obligation of providing measures, procedures and remedies	3
5(2)	Measures, procedures and remedies should be fair, equitable, effective and dissuasive. They should not be unnecessarily complicated or costly	3
6(1)	Safeguards against the abuse of litigation / No creation of barriers to legitimate trade	3

What is new?

- Article 6(2) - the above principles are further developed – Sanctions should be available whenever applicants use the protection abusively (see [recital 12](#))
- Article 7 - limitation period to initiate legal action (see [recital 13](#))
- Article 8 - preservation of confidentiality (see [recital 14](#)):
 - Obligation of confidentiality for those that intervene in the proceedings
 - Court may restrict access to documents and to hearings
 - Court may make non-confidential edited versions of decisions

MEASURES, PROCEDURES AND REMEDIES

SECTION 2- INTERIM (PROVISIONAL) AND PRECAUTIONARY MEASURES

TSPD		IPRED
9(1)	Stop and prohibit the use of the trade secret, including the manufacturing and marketing of infringing goods	9(1)(a)
9(1)	Seizure or delivery of the suspected infringing goods	9(1)(b)
9(2)	Authorise the defendant to continue the conduct upon guarantees	9(1)(a)
10(3)	Revocation if applicant does not follow up	9(5)
10(4)	The applicant may be asked to lodge guarantees	9(6)
10(5)	Applicant liable for damages caused if the measure is revoked or lapses	9(7)

See also [recital 15](#)

What is new?

- Article 10(2), on proportionality test fit for trade secrets specificity (in IPRED a proportionality test is provided, but only for corrective measures). See also [recital 11](#).

MEASURES, PROCEDURES AND REMEDIES

SECTION 3– MEASURES RESULTING FROM A DECISION ON THE MERITS

TSPD		IPRED
11(1) & (2) + recitals 16 & 17	Stop the continuation of the unlawful conduct recall, withdrawal from the market, destruction of infringing goods	11
11(3) 2nd para	The measures to be carried at the expenses of the infringer	11(2)
12(1)	Proportionality test (further developed)	10(3)
12(3) + recital 18	Pecuniary compensation instead of corrective measures in case of good faith	12
13 + recital 19	Damages, and their calculation	13(1)
14 + recital 20	Dissemination of information concerning the decision	15

What is new?

- Article 11(2)(c) – the infringing goods may be transformed to eliminate their infringing quality
- Article 11(2)(e) Destruction / delivery up of docs to the TS owner

Chapter IV – Sanctions, reporting and final provisions

TSPD		
15 + recital 21	Sanctions for non-compliance with the measures adopted pursuant to Articles 8, 9 and 11 of the Directive	
16 + recital 22	Exchange of information (among MS and between MS and the Commission) and national correspondents [but not a formal Expert Group or Committee]	
17(1)	Report by OHIM (Observatory) on litigation trends: 3 years after transposition	
17(2)(3) + recital 22	Reports by the Commission on the impact of the TSPD. Two reports: one 4 years after transposition and a second one (evaluation) 8 years after transposition.	
18/19/20	Transposition / Implementation + Entry into force + Addressees	

Recitals 26-28: relationship between TSPD and other applicable law.

Role for OHIM/Observatory in the implementation phase

1) Article 17(1): the initial report to be carried out by OHIM/Observatory

- OHIM/Observatory to prepare a report on litigation trends concerning trade secrets.
- By: 3 years after the end of the transposition period.
- Synergies: with Observatory work (legal group) on case-law analysis (cf. point 4 of Legal Working Group's agenda)

This work will be followed by a Commission's intermediate report on the application of the Directive, by 4 years after the end of the transposition period (Article 17(2)).

2) Article 17(3): the Commission should carry out an evaluation of the Directive, by 8 years after the transposition period.

- Preparatory work for the evaluation: e.g. establishing the methodology, data collection needs and data collection strategy for the monitoring and evaluation of the Directive. To be carried out:
 - once the directive is formally adopted by Council & Parliament;
 - Possibly by a working group of the Observatory.

See the "Implementation Plan" and Chapter 7 & Annex 25 of the "Impact Assessment".

