Questions for National Reporters of LIDC STOCKHOLM 2015

Question B: The Protection of Trade Secrets and Know-How

Are countries providing enough or too much protection?

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1. **Introduction – the aim and structure of this report**

   The aim of this international report is to examine whether “countries providing enough or too much protection?” The basis for the international report is national reports drafted by 18 national reporters, of which 13 from the European Union. The national reports have been prepared by the following rapporteurs:

   **Austrian Report:** MMag Juliane Messner, Dr. Max W. Mosing, Mag. Rainer Schultes

   **Belgian Report:** Associate Sophie Lens, Altius

   **Brazilian Report:** Felipo Barros Oquendo, Di Blasi Parente & Associados

   **Bulgarian Report:** Senior Associate, Teodora Tsenova, Institute of Private International Law, Sofia, Bulgaria

   **Czech Report:** Associate Igor Pieš, Baker & McKenzie s.r.o., advokátní kancelář

   **French Report:** Guillaume Couet, Vanessa Jiménez-Serrania, Nizar Lajnef and Elisabeth Logeais

   **German Report:** Prof. Dr. Thomas Hoeren, Westfälische Wilhelms-University of Münster

   **Hungarian Report:** Dr. Miklós Boronkay, Szecskay Attorneys at Law

   **Italian Report:** Anna Gardini, Sena e Tarchini

   **Japanese Report:** Takashi Koyama and Izumi Hayashi, SAKURAZAKA LAW OFFICES

   **Luxembourghian Report:** Avocat à la Cour Marianne Decker, Decker & Braun

   **Netherlands Report:** Associates Vonne Klaan and Mariko Kloppenburg, Van Doorne

   **Romanian Report:** Cătălin Grigorescu bpv GRIGORESCU ȘTEFĂNICĂ, Bucharest

   **Swedish Report:** Advokat Magnus Tonell, ADN Advokater

   **Swiss Report:** Charlotte Boulay, University of Neuchâtel

   **Ukranian Report:** Attorney at law Anton Polikarpov, Arzinger Law Office

   **UK Report:** Bruce Kilpatrick, Addleshaw Goddard

   **US Report:** Emilio Varanini, Deputy Attorney General in the Antitrust Section of the California Attorney General's Office
Trade secrets and know-how – an overview

Trade secrets have been a legal concept since innovations made an impact on economy, even during the Roman period trade secrets were afforded legal protection. During the industrial revolution courts introduced the notion of trade secrets. Trade secrets comprise a huge number of different categories of information which can be divided into technical and commercial information, such as;

*Technical information*

- Drawings and designs
- Prototypes
- Manufacturing processes
- Patentable or not patented inventions
- Know-how, formulae or recipes,
- Genetic materials and fragrances
- Research and test data
- Source code for computer software
- Manufacturing technology
- Negative R & D information (information about technical processes which do not work)

*Commercial information*

- Customer and supplier lists
- Business methods and strategies
- Cost and price information.
- Budgets
- Marketing plans
- Business concepts

Famous trade secret examples are Coca-Cola’s secret recipe, Google’s search algorithm, the method for generating the New York Times’ Best Sellers list, and Kentucky Fried Chicken’s eleven herbs and spices on their fried chicken.

In the United States trade secret theft—according to one estimate—costs U.S. companies between 1-3% of U.S. GDP each year, i.e., between $160 million and $460 million annually. In its 2014 report “Economic Impact of Trade Secret Theft: A framework for companies to safeguard trade secrets and mitigate potential threats” international accounting firm PWC

3 US Report, section 1.
4 US Report, section 4
identifies the following primary threat actors engaged in trade secret theft; foreign intelligence and security services, malicious insiders, competitors and hacktivists.\(^5\)

The need for adequate protection of trade secrets has likely increased due to digitalization and the ease with which someone who misappropriates can reproduce large amounts of information. From a policy perspective the legal protection of trade secrets encourages efficiency and the circulation of R&D and innovation information. Legal protection and contractual protection of trade secrets works as a partial substitute for excessive investments in physical security and legal protection of trade secrets facilitates disclosure in contract negotiations over the use or sale of know-how that otherwise would not occur in the absence of such protection. Protecting trade secrets is therefore rational from a societal and law and economics perspective since it decreases transaction costs and facilitates that transactions occur.

