On 9 June 2018, the deadline expires for EU Member States to implement the necessary legislation to give effect to the 'Trade Secrets Directive'. Our European experts explain the provisions of the Directive, the extent of harmonisation to be expected in the EU, and the changes expected in the UK, France and Germany.

The full name of the Trade Secrets Directive is 'Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition'.

What is the background to the enactment of the Trade Secrets Directive?

The Directive was introduced following a study, instigated by the European Commission, of trade secret protection in the (then 27) EU Member States. The study noted that it would be advantageous if there were consistency as to the types of confidential information that could be protected, but suggested that it was probably unnecessary to attempt to produce a detailed and comprehensive definition of a "trade secret". The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement) simply uses the expression "undisclosed information" and specifies the criteria which must be met for such information to be protectable.
The Commission, however, favoured harmonisation, as explained in the Recitals to the Directive. Recital (4) states that the unlawful acquisition, use or disclosure of a trade secret:

"...compromises legitimate trade secret holders' ability to obtain first-mover returns from their innovation-related efforts. Without effective and comparable legal means for protecting trade secrets across the Union, incentives to engage in innovation-related cross-border activity within the internal market are undermined, and trade secrets are unable to fulfil their potential as drivers of economic growth and jobs..."

Recital (5) states that important differences remain in the Member States’ legislation as regards the protection of trade secrets, notwithstanding the TRIPS Agreement. For example, not all Member States have enacted national law defining a "trade secret" or what constitutes "unlawful acquisition, use or disclosure" (ie. infringement). Therefore, the scope of trade secret protection differs across Member States and these differences are not readily apparent.

The Trade Secrets Directive was passed by the EU's legislature on 8 June 2016; Member States have until 9 June 2018 to bring into force any laws, regulations and administrative provisions necessary to comply with it.

What does the Directive do?

The focus of the Directive is upon ensuring that the national laws of each Member State recognise a standalone right in trade secrets which may be asserted and enforced against third parties ie. trade secret protection as a form of intellectual property right.

The Directive lays down rules on the protection against the unlawful acquisition, use and disclosure of trade secrets (Article 1).

What is a 'trade secret' for the purposes of the Directive?

The meaning of 'trade secret' is defined as follows (Article 2):

"(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
What are the prohibited/permitted acts in relation to trade secrets?

The Directive seeks to ensure that in each Member State, legal remedies are available to restrain, address and compensate for the unlawful "acquisition", "use" or "disclosure" of a trade secret. Such unlawful actions are defined in Article 4. Unlawful "acquisition" covers unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files and any other conduct which, under the circumstances, is contrary to honest commercial practices. Unlawful "use" or "disclosure" may be of unlawfully acquired information, or of lawfully acquired information in breach of a confidentiality agreement or other contractual or other duty to limit the use of the trade secret. Unlawful use also extends to actions in respect of infringing goods, which are defined as "goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed" (Article 2(4)).

Just as importantly, the Directive also defines what is a lawful acquisition, use or disclosure of a trade secret. This covers independent discovery or creation, observation, study, disassembly and testing of a product and any other practice which, under the circumstances, is in conformity with honest commercial practices (Article 3). The Directive also sets out exceptions to unlawful acquisition, use or disclosure, which include exercising the right to freedom of expression, revealing misconduct, disclosure by workers to their representatives and protecting a legitimate interest recognised by EU or national law (Article 5).

What measures, procedures and remedies must be available to protect trade secrets?

The Directive imposes a general obligation upon Member States to provide for measures, procedures and remedies as "necessary to ensure the availability of civil redress against the unlawful acquisition, use and disclosure of trade secrets". The measures, procedures and remedies must be fair and equitable, not unnecessarily complicated or costly, nor entail
unreasonable time-limits or unwarranted delays, and must be effective and dissuasive (Article 6).

