Opinion of the European Economic and Social Committee 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) 813 final — 2013/0402 (COD)

(2014/C 226/09)

On 9 December and 13 December 2013 respectively, the European Parliament and the Council decided to consult the European Economic and Social Committee, under Article 114 of the Treaty on the Functioning of the European Union, 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) 813 final — 2013/0402 (COD).

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 11 March 2014.

At its 497th plenary session, held on 25 and 26 March 2014 (meeting of 25 March), the European Economic and Social Committee adopted the following opinion by 138 votes to 2 with 3 abstentions.

1. **Conclusions and recommendations**

1.1 In reality, trade secrets cover all information (technology, formulas, marketing information, etc.) with an economic value whose confidentiality should be protected. They are therefore part of businesses' intangible assets.

1.2 The protection of these intangible assets is as crucial for businesses, and especially SMEs, as it is for non-commercial research bodies, and is necessary for the EU's competitiveness, if only to promote innovation and the development of new ways of undertaking and encouraging collaborative research or cross-border cooperation.

1.3 There is no uniform definition or harmonised legal protection of the notion of trade secrets in the EU.

1.4 The Committee supports the objective of the Commission proposing that the legal protection of know-how and trade secrets be harmonised, since they are key elements in promoting businesses' capacity for innovation in general and their competitiveness, especially that of SMEs.

1.5 The Committee notes that protection of trade secrets against their unlawful acquisition and use as envisaged in the proposed directive is very close to what was introduced by EC Directive 2004/48 on the enforcement of intellectual property rights, such as copyright, trademarks, designs or patents, especially in the sense that it requires the Member States to ensure that the legitimate holder of a trade secret has access to effective civil redress.

1.6 The Committee welcomes the balanced approach of the proposed directive in that it seeks to guarantee greater legal certainty and enhance the value of innovations covered by the trade secrets by means of greater legislative convergence compatible with international law, including in particular the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).

1.7 Although it is in line with the TRIPS agreement, the definition of trade secret does not appear to be precise enough to cover all categories of information which would be suitable for protection under this heading.

1.8 The Committee believes that the Commission could spell out in a recital that information with potential commercial value could also be protected under the heading of trade secrets.

1.9 The EESC urges the Commission to act on this subject without any further delay.

2. **Introduction**

2.1 Know-how and trade secrets (undisclosed business information) must be protected in order to promote businesses' capacity for innovation and their competitiveness.

2.2 In reality, the notion of trade secrets covers all information (technology, formulas, marketing information, etc.) with an economic value whose confidentiality should be protected.

2.3 They do not constitute exclusive intellectual property rights, but they often form their basis. For example, know-how or trade secrets based on research and development which has required significant financial and human investments often form the basis of patents.

2.4 The concept of trade secrets is itself not uniform across the European Union. The only harmonised definition of trade secrets can be found in the World Trade Organization's TRIPS Agreement and is based on three cumulative conditions:

— **the information must be secret**; i.e. the secret is generally unknown to stakeholders or difficult for them to access;

— **it must have commercial value**. In reality, this commercial value stems from its confidential nature;

— finally, the legitimate holder must have taken reasonable measures to keep the trade secret confidential.

2.5 In the absence of a uniform understanding of trade secrets in the EU, their legal protection is fragmented across the different legal systems of the Member States.

2.6 However, uniform Europe-wide legal protection of trade secrets makes all the more sense at a time when industrial espionage and the risks of computer hacking have reached worrying proportions, especially in sectors where research and development and financial investment play a major role (automotive, telecommunications, pharmaceutical, etc.).

2.7 The Committee supported the Commission's earlier efforts to deal with piracy and set out its thoughts on the subject ([1]).

3. **The Commission's proposal**

3.1 The proposal is the outcome of a consultation, on the basis of which the Commission identified discrepancies between Member States' national legislations specifically as regards the definition of trade secrets and remedies available to the trade secret holder.

3.2 The proposal is based on a twofold premise: the disparity between national legislations acts as a brake on cross-border collaborative research and it undermines the competitiveness of businesses whose trade secrets could be stolen in the Member States providing the least protection.

3.3 It therefore seeks to harmonise protection of these intangible assets which are not considered to be intellectual property rights.

3.4 *Definition of trade secret*

3.4.1 The Commission draws on the definition of trade secrets contained in the TRIPS Agreement, proposing that three cumulative conditions be met in order for information to be 'a protectable trade secret':

— it must be secret, i.e. it must not be known or be readily accessible to people in circles who normally deal with the kind of information in question;

— the information must be valuable because of the fact it is secret;

— the holder must have taken reasonable measures to keep the information secret.