Trade secrets most likely qualify as property, at least in a European context. Both the European Court of Human Rights and the Court of Justice of the European Union have in several cases expressed that trademarks and copyrights constitute property under protocol 1 to the European Convention of Human Rights\(^6\) and under article 17 of the EU Charter of Fundamental Rights\(^7\). There are no reasonable grounds to assume that trade secrets would not similarly qualify as property. Under UK case law\(^8\) it is clear that trade secrets are protected as property, whereas it is a controversial subject under German law whether the Basic Law protects trade secrets\(^9\).

From an international perspective trade secrets and know-how are governed by article 10bis of the Paris Convention and article 39.2 of the TRIPs agreement. Under Article 10bis of the Paris Convention the countries of the union shall assure protection against acts of unfair competition and specifically against any act of competition contrary to honest practices in industrial or commercial matters which constitutes an act of unfair competition (Article 10bis (2)).

The 1994 TRIPs Agreement requires that members protect undisclosed information -- trade secrets or know-how. Under Article 39.2, the protection shall apply to information that is secret, that has commercial value because it is secret and that has been subject to reasonable steps to keep it secret. The TRIPs Agreement does not require undisclosed information to be treated as a form of property, but it does require that a person lawfully in control of such information must have the possibility of preventing it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices. The expression “manner contrary to honest commercial practices” includes breach

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6 ECtHR (Grand chamber), 11 January 2007, case of Anheuser-Busch Inc. v. Portugal, Appl. nr. 73049/01, ECtHR (2nd section) 5 July 2005, case of Melnychuk v. Ukraine, Appl. Nr 28743/03 and ECtHR (5th section), 10 January 2013, case of Ashby Donald and others v. France, Appl. nr. 36769/08 and ECtHR (5th section) 19 February 2013, case of Fredrik Neij and Peter Sunde Kolmisoppi v. Sweden, Appl nr 40397/12.

7 Case no C-70/10, (Scarlet Extended), paragraph 40 and case no C-275/06 (Promusicae), paragraph 62.

8 [KOMPLETTERA]

9 German report, section IV
of contract, breach of confidence and inducement to breach, as well as the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

The subject of trade secrets has recently gained attention in the European Union. In April 2013 the European Commission and renowned law firm Hogan Lovells issued its joint Study on Trade Secrets and Confidential Business Information in the Internal Market. The report analyses how trade secrets are protected under the national laws of each of the 27 Member States and concludes that as a consequence of historical evolution, the current situation at the EU level is that the legal protection afforded by Member States to trade secrets varies significantly. Likewise the remedies in case of misappropriation of trade secrets differ significantly. Trade secrets are in different countries protected under diverse legal regimes such as

(i) Unfair competition law
(ii) Industrial property law
(iii) Penal law
(iv) Labour law
(v) Tort law
(vi) Specific trade secrets acts

The report further concludes that there is far from a uniform definition of trade secrets and in a majority of the EU member states trade secrets are defined in case law.

In the end of November 2014 the European Commission presented its Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure which proposal aims at harmonizing the protection of trade secrets throughout the European Union. The proposal among others contains proposed articles on the definition of trade secrets, prohibited acts, remedies in case of misappropriation, protection of trade secrets in court proceedings and sanctions against misuse of trade secrets. On May 26, 2014 the Council decided on a general approach to the proposed directive and proposed amendments to the directive text. On June 22, 2015 the European Parliament’s Legal Affairs (JURI) Committee in its report on the proposal made a number of amendments to the proposed directive, namely that the directive shall not affect

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(i) The freedom of movement of workers.
(ii) The freedom of establishment.
(iii) The right of worker’s representatives to acquire and disclose trade secrets when they exercise their union rights.
(iv) The right to privacy, protection of personal data and fundamental rights.
(v) The use of experience acquired honestly through employment or some other contractual relationship.

