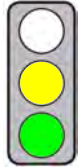


## KEY ISSUES

**Objective of the Directive:** The Commission wants to harmonise the protection of trade secrets in the Member States.

**Affected parties:** All companies.



**Pro:** (1) The proposed protection of trade secrets preserves the incentive for innovation without excessively restricting the spread of new knowledge.

(2) By limiting protection to acts carried out intentionally or with gross negligence, the infringer need not check whether every piece of information is a trade secret.

(3) Permitting "reverse engineering" contributes to the spread of new knowledge.

**Contra:** (1) Excluding the infringer from documents and hearings during legal proceedings is only compatible with the right to a fair trial where it is guaranteed that at least the legal representative will always be granted access to documents and hearings.

(2) Sanctions in the case of an unfounded claim violate the right to an effective remedy.

## CONTENT

### Title

**Proposal COM(2013) 813** of 28 November 2013 for a **Directive** on the **protection of undisclosed know-how and business information** (trade secrets) against their unlawful acquisition, use and disclosure

### Brief Summary

#### ► Context and objectives

- The Directive will harmonise the protection of trade secrets in the Member States (p. 5 et seq.). It contains, in particular, standard
  - definitions of trade secrets and of their unlawful acquisition, use and disclosure (hereinafter: infringement) as well as
  - possibilities for obtaining redress for any infringement [Art. 1, Art. 3 (1)].
- The Directive will
  - supplement existing copyright, patent and trademark protection to cover trade secrets which have not yet achieved that stage and
  - offer companies an alternative to this protection so that they can choose whether they want to protect their information by way of such rights or as a trade secret.
- The Directive will (Recitals 1 and 2, p. 4 et seq.)
  - clarify when transmission of a trade secret is lawful; this will promote collaboration between companies on research and development;
  - prevent competitors from appropriating a trade secret unlawfully; this will
    - preserve the incentive for companies to make innovations and
    - protect companies' competitiveness which is threatened if a competitor develops a competing product on the basis of the trade secret.

#### ► Trade secrets

- Trade secrets refer to information [Art. 2 (1)],
  - which is secret, i.e. it is not known or accessible to persons who would normally deal with this kind of information,
  - which has commercial value because it is secret and
  - which has been subject to steps by the lawful holder of the trade secret to keep it secret.
- Examples of trade secrets include technological knowledge, commercial data such as information on customers and suppliers, business plans or market strategies (Recitals 1 and 8).

#### ► Unlawful acquisition

- The acquisition of a trade secret is unlawful if [Art. 3 (2)]
  - it takes place intentionally or with gross negligence,
  - the lawful holder has not given consent and
  - it does not comply with honest commercial practices.

- Failure to comply with honest commercial practices exists where the infringer gains unauthorised access to documents, items or electronic files [Art. 3 (2) (a)].
  - Compliance with honest commercial practices does exist, however, where a lawfully acquired product is studied, disassembled or tested ["reverse engineering", Art. 4 (1) (b), Recital 10].
- **Unlawful use or disclosure**
- The use or disclosure of a trade secret is unlawful if [Art. 3 (3)]
    - it takes place intentionally or with gross negligence,
    - the lawful holder has not given consent and
    - the infringer
      - previously has acquired the trade secret unlawfully or
      - is in breach of a contractual or statutory duty as a result of the use or disclosure.
  - The use or disclosure of a trade secret is also unlawful if the infringer knew or should have known that the person from whom he obtained the trade secret was using or disclosing the trade secret unlawfully [Art. 3 (4)].
  - The use of a trade secret is unlawful if the infringer intentionally produces, offers or places on the market, or imports, exports or stores for those purposes, goods which significantly benefit from trade secrets acquired by an infringement [hereinafter: infringing products, Art. 2(4), Art. 3 (5)].
- **Lawful acquisition, use or disclosure**
- No infringement exists, however, where acquisition, use or disclosure was carried out for the purpose of protecting a "legitimate interest", in particular [Art. 4 (2)]
- to fulfil a statutory obligation,
  - to make use of the right to freedom of expression and information or
  - to reveal illegal activity for reasons of public interest e.g. "whistleblowing activity" (Recital 12).
- **Remedies where court finds infringement**
- The courts can order removal of the infringement by [Art. 11 (1)]
    - prohibiting (further) use or disclosure of the trade secret,
    - prohibiting, in the case of infringing goods, their production, offering, placing on the market or use as well as the import, export or storage for those purposes and
    - requiring, in the case of infringing goods, the infringer [Art. 11 (1) (c) and (2)]
      - to recall the goods from the market,
      - afterwards to remove the infringing features or – where this is not possible – to withdraw the goods definitively from the market and destroy them as well as
      - to destroy documents, items or electronic files containing the trade secret or return them to the lawful holder.
  - Instead of removal of the infringement, the courts can order, in exceptional cases, that the infringer pay "pecuniary compensation" to the lawful holder [Art. 12 (3)].
  - In addition to removal of the infringement or to payment of the "pecuniary compensation", the infringer must pay the lawful holder compensation in the amount of the loss actually incurred (Art. 13).
- **Interim remedies**
- Where a lawful holder can prove that an infringer has committed an infringement, at the holder's expense, or that such an infringement is imminent, the courts can [Art. 9 (1), Art. 10 (1)]
- prohibit (further) use or disclosure of the trade secret on an interim basis and
  - in the case of infringing goods
    - prohibit their production, offering, placing on the market or use as well as the import, export or storage for those purposes and
    - seize them or order them to be relinquished.
- **General requirements applicable to legal proceedings**
- The courts will protect trade secrets which could be disclosed as a result of the legal proceedings. In particular, they may, subject to the imposition of consequences [Art. 8 (2), Art. 15],
    - refuse to allow persons – including the plaintiff and defendant – access to the documents submitted in the proceedings; they may, however, permit the legal representative of an excluded party, who is subject to a duty of confidentiality, to have access to "material" evidence;
    - exclude persons – including the plaintiff and defendant – from hearings which take place in the course of legal proceedings whilst safeguarding the right to a fair trial (Recital 14).
  - The courts will take action against unfounded claims brought by an alleged lawful holder in order to damage an alleged infringer. They should, in particular, have the possibility of imposing sanctions – including fines – against the alleged lawful holder. [Art. 6 (1) (c), (2)]