The **provisional and precautionary measures** that must be available to the competent judicial authorities (i.e. national courts) are set out in Article 10. They are, in short, orders for cessation, orders for seizure or delivery up, and orders prohibiting use, disclosure, production, offering, placing on the market, import, export or storage (Article 10(1)). An additional, alternative interim measure must also be available to national courts, namely to allow the "continuation of the alleged unlawful use of the trade secret" provided that the alleged infringer lodges with the court "guarantees intended to ensure the compensation of the trade secret holder" (Article 10(2)).

When considering whether to make any of the orders referred to above, the court must comply with the conditions and safeguards of Article 11. The court must be satisfied that a trade secret exists, that it is owned by the applicant for relief, and that the trade secret has been or will imminently be unlawfully acquired, used or disclosed (Article 11(1)).

Turning to the **final forms of relief** - Member States must ensure that, where a national court has established that a defendant is liable for the unlawful acquisition, use or disclosure of a trade secret, the measures provided for in Articles 12 (injunctions and corrective measures), 14 (damages) and 15 (publication of judicial decisions) are available.

In deciding whether to grant provisional or final relief and in assessing the proportionality of a particular measure, national courts must take into account the specific circumstances of the case, including, for example, the value of the trade secret in suit, the conduct and interests of the parties, and the interests of third parties and the public (Articles 11(2) and 13).

The Directive permits (but does not mandate) Member States to limit the personal liability of employees for any inadvertent, but unlawful, acquisition, use, or disclosure of their employers' trade secrets.

**How must Member States protect trade secrets in the course of legal proceedings?**

In legal proceedings relating to trade secrets, procedural mechanisms must be available to national courts to preserve the confidentiality of the trade secret in suit.

For example, the court must be able to restrict access to documents containing the secret, to restrict access to hearings where the secret may be disclosed, and to issue redacted judgments (Article 9).
Does the Directive harmonise the law or provide a minimum standard?

The Directive not only provides a minimum standard of trade secret protection across Europe, but also, in principle, permits Member States to provide for "more far-reaching protection against the unlawful acquisition, use or disclosure of trade secrets than [required under the] Directive" (Article 1).

If, however, any Member States do opt to provide additional protection to trade secret holders, whether via legislation or jurisprudence, they must comply both with the Treaty on the Functioning of the European Union and with the provisions of Articles 3, 5, 6, 7(1), 8, 9(1) (second paragraph), 9(3), 9(4), 10(2), 11, 13 and 15(3) of the Directive itself (Article 1). These provisions, among other things, set out the extent to which a potential infringer's acquisition, use and disclosure of a trade secret is lawful, establish exceptions to the rules regarding trade secret protection (for example, the right to freedom of expression), and provide that any measures, procedures and remedies for infringement must be fair and equitable and applied in a manner that is proportionate. Accordingly, the scope for Member States to provide more far-reaching protection for owners of trade secrets as against third parties is likely to be limited.

In any case, national laws governing areas covered by the Directive will evolve to reflect its provisions, particularly as the Directive comes to be interpreted by the CJEU. This is likely to be the case even in jurisdictions which are already broadly considered to be compliant in practice with the requirements of the Directive.

From 9 June 2018, when the deadline expires for Member States to implement the legislative changes needed under national law to give effect to the provisions of the Directive, the Directive will become directly enforceable in the Member States. So what legislative enactments have the Member States considered necessary and how do practitioners foresee changes in practical terms in their countries? Here are our experts' views...

United Kingdom

The English law against misuse of confidential information has evolved in the tradition of the common law. This, rather than legislation, has long been considered to be compliant with the country's obligations under the TRIPS Agreement with respect to "undisclosed information". The jurisprudence of the English courts protects information which has the "necessary quality of confidence", is communicated in circumstances importing an obligation of confidence, and is
used (or threatened to be used) in an unauthorised way to the detriment of the owner (Coco v A. N. Clark [1969] RPC 41, Attorney-General v Guardian Newspapers (No 2) [1990] 1 AC 109).