Interestingly the European Parliament proposes an addition to article 4 of the proposed directive (which governs Lawful acquisition, use and disclosure of trade secrets) under which addition the trade secret concept shall not cover the knowledge, qualifications and skills gained by employees in previous employment. Obligations of contracts and other actions that may limit the use of such knowledge shall comply with the principle of proportionality in the interest of innovation and free competition.

The purpose behind the general LIDC question is to research the differences in national protection of trade secrets and know-how but also to ascertain whether the scope of protection in different countries is sufficient or even too far reaching. The purpose is further to get an understanding to which extent commercial parties may agree on protecting confidential information and to which extent such agreements are enforceable.

3. Regulation of Trade secrets in International Instruments

Already in article 10bis (2) of the Paris Convention, trade secrets are addressed, albeit in an unfair competition context and without any specific provisions on trade secrets as such:

“Unfair Competition

[...]

(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.”

International law does not provide for a definition of trade secret as such. However, article 39(2) of the TRIPs agreement provides that “undisclosed information” should be protected against being disclosed to, acquired by, or used by others without their owner’s consent in a manner contrary to honest commercial practices,

“so long as such information:

15 See European Parliament; Report on the proposal for a directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (COM(2013)0813 – C7-0431/2013 – 2013/0402(COD)).
a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

b) has commercial value because it is secret; and

c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret”.

In note 10 to article 39(2) the notion of “in a manner contrary to honest commercial practices” is explained as follows:

“10. 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 knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.”

By comparison § 1839 of the United States Code defines a “trade secret” as follows:

“(3) the term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public;”

In the European Parliament’s proposal for amendments of the European Commission’s proposal for a trade secret directive, trade secrets have been defined as follows under article 2 (1):

(1) ‘trade secret’ means know-how and business information which meets all of the following requirements:

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(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) has commercial value because it is secret;

(c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

"Experience and skills honestly acquired by employees in the normal course of their employment shall not be considered a trade secret."

2.1 The Definition of Know-How as compared to Trade Secrets

The concept of know-how to a large extent overlaps with trade secret definitions and is subject to among others sector specific legislation in the European Union, national case law and international standard contracts such as the Orgalime Model for an International technology license agreement (different versions depending on whether they are intended to govern relationships inside or outside the EU/EEA area).

2.1.1 Sector Specific Regulation of Know-How in EU law

Several European legislative acts contain specific definitions of trade secret and/or know-how, which concept often is considered, if not as a synonym, at least as a subset of the concept of trade secrets. These definitions are however limited to the specific sector covered by the considered regulations:

Under Article 1(l) of Commission Regulation No 316/2014, know-how means a package of practical information resulting from experience and testing, which is:

(i) secret, that is to say, not generally known or easily accessible,
(ii) substantial, that is to say, significant and useful for the production of contract products, and
(iii) identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality.

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17 This section 2 is in principle based on the valuable summary of trade secrets and know-how provided in the Belgian report, section 1.2
In its notice 2005/C 325/07, the Commission provides for a definition of trade secret in a specific context (access to the Commission’s files), but which is not without interest considering that the approach is case based, so that the considered definition can easily be transposed to other situations. Section 3.2 of the Commission notice distinguishes between two categories of information, namely “business secrets” and “other confidential information”:

(i) “Business secrets” are defined, with reference to the decision “Postbank” of the Court of First instance of the European Union (hereafter “CFI”) of 18 September 1996, as “information about an undertaking's business activity, [the disclosure of which] could result in a serious harm to the same undertaking”. According to the Commission, examples of information that may qualify as business secrets include: technical and/or financial information relating to an undertaking's know-how, methods of assessing costs, production secrets and processes, supply sources, quantities produced and sold, market shares, customer and distributor lists, marketing plans, cost and price structure and sales strategy.

(ii) “Other confidential information” includes information other than business secrets, which may be considered as confidential, insofar as its disclosure would significantly harm a person or undertaking.

In a decision of 12 October 2007, the Court of First Instance took over this definition and added that the interests liable to be harmed by disclosure must be worthy of protection:

“As regards, generally, the nature of business secrets or other information covered by the obligation of professional secrecy, it is necessary, first of all, that such business secrets or confidential information be known only to a limited number of persons. Next, it must be information whose disclosure is liable to cause serious harm to the person who has provided it or to third parties.”

