One of the last few remaining areas of intellectual property not yet to have been touched by EU legislation, that of trade secrets, is set to be harmonised at an EU level under a proposal for a Directive on the subject issued by the European Commission on 28 November 2013. This article outlines this proposal, the divergences in national laws in Europe that it seeks to overcome, and those aspects of the law of trade secrets which it does not address or which remain controversial.

**Keywords:** Trade secrets, intellectual property, breach of confidence, harmonisation

One of the few remaining areas of intellectual property that as yet has not been harmonised at an EU level, namely that of trade secrets, is the subject of a proposal issued by the European Commission on 28 November 2013, for a ‘Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure’.

At present EU Member States comply with their obligation under Article 39(2) TRIPS to protect trade secrets in a variety of different ways and under a variety of legal theories. Most of them do so under their unfair competition laws, as indeed envisaged by Article 39 TRIPS, whereas the common law jurisdictions in the EU, in the United Kingdom and Ireland base their approach to such protection on judge made law as to breach of confidence that is generally accepted to have its origin in the celebrated early 19th Century English case of *Prince Albert v Strange*, although a proposal by the UK Law Commission in 1981 to provide a statutory basis for the law of breach of confidence was never adopted.

Such divergence, characterised by the European Commission as ‘the diversity and inconsistency of the existing regulatory framework’ and instanced in Recitals 5 and 6 of the proposed Directive, has provided the Commission with a basis for seeking to harmonise national laws in this area.

**The Unlawful Acquisition, Use or Disclosure of a Trade Secret under the Proposed Directive**

The proposed Directive would mandate EU Member States to harmonise their national laws so as to ensure that these provide trade secret holders with the right to apply for the measures, procedures and remedies provided for in the Directive in order to prevent, or obtain redress for, the unlawful acquisition, use or disclosure of a trade secret.

It starts by defining ‘trade secret’ as:

‘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.’

In Recital 8, it is suggested that this definition has the effect in practice of excluding ‘trivial information’ and that it should also ‘not extend to the knowledge and skills gained by employees in the normal course of their employment and which are known among or accessible to persons within the circles that normally deal with the kind of information in question.’ This is the only recognition in the proposed measure of a particular issue which in practice, in the English courts at least, has proved the most troublesome, namely the nature and scope of the obligations owed under the law of confidential information to an ex-employer by its former employees.
The proposed Directive also defines what is meant by the ‘unlawful acquisition, use or disclosure’ of a trade secret, distinguishing between acquisition on the one part and use or disclosure on the other. Thus the \textit{acquisition} of a trade secret is to be considered unlawful whenever carried out intentionally or with gross negligence by: (a) unauthorised access to or copy 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; (b) theft; (c) bribery; (d) deception; (e) breach or inducement to breach a confidentiality agreement or any other duty to maintain secrecy; (f) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.\textsuperscript{18} The use or disclosure of a trade secret is to be considered unlawful whenever carried out, without the consent of the trade secret holder, intentionally or with gross negligence, by a person who is found to meet any of the following conditions: (a) has acquired the trade secret unlawfully; (b) is in breach of a confidentiality agreement or any other duty to maintain secrecy of the trade secret; (c) is in breach of a contractual or any other duty to limit the use of the trade secret.\textsuperscript{19}

In order to address the situation in which trade secrets are passed on to third parties who did not themselves unlawfully acquire them, which is identified in the recitals as one to which there is a divergence of approach as between Member States, the proposed Directive provides that \textit{use or disclosure} of trade secret is also to be considered unlawful whenever a person, at the time of use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully.\textsuperscript{10} The proposal would also provide that the ‘conscious and deliberate production, offering or placing on the market of infringing goods, or import, export or storage of infringing goods for those purposes, shall be considered an unlawful use of a trade secret’\textsuperscript{11} where ‘infringing goods’ are defined as goods ‘whose design, quality, manufacturing process or marketing significantly benefits from trade secrets unlawfully acquired, used or disclosed.’\textsuperscript{12} It will be for national courts to determine when goods do significantly so benefit, but Recital 17 suggests that this should involve a ‘significant impact on the quality, value or price of the resulting good or on reducing the cost, facilitating or speeding up its manufacturing or marketing processes.’