In the UK, it is generally considered unlikely that, in practice, the Directive will result in substantial changes to the headline legal protection for trade secrets. Nevertheless, implementing legislation has been considered necessary. The Trade Secrets (Enforcement, etc.) Regulations 2018 (SI 2018 No. 597) (the "UK Regulations") comes into force on 9 June, extending to the whole of the UK (England and Wales, Scotland and Northern Ireland).

The UK Regulations enact the Directive's definitions of a trade secret and infringing goods (amongst others), set out limitation periods, and make subtle adjustments to the principles of law governing the calculation of monetary relief. They provide for the availability of the interim measures required by the Directive and the consideration of the matters required by the Directive before the making of such relief.

In some respects, the wording of the Directive is not tracked, but is expected to be satisfied by the common law. This is the case, for example, with respect to Article 4(5) of the Directive, which defines unlawful use as including dealings in infringing goods with knowledge, or where the person dealing in them ought to have known, that they were infringing goods - this is thought to be satisfied by the common law regarding joint tortfeasorship.

The UK Government has not taken the opportunity to limit the liability of employees towards their employers in the event that an employee inadvertently, but unlawfully, acquires, uses or discloses a trade secret of his/her employer.

**Germany**

The German Federal Ministry of Justice and Consumer Protection published a draft bill for the creation of a new "Gesetz zum Schutz von Geschäftsgeheimnissen" (Act on the Protection of Trade Secrets) on 19 April 2018. The aim is to have the draft approved by the Bundestag (German Federal Parliament) in early August, for submission to the Bundesrat (Federal Council) in its hearing on 21 September 2018 before signature by the German Federal President. The delays in implementing the Directive to date primarily resulted from the time which it took to form the government after the 2017 elections. Nevertheless, in our view, the projected future timeline is ambitious, to say the least.

Under the proposed draft bill, protection of trade secrets in Germany will undergo a fundamental change. Whereas previously the relevant provisions were "scattered" throughout various statutes and mostly "hidden" in the German Unfair Competition Act (UWG), in the future
there will be a single, comprehensive, legal act governing trade secrets protection.

Overall, the draft bill largely follows the provisions set out in the Directive. As with other intellectual property rights, Germany presently offers a comparably high standard of protection for trade secrets. Nevertheless, the draft bill, once in place, will bring numerous changes.

Without doubt, one of the most noteworthy changes for the German legal system will be the introduction of mechanisms for the protection of trade secrets during legal proceedings. Currently, there are minimal, if any, mechanisms available which allow a trade secret holder to limit the disclosure of trade secrets to opposing parties during litigation. Even non-parties/members of the public are rarely excluded from hearings. This situation will - to a certain extent - be improved under the draft bill: parties will have the option to apply for certain information to be treated as confidential in the proceedings, for example by the redaction of critical passages from evidence. The party applying for such a confidentiality regime must provide substantial reasons in support of its application. Surprisingly, however, the draft bill provides an exception to this rule. Individual representatives of the opposing party are entitled to access the unreacted information for the specific purpose of verifying the information. This loophole has the clear potential to negate the efforts of the trade secret holder in protecting the confidentiality of the secret. If adopted in the final bill, this is an important risk of which trade secret holders should be aware.

France

In France, the draft bill implementing the Directive has been drawn up and provisionally approved by Parliament. The bill will be discussed on June 21, 2018 by Parliament before being definitively adopted. The bill creates a uniform set of rules to be incorporated in the French Commercial Code and introduces minor changes to the existing French system in order to ensure compliance with the Directive.

The bill confirms that, in general, trade secret protection falls within Tort law and that the misappropriation of trade secret triggers the civil liability of the infringer. The new set of rules will, however, co-exist with existing French legislation protecting manufacturing secrets, defined by case-law as "any manufacturing process offering a practical or commercial interest, implemented by a manufacturer and kept secret to its competitors" protected by the Code of Intellectual Property (Article L.621-1) and the Labor Code (Article L.1227-1) which criminally sanction the actual or threatened disclosure of a manufacturing secret by any director or employee. Equally, existing criminal offences set out in the French Criminal Code will be maintained, such as theft, robbery and handling stolen goods (relevant in circumstances where
documents containing the information have been stolen), fraud and breach of professional duties of secrecy.

