

Information Matters: A new Trade Secrets Law for Europe

John Hull | 5 February 2016

In a few weeks the European Parliament is likely to pass into law a new trade secrets law for Member States of the Union. This is in the shape of a Directive¹ which means that each of the 28 European countries will enact its own local law to bring the Directive into effect, the intention being to achieve a common standard of definition and protection for trade secrets across the Union.

The Directive has a two year implementation period which means that the UK (assuming of course that it remains a member of the Union following the referendum) should have its first statutory trade secrets law by about 2018 or 2019.

What lies behind this and what will our new law look like?

The background to the Directive is, in essence, a belief on the part of the European Commission, that European business, and particularly innovative research and development activity is being held back because of an ineffective patchwork of different trade secrets laws in member states.² This contention was borne out (though not as clearly as the Commission might suggest) by two independent reports published in 2011 and 2013.³ Between them they did reveal a wide disparity in the effectiveness of laws and procedures across the Union to remedy the unlawful acquisition, use and disclosure of secrets belonging to others.

This legal patchwork not only denied trade secret owners effective remedies, it dissuaded them from disclosing information to one another in pursuit of commercial deals or from engaging in strategic arrangements – research and development collaborations, joint ventures and the like – which hindered trade in the internal market.

That at least was the gist of the two reports and the Commission's analysis of their findings.

It is worth pausing there to reflect on how well the UK fares in this (there does not appear to be too much difference in the approach of the English and Scottish courts in trade secrets cases). English law in this area has developed through the cases over the last 170 years or so into a recognisably comprehensive and effective array of procedural devices and remedies capable of protecting trade secrets. Most practitioners would agree that English law on trade secret protection was well developed and proportionate in its application.

¹ Directive of the European Parliament and the Council on the protection of undisclosed know how and business information (trade secrets) against their unlawful acquisition, use and disclosure. 2013/0402 (COD).

² "A Single Market for Intellectual Property Rights" COM (2011) 287 Final.

³ The reports can be found at: http://ec.europa.eu/growth/industry/intellectual-property/trade-secrets/index_en.htm

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So what does the new Directive put in place to shape European trade secrets law in the future?

The Directive is aimed squarely at procedures and remedies. The Directive does not create any new intellectual property right. Nor does it bring the criminal law into play by creating a new offence of trade secret theft. Notably, a number of EU states already recognise the theft of a trade secret as a crime. The UK is not one of those countries. It seems likely that existing criminal laws, where they exist, will remain in place giving rise, in some countries, to a two tier approach to the problem.

The Directive adopts some important definitions, including a definition of what a “trade secret” is. English courts over the years have refrained from attempting to define something as intangible as a trade secret. The definition is taken from an internationally recognised definition from the TRIPS Agreement⁴ which itself borrows some wording (on “reasonable steps” to maintain secrecy) from the US Uniform Trade Secrets Act.

The other key definition is “Trade Secret Holder” instead of trade secret owner, because the Directive stops short of according a trade secret proprietary status. A Trade Secret Holder is the person entitled to bring proceedings to protect a trade secret.

The Directive has one key “General” obligation so it is worth setting this out in full:

“Member States shall provide for the measures, procedures and remedies necessary to ensure the availability of civil redress against unlawful acquisition, use and disclosure of trade secrets.”⁵

To do this, the Directive distinguishes between lawful and unlawful acquisition, use and disclosure. “Lawful” activities include independent creation, reverse engineering and anything consistent with “honest commercial practices”. By contrast, “unlawful” activities focus on copying files, documents and the like and engaging in dishonest commercial practices including breaching a non-disclosure agreement or other contract.

The Directive supports the notion that certain activities in this sphere are acceptable. Those include exercising fundamental rights to freedom of expression, disclosing a secret where there is a public interest to do so and preserving the freedom of the press.

The main thrust of the Directive is to ensure that courts or other responsible tribunals have available to them a range of interim remedies and final remedies. Interim remedies should include, for example, interim injunctions and measure to preserve evidence.

Final remedies should include injunctions where appropriate, damages or accounts of profits and delivery up or destruction of infringing materials.

These remedies should be based on appropriate evidence and take into account the conduct of both parties and this is where a claimant trade secret’s holder’s actions to preserve the secrecy of the subject matter will come under scrutiny.

⁴ Agreement on Trade-Related Aspects of Intellectual Property Rights.

⁵ Article 5.

The Directive sensibly ensures that the subject matter of a legal action (the trade secret itself) should be protected as part of the litigation process. It is in this area that the two studies found there was a significant procedural deficit in certain European countries.

To an English lawyer virtually all of what is envisaged as part of the new law is already with us. English courts have been assiduous over the years in framing interim remedies (including search and seizure orders and interim injunctions including time-limited injunctions) to balance the rights of claimant and defendant. Similarly a range of final (“merits”) remedies – injunctions, damages and the like – have been fashioned to meet the challenges of dealing with secrets.

Since we already have most of what is envisaged in place, the Government may be able to adopt a “light touch” approach to implementing the Directive into English law. The new definitions will have to be employed and possibly some specific recognition made to accommodate the provisions on media freedom and the recognition of fundamental rights to freedom of expression. Beyond that, not much else may be necessary.

This does not mean that the Directive is problem free. There seems ample scope for referral to the European Court for clarification of some difficult issues:

- The definition of “Trade Secret” itself and the requirement that the holder has taken “reasonable steps” to keep it secret. Reasonable steps may depend on context and industry standards. This is a new field of inquiry (though lessons from the US may be applicable) and the role of an expert witness might be crucial.
- Who is a “Trade Secret Holder”? The definition tells us that it is someone who “controls” a trade secret. Is that someone who has paid for its creation or someone who actually knows how it works? Is it an exclusive licensee under a technology agreement or the licensor?
- The continued patchwork of applicable law and its enforceability. There will still be 28 different legal systems, approaches to evidence and court procedures for a Trade Secret Holder to confront. A requirement to standardise procedures and remedies is laudable. The implementation of those may be disappointingly patchy.

But the main area for concern lies in the conjunction of trade secret law and employment law. The plain fact is that the majority of cases in this field arise from employees leaving to set up their own businesses or, more likely, leave to work for a competitor. Empirical research discloses the tendency for employees to remove material, often customer or supplier lists, to enhance their value to a new employer or because they perceive that their new employer expects that.

Many more employees leave with nothing other than their “know how” – their skill and experience built up over a lifetime of work. This is where the battleground between ex employer and employee often rages. Just what is an employee entitled to take away with him? The Directive is astute to say that nothing in it should be taken to restrict employee mobility or prevent ex-employees using their “skill and experience honestly acquired” in their jobs. Providing for it is one thing. Drawing that boundary between an ex employer’s trade secrets and an ex employee’s skill and experience is altogether more complex and seems likely to remain so.

If you require further information on anything covered in this briefing please contact [John Hull](mailto:john.hull@farrer.co.uk) (john.hull@farrer.co.uk; 020 3375 7352) or your usual contact at the firm on 020 3375 7000. Further information can also be found on the [Intellectual Property & Technology](#) page on our website.

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