INTRODUCTION
On 28 November 2013, the European Commission (the “Commission”) published proposals for a Directive on Trade Secrets (the “Directive”). The Directive aims to protect trade secrets from unlawful acquisition, use and disclosure. It also seeks to harmonise the national laws of Member States by establishing common definitions, procedures and sanctions. The Directive is currently progressing through the European legislative process and in May 2014, the Council of Ministers recommended a number of amendments. If adopted, Member States will have a further two years to implement the proposals. It is expected that the final Directive will be published by summer 2015.

This Briefing Note discusses some of the key aspects of the Directive and its likely effect on the broad scope of commercial operations who create, use or disclose trade secrets, whether proprietary or third party. The essential role of trade secrets to the success of business is unquestionable.


THE NEED FOR REFORM
Business plans, customer lists, ideas, secret processes and know-how are all examples of trade secrets. In its 2020 Strategy, the Commission suggested that the protection of trade secrets could promote innovation, research and development in Europe. Nevertheless, there are no harmonised measures to protect trade secrets in the EU and as a result a fragmented and uncertain regulatory framework exists. In addition, trade secrets are not typically considered by national law to have intellectual property rights (“IPR”) in themselves but rather are complementary to IPR. The Directive seeks to address these issues and to ensure that the EU has similar protective measures in place to that adopted in the US and currently under review in that jurisdiction.

TRADE SECRETS
The Directive defines a “trade secret” as information which:

a. is secret in the sense that it is not generally known or readily accessible;

b. has commercial value because it is secret; and

c. has been subject to reasonable steps to keep it secret.


3 Trade secrets are protected under the Uniform Trade Secrets Act 1979 and the American Invents Act 2011.

4 Article 2.
This definition is broad and mirrors the definition of a trade secret in the WTO Agreement on Trade Related Intellectual Property Rights. Nevertheless, further guidance may be needed in practice as to what constitutes reasonable steps or commercial value. The Directive also defines the term “trade secret holder” as someone who legitimately holds a trade secret, which unlike the typical definition seen in respect of IPR, includes licensees.

**UNLAWFUL ACQUISITION, USE AND DISCLOSURE**

According to the Directive’s Explanatory Memorandum, it is important to consider if the trade secret holder has provided consent to the use of the trade secret. Article 3 outlines some of the circumstances in which the acquisition, use or disclosure of a trade secret may be unlawful. An unlawful acquisition will occur if the alleged infringer accesses or copies without authorisation, bribes, steals, breaches or induces to breach a confidentiality agreement and/or engages in “any other conduct which, under the circumstances, is considered contrary to honest commercial practices”.

In addition, it is unlawful to subsequently use or disclose trade secrets if they have been obtained by breaching a confidentiality agreement and/or breaching a contractual duty to protect trade secrets. It will also be an offence to offer, market, import or export goods that have benefited from the illegal use or acquisition of trade secrets.

The Directive recognises that trade secrets should be shared in certain circumstances to foster innovation, research and development. As a result, it is provided that acquisition of a trade secret will be lawful in circumstances of independent discovery, reverse engineering and if “honest commercial practices” were exercised. It also permits disclosure to protect a worker’s rights to information and consultation, to protect a legitimate interest or reveal illegal activities.

**THE PROPOSED DIRECTIVE IS NOW VERY CONTROVERSIAL**

Some representative bodies such as the IP Federation, representing, as it states in its Policy Paper on the proposed Directive, companies that are “extensively involved with IP in Europe and internationally”, are of the view that the Directive has much to commend it. In contrast, a multi-sector NGO coalition drawn from consumer organisations, researchers and civil liberties groups, amongst others, see the proposed Directive as “an unbalanced piece of legislation [that] would result in uncertainty”.

General criticisms revolve around arguments that the definition of trade secrets is too broad, triggering potential legal actions brought by parties against anyone acquiring, using or disclosing trade secrets, while at the same time inhibiting access to information (e.g. by journalists) that has a public interest dimension. To seasoned observers of the IP arena, these sharply divergent views echo the previous debates on the 1996 Database Directive, a debate in which the sui generis right was characterised as locking research data, statistical and scientific data, behind commercial and digital silos.

To a certain extent, the draft Directive has proved even more divisive, insofar as critics argue that giving proprietary rights in the biomedical research arena may inhibit access by regulatory authorities, researchers, doctors and patients. In the field of computer science, this kind of engagement between open source and proprietary software is familiar. However, in the months ahead it will be interesting to see how the Directive may change (if at all) in response to such contrasting lobbying activities. Concern that the proposed Directive does not provide a broader public interest defence is undermined by the scope of draft article 4(2)(b), which requires wrongful trade secret disclosure, etc. actions to be dismissed by a national court if the disclosure is necessary for the purpose of revealing “a misconduct, wrongdoing or illegal activity”, the disclosure, etc. was necessarily made for such a purpose, and it is shown that the respondent acted in the public interest.

