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The New EU-Framework for the Protection of Trade Secrets: The Draft Directive & Relevant Changes

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EU Trade Secret Directive

Introduction



Overview

1. Introduction
2. The Status Quo:
Different National Protection Schemes
3. Is there a Need for Harmonization?
A Notional Example
4. Relevant Changes
 - Scope of Protection
 - Exceptions = Balancing Openness and Secrecy
 - Effective Enforcement / Procedural Measures
5. Résumé

The EU Trade Secret Directive

1. Introduction

Art. 1 Enforcement Directive

This Directive concerns the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights. For the purposes of this Directive, the term 'intellectual property rights' includes industrial property rights.

Directive 2004/48/EC

;

The Starting Point

The Enforcement-Directive 2004 spiked controversy, whether it is applicable to trade secrets.

+ Application:

- TRIPS
- similar function (trade secrets and patent interchangeable)
- some Member States explicitly qualify know-how as IP

– Application:

- many Member States do not provide absolute protection, but unfair element required
- Directive is about remedies and should not impose concept of protection
- Leaving it to national law would undermine uniform scope of application

⇒ *Trade Secrets do not qualify as IP in the meaning of the Enforcement Directive*

Prof. Dr. Mary-Rose McGuire 2

The EU Trade Secret Directive

1. Introduction

Statement by the Commission

The Commission considers that at least the following intellectual property rights are covered by the scope of the Directive:

- Copyright,
- rights related to copyright,
- sui generis right of a database maker,
- rights of the creator of the topographies of a semiconductor,
- trademark rights,
- design rights,
- patent rights, including rights derived from supplementary protection certificates,
- geographical indications,
- utility model rights,
- plant variety rights,
- trade names, **in so far as** these are protected as **exclusive property rights** in the national law concerned.

(2005/295/EC)

History and Background

Preparation by Studies

- Hogan Lovells, Report on Trade Secrets 2012
- Baker & McKenzie, Study on Trade Secrets and Confidential Information in the internal market 2013

Proposals

- EP and Council 11/2013: Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure: *First Draft*
- Council Proposal 5/2014: *Revised Draft*

Current Status:

- EP Juri Legal Affairs Committee 6/2015
- In force in 2016?

⇒ *Implementation by 2018 ???*

Prof. Dr. Mary-Rose McGuire 3

The EU Trade Secret Directive

2. Status Quo



The Notion of Trade Secrets

Different national approaches:

- Specific protection / property interest
- Unlawful competition / tort law
- Breach of confidence

Art. 39 TRIPS as common denominator?

- Preamble: Recognizing that intellectual property rights are private rights;
- Art. 39 (1) In the course of ensuring effective protection against unfair competition ...
- Art. 39 (2) preventing information lawfully within their control from being disclosed

⇒ *TRIPS takes a “mixed approach”, but does not protect trade secrets “as such”*

Prof. Dr. Mary-Rose McGuire 4

The EU Trade Secret Directive

2. Status Quo

Flagship Initiative Innovation Union

.... The Commission undertakes to create an innovation-friendly environment. Within this framework, the Commission adopted a comprehensive strategy to ensure that the Single Market for intellectual property functions smoothly. This strategy **also extends to areas complementary to intellectual property rights (IPRs) such as trade secrets.**

Revised Draft, 9475/14, 2

The Notion of Trade Secrets

Do the different legal concepts impact the practical function?

- Legal Certainty
- Transfer & Licensing
- Remedies
- Applicable Law

Fragmentation of trade secret law undermines full harmonization of patent law (*complementary function*)

⇒ *The different levels of protection distort the internal market*

Prof. Dr. Mary-Rose McGuire 5

3. Harmonization?

Art. 6 Rome-II

(2) Where an act of **unfair competition** affects exclusively the interests of a specific competitor, Article 4 shall apply

Art. 8 Rome-II

1. The law applicable to a non-contractual obligation arising from an infringement of an **intellectual property right** shall be the law of the country for which protection is claimed.

Regulation 864/2007/EU

A Notional Example

In theory

the law of trade secrets intends to strike a balance between protecting genuine innovation / a culture of mutual openness.