\textbf{‘Defences’ under the Proposed Directive}

The proposed Directive goes on to mandate that the preceding obligations are subject to a set of what can be characterised as the ‘defences,’ although these are not so described. Certain of these defences are vague, potentially broad, and offer considerable scope for controversy.

The first type of defence\textsuperscript{13} provided by the proposed Directive is limited to identifying those circumstances in which the \textit{acquisition} of trade secrets is to be considered lawful, namely where these are obtained by:

\begin{itemize}
\item[(a)] independent discovery or creation;
\item[(b)] observation, study, disassembly or test of a product or object that has been made available to the public or that it is lawfully in the possession of the acquirer of the information;
\item[(c)] exercise of the right of workers representatives to information and consultation in accordance with Union and national law and/or practices; or
\item[(d)] any other practice which, under the circumstances, is in conformity with honest commercial practices.
\end{itemize}

One would have thought that the first of these defences is otiose as such activity is not an ‘unlawful acquisition’ that can give rise to any liability in the first place. The second, making it clear that reverse engineering does not of itself infringe trade secrets, addresses a situation that has arisen under some national laws and has a parallel with certain of the defences to copyright infringement provided by the Directive on the legal protection of computer programs.\textsuperscript{14} The last defence self-evidently gives considerable scope to national courts to determine what activities this should cover.

The second type of defence\textsuperscript{15} is not limited to only the acquisition of trade secrets and provides that no remedy is to be available under the proposed Directive when the \textit{acquisition, use or disclosure} of the trade secret is carried out in any of the following cases:

\begin{itemize}
\item[(a)] for making legitimate use of the right to freedom of expression and information;
\item[(b)] for the purpose of revealing an applicant’s misconduct, wrongdoing or illegal activity, provided that the alleged acquisition, use or disclosure of the trade secret was necessary for such revelation and that the respondent acted in the public interest;
\item[(c)] [disclosure] by workers to their representatives as part of the legitimate exercise of their representative functions;
\end{itemize}
(d) for the purpose of fulfilling a non-contractual obligation;
(e) for the purpose of protecting a legitimate interest.'

The first of this type of defence is of potentially broad scope and is likely to prove contentious in practice. This is demonstrated in the case of its freedom of information aspect (emphasised by the reference in Recital 9 to EU freedom of information legislation) when this is seen against the background of the current controversy as to the degree to which it is legitimate, in those sectors which the Commission regulates, notably pharmaceuticals and agrochemicals, for it to disclose to third parties, in response to their freedom of information requests, regulatory information submitted to it and regarded by those submitting such information to be confidential.

The fourth type of defence would apply to those situations in which disclosure is compelled by law but the proposed Directive provides no guidance as to what is meant by a ‘legitimate interest’ in the fifth of this type of defence, making it unclear what it is intended to cover and potentially providing national courts with considerable latitude in fashioning the scope of this defence.

Procedural Aspects and Remedies under the Proposed Directive

Recognising the evanescent nature of trade secrets if their protection is not enforced, the proposal would mandate a short limitation period for actions brought under it, namely a period (at the option of each Member State) of no more than two years (but not less than one) after the applicant became aware of the last fact giving rise to the action.

An interesting aspect of the proposed Directive is the degree to which its provisions as to ‘Measures, procedures and remedies’ vary from and would in some respects expand on the corresponding ones already contained in the enforcement Directive, when it would have been a simple matter expressly to have stated that the provisions in that Directive applied also to the proposed one, especially as the Commission, when expressing a view as to which intellectual property rights, in its opinion, the enforcement Directive applied, omitted reference to trade secrets. Instead Recital 28 of the proposed Directive implies that the enforcement Directive does apply to trade secrets, except in so far as the proposed Directive provides otherwise, as it provides that where the scope of application of the two Directives overlaps, the proposed Directive takes precedence as lex specialis. Despite this it is possible that certain of these provisions in the proposal may well foreshadow proposals for amendment to the enforcement Directive, and on which the Commission has recently been consulting.