## Statement on Subsidiarity by the Commission

The law on the protection of trade secrets varies greatly among the Member States. This inhibits cross-border collaboration on research and development and reduces the incentive for companies to undertake cross-border, innovation-related activities (p. 3, 5 et seq., Recital 2).

## Policy Context

The Commission has commissioned studies to analyse the various national laws on the protection of trade secrets (see [Link](#)) and in 2013 it held consultations on the policy options (see [Link](#)).

## Legislative Procedure

28 November 2013	Adoption by the Commission
26 May 2014	Council's General Approach
Open	1st Reading in European Parliament
Open	Adoption by the European Parliament, publication in the Official Journal of the European Union, entry into force

## Options for Influencing the Political Process

Directorates General:	DG Internal Market and Services
Committees of the European Parliament:	Legal Affairs (leading), Rapporteur: Marielle Gallo (EPP Group)
Federal Ministries:	Justice and Consumer Protection (leading)
Committees of the German Bundestag:	Legal Affairs and Consumer Protection (leading); Economy and Energy; European Union Affairs
Decision-making mode in the Council:	Qualified majority (Adoption by a majority of the Member States and with 260 of 352 votes; Germany: 29 votes)

## Formalities

Legislative competence:	Art. 114 TFEU (Internal Market)
Form of legislative competence:	Shared competence [Art. 4 (2) TFEU]
Legislative procedure:	Art. 294 TFEU (Ordinary legislative procedure)

# ASSESSMENT

## Economic Impact Assessment

Legislation to protect trade secrets reduces the costs incurred by companies for the protection of such secrets. The statutory provisions will give more protection to those companies who, due to the cost involved, have not so far protected their trade secrets. On the one hand, this increases the incentive for innovation as the risk of other companies profiting from a company's innovation will be lessened. On the other hand, greater protection slows down the spread of new knowledge as this remains secret. Thus fewer innovations can be made based on the knowledge of other companies. In addition, it becomes more difficult for competing companies to imitate products based on trade secrets, as a result of which there is less competitive pressure for such products on the market and consumer prices remain high.

**The proposed protection of trade secrets** strikes a balance between the two objectives: On the one hand it **preserves the incentive for innovation without**, on the other hand, **excessively restricting the spread of new knowledge**.

Protecting trade secrets from unauthorised acquisition – e.g. by theft – use and disclosure reduces the cost of maintaining secrecy for the lawful holder as the latter incurs fewer costs in protecting his trade secrets. This maintains the incentive for innovation.

In addition, **by limiting protection to acts carried out intentionally or with gross negligence, the potential infringer need not check whether every piece of information** he receives **is a trade secret**. In particular, the provision of protection without any wrongdoing by the infringer – such as the accidental loss of trade secrets – would therefore result in more costs for the infringer than the lawful holder has to spend in order to protect the trade secret from accidental loss.

