

Proposal for a Directive on the protection of trade secrets

On 14 April 2016, the plenary session of the European Parliament approved the Proposal for a Directive on the protection of trade secrets at first reading, introducing some substantial amendments to the version initially published by the Commission that will, in all probability, facilitate the text's transposition to the legal systems of the different Member States. As this version is practically identical to the provisional agreement reached by the Parliament and the Council in December 2015.

Introduction

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 (the "**Proposal**") was approved on 14 April 2016 at first reading by the plenary session of the European Parliament, representing a decisive step in an approval process which began on 28 November 2013 with the publication of the first version of the Proposal drawn up by the European Commission.

The Proposal seeks to improve the efficiency of the legal protection of trade secrets, by using the logic of a system of protection against unfair trade acts, thereby standardising regulations governing the protection under civil law of trade secrets within the Member States.

The text approved by the European Parliament, which must then be voted on by the Council, introduces some substantial amendments to the version initially published by the Commission, and is practically identical to the text of the provisional agreement formalised by the Luxembourg Presidency of the Council of the European Union and the representatives of the European Parliament, approved by the Committee of Permanent Representatives on 18 December 2015. Said provisional agreement established that, if the European Parliament approves, at first reading, the text of the agreement exactly as it is set out in said Proposal, the Council would approve Parliament's position.

Therefore, the final stages of the approval procedure are expected to soon be completed.

The amendments to the version approved by the European Parliament have paved the way for Member States such as Spain to be able to more easily transpose the text ultimately approved, as a result of clarifying issues in the original version that proved highly contentious.

Aims of the Directive

The Proposal seeks to increase legal certainty by establishing a minimum harmonisation for the protection of trade secrets under civil law and the promotion of cross-border financial activity related to innovation:

- Defining what constitutes a "trade secret";
- Identifying lawful acts and unlawful acts;
- Regulating a common set of means of protection; and
- Ensuring the confidentiality of trade secrets during court proceedings.

In this note, we will analyse the basic aspects regulated by the Proposal, as well as the main amendments which, according to the version approved by Parliament, may be necessary to make to the Spanish law in this regard, especially Act 3/1991, of 10 January, on Unfair Competition (*Ley de Competencia Desleal*, "LCD") – governing the protection of trade secrets under civil law – and Act 1/2000, of 7 January, i.e. the Spanish Civil Procedure Act (*Ley de Enjuiciamiento Civil*, "LEC").

Contents of the Proposal

Definitions

Except for some minor changes, the version approved by Parliament does not contain substantial amendments to the original text, in terms of the definitions of basic concepts.

"Trade secret"

The definition contained in the Proposal is in line with the one set out in Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which reaffirms Spanish case law and establishes three prerequisites for considering a "trade secret" worthy of protection to exist, namely that the "information":

- be secret (not "generally known" or "readily accessible")
- have "commercial value because it is secret", and
- have "been subject to reasonable steps [...] by the person lawfully in control of the information, to keep it secret".

"Holder"

This is defined as any "natural or legal person lawfully controlling a trade secret". This therefore includes licence holders.

"Infringer"

This is defined as "any natural or legal person who has unlawfully acquired, used or disclosed trade secrets".

"Infringing goods"

According to the Proposal, "infringing goods" (a concept not currently defined in the LCD) are goods whose "design, characteristics, functioning, production process or marketing (...) significantly benefits from trade secrets unlawfully acquired, used or disclosed". Although some criticism arose during the approval process in relation to the requirement that the goods must have "significantly"

benefitted from the trade secret, this requirement has not been amended in the version approved by Parliament.

Lawful acts

The version approved by Parliament maintains, but further specifies, those cases in which obtaining a trade secret will be considered lawful, which had already been established in the first draft (including "any other practice which, under the circumstances, is in conformity with honest commercial practices"). It also adds that such acquisition, use or disclosure of trade secrets will be considered lawful, insofar as it is "required or allowed by Union or national law".

The LCD as it is currently worded does not include a list of lawful acts, thus an amendment would be needed in this regard.

Unlawful acts

The Proposal distinguishes between the original infringer, the recipient of trade secrets and the person performing acts of exploitation involving infringing goods. In the version approved by Parliament, the subjective element has been eliminated, only in the case of the original infringers, as a prerequisite for considering acts to be unlawful.