(Postbank v Commission, paragraph 63 above, paragraph 87, and see also Commission Notice 2005/C 325/07 on the rules for access to the Commission file in cases pursuant to Articles 81 [EC] and 82 [EC] (OJ 2005 C 325, p. 7), paragraphs 3.2.1 and 3.2.2).

Finally, the interests liable to be harmed by disclosure must be worthy of protection. The assessment as to the confidentiality of a piece of information requires, in this regard, the individual legitimate interests opposing disclosure of the information to be weighed against the public interest that the activities of the Community institutions take place as openly as possible (Bank Austria Creditanstalt v Commission, paragraph 46 above, paragraph 71”).

2.1.2 “Technical knowledge” as defined in the Orgalime model contracts

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Orgalime’s Model for an International technology license agreement is commonly used for the purpose of technology and know-how licensing and may serve as a reference to the definition of know-how or technical knowledge. In the 2005 version of Orgalime’s Model for an International technology license agreement (preamble A, note 4 and 5), technical knowledge is defined as follows:

“Technical knowledge may consist of practical information, not covered by intellectual property rights, resulting from experience and testing and not previously known to the Licensee.”

2.1.2 “Know-how” as defined in national case-law

The German Supreme Court has in a case defined know-how in confidentiality agreements as follows:

“facts that are only known to a limited group of people and that are kept secret in accordance with the will and reasonable interest of their proprietary since the disclosure may cause commercial harm for the proprietary.

2.2 National Legal Protection of Trade Secrets

Though article 39(2) TRIPs applies to all signatories of the TRIPs agreement and provides a fairly detailed standard for which information qualifies as undisclosed information or not most jurisdictions have differing definitions of trade secrets. Among the member states of the European Union only ten member states have a statutory definition of what constitutes a trade secret. In the rest of the member states trade secrets are defined in case law.

In the Commission studies of trade secrets law in the EU member states the report authors conclude that trade secrets are protected under different legal regimes in different member states, namely civil law, unfair competition law, contract law, commercial law, companies law, criminal law, data protection law, intellectual property law, tort law,

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22 Study on Trade Secrets and Confidential Business Information in the Internal Market Final Study April 2013, page 4. Under for example French, Scottish, Northern Irish and English law there is no statutory definition of trade secrets (the French report, section 1 and the United Kingdom report, section 2.1), under French law there is neither any definition in the case law (see French report, section 1).
23 See Austrian report, page 3, Brazilian report, section 1, French report, section 2.1.4 and Swiss Report section 3.4.
25 See Belgian report, section 2.5.
26 See German report, section VII and Bulgarian report section 1.1.2.3.
27 See German report, section X (2).
public law and labour law. In several jurisdictions trade secrets are protected by a patchwork of different legal regimes. The only EU member state which provides a specific trade secrets act is Sweden which in 1989 enacted the Act on Protection of Trade Secrets. In the United States almost all states have, on the basis of the Uniform Trade Secrets Act, adopted specific trade secrets acts. With a view to other major jurisdictions, the Japanese Unfair Competition Prevention Act not only applies to trade secrets but contains a definition of trade secrets. From a procedural perspective different regimes also apply, in some jurisdictions trade secret misappropriations are litigated not only under civil or penal law but also under administrative law.

A large number of cases concern ex-employees who have misappropriated trade secrets. The protection against ex-employee misappropriation of trade secrets vary between the different jurisdictions. Under for example the Swedish Trade Secrets Act, an ex-employee is only liable to remedies if there are extraordinary reasons.

There is an obvious borderline, in particular in employment relationships between on the one hand the employer’s interest in protecting its trade secrets and on the other hand the employee’s interest in being able to use his/her general expertise or experience and to freely exercise his/her profession. The distinction between on the one hand employee experience / knowledge and on the other hand specific trade secrets can be challenging in many jurisdictions. This particular issue is one of the focus areas in the negotiations regarding the proposed European trade secrets directive.