**Permitting "reverse engineering" contributes to the spread of new knowledge** whereas a ban on reverse engineering would in fact give a company an unlimited exclusive right to an unpatented product until a competing company managed to develop the same product independently. The time limit on a patent and the obligation under patent law to disclose the invention when registering the patent, are, however, exactly intended to provide a balance between the two objectives of maintaining incentive for innovation and keeping restrictions on the spread of new knowledge to a minimum.

Linking the definition of a trade secret to the characteristic that "steps" have been taken to keep it secret, may, however – if this characteristic is interpreted accordingly by the European Court of Justice (ECJ) and if Member States are not allowed to diverge from this in their own legislation – result in companies requiring the signature of a confidentiality agreement every time they come into contact with an outsider. This will increase the costs

that companies have to spend to protect their trade secrets and could therefore lower the incentive for innovation. In order for business partners to know that a trade secret exists it is sufficient – as under German case law – if the intention to maintain secrecy has been expressed.

An EU-wide harmonisation of the protection of trade secrets in the Member States – irrespective of whether the level of protection in the individual Member State is raised or lowered – will result in greater legal certainty for companies in relation to cross-border, innovation-related activities. As a result, companies may move production facilities rather to another Member State for example. This strengthens the internal market. In addition, companies will cooperate more on research and development with companies from other Member States. This allows new knowledge to spread faster.

## Legal Assessment

### Legislative Competency

The Directive is correctly based on the power to approximate laws in the internal market (Art. 114 TFEU).

### Subsidiarity

Cross border protection of trade secrets can only take place effectively at EU level.

### Compatibility with EU Law in other Respects

Although **excluding** one party, generally **the infringer, from documents and hearings during legal proceedings**, protects the trade secrets of the lawful holder, it also **restricts the right** of the infringer **to a fair trial** [Art. 47 (2) Charter of Fundamental Rights of the EU, CFR, Art. 6 (1) Convention for the Protection of Human Rights and Fundamental Freedoms, ECHR]. Such a restriction on the right to a fair trial **is only justified** if it balances with the conflicting right of the lawful holder to the protection of his trade secrets [Right to property under Art. 17 CFR, Right to an effective remedy under Art. 47 CFR, Art. 6 (1) ECHR]. This is the case **where – by contrast with the Commission's proposal – it is guaranteed that at least the legal representative will always be granted access to documents and hearings.**

Since such access by the legal representative will not, on the one hand, undermine the incentive for lawful holders to bring proceedings as they will not generally need to worry that their trade secrets will be disclosed during the proceedings; provided at least that the legal representative is also subject to a duty of confidentiality with consequences such as criminal sanctions for failure to comply. On the other hand, the infringer's right to defend himself is not restricted excessively as his legal representative receives all the relevant information in order that, e.g. an informed decision on whether to appeal, can be reached.

**The proposed sanctions in the case of an unfounded claim** may also dissuade justified claimants from enforcing their rights and thus **violate the right to an effective remedy** [Art. 47 CFR, Art. 6 (1) ECHR].

### Impact on German Law

Excluding one party from documents and hearings during legal proceedings is not provided for under German civil procedural law. The parties have a right of access to the case file (Section 299 Code of Civil Procedure, ZPO) and are entitled to be present when evidence is given (Section 357 ZPO). Only the public can be excluded from proceedings in the case of an important trade secret (Section 172 No. 2 Courts Constitution Act, GVG). The court may however impose a duty of confidentiality on the parties which is subject to criminal sanctions in the event of failure to comply [Section 174 (3) sentence 1 GVG in conjunction with Section 353d No. 2 Criminal Code, StGB]. The proposed possible exclusion of the infringer and even his legal representative also violates the right to a fair trial [Art. 103 (1) Basic Law, GG] (see above).

Unfounded claims are rejected under German civil procedure. No sanctions are stipulated. Their introduction would amount to a special rule for trade secrets. Under German law, however, a right to damages exists, e.g. in the case of intentional damage contrary to public policy (Section 826 Civil Code, BGB). Thus loss incurred where a claimant brings an unfounded claim in order to harm the alleged infringer, can be adequately compensated. The sanctions for an unfounded claim are additionally in breach of the constitutional right to an effective remedy.

## Conclusion

The proposed protection of trade secrets preserves the incentive for innovation without excessively restricting the spread of new knowledge: By limiting protection to acts carried out intentionally or with gross negligence, the infringer need not check whether every piece of information is a trade secret. Permitting "reverse engineering" also contributes to the spread of new knowledge. Excluding the infringer from documents and hearings during legal proceedings is only compatible with the right to a fair trial where – by contrast with the Commission's proposal – it is guaranteed that at least the legal representative will always be granted access to documents and hearings. The proposed sanctions in the case of an unfounded claim violate additionally the right to an effective remedy.