

## The EU Trade Secrets Directive: what do you need to know?

The European Council and Parliament have provisionally agreed the text of a new Trade Secrets Directive, which aims to harmonise protection for trade secrets throughout the EU. We consider the proposed regime and its implications in some key European jurisdictions.

### The Directive – political agreement reached

The European Council and Parliament have reached provisional agreement on the Trade Secrets Directive. It may still change as it progresses (the next phase is legal-linguistic review before final approval and adoption), but, as the Council has called it a “*compromise that goes to the limits of flexibility of the co-legislators*” and “*a package deal that cannot be reopened in any part without jeopardizing the whole agreement*”, there appears to be little political appetite for re-negotiation. Once adopted, Member States have 24 months in which to implement it, so implementation during 2018 is likely.

### Why is reform needed?

Almost all businesses rely on trade secrets, just as they rely on other forms of intellectual property. Trade secrets can be particularly important to small and medium-sized enterprises which lack the specialist resources to obtain and manage registered intellectual property rights.

However, the Commission considers that investment, particularly cross-border investment, is held back by the current diversity and fragmentation in the protection of trade secrets across Europe. Some Member States have specific legislation whereas others rely on general unfair competition or tort law. Some provide very limited protection, such as Malta which primarily relies on contract law.

A summary of the current position and impact of the Directive in some key European jurisdictions is set out in the table below.

### How will the new regime operate?

#### Minimum harmonisation

Generally, the Directive sets out a minimum standard, permitting Member States to provide for more far reaching protection if they wish. However,

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Member States are required to recognise certain exceptions to infringement and certain acts that are lawful under the Directive (see further below).

## **What is a “trade secret”?**

Defined broadly in line with the TRIPS Agreement, “trade secrets” comprise information that:

- > is secret, in that it is not generally known among or readily accessible to relevant persons in the field;
- > has commercial value because it is secret (i.e. its unauthorised use or disclosure would undermine the holder’s scientific/technical potential, financial interests, strategic position or ability to compete); and
- > has been subject to reasonable steps to keep it secret.

There is no further guidance in the Directive on what these “reasonable steps” might entail (and although the concept originates in the TRIPS Agreement, it will be new in some Member States). Chances are therefore high that the CJEU will be called upon to flesh out these provisions in due course.

## **Unlawful acts**

Acquisition of a trade secret is unlawful where it results from unauthorised access to materials or other conduct which is contrary to “honest commercial practices”, or was acquired from a third party, and the acquirer knew - or should have known - that the third party was acting unlawfully.

Use or disclosure is unlawful where it is in breach of any contractual or other duty, or where the trade secret was acquired unlawfully. Exploitation of infringing goods is unlawful if the person carrying out those activities knew - or should have known - that the trade secret was used unlawfully.

## **Exceptions**

Member States are required to recognise certain exceptions to infringement and certain lawful acts. Exceptions include use of a trade secret for whistleblowing (i.e. revealing a misconduct or illegal activity when acting to protect the general public interest) and for the purpose of protecting a legitimate interest recognised by EU or national law. Lawful acts are independent discovery; reverse engineering; use of information for trade union activities; and any other practice which is in accordance with “honest commercial practices”.

## **What are “honest commercial practices”?**

This concept originates from the TRIPS Agreement and, while the boundaries may be self-evident in many cases, it is easy to envisage more borderline situations. The courts will have limited guidance in interpreting this term. While it is defined in a footnote to the TRIPS Agreement, this does little to clarify its meaning.<sup>1</sup> Moreover, it will be some time before any cases on its

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<sup>1</sup> The footnote states: “For the purpose of this provision, “a manner contrary to honest commercial practices” shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who know, or were grossly negligent in failing to know that such practices were involved in the acquisition.”

meaning come before the CJEU and, even if they do, it may be difficult for the CJEU to make a definitive ruling on what is very much a question of fact. Each case is likely to turn on its own particular circumstances.

## **Employees and employee mobility**

The Directive has, since its inception in 2013, raised concerns among industry in some parts of the EU that it might result in former employees being permitted to take more information to a new employer than is allowed under current national laws.