Acquisition

In the version approved by Parliament, the original list of unlawful methods of acquiring trade secrets has been reduced, being limited, on the one hand, to the "unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced" and, on the other hand, to the catch-all of "any other conduct which, under the circumstances, is considered contrary to honest commercial practices".

Also omitted from the original wording is the requirement that the infringer have acted "intentionally" or "with gross negligence" in order to consider the original act of acquisition unlawful. It is expected that this will entail amendments to the LCD, given that this rule does include a subjective requirement in Article 13 thereof.

Use and disclosure

Other than the amendments in relation to the subjective requirement, identical to those mentioned in the section above, this precept has not undergone any relevant changes with regard to the original wording.

The use and disclosure of a trade secret will be considered unlawful when the secret has been acquired unlawfully, or is in breach of:

- a confidentiality agreement or any other duty not to disclose the trade secret, or
- a contractual or any other duty to limit the use of the trade secret.

Recipients of trade secrets

The version approved by Parliament enlarges the number of acts carried out by the recipients of trade secrets susceptible of being considered unlawful:

- adding "*acquisition*", together with use and disclosure, and
- specifying that it must be proven that the recipient was aware (or should have been aware) that the trade secret had been obtained "*directly or indirectly*" from another person who was using or disclosing it unlawfully.

"Infringing goods"

The version approved by Parliament adds to the number of cases which could be considered unlawful exploitation of infringing goods, replacing the requirement that such exploitation be "*conscious and deliberate*" with the requirement whereby the person committing such acts of exploitation "*knew*" or "*ought, under the circumstances, to have known*" of the unlawful use.

Exceptions

The Proposal contains a list of cases in which the measures, procedures and remedies set forth therein cannot be requested.

The amendments made to the version approved by Parliament are as follows:

- elimination of the exception (not exempt from legal uncertainty) of fulfilling a "*non-contractual obligation*",
- express acknowledgement of "*freedom and pluralism of the media*",
- in the exception consisting of revealing an applicant's misconduct, wrongdoing or illegal activity, elimination of the requirement that the alleged acquisition, use or disclosure of the trade secret be "*necessary for such revelation*", requiring only that the respondent have

Key amendments in the version approved by the European Parliament

- Seeks a balance with other rights, such as transparency and access to information (freedom of the press and of whistleblowers)
- Eliminates the subjective requirement for classifying acts originating from the acquisition, use or disclosure, as unlawful
- Statute of limitations to be determined by each Member State, with a maximum term of six years
- Seeks a balance between confidentiality measures to be adopted in legal proceedings and the right to a proper defence

acted "*for the purpose of protecting the general public interest*",

- in the exception on disclosure "*by workers to their representatives as part of the legitimate exercise by those representatives of their functions*", specification that such disclosure must have been "*necessary for that exercise*", and that the lawful exercise must have been carried out "*in accordance with Union or national law*", and
- in the exception on the protection of a legitimate interest, specification that the latter must be "*recognised by Union or national law*".

The LCD does not currently include a list of specific exceptions for trade secrets; thus an amendment would be needed in this regard.

Measures

The Proposal establishes both provisional (interim) as well as "*corrective*" measures ordered in judicial decisions on "*the merits of the case*". These measures are generally in line with those already established in Spanish law, although they go into greater detail.

Interim measures

These provisional measures include:

- the cessation or prohibition of the use or disclosure of the secret,

- the prohibition from commercially exploiting infringing goods, and
- the seizure or delivery up of the suspected infringing goods.

Applicants for these measures are required to provide evidence "*that may reasonably be considered available*", "*with a sufficient degree of certainty*", that:

- a trade secret exists;
- the applicant is the legitimate secret holder, and
- the trade secret has been acquired and is being used or disclosed unlawfully, or that an unlawful acquisition, use or disclosure of the trade secret is imminent. In principle, this level of evidence required is the same as that currently set out in the LEC for interim injunctions.

The Proposal establishes that, as an alternative to these provisional measures, judicial authorities may make the continued "*use*" (not acquisition or disclosure) of the trade secret subject to "*the lodging of guarantees intended to ensure the compensation of the trade secret holder*".

Applicants for interim measures must post a bond to cover the possible loss and damage their adoption may cause to the defendant.