From a review of the different definition of trade secrets in the different country reports it can be concluded there are some common elements in national and EU trade secret definitions which rather closely mirror Article 39(2) of the TRIPs agreement. In general, a trade secret is defined as:

(i) technical or commercial information related to a business;
(ii) which is not generally known or easily accessible;
(iii) which has economic value (i.e., it confers a competitive advantage to the owner); and
(iv) which disclosure to a competitor, could cause a prejudice to the owner’s interest.

section 3.3. Under UK law, trade secret misappropriation is not penalized, albeit that there have been a legislative proposal proposing criminalization of misappropriation of trade secrets, see UK report section 6.

See Austrian report, page 5-6, Hungarian report, section 1.4 and Swiss Report, section 3.6.
See Brazilian report, section 1, French report, section 2.1.2, Italian Report, section 1 and Swiss Report, section 3.5.
See French report, section 2.1.3 and Luxembourgian Report, section 2.2.1.
See German Report, section XI and Ukrainian report, section 2 (iv).

See for example the Belgian report section 2.1 through 2.7 and the French report sections 2.1 through 2.2.

Study on Trade Secrets and Confidential Business Information in the Internal Market Final Study April 2013, page 10.
See Romanian report, page 5.
Further, from the review different country reports it can be concluded the elements which a trade secret proprietor must establish to successfully take legal action against trade secret misappropriation is:

(i) the mere existence of the alleged trade secret (the plaintiff must demonstrate that all the requirements for information to constitute a trade secret are met);
(ii) the misappropriation (acquisition, use or disclosure) of the trade secret; and
(iii) the unlawfulness of the misappropriation or use of the information by the defendant.

2.3 Conclusion

The protection of trade secrets is, though the application in view of the TRIPs agreement should be fairly similar differs substantially between different jurisdictions. One major difference is whether there is a statutory definition of trade secrets or whether trade secrets are defined in the courts’ case law. Another major difference is under which legal regime trade secrets are protected which in its turn points to different competent courts and different legal frameworks (penal or civil law) trade secret cases are assessed. There are common features to the definition of trade secrets but if one sample case would be tried under different national rules one can suspect that the outcomes would be fairly different in different jurisdictions. Harmonization efforts such as the United States Uniform Trade Secrets Act or the pending European proposal for a trade secret directive must therefore be seen as a welcome contribution to international trade and cross border transactions. Since the differences between different jurisdictions are that numerous it is obviously advisable for trade secret proprietors to try to obtain as strong a protection as possible under confidentiality agreements.

3. Protection against third parties misappropriating trade secrets

The rules regarding liability for third parties misappropriating trade secrets which have been unlawfully obtained by a person who thereafter discloses it to a third party differs substantially between different jurisdictions. In some jurisdictions third parties are liable on the basis of legal theory of accessory liability\(^\text{40}\) whereas in other jurisdictions third parties are liable under statutory law\(^\text{41}\). Third parties may also be liable on the basis of third party interference\(^\text{42}\).

A fairly common feature when it comes to third party liability is that third parties are only liable if they have received the misappropriated trade secret in bad faith\(^\text{43}\). Under Swedish law it is a requirement that the receiving party was in bad faith upon the time it received the

\(^{40}\) See Bulgarian report, section 2.
\(^{41}\) See Luxembourgian report, section 2.3.
\(^{42}\) See the Belgian Report, section 5.5.
\(^{43}\) See the Belgian Report, section 5.5, French Report, section 2.2 and the Swedish Report, page 9
information, whether the recipient was informed of the trade secret misappropriation after receipt of the trade secrets does not matter. The principle of liability for third parties receiving and subsequently using or disclosing trade secrets is also reflected in the European Parliament’s proposed trade secret directive which reads:

4. The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of acquisition, use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully within the meaning of paragraph 3.

3.1 Conclusion

The provisos for liability for third parties receiving or acquiring information that have been subject to trade secret misappropriation differs from jurisdiction to jurisdiction. It is reasonable to apply the threshold that the third party knew or should have known that the trade secret had been misappropriated.