In practice

the legislator's appraisal is quite different throughout Europe

Germany:

- Tradition of strict protection
- Reverse engineering amounts to unfair competition

Estonia:

- Focus on openness
- Reverse engineering may be a legal means of spreading innovation

⇒ *Know-how comes without a tag!*

Prof. Dr. Mary-Rose McGuire 6

3. Harmonization?

Proposal for Rome-II Regulation Commentary on Art. 6:

Paragraph 2 deals with situations where an act of unfair competition targets a specific competitor, as in the case of enticing away a competitor's staff, corruption, industrial espionage, **disclosure of business secrets** or inducing breach of contract.

COM (2003) 427 final, 16

Possible Cures

1. Reconsider Conflict of Laws

Source of mischief is the predominant opinion on the interpretation of Art. 6 (2) Rome-II Regulation

- Declaration of Commission
- Traditional (German) Unfair Competition Approach

2. Harmonize the Level of Protection

The closer the national concepts are, the less the applicable law matters

- Uniform notion of trade secrets
- Scope of protection / lawful use (exceptions)
- Means of Enforcement

⇒ *A genuine level playing field requires both!*

Prof. Dr. Mary-Rose McGuire 7

The EU Trade Secret Directive

4. Relevant Changes

What will change?

Companies, inventors, researchers and creators **will be put on equal footing** throughout the Internal Market, and the EU will have a common, clear and balanced legal framework which will discourage unfair competition, and facilitate collaborative innovation and the sharing of valuable know-how to make the EU a stronger and more competitive economic region.

**Commission Press Release
10/06/2015**

The Draft Directive

Despite loud criticism the Directive satisfies these criteria

As compared to the *status quo* it contains 3 relevant changes:

1. Uniform notion of trade secrets:
Based on Art. 39 TRIPS as common denominator
2. Scope of protection / lawful use (exceptions):
Strikes a balance between protection / openness
3. Means of Enforcement:
Tackles the specific problem of a secret as the subject matter of a public/open procedure (Art. 6 ECHR)

⇒ *No. 1 is overlooked, No. 2 controversial, No. 3 a challenge!*

Prof. Dr. Mary-Rose McGuire 8

The EU Trade Secret Directive

4. Relevant Changes

Art. 1 Subject Matter and Scope

(2) Member States may provide, in compliance with the provisions of the Treaty, **for more far-reaching protection** against the unlawful acquisition, use or disclosure of trade secrets than that required in this Directive, **provided that** compliance with Articles 4, 5, Article 6(1), Article 7, the second subparagraph of Article 8(1), Articles 8(3), 8(4), 9(2), Articles 10, 12 and Article 14(3) is ensured.

Revised Draft 2014

The Draft Directive

Art. 1: subject matter

Art. 2: definitions

Art. 3: infringement

Art. 4: permissible acts

Art. 5-14: remedies and procedure
– general principle of proportionality
– confidentiality in litigation
– remedies (Injunction, damages etc.)

⇒ *Minimum harmonization of limitations is a de facto maximum harmonization of protection!*

Prof. Dr. Mary-Rose McGuire 9

4. Relevant Changes

Art. 2 TSD Definitions

(1) 'trade secret' means information which meets all of the following requirements:

(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;

Revised Draft 2014

The Uniform Notion of Trade Secrets

Looks familiar?

Recital 10 states, it does not attribute an exclusive right. Yet, it implies a change of concept for many EU-jurisdictions:

IP-ish:

- explicit, written criteria
- formulated from the perspective of the trade secret holder
- protection is afforded against unlawful (not unfair) acts
- secondary liability does not require intention
- IP-like remedies (including unjustified enrichment)

⇒ *Although not a fully fledged IPR it – considering function and structure – is genuine IP-law.*

4. Relevant Changes

Recital 8

For this purpose, it is important to establish a **homogenous definition** of a trade secret Such definition should therefore be constructed as to cover **business information, technological information and know-how** where there is both a legitimate interest in keeping confidential and a legitimate expectation in the preservation of such confidentiality.

By nature, such definition should exclude trivial information and should **not extend to the knowledge and skills gained by employees** in the normal course of their employment and which are generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.

The Scope of Protection

In theory:

Type of information protected is very broad; so is the range of acts against which protection is granted.