One such provision, which has the potential to be of more general application, would require that Member States provide scope for national courts to order dissemination of their decision, and sanctions against applicants which ‘bring proceedings in bad faith with the purpose of unfairly delaying or restricting the respondent’s access to the market or otherwise intimidating or harassing the respondent.’

Another would mandate that national courts put in place procedures to preserve the secrecy of trade secrets in the course of their own proceedings, a principle which usefully be extended to patent infringement proceedings, as to which, in some European jurisdictions, it can be extremely difficult to preserve the confidentiality of technical or commercial information submitted in the course of such proceedings.

Aspects of Trade Secrets Law that the Proposal does not Harmonise

The proposed Directive does not harmonise all forms of trade secret protection and avoids addressing many issues encountered with trade secrets. Thus even though many countries in Europe (but not for example the United Kingdom) also protect trade secrets under the criminal law, the proposed Directive does not address this aspect of the protection of trade secrets, presumably as the degree to which the EU has competence to legislate in such area remains controversial. Thus these divergences will remain. Neither does the proposed Directive address the legal status of trade secrets, which has a bearing on the question of applicable law, presenting the interesting question under the Rome II Regulation as to whether Article 6 (unfair competition and acts restricting free competition) or Article 8 (intellectual property rights) applies.

The proposed Directive would not harmonise the law of confidential information in so far as it extends beyond trade secrets, so in those common law jurisdictions which draw no real distinction between trade and other types of secret, instead addressing them both under the law of confidential information, such law, which is already being
extended to conform to the developing law of privacy under the European Convention on Human Rights, will continue to apply and to develop in that context, but cut adrift from many of its foundations in breaches of commercial confidence.  

Finally, and as observed above, certain of the proposals, and especially some of the ‘defences’ are vague, potentially broad, and offer considerable scope for controversy. This could well limit considerably the harmonising effect of the Directive. Although it might be thought that such controversies could be resolved by references from national courts to the Court of Justice of the EU as to their appropriate scope, as happens in other areas of intellectual property law that are harmonised at an EU level, this may not in practice happen in this case given the long timescales involved in such references when ranged against the fleeting nature of much trade secrets protection, manifested in disputes that are usually resolved after applications for interim relief and which only rarely get as far as a full hearing on the merits.

So it remains to be seen, even with a trouble free legislative passage, how much harmonisation the proposed Directive will achieve in practice. Even with such a passage (which can never be assumed, even though the legal basis for the measure is such that it cannot be blocked by only a few Member States), the proposal envisages Member States having two years to implement it nationally, meaning that this is unlikely to take place before 2017.