Corrective measures ordered in "judicial decisions" on "the merits of the case"

According to the Proposal, the following measures can be adopted:

- the cessation or prohibition of the use or disclosure of the secret,
- the prohibition to commercially exploit infringing goods (including to produce, offer, place on the market or use them, or import, export or store them for those purposes),
- the adoption of corrective measures (such as the withdrawal of the infringing goods from the market, their destruction or the elimination in them of the characteristics constituting the infringement),
- the destruction of all or part of any document, object, material, substance or electronic file containing or implementing the trade secret or, where appropriate, the delivery of these to the trade secret holder, and
- the publication of the decision on the unlawful exploitation of the secret.

Pecuniary compensation

The Proposal establishes the possibility of substituting the measures indicated above (except regarding publication) for the payment of pecuniary compensation (a possibility not offered in Spanish law), provided that:

- at the time of use or disclosure of the trade secret, the defendant neither knew (nor, given the circumstances, ought to have known) that the secret was obtained from another person who was using or disclosing it unlawfully;
- the enforcement of such measures would cause the defendant "*disproportionate harm*"; and
- pecuniary compensation to the holder of the secret appears "*reasonably satisfactory*". The amount of this pecuniary compensation will not exceed the amount the infringer should have paid in royalties, had it applied for authorisation to use the secret during the time in which the use could have been prohibited.

Damages

The Proposal establishes that, when the infringer knew (or ought to have known) that he or she was "*engaging*" in the unlawful acquisition, disclosure or use of a trade secret, the infringer must pay the trade secret holder "*damages appropriate to the actual prejudice suffered*".

Unlike the LCD, which does not set out specific criteria for quantifying damages, the Proposal establishes that damages will be calculated:

- taking into account the negative economic consequences (including "*lost profits which the injured party has suffered*", "*any unfair profits made by the infringer*" and, "*in appropriate cases*", elements other than economic factors, such as "*moral prejudice*"), or
- setting the damages as a "*lump sum*" on the basis of elements such as, at a minimum, "*the amount of royalties or fees which would have been due had the infringer requested authorisation to use the trade secret.*"

The version approved by Parliament has added the possibility whereby Member States can limit the liability of employees towards their employers where, regarding the unlawful act, they have acted "*without intent*".

Limitation period

The first version of the Proposal is amended, whereby: (i) Member States will set the rules on the duration of the limitation period, the start of calculation of the period and the circumstances in which such period can be interrupted or suspended, and (ii) the limitation period cannot exceed six years.

In principle, no additional reform of the LCD would be necessary in this regard.

Preservation of confidentiality of trade secrets during legal proceedings

The Proposal also establishes the possibility for the courts to adopt measures to preserve the confidentiality of secret information during legal proceedings whose subject matter is the alleged unlawful exploitation of such information.

One of the most controversial issues of the drafting of the Proposal has been the regulation of measures to preserve the confidentiality of trade secrets and, specifically, the minimum number of persons who will be able to access the documents containing the trade secrets and who must furthermore be able to attend the court hearings at which said secrets can be disclosed, since this has the potential to affect constitutional rights such as the right to a proper defence or to a fair trial.

The first version of the Proposal considered the possibility of preventing the parties from accessing the confidential documentation and from attending the hearings at which the confidential information could be disclosed, which would have entailed a major obstacle to transposing the text in Spain. However, the version approved by Parliament establishes that the "*limited number of persons*" should include, at least, the parties and their lawyers, in order to ensure that the right to a proper defence and to a fair trial are upheld.

The Proposal also establishes the obligation to publish a version of the court decision which includes only those parts which are not confidential, an aspect not currently included in the LEC. The Proposal does not pronounce on who can request a copy of the recordings of court hearings, a particular characteristic of some Member States, including Spain. Therefore we will have to wait and see how this aspect is transposed and what ultimately becomes the standard practice of the Courts for controlling access to these recordings.

Conclusions

The version of the Proposal for a Directive on the protection of trade secrets approved on 14 April 2016 by the plenary session of the European Parliament introduces some substantial amendments to the text originally proposed by the European Commission.

After more than two years in the works, the final version of the Proposal is expected to be approved soon, especially considering that the version approved by Parliament is substantially identical to that contained in the provisional agreement formalised on 18 December 2015 by the Luxembourg Presidency of the Council of the European Union and the representatives of the European Parliament. As a result, any further changes made during the next stages of the process will likely be minor.

In any event, in order to be able to properly assess if the Directive actually achieves the intended degree of standardisation of regulations, we will have to wait and see how the final text is ultimately transposed to the laws of Member States, and how it is subsequently interpreted by the courts, including by the Court of Justice of the European Union when questions are referred to it by national courts.

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