3.5 *The notion of misappropriation*

3.5.1 In addition to unauthorised access to any medium containing a secret, theft, bribery, deception and breach of confidentiality agreement, Article 3 of the proposal introduces any conduct contrary to honest commercial practices.

3.5.2 It also stipulates that any subsequent use or disclosure is unlawful under the same circumstances or whenever a person, at the time of use or disclosure, could not have been unaware that their source of information had obtained the secret unlawfully.

([1]) OJ C 306, 16.12.2009, p. 7; OJ C 18, 19.1.2011, p. 105.

3.6 *Lawful acquisition, use and disclosure*

3.6.1 Article 4 of the proposed directive excludes a number of scenarios:

— independent discovery or creation;

— reverse engineering, i.e. a trade secret is no longer protected as soon as it can be revealed by the product that incorporates it;

— exercise of the right of workers' representatives to information and consultation, including information provided by workers to these representatives;

— freedom of expression and information;

— the activities of whistle-blowers if additional conditions are met: necessary use or disclosure and in the public interest;

— the practice conforms to honest commercial practices, fulfilment of a non-contractual obligation, protection of a legitimate interest.

3.6.2 The article safeguards innovation as it expressly clarifies that independent discovery and reverse engineering are legitimate means of acquiring information.

3.7 *Remedies available to a trade secret holder*

3.7.1 It is the responsibility of the Member States to provide for effective civil redress against unlawful acquisition of trade secrets.

3.7.2 In connection with the recurring debates on the abuse of the infringement seizure procedure, the proposed directive also asks the Member States to impose penalties on improper claims aimed at unfairly delaying or restricting the respondent's access to the market or to intimidate or harass them.

3.7.3 Article 8 of the proposal also draws on competition law, setting out a series of protection measures to prevent disclosure of trade secrets during legal proceedings: restricting access to any part of the document containing the trade secret, restricting access to hearings and removing passages containing trade secrets from the non-confidential version of the judicial decision.

3.7.4 In terms of interim measures, the trade secret holder who has been injured must be able to obtain a ban on disclosing or using the trade secret, a ban on producing, placing on the market or using infringing goods and be able to ensure the seizure or delivery of these goods.

3.7.5 The proposal provides for numerous other procedural guarantees. For example, the court must be able to order the respondent to lodge a guarantee to enable the holder to be compensated.

4. **General comments on the proposed directive**

4.1 The proposed directive provides a broad enough definition of trade secrets to cover, for example, formulas, research or studies which are not yet subject to intellectual property rights.

4.2 It seeks to boost the competitiveness of businesses and European research bodies which rely on know-how and trade secrets that cannot be protected by intellectual property rights as it is impossible for them to gain exclusive rights over such matters.

4.3 Traditional industrial property rights such as patents, trademarks, designs and models fail to take account of a significant proportion of the knowledge and information that is nonetheless necessary for the economic growth of businesses.

4.4 In fact, SMEs often resort to trade secrets to protect this vital information, in the absence of specialist human resources or adequate financial capacity to pursue, manage, defend and enforce their industrial property rights.

4.5 In order to overcome these obstacles, businesses often provide for non-disclosure agreements in their contracts with their employees or sub-contractors. The rules on the protection of trade secrets must not lead to restrictions on freedom of expression, on people's ability to blow the whistle on irregularities, or on employees' ability to change employers and still make use of the general knowledge and experience they have acquired.

4.6 The proposal can play its full role in this context, especially as current economic activity increasingly encourages the use of sub-contractors, meaning that service providers may have temporary access to all sorts of sensitive information.

4.7 In addition, the improvement of information and communication systems makes it easier to hack, misappropriate and divulge trade secrets, which increases the risk that they will be used in third countries to produce goods which then start to compete on the European market with the business that has been the victim of unlawful appropriation.

4.8 The EESC points out that the increasing stringency of reporting requirements, particularly for listed companies, is jeopardising business confidentiality. In practice, the information in these reports becomes public and is accessible to any investor, who may turn out to be — or may become — a competitor.

4.9 The EESC believes that the proposed directive should also take account of Article 4, the risk of disclosure of trade secrets associated with the reporting requirement imposed on members of boards of directors or supervisory boards of listed companies.