These concerns now appear to be unfounded. The Directive says that it shall not “*offer any ground*” for limiting employees’ use of information which is not a trade secret or the “*experience and skills honestly acquired in the normal course of their employment*”. Importantly, however, these provisions are not mandated exceptions or lawful acts, but rather appear in the section of the Directive relating to its scope and subject matter. It therefore appears that employee mobility is intended to remain a question of national law. Moreover, the recitals also note that the Directive will not “*affect the possibility of concluding non-competition agreements between employers and employees*” – so, restrictive covenants will also be an issue of national law.

Further, given that the express aim of the Directive is to encourage investment in innovation in the EU and increase the competitiveness of the EU economy, it seems unlikely that protection would be reduced in any country of the EU in this, commercially very significant, respect.

## **Remedies and enforcement**

Member states are required to ensure the availability of “civil redress” against unlawful use of trade secrets. In particular, owners of trade secrets must be entitled to apply for remedies including damages and interim and final injunctions. The Directive also contains provisions ensuring that trade secrets will be preserved during the course of and after legal proceedings.

## **Limitation periods**

One key change to the draft Directive since it was first published in 2013 (and which we commented on [here](#)), is in respect of limitation periods. The initial draft proposed that all claims had to be brought within 12-24 months (depending on the national implementation of the Directive). The current draft Directive instead specifies a limitation period of six years, with Member States being given responsibility for determining when that period begins, ends (subject to the six year maximum) and is interrupted or suspended.

## **How will these rights interact with confidentiality agreements?**

It appears that the rights under the Directive are intended to co-exist with contractual confidentiality provisions. For example, the recitals expressly state that the Directive will not affect the laws of contract. Confidentiality agreements are likely to continue to be important because they can be used to impose more tightly-defined obligations (for example, avoiding difficult

questions about what is an “honest commercial practice”) and provide a parallel action for breach of contract.

Moreover, while a confidentiality agreement will not provide a direct contractual right against a third party who subsequently obtains the information, it may well assist with the enforcement of the trade secret owner’s rights against that third party. For example, the Directive expressly states that acquisition or use of a trade secret is automatically unlawful if it results from the breach of a confidentiality agreement or similar duty. In other words, the confidentiality agreement may well help define the statutory protection for the relevant trade secret.

**Implications and practical steps**

The Directive does not radically change the protection of trade secrets across the EU. Instead, it should help to harmonise their protection, which may well help to foster cross-border investment and innovation. Unfortunately, these changes will not remove the need for confidentiality agreements and it is likely that industry will continue to have the joy of negotiating these arrangements as a pre-requisite to the exchange of valuable confidential information.

As noted above, the Directive protects a trade secret only if it is subject to “reasonable steps” to keep it secret. Businesses that rely on trade secrets may want to review the measures they use to protect their information – for example confidentiality agreements with employees and counterparts, protective markings and information security measures. They may also want to document these measures to anticipate challenges on this point.

Jurisdiction	Impact of the Directive
Belgium	<p>The Directive will make minor changes in Belgium. There is currently no single Act for the protection of trade secrets. Instead, trade secret owners rely on the laws of tort and unfair competition, as well as specific provisions in criminal and employment law.</p> <p>In particular, the misappropriation, use and disclosure of trade secrets can lead to civil liability under Belgian tort law (Article 1382 of the Belgian Civil Code) and may constitute a breach of unfair competition law (Article VI.104 of the Belgian Economic Law Code). In addition, it is possible to file a complaint for disclosure in bad faith of specific technical know-how (so-called “manufacturing secrets”) by employees or former employees of a manufacturer (Article 309 of the Belgian Criminal Code). Finally, employees and former employees may not disclose any manufacturing secrets or trade secrets belonging to their employer and, more generally, any secret of which the employee became aware in the framework of his professional activities (Article 17,3° of</p>