4. Remedies

4.1 Under article 44 through 46 compared with article 39(2) of the TRIPs agreement member states are required to provide injunctions, preliminary injunctions, damages and destruction of infringing goods in the event of misappropriation of trade secrets. There are a number of civil remedies in the case of misappropriation of trade sanctions which are available in most jurisdictions, namely

(i) Final and preliminary injunctions,
(ii) Damages
(iii) An order to transfer or deliver up misappropriated trade secrets

There are other remedies available in certain jurisdictions⁴⁴, namely

(i) Publication of a court decision in a newspaper or even broadcasting of it on the radio⁴⁵
(ii) An injunction against the defendant using goods resulting from the misappropriation of trade secrets
(iii) An order requiring the defendant to provide information about which third parties have received the misappropriated trade secrets.

In several LIDC reports and in other reports the trade secret proprietor’s need to have access to search and seizure orders in trade secret cases for the purposes of securing evidence how the defendant uses and/ or discloses trade secrets is highlighted⁴⁶. The need to effectively

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⁴⁴ See Romanian report section 2.2 and United Kingdom report, section 3.6.
⁴⁵ See French report, section 3.2.2.
⁴⁶ Belgian Report, section 3.3.1, French Report, section 2.4 and Hungarian Report, section 2.2.
secure evidence is also highlighted by the report preceding the proposal for a European trade secrets directive\textsuperscript{47}. Though article 50(1) and (2) of the TRIPs agreement provide an obligation for the member states to implement civil procedure \textit{inaudita altere parte} search and seizure orders\textsuperscript{48}, it is not possible to search for evidence of trade secret misappropriations in many jurisdictions. Neither does the proposed European trade secret directive contain any rules on ex parte searches. From a litigation perspective it is often very difficult for a trade secret proprietor to prove whether the defendant for example has used its trade secrets in internal manufacturing and developing processes. The possibility to conduct civil raids and secure evidence without the defendant being put on alert is therefore a key issue for trade secret proprietors.

4.2 Calculation of damages

Damages in the case of trade secret misappropriations are in most jurisdictions calculated on the following basis\textsuperscript{49}:

(i) A hypothetical license fee for the licensing of the misappropriated trade secret
(ii) The trade secret proprietor’s lost profit
(iii) The profit of the party misappropriating the trade secret (unjust enrichment).

Moral damage is in principle compensated in many jurisdictions, it is however often difficult for the trade secret proprietor to prove that a trade secret misappropriation has caused damage to the image or reputation of the right holder. Under Hungarian law non-pecuniary damages may be awarded in the case of trade secret misappropriations.\textsuperscript{50} Similarly, under Swedish law the interest of the trade secret proprietor not to have his/her trade secrets misappropriated and other non-financial interests may be taken into account.\textsuperscript{51}

4.3 Conclusion

Remedies differ between different jurisdictions but all jurisdictions provide final and preliminary injunctions and damages. In some European jurisdictions there are additional harsher remedies influenced by the EU Enforcement Directive (Directive 2004/48/EC) such as the defendant’s obligation to publish an infringement judgment. Damages are calculated along the same lines in most jurisdictions and though it is possible to obtain moral damages in some jurisdictions the trade secret proprietor would normally face difficulties proving damage to reputation or goodwill.

\textsuperscript{50} Hungarian Report, section 2.4.2.
\textsuperscript{51} Swedish Report, page 11 and 12.
5. **Procedural Aspects - Confidentiality During Court Hearings**

5.1 In many jurisdictions there will be a conflict between on the one hand the protection of trade secrets and on the other hand the principles of a fair trial and the public transparency of court hearings. The trade secret proprietor has an evident interest in keeping the court hearing confidential and not providing trade secrets to the court which may become public documents or which may be divulged during a public hearing. If there are no guarantees that information can be kept confidential in the court a trade secret proprietor may often end up in a worse situation if he/she pursues a trade secret misappropriation since the trade secrets will be available to several other parties than the defendant. On the other hand, the defendant has a justified interest in receiving the trade secrets to be able to (a) assess whether the information qualifies as trade secrets and (b) assess whether the information has at all been misappropriated. If the plaintiff does not provide the trade secret information the defendant is deprived of his/her right to defend herself since he/she cannot fully assess the defense positions.