In practice:

the scope of application is limited by

1. exclusion of knowledge and skills gained by employees (R 8)
2. definition of lawful acts, Art. 4 (1) + opening clause
3. definition of justified acts, Art. 4 (2) + opening clause

⇒ *If Recital 8 is taken seriously the protection will require new types of information management & NDAs*

Procedural Standards of Trade Secret Protection

4. Relevant Changes

Recital 10

In the interest of innovation and to foster competition the provisions of this Directive **should not create an exclusive right** on the know-how or information protected as trade secret.

Recital 14

The prospect of losing the confidentiality of trade secret during litigation procedures often **deters** legitimate trade secret holders **from instituting proceedings** to defend their trade secret.

Article 8 of the proposed Directive is a response to this procedural gap.
Aplin, IPQ 2014, 257 (275)

Means of Enforcement

Fair Trial:

Rights arising from trade secret misappropriation are enforced in the course of regular civil proceedings.

2 Main Risks:

- Loss of trade secret protection by public disclosure
- Deprivation of the competitive advantage by revealing the information to the opponent party / other competitors

A Paradox: enforcing a secret in public?

- Efficient protection requires that the secret is not disclosed vis-à-vis the opponent
- Lack of information on very subject matter deprives defendant of fair chance to participate & remedies

⇒ *Enforcement in the course of ordinary civil proceedings jeopardizes the very existence and purpose of know-how*

Prof. Dr. Mary-Rose McGuire 12

Procedural Standards of Trade Secret Protection

4. Relevant Changes

Art. 6 ECHR

(1) ... everyone is entitled to a fair and public hearing within a reasonable time by an independent and impartial tribunal established by law. Judgment shall be pronounced publicly

„The problem of protecting a trade secret starts with serving the claim and remains a **recurring leitmotif** throughout the entire procedure up to resolving the dispute by a final decision“

„Das Problem des Geheimnisschutzes beginnt mit der Klageerhebung und zieht sich **wie ein roter Faden** bis zur rechtskräftigen Entscheidung durch den Prozess.“

Sabine Rojahn, FS Loewenheim

Means of Enforcement

Procedural Requirements:

- public hearing
- oral hearing (adversarial proceedings)
- right to be heard & participate
- equality of arms
- public promulgation of the judgement

Necessary measure depend on subject matter. Copy and Paste of Enforcement Directive is insufficient

- Trade secret = subject matter of proceedings (TSD)
- Trade secret = piece of evidence (Enforcement-D)

⇒ *Art. 8 should be implemented by a flexible toolbox of procedural measures*

Prof. Dr. Mary-Rose McGuire 13

Procedural Standards of Trade Secret Protection

5. Résumé



A Mandate for the National Legislator

Concept for Implementation

- Adhere to TRIPS
- Accept the conceptual change
- Don't hide it in Unfair Competition Law

Foster Legal Certainty

- Definition of trade secrets
- Practical requirements for qualifying as a “secret”
- Toolbox of procedural measures

Additional Measures

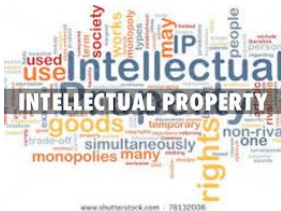
- Inform Chambers of Commerce / SMEs
- Appoint jurisdiction to (a handful of) competent courts
- Publish decisions (in French and English)

⇒ *As the definition of a trade secret as such remains vague, it is important to have a reliable body of case law asap!*

Prof. Dr. Mary-Rose McGuire 14

Procedural Standards of Trade Secret Protection

5. Résumé



A Practitioner's Perspective

Anticipate Changes

- Scope of protection may open new fields of application
- Reverse engineering disqualifies types of inventions for trade secret protection
- Comply with new (stricter?) requirements of secrecy
- Adapt information management / filing strategy

New Strategies

- Rely on patents instead of trade secrets?
- Rethink licensing
- Choice of court clauses & liquidated damages

⇒ *The upcoming Directive necessitates strategy changes today!*

Prof. Dr. Mary-Rose McGuire 15

Procedural Standards of Trade Secret Protection

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28.11.2013
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(**Trade Secret Directive 2013**)

General Approach

on the Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure
19.5.2014, 9870/14 (**TSD 2014**)

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Prof. Dr. Mary-Rose McGuire 16

Procedural Standards of Trade Secret Protection

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Prof. Dr. Mary-Rose McGuire 17