5. **Specific comments on the proposed directive**

5.1 This proposal provides for numerous procedural guarantees, including interim and precautionary measures, as well as corrective measures and remedies following a court ruling of a material disclosure of a trade secret, such as destruction of information held by the infringer, the recall and destruction of the products concerned, the calculation of damages which must take account of moral prejudice, and the publication of the decision.

5.2 The damages awarded at the request of the injured party will have to correspond to the prejudice actually suffered, taking account of material and moral aspects.

5.3 However, the judge may set a lump sum in 'appropriate cases', calculated for example on the basis of royalties or fees which would have been due had the use been authorised.

5.4 The Committee stresses that the criminal law concepts of 'theft', 'bribery' and 'deception' included in Article 3 of the proposed directive are used in order to make clear the notion of 'unlawful acquisition, use and disclosure of trade secrets'.

5.5 The Commission's intention is to harmonise civil law remedies with a view to enabling innovative enterprises to defend their trade secrets effectively across the EU. This is clear from Article 5 *General obligation* which stipulates that the Member States shall provide for the measures, procedures and remedies to ensure the availability of civil redress (the Committee stresses this aspect).

5.6 What is more, it would appear that the proposed directive likens trade secrets to a form of intellectual property, with the exception of exclusivity. The protection put in place is very similar to the procedures provided for under Directive EC 2004/48 on the enforcement of intellectual property rights, such as copyright and related rights, trademarks, designs or patents adopted in April 2004, the revision of which is also under consideration. With respect to Article 4, the EESC considers it very important for employees to be able to consult a trade union representative if they uncover an irregularity or other situation in a workplace, without infringing the rules in this respect. In the EESC's view, the directive should include protection from reprisals for employees who use the options provided for in Article 4.

5.7 In connection with the recurring debates on the abuse of the infringement seizure procedure ([2]) (ex parte procedure), the Committee welcomes the fact that the proposal nonetheless diverges from directive EC 2004/48, by stressing explicitly in Article 10(2) that the judicial authorities of the Member States will have to assess the proportionality of the interim and precautionary measures.

5.8 Likening trade secrets to a form of intellectual property goes as far as including the concept of 'honest commercial practices' in the proposed directive. This concept already exists in the TRIPS agreement.

([2]) Court of cassation, civil, commercial chamber, 12 February 2013, 11-26.361 'Société Vetrotech Saint-Gobain international'; 3rd chamber of the Paris civil affairs court 15 November 2011 'Sociétés JCB', commented on by Laurent Labatte, Marks & Clerk France, industrial property consultants.

5.9 The Court of Justice of the European Union has itself had the opportunity to interpret the notion of 'honest practice' ([3]) taken from Directive 89/104/EEC on the approximation of the laws of the Member States relating to trade marks.

5.10 Despite the notable progress made in the proposal, the adoption of the directive will not exempt businesses from introducing relevant preventative measures to protect their trade secrets, i.e. technical, organisational and contractual measures.

5.11 It therefore seems too simplistic to limit information which could be defined as trade secrets to information with an immediate commercial value, since some information of an economic, industrial, technical or scientific nature may not have direct but potential commercial value, especially when this information relates to technical or scientific research and development data.

5.12 The EESC proposes adding to the list in Article 4.1 a stipulation that the acquisition of trade secrets shall be considered lawful when obtained by means of:

e) performance of the reporting requirements imposed on members of boards of directors or supervisory boards of listed companies.

5.13 The EESC also proposes adding to the list in Article 4.2 the stipulation that the Member States must ensure that there is no entitlement to the application for the measures, procedures and remedies provided for in the directive when the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:

f) disclosure of the trade secret in the performance of reporting obligations imposed on members of boards of directors or supervisory boards of listed companies.

Brussels, 25 March 2014.

The President
of the European Economic and Social Committee
Henri MALOSSE

([3]) See, *inter alia*, Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks and the case law of the Court of Justice on the interpretation of the notion 'honest practice', ECJ 15 March 2005, case C 228/03, the Gillette Company and Gillette Group Finland Oy v LA-Laboratories Oy.

APPENDIX

to the opinion of the European Economic and Social Committee

The following paragraph of the section opinion was amended to reflect the amendment adopted by the assembly but received more than one quarter of the votes cast (Rule 54(4) of the Rules of Procedure):

Point 4.5

4.5 *In order to overcome these obstacles, businesses often provide for non-disclosure agreements in their contracts with their employees or sub-contractors.*

Outcome of the vote on the amendment:

Votes in favour:	80
Votes against:	46
Abstentions:	10