Jurisdiction	Impact of the Directive
	<p>the Act of 3 July 1978 on employment agreements). NB this provision preserves the right of the employee to use the experience and skills honestly acquired in the normal course of its employment (subject to any contractual limitations).</p> <p>Trade secret violations can lead to civil and criminal remedies including interim measures, compensatory damages, criminal fines and prison sentences. Although the court can take into account any profits made by the infringing party, there exists no separate measure of recovery of profits. Permanent injunctions to prevent further misuse are not easily granted, as most of the courts are reluctant to grant the holder of a trade secret a broader protection (unlimited in time) than most IP right holders (limited in time). In addition, it is not possible to launch a cease-and-desist procedure for breach of contract only. An <i>ex parte</i> search and seizure procedure is not available for holders of a trade secret either. Finally, the preservation of trade secrets during court procedures is not certain.</p>
England	<p>The Directive will make a significant change in England in form and, to a lesser extent, substance. There is currently no statutory protection for trade secrets in England. Rather, trade secrets are protected by contract and under the laws of equity.</p> <p>Protection under equity currently extends to any information: (i) which has the necessary quality of confidence; (ii) was imparted in circumstances importing an obligation of confidence; and (iii) which is used without the consent of, and to the detriment of, the holder. The scope of protectable trade secrets under the Directive is arguably narrower than this, introducing requirements that the relevant information be commercially valuable and subject to reasonable steps to keep it confidential.</p> <p>Employees are obliged to keep confidential information secret during their employment as a part of their general duty of good faith to their employer. After employment, highly sensitive information is protected indefinitely, but other information which becomes part of the employee's skill and experience cannot be protected, unless further restrictions have been imposed by contract. As discussed above, this is unlikely to change following the implementation of the Directive.</p> <p>Broadly equivalent to the remedies required under the</p>

Jurisdiction	Impact of the Directive
	<p>Directive, actions for breach can give rise to a range of civil remedies including injunctions to prevent further misuse, compensatory damages and an account of profits. There are no criminal sanctions.</p>
France	<p>The Directive will introduce some minor changes in France and create a single set of rules that will help unify the current legislations on trade secrets.</p> <p>One significant change concerns confidentiality of trade secrets in the course of legal proceedings. Currently, applicants are reluctant to bring claims relating to unauthorized acquisition, use or disclosure of trade secrets, for fear that they would be revealed in the course of the proceedings. Mandating precise provisions on the preservation of confidentiality of trade secrets in the course of legal proceedings will encourage applicants to bring such actions in court.</p> <p>Currently, trade secrets are subject to a patchwork of legislation with the main provisions being found in the Civil code and the Labour code, as well as in the Intellectual Property code. There is no single definition of trade secrets under French law, as various terms coexist such as “<i>know how</i>” and “<i>manufacturing trade secret</i>”.</p> <p>In practice, trade secrets are mainly protected by tort and contract law. The general provisions of the Civil code provide a remedy in tort for a range of abuses including poaching, company disruption and abuse of pre-contractual discussions. Contract law is also widely relied upon and organisations will normally include confidentiality clauses in their employment contracts and sign confidentiality agreements with counterparties.</p> <p>A wide range of remedies are available under French law for trade secret violation, including injunctions, return and destruction or seizure of infringing goods, as well as damages. Criminal sanctions may also be imposed, including under French labour law.</p> <p>Finally, a trade secrets law proposal was submitted before the French Parliament (Assemblée Nationale) on 16th July 2014. This law proposal contains similar provisions to the Directive and introduces a new specific offence of violation of information protected by trade secret, punishable by up to three years’ imprisonment and a maximum fine of EUR 375,000. This law proposal has not been adopted yet and may be used in the context of the implementation of the Directive in France</p>

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Germany	<p>The Directive will lead to some helpful clarifications in German law, but will not make any major changes. In particular, the law still needs to more clearly define: (i) when trade secrets can be used; and (ii) how trade secrets are to be treated in legal proceedings. Although the Directive includes exceptions to trade secret infringements and certain lawful acts, there is still room for improvement.</p> <p>The protection of trade secrets is currently addressed in various areas of German law. The most important statutory provisions are included in the German Act against Unfair Competition and require employees and third parties to treat trade secrets confidentially. In addition, the protection of trade secrets is often covered in contracts, including employment contracts.</p> <p>Pursuant to German case law, a trade secret is any information: (i) in connection with the company; (ii) which is not public and known only to a limited number of persons; (iii) in relation to which the owner of the company has an economic interest to keep such information a secret; and (iv) which is kept a secret by the company owner.</p> <p>According to the German Unfair Competition Law, employees are prohibited from disclosing trade or business secrets learned during the term of the employment to any third party: (i) to compete with the company; (ii) to promote their own interests; (iii) to promote the interest of a third party; or (iv) with the intention of harming the company. After termination of the employment relationship, employees may use any (non-deliberately) memorised information if their personal interest in using such information outweighs the interest of the company in keeping such information a secret.</p>

Jurisdiction	Impact of the Directive
	The unauthorised disclosure of trade secrets may trigger civil law liability, including the obligation to compensate for damages, as well as criminal liability.

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