As to the changes to French law introduced by the draft bill, the draft bill includes a legal definition of a "trade secret" based on the Directive. There was no such definition of a trade secret in national law previously. Nevertheless, the French courts were already familiar with applying the equivalent definition from the TRIPS Agreement, which is considered in practice to be very similar to the definition contained in the Directive. The French bill further specifies that the value of a trade secret need only be potential, thus offering a wide protection to trade secrets incorporated, for example, in studies or research results and which have not yet been commercialised.

The draft bill directly transposes numerous other provisions of the Directive, such as the notions of lawful and unlawful acquisition, use and disclosure of trade secrets and the inclusion of specific exceptions to infringement. In particular, the draft bill includes as exceptions to infringement: (i) the right to freedom of expression and information, which was discussed at length by the French Parliament in order to balance the need to protect journalistic freedom with the need to provide efficient protection to trade secret owners, (ii) the disclosure of misconduct, wrongdoing or illegal activity, which includes in particular whistleblowing, all excluded on general public interest grounds, and (iii) the protection of a legitimate interest recognized by law, which if construed too broadly could preclude the application of trade secret protection and will probably be delimited by case-law. Where confidential information is acquired as the result of the right of workers or workers’ representatives to obtain such information, this is also classed as an exception to infringement rather than as a lawful acquisition.

The applicable limitation period for trade secret infringement will be five years from the date of the relevant act. This is compliant with the Directive, which requires that the limitation period does not exceed six years. However, in practice, this deadline may be quite short, for example in the event that the infringement is discovered retrospectively by the trade secret holder. The application of a general limitation period of five years from the date on which the claimant became aware of the infringement might have been a better option.

The bill introduces the numerous preventive and corrective measures and remedies for infringement provided for by the Directive, including injunctions, seizure orders and damages awards. The equivalent provisions of the bill are based on, but are not in all cases identical to, the Directive. For example, the bill specifies that when assessing damages, judges must take into account the negative economic consequences which the injured party has suffered, including (i) not only lost profits but also lost opportunities, (ii) the moral prejudice caused to the trade secret holder, and (iii) any unfair profits made by the infringer, including any savings of
"intellectual, material and promotional investments". As an alternative, judges can grant damages based on the royalties which would have been payable from the infringer to the trade secret owner, it being specified that in such circumstances the trade secret holder will be also entitled to additional damages for the moral prejudice suffered. Such provisions are very similar to those that French judges are already familiar with applying in intellectual property proceedings.

As with other intellectual property rights, the French legislator has attempted to ensure effective protection for rights holders and appropriate deterrent sanctions for infringers. To moderate any risk that these new provisions, which might be described as "rights holder friendly", are abused by trade secret owners, the bill provides for a specific fine to be imposed on a claimant where its action against a defendant amounts to an abuse of process, albeit limited to €60,000.

Finally, in accordance with the Directive, the bill introduces new mechanisms to ensure the confidentiality of trade secrets is preserved in the course of legal proceedings. This constitutes a notable improvement for trade secret owners as compared to the existing French procedure. Confidentiality clubs or "pools" already existed, but tended to involve not only the court but also representatives of the opposing party. Equally, it was possible to request that pleadings should be kept confidential, but such applications could be difficult to sustain, in light of the weight given by French courts to the principle that hearings and pleadings should be held in public. In a further change to existing procedure, the bill also allows for different versions of judgments to be made available; in the public version of the judgment, the trade secret will be redacted. As for evidence, it was previously possible to circulate and file redacted versions of evidence, but this was often achieved only in the face of strong resistance from the opposing party. Under the new law, it is likely to be easier for a trade secret owner to invoke these mechanisms successfully.