5.2 In several jurisdictions it is possible to exclude the public from parts of trade secret trials where trade secrets are disclosed. In some jurisdictions the court can blackline trade secrets from the evidence as long as that does not make the document impossible to understand and in other jurisdictions the defendant is only entitled to take part of the trade secrets if the defendant would otherwise be impaired from exercising its rights under law. Normally the parties and their counsel cannot be restricted from partaking the evidence containing trade secrets.

5.3 In the proposal for a European trade secrets directive, this particular issue is, as per the European Parliament’s proposed changes, resolved in article 8 (Preservation of confidentiality of trade secrets in the course of legal proceedings, as follows):

> “1. Member States shall ensure that the parties, their legal representatives or lawyers, court officials, witnesses, experts and any other person participating in the legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal proceedings, shall not be permitted to use or disclose any trade secret or alleged trade secret, which the competent judicial authorities have, in response to a duly reasoned application by the interested party, identified as confidential and of which they have become aware as a result of such participation or access. Member States may also allow competent judicial authorities to take such measures on their own initiative.

> The obligation referred to in the first subparagraph shall remain in force after the end of the legal proceedings. However, it shall cease to exist in any of the following circumstances:

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53 Belgian Report, section 4.2.2

54 Hungarian Report, section 2.5.1
(a) where, the alleged trade secret is found by a final decision not to fulfil the requirements set out in point (1) of Article 2;

(b) where over time, the information in question becomes generally known among or readily accessible to persons within the circles that normally deal with that kind of information.

2. Member States shall also ensure that the competent judicial authorities may, on a duly reasoned application by a party, take specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of the legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret. Member States may also allow competent judicial authorities to take such measures on their own initiative.

The measures referred to in the first subparagraph shall at least include the possibility:

(a) to restrict access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties to a limited number of persons, in whole or in part provided that at least one person from each of the parties, and, where appropriate in view of the proceedings, their respective lawyers and/or legal representatives, are given access to the document in full;

(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 it includes at least one person from each of the parties, and, where appropriate in view of the proceedings, their lawyers and/or legal representatives;

(c) to make available to third parties a non-confidential version of any judicial decision, in which the passages containing information defined as trade secrets have been removed or redacted.

3. When deciding on the granting or the rejection of measures for the preservation of a trade secret and assessing their proportionality, the competent judicial authorities shall take into account the need to guarantee the right to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate of third parties, and any potential harm for either of the parties, and where appropriate third parties, resulting from the granting or rejection of those measures.

4. Any processing of personal data pursuant to paragraphs 1, 2 and 3 shall be carried out in accordance with Directive 95/46/EC.
5.4 Conclusion

There is an obvious conflict between the trade secret proprietors interest in continuously keeping its trade secrets confidential even after a trade secret litigation, the public’s interest in public trials and judgments and the defendants right to conduct a full defense understanding which allegations the claimant is making. The European Parliament’s proposal for article 8 of the trade secrets directive takes a balanced approach where the interests of all parties involved are well addressed.

6. Protection of Know-How in Confidentiality or Non-Disclosure Agreements

6.1 In most jurisdictions there are no formal requirements for a confidentiality agreement to be valid. However, under Brazilian law, for a non-confidentiality undertaking to be enforced in court, the signature of the undertaking must be witnessed by two witnesses. It is normally beneficial of protecting trade secrets by means of confidentiality agreements to be able to show that the information has been imparted in circumstances which imply that the information has been received by the counterparty in confidence.

6.2 It seems as though information which would not qualify as trade secrets under trade secrets law may be protected under confidentiality agreements in most jurisdictions, at least the national committees have not provided any comments to the contrary. In the Romanian Report it is however noted that information which has become public cannot be subject to remedies in case of breach of contract. Further, under Swiss law, in case of a breach of a confidentiality, reparation of a trade secret misappropriation in natura is prohibited. In case of breach of confidentiality agreements courts may award damages and issue injunctions under contract law. Confidentiality agreements often contain penalties which serves the purpose of relieving the trade secret proprietor from the burden of proof to show the damage that the breach of confidentiality has caused him.

