

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

By: Wouter Pors, Bird & Bird The Hague - Citation: IEF 14573, IE-Forum.nl

## *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.<sup>1</sup> 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.<sup>2</sup>

The Council proposal indeed was a considerable improvement, which has made the Directive a much more practical tool.<sup>3</sup> 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.<sup>4</sup>

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.

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,

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<sup>1</sup> See for comments on the November 2013 proposal [www.ie-forum.nl](http://www.ie-forum.nl) 6 March 2014, [IEF 13607](http://www.ie-forum.nl).

<sup>2</sup> COM(2013) 813 final, 2013/0402 (COD), see <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0813:FIN:EN:PDF>.

<sup>3</sup> See for detailed comments [www.ie-forum.nl](http://www.ie-forum.nl) 3 June 2014, [IEF 13895](http://www.ie-forum.nl).

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<sup>4</sup> See [http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2013/0402\(COD\)](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2013/0402(COD))

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.

Wouter Pors

## Presentation for the 20 January 2015 hearing of the Committee on Legal Affairs

Protecting Trade Secrets – A practitioner's  
perspective

*Wouter Pors, Bird & Bird The Hague*

Dear Members of the European Parliament,

The protection of trade secrets is very important for the European innovative industry. Of course, inventions can be protected by patents, but these are at a higher level of abstraction. Only the invention that is at the core of the innovation is protected, subject to tough criteria for patentability. All the knowhow that is needed in addition to develop an actual product or system that can be marketed is not protected by the patent. Further innovations that are developed after the patent application has been filed are not protected. And most importantly, business methods are excluded from patentability in Europe, which means that innovations in professional services, which are crucial for Europe, in general can only be protected through protection of the underlying knowhow.

Experience from practice as well as discussions with industry representatives confirm that a good system of protection of trade secrets is seen as essential in a large part of the innovative industry. The effectiveness of such protection does not only depend on a proper definition of the protected substance, but also on the available means of protection.

The draft Trade Secrets Directive is an essential tool for the protection of innovation, which can bring this protection at a level similar to or even better than that in the United States and, in the meantime, even in China. Currently national law in the Member States varies widely in its approach and in general lacks effective tools. It is very hard to prove abuse of a trade secret by a third party and there is no common substantive standard for trade secrets. In general, trade secrets can be protected against disclosure by former employees, but protection against abuse by third parties is extremely difficult.

The Directive will change this. Not only will it bring a harmonized system throughout the Union, it will provide a clear definition of the subject of protection and above all it will provide a clear and new concept of infringement through unlawful acquisition, use and disclosure.

Especially the concept of unlawful use will make it possible to enforce the protection of trade secrets against third parties and thereby protect the value of innovation, including for the very important sector of professional services. For me, it will add an essential tool that has been missing from my legal tool box for too long. I therefore fully support adopting the proposed Trade Secrets Directive.

However, there is still some room for improvement. I will focus on two issues.

The first issue I would like to discuss is the right of parties in trade secrets litigation to prepare and discuss such litigation with their representatives. This touches on Article 47 of the Charter of Fundamental Rights of the European Union and Article 6 of the European Convention on Human Rights. On the one hand, parties should be able to freely discuss their case with their lawyers and other professional representatives. In trade secrets litigation those representatives will often include patent attorneys. On the other hand, it should of course be prevented that a trade secret is disclosed merely because it is litigated, also taking into account that not all defendants will be bona fide companies.

It is the intention of Article 8 of the Directive to strike a fair balance between those two interests, and especially of section 2 under (b). This provision will allow the Court to restrict access to the trade secrets at hand to specific officers of the alleged infringer, which in some cases will indeed be necessary for the protection of the trade secret at hand. On the other hand it allows such officers to discuss the case with their lawyers and other representatives in the Court action. However, it does not take into account clearly enough that cases like these are not always handled by a single lawyer but rather by a team. Thus it does not provide clearly enough that access may need to be granted to more than one lawyer and also to additional professional representatives, such as patent attorneys.

I would therefore like to propose, on my own account but after having consulted on this with both CCBE

(The Council of Bars and Law Societies of Europe) and AIPPI (Association Internationale pour la Protection de la Propriété Intellectuelle) that the Parliament would adopt the following amended text:

“(b) to restrict access to hearings, when trade secrets or alleged trade secrets may be disclosed, and their corresponding records or transcript, to a limited number of persons, provided that at least one person from each party and for each party the respective lawyers, and where applicable other representatives to the proceedings who are subject to professional secrecy or whose client communications are subject to a legal privilege, as well as court officials are given full access to such hearing, records or transcript”

(proposed changes are underlined)

In my view, this would strike a fair balance between effective protection and enforcement of trade secrets on the one hand and proper representation as guaranteed as a fundamental right on the other hand. The requirement of professional secrecy or legal privilege for non-lawyers guarantees the protection of the trade secret, whereas in practice such representatives are always subject to a disciplinary system, just like lawyers. I believe this proposal is of a merely technical nature and should not be controversial.

A second, more far reaching issue is the enforcement as such. The Directive envisages a specific system of enforcement, which deviates in many ways from the Enforcement Directive 2004/48/EC. This is quite unfortunate. Not only are some essential tools for enforcement missing, it also creates practical problems in litigation.

As I have mentioned, the protection of trade secrets and patents are closely linked. In fact, it will be quite common to allege both patent infringement and trade secret infringement in one action, as this will relate to closely related aspects of the same innovation. It is very unfortunate if a Court then has to apply two different sets of tools for enforcement in a single action, depending on the alleged right on which it bases its various decisions. This will make litigation much more complicated and more expensive and will thus create an unnecessary burden for the industry,

especially for SME's. Industry representatives have also asked me to raise this issue.

Besides, it creates the risk that the two systems will grow further apart in the near future, for instance when the Enforcement Directive is revised.

In my view, the best solution would be to simply apply the Enforcement Directive to trade secrets enforcement. Experience with the Directive since its implementation in 2006 shows that Courts throughout the European Union have adopted a balanced approach towards such enforcement, properly taking into account the interests of the defendants. Thus, this would provide a clear and manageable system without any important downsides.

Also, this would enable the Court of Justice to build a coherent and transparent interpretation of the enforcement of intellectual property rights.

I know that in the preparatory discussions some Member States were opposed to this solution, as I have understood because it would create too much interference with national law. However, having a double system will undoubtedly be much more burdensome and also carries the risk that Europe is seen as less attractive than other regions, which may have a negative impact on research, development and innovation. You now have the opportunity to create a coherent and balanced system that meets the industry needs, both from a perspective of protection of intellectual property and from a perspective of free competition. Adding complications may be good for lawyers, but not for their clients.

There are some other issues. For instance, recital 10a carries the risk that freedom of information takes unwarranted priority over the protection of trade secrets; this requires a more balanced approach. Also, worker's representatives have access to trade secrets under Article 4(2)(c), but of course should maintain the confidentiality themselves, which is currently not provided. These issues require some further consideration. For the sake of time I will not go into these issues any further, but refer to my online publication on the Council proposal.<sup>5</sup>

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<sup>5</sup> See the Dutch IP blog IE-Forum.nl, “The Trade Secrets Directive – The new Council Proposal”, [IEF 13895](https://www.ieforum.nl/en/2016/05/10/the-trade-secrets-directive-the-new-council-proposal/).

In my opinion, the proposed Trade Secrets Directive is a very important asset for the innovative European industry. With some tweaks it may create the best and most modern system available and thus may set an example for other countries and regions around the world. The sooner it will become available, the better, both for the industry and for practitioners.

*Wouter Pors*