References
2 Only Sweden has legislation that specifically protects trade secrets, whereas many other countries in Europe protect them in a variety of different ways under a variety of different legislative measures, and others do so on the basis of provisions that are not specifically designed to protect trade secrets such as unfair competition law, as implied contractual obligations or under tort law.
3 For a discussion of the origin of this approach, and its consequences in terms of the protection that this provision mandates, see De Werra Jacques, How to protect trade secrets in high-tech sports? An intellectual property analysis based on the experiences at the America’s Cup and in the formula one championship, European Intellectual Property Review, 32(4) (2010) 155-164.
4 Prince Albert v Strange (1849) 18 LJ Ch 120, 41 ER 1171, [1849] EWHC Ch J20, (1849) 1 Mac & G 25, http://www.bailii.org/ew/cases/EWHC/Ch/1849/J20.html. Here the court granted Prince Albert an injunction to restrain the defendant Strange from publishing a catalogue describing certain etchings made by Prince Albert, observing that “this case by no means depends solely upon the question of property, for a breach of trust, confidence, or contract, would of itself entitle the plaintiff to an injunction.”
6 Article 2(1) of the proposed Directive.
7 Indeed it is the subject of an entire chapter in Garry on Breach of Confidence- The Protection of Confidential Information by Tanya Aplin, Lionel Bently, Phillip Johnson, and Simon Malynicz (Oxford University Press, UK), 2nd edn, 2012, which observes that “while the courts are quick to imply obligations [of confidentiality] on parties to an employment contract, once employment has ceased the court treat the parties as potential competitors, only limiting the ex-employee’s actions through narrowly defined implied obligations.”
8 Article 3(2) of the proposed Directive.
9 Article 3(3) of the proposed Directive.
10 Article 3(4) of the proposed Directive.
11 Article 3(5) of the proposed Directive.
12 Article 2(4) of the proposed Directive.
13 Article 4(1) of the proposed Directive.
14 Articles 5 and 6 of Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (codified version) OJ L111, 5.5.2009, p.16. In the English case of Mars UK Ltd v Teknowledge Ltd [1999] EWHC 226 (Pat) (11 June 1999) reverse engineering a product that had been bought on the open market, including reverse engineering information that had been encrypted for security, was held not to be a misuse of confidential information. However, this is no authority for the situation in which decryption is assisted by the use of software that is not in the public domain - see Volkswagen Aktiengesellschaft v Garcia & Ors [2013] EWHC 1832 (Ch) (25 June 2013).
15 Article 4(2) of the proposed Directive.
16 As to pharmaceuticals, see the dispute over the EMA policy as to the disclosure of clinical trial data the subject of Cases T-29/13 and T-44/13 AbbVie v European Medicines Agency (General Court 25 April 2013) and C-389/13P European Medicines Agency v AbbVie (CJEU 28 November 2013), Cases T-73/13 InterMune UK v European Medicines Agency (General Court 25 April 2013) and C-390/13P InterMune UK v European Medicines Agency v InterMune UK (CJEU 28 November 2013). As to agrochemicals, see Case T-545/11 Stichting Greenpeace Nederland and PAN Europe v Commission (General Court, 8 October 2013).
(2005/295/EC) OJ L 94 13.4.2005, p. 37, which listed those intellectual property rights which it considered to be covered by the scope of the Directive, but failed to include trade secrets in its list, even though it listed some other intellectual property rights that are not harmonised at an EU level. However the English courts have, on occasion, applied the enforcement Directive when assessing remedies for breach of trade secrets, although most recently, in Force India Formula One Team Ltd v Aerolab SRL & Anor [2013] EWCA Civ 780 (3 July 2013) the English Court of Appeal expressed scepticism (at [108]) as to the application of the enforcement Directive to actions for breach of trade secrets.


20 Article 6(2) of the proposed Directive.

21 Article 7 of the proposed Directive.


23 In 2005 the European Commission proposed a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights (COM(2005) 276 final, July 12, 2005), having previously abandoned the criminal provisions in what became Directive 2004/48/EC on the enforcement of intellectual property rights. This proposal coincided with the controversy occasioned by constitutional objections by EU Member States to EU legislation on criminal law matters, exacerbated by the decision of the CJEU in Case C-176/03 Commission and European Parliament v Council (13 September 2005) holding that the EU could adopt criminal measures in relation to environmental policy where these were “essential” for combating serious environmental offences and where the EU legislature considers such measures to be necessary to ensure that the EU rules on environmental protection were fully effective. In 2010 the Commission withdrew the proposal (OJ C 252 18.09.10, p.7 @ p.9).


25 Discussion in Tchenguiz & Ors v Imerman (Rev 4) [2010] EWCA Civ 908 (29 July 2010) at [54] to [71] charting the extension of the English law of confidential information from the commercial sector to the private sector.