7. Misuse of Trade Secret Protection

7.1 In several of the LIDC reports the possibility to sanction misuse of trade secrets under competition law and rules on abuse of dominant position is addressed. If trade secret litigation has been initiated in bad faith for the purpose of unfairly restricting or delaying a
party’s access to the market may qualify as vexatious litigation under Italian procedural law.\(^{63}\)

In Italy, the judge can also award the winning party an equitable amount if the other party is proven to have entered into the litigation in bad faith.\(^{64}\) Also under Brazilian, Japanese and Luxembourghian law a right holder which abuses its rights and causes damage is liable to pay damages.\(^ {65}\) These sanctions are available also in trade secret cases. The Belgian Supreme Court has in a case from 1971 established an interesting principle of abuse of rights. In the Belgian Report the principles that apply for assessing whether a party’s rights (among them trade secret rights) are exercised in an abusive manner are described as follows:

The Belgian Supreme Court defines the abuse of right as any use of a right which “obviously exceeds the limits of a normal exercise thereof by a normally cautious and diligent individual”.\(^ {66}\)

To qualify the exercise of a right as abusive, one must prove one of the following elements:

- the predominant motive for exercising the right is to cause harm to another party; or
- no serious or legitimate motive exists for exercising the right in the considered way; or
- the exercise of the right is against moral rules, good faith, or elementary fairness; or
- the right is exercised for a purpose other than that for which it was granted.\(^ {67}\)

Considering what precedes, the possibility of an abuse / misuse of a trade secret right is not excluded per se:

- possible misuse to circumvent legal obligations to disclose specific information;\(^ {68}\)
- possible misuse to conceal information within the framework of (judicial) proceedings;
- possible misuse to gain access to a competitor’s confidential information (through right to access public records, right to attend public hearing, etc.);
- possible misuse to unfairly delaying or restricting a competitor’s access to the market;
- possible misuse to unfairly intimidating or harassing a competitor; etc.

If the abuse of right is established, the trade secret owner can be held liable under Article 1382 CC, and consequently see the exercise of his right limited and/or be condemned to pay damages if the abuse caused prejudice to a third party.

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\(^{63}\) Italian Report, section 4.

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\(^{68}\) As expressly reminded on the European Commission’s website on Trade Secrets, companies cannot invoke their trade secrets with the sole purpose to hide information on matters of public interest, such as public health, the environment or the safety of consumers (http://ec.europa.eu/growth/industry/intellectual-property/trade-secrets/index_en.htm).
7.2 In the proposal for a European trade secrets directive, there is a specific article that addresses the trade secret proprietor’s abuse of its rights which in the European Parliament’s proposal, Article 6(2) is worded as follows:

“2. Member States shall ensure that where competent judicial authorities determine that a claim concerning the unlawful acquisition, disclosure or use of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith, such competent judicial authorities shall be entitled to take the following measures:

(a) impose sanctions on the applicant;
(b) order the dissemination of the information concerning the decision taken in accordance with Article 14.

The measures referred to in the first subparagraph shall be without prejudice to the possibility for the respondent to claim damages. Member States may provide for those measures to be determined in separate proceedings.“

7.3 Conclusion

There is a fairly obvious risk that the legal protection of trade secrets is misused by plaintiffs aiming to distort competitors’ business, using ex parte search orders for the purpose of obtaining competitors trade secrets or harassing a competitor. A strong protection of trade secrets must be balanced against among others competitors’ interest in protecting their trade secrets and not becoming subject to lengthy and costly trade secret litigation. Sanctioning the abuse of trade secret protection causes the trade secret proprietor to act diligently and think twice before doubtful trade secret litigations are initiated and likely works as a restraint against dominant parties taking advantage of their market position to limit competitors.

8. Personal Reflections and Conclusion

In most reports the national committees advice that trade secret proprietors shall take additional contractual and practical steps to ensure the thorough protection of their trade secrets.

The measures recommended are

(i) Confidentiality agreements which specifies which information is subject to confidentiality
(ii) IT security measures including encryption
(iii) Restricting employee access to confidential information on a need to know-basis

The harmonization of trade secret rules throughout the European Union is welcomed by reporters.

69 The Netherlands report section 6.