Monitoring and evaluation (chapter 7 of impact assessment) Timeline

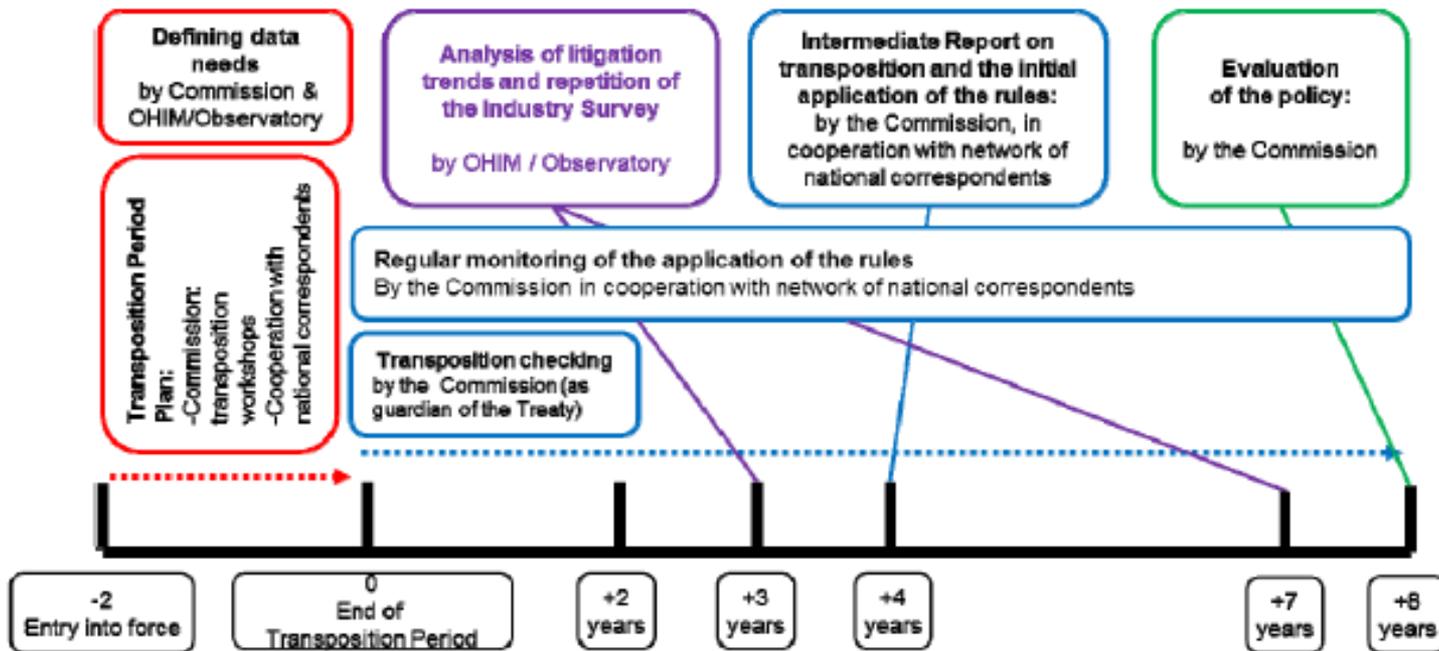
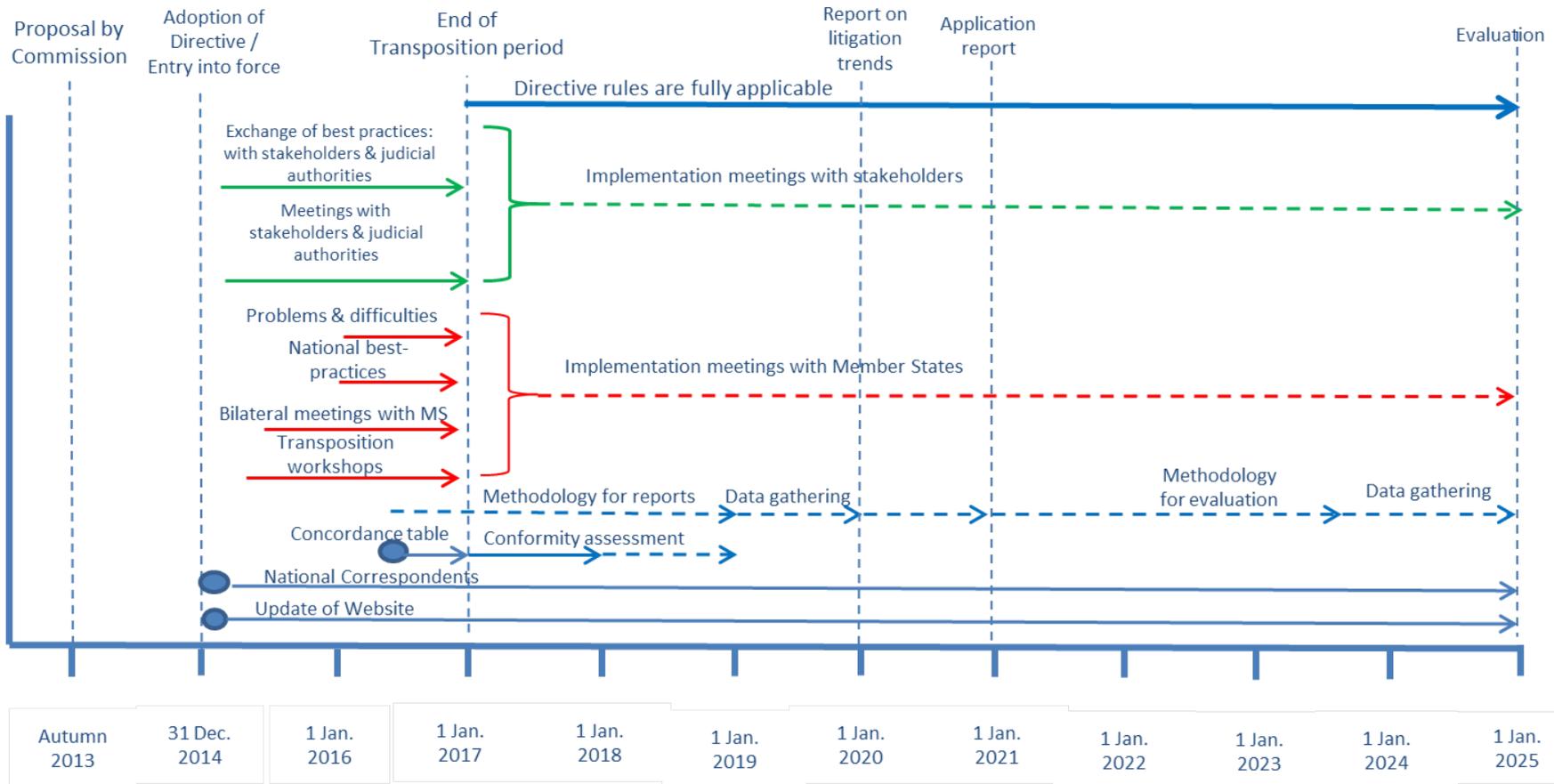


Figure 12 – Monitoring and evaluation

Implementation Plan – timeline

[Assuming adoption of the text by Parliament and Council by end 2014]



C) THE NEGOTIATIONS

The negotiations so far

Council: Working Party on Intellectual Property (trade secrets)

- Meetings held: 21 and 31 January, 14 and 26 February, 10 March
- Upcoming meetings: 10 April
- Presidency aim: general approach by end May (Competitiveness Council)

Parliament:

- Leading Committee: JURI (rapporteur, Marielle Gallo, PPE/FR); exchange of views: 19 Feb.
- Opinion Committees: IMCO (rapporteur, Lara Comi, PPE/IT); and ITRE (rapporteur, Amelia Andersdotter, Greens/SE)

European Economic and Social Committee:

- Study group: meetings on 30 January and 19 February; draft report submitted to INT Section of the EESC
- INT Section of the EESC: meeting on 11 March
- Aim: EESC opinion by end March (plenary meeting on 25 March)

European Data Protection Supervisor:

- Opinion to be provided; suggestions possible, but no fundamental problems.