There is a view that such an onerous three stage requirement will not necessarily be compliant with more general public interest and freedom of expression standards established, for example, in the Treaty and Charter, as well as the copyright acquis. Related examination of the proposed text from this libertarian perspective may in fact slow down, if not impede adoption of the proposed Directive as it currently stands.

**REMEDIES**

If a trade secret holder’s rights have been infringed, the Directive provides for minimum measures and remedies. The right holder can apply for the cessation, seizure, destruction and prohibition of the use or disclosure of a trade secret. The draft Directive also provides for interim measures, procedures to preserve confidentiality during legal proceedings, injunctions and damages.

Alternatively, if the trade secret was acquired, used or disclosed by a party in good faith, an injunction may not be appropriate and instead, pecuniary compensation may be awarded. There are concerns that these provisions might have unintended consequences, for example, where trade secrets are used after sale to innocent third parties.

**RECONCILIATION OF THE TEXT WITH THE ACQUIS**

An area of difficulty that the proposed Directive ran into when first released concerned the lack of clarity on interim measures such as ex parte search and seizure procedures directed at preserving evidence. Subsequent revisions of the draft Directive do strengthen these provisions on a variety of evidentiary and procedural matters (e.g. civil procedure rules in member states to preserve the confidential nature of the data/information in question), but there is still a lack of cohesion on how the community acquis measures can be reconciled. Professor Alan Strowel, in his presentation to the Legal Affairs Committee of the European Parliament on 20th January 2015, has pointed out that the relationship between the proposed
Directive and the Enforcement Directive of 2004 (2004/48/EC) is not addressed. This is seen as a material political obstacle to the Directive, on the basis that trade secrets, unlike employee created copyright works, may follow the employed innovator. Opposition to full-on employer rights via the Enforcement Directive being allowed to stray into this area amongst trade unions, for example, is strong and well marshalled in several member states.

REACTION TO THE PROPOSAL
After the release of the Directive proposal, reaction to the text was somewhat mixed. Many informed legal commentators thought there were significant flaws. Many of these concerns were accepted by the European Commission during a consultation exercise with Member States and, in May 2014, the European Council agreed on a general approach for establishing a new legal framework for the protection of trade secrets.¹¹ The changes to the initial Proposal suggest a more aggressive enforcement regime than first anticipated. For example:

» responding to concerns addressed by countries with higher levels and standards of protection (e.g. Germany) the Directive has been recast as a minimum standard instrument (i.e. Member States may retain or legislate for higher standards);

» the requirement that infringers should act “intentionally or with gross negligence” has been dropped;

» a limitation period of two years has been extended to six years;

» unhelpful and restrictive language such as the unlawful acquisition of trade secrets by theft has been dropped;

» criticisms of the lack of provisions on ex parte relief, as well as who is to bear the burden of the cost of enforcement, have been addressed;

» innocent third party acquisition of trade secrets as an issue has been addressed (if not resolved satisfactorily. See below); and

» litigation concerns and confidentiality are on the agenda.

THE RECONCILIATION OF THE TEXT AND NATIONAL LAWS
There remains the vexed question of how the proposed Directive will fit into the existing British and Irish confidentiality landscape. As the law stands in both countries, made up as it is by a medley of contract law (express and implied), equitable principles, fiduciary duties, human rights and public law standards, and so on (with minimal statutory intervention), the substantive law, procedural rules, remedial measures and indeed criminal law, already afford, in the view of most common law lawyers, maximum protection and a satisfactorily balanced approach to these complex issues. One example of how the proposed Directive may fit uneasily with existing law is presented by the new article 12(3), which anticipates, in the case of innocence at the time of acquisition of a trade secret, that compensatory measures rather than injunctive relief, etc., will be available in appropriate cases. This does not sit easily with existing, accepted remedy provisions, given that documented trade secrets are also likely to be protected by copyright and given the law of copyright in the UK and Ireland, both direct that in certain instances, innocent infringers are exposed to injunctive sanctions but are not answerable in damages.


CONCLUSION
It is uncontentious to suggest that businesses should take reasonable steps to protect their trade secrets. As the Directive intends to sit alongside existing and new corporate confidentiality agreements, it is recommended that businesses continue to negotiate these contracts when entering a transaction. Such contacts will allow for the imposition of more stringent trade secret protections if required.

The Directive is intended to contribute to the protection of trade secrets in the EU by creating a standard framework of minimum standards. Moreover, it seeks to strike an appropriate balance, by protecting against the unlawful acquisition, use or disclosure of trade secrets, as well as recognising commercial realities by creating exceptions to foster innovation, research and development. Whether the stated mechanisms are completely appropriate has been questioned.

There are undoubted wrinkles in the drafting from the common law perspective, which if not resolved in the final Directive, will fall to be dealt with, where possible, at a national level. It is hoped that the Directive will contribute to investment and innovation in Europe. However, its overall impact will be most accurately assessed when it is implemented and utilised in practice.