

Know how protection and trade secret in Europe

Avv. Elisa Grassi (Scuola Superiore Sant'Anna; JOTTO)

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The TRIPS Agreement was the first international agreement to protect trade secrets expressly.

Protection of undisclosed information is addressed in Article 39 of the Agreement (entered into force in 1995).

1. *In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), **Members shall protect undisclosed information** in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.1.*

2. ***Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:***

*(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.***

3. *Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.*

Under Article 39 of TRIPS, **Members are obliged to ensure protection of undisclosed information** through systems developed through appropriate legislations.

The variation between countries in the means employed to provide the TRIPS - mandated protection can affect the ways businesses and workers conduct their affairs; the **legal protection of trade secrets may have important economic effects.**

In 2014 OECD published a Paper on the protection of undisclosed informations analyzing the available legal protection for trade secrets (undisclosed information) in a broad sample of countries.

The similarities among countries in defining trade secrets correspond well with the three requirements of Article 39 of TRIPS.

- **Secrecy.** The information protected must actually be secret. Secrecy requires that the **information must not be readily publically accessible** and that it is revealed to others only under conditions that maintain secrecy with respect to the broader public.
- **Commercial Value.** The information must have economic value as a result of its being secret; the undisclosed information must derive some utility from being kept secret.
- **Reasonable Efforts to Maintain Secrecy** on the part of the rights holder.

Other points of similarity

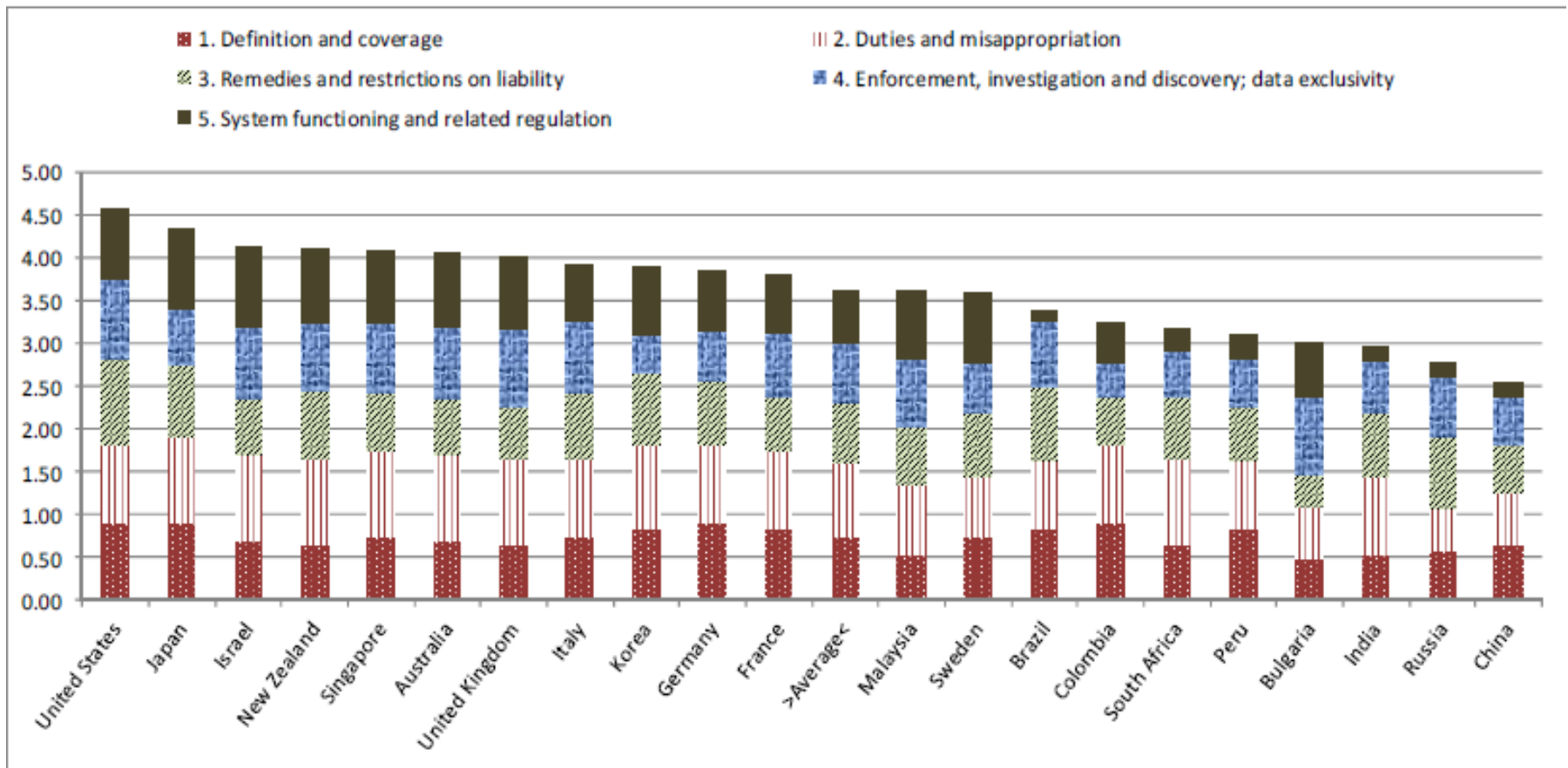
- **Scope.** The scope of trade secret protection, follows certain well-defined categories
 - (1) technical information (industrial processes, formulae, and similar information regarding technology);
 - (2) confidential business information (customer lists (at least to the extent they include truly non-public information), financial information, business plans and similar information regarding the operation of a business); and
 - (3) know-how (information about methods, steps and processes for achieving efficient results).
- **Defences.** Independent creation of a trade secret (without access or reference to the plaintiff's trade secret) is explicitly or implicitly a universally recognized defence. Reverse engineering is also widely explicitly recognized as permissible.
- **Third Party Liability.** A third party that receives trade secrets with knowledge or reason to know that they were provided in violation of trade secret law is typically liable.

Trade Secrets at international level

Variation:

- **Civil vs. Criminal.** A basic point of variation is whether a country protects trade secrets primarily through civil law, criminal law, or both – or, in some cases, administrative law.
- **Duty.** Systems vary in how duties are imposed. In some instances, trade secret protection applies **only where a defendant breaches a contractual or implied duty of confidentiality**. In other instances, in addition to cases of breach of duty, trade secret law also applies **where the secret was wrongfully obtained**. In other instances, **trade secrets are protected as intellectual property rights (IPRs)**.
- **Remedies.** Remedies vary widely in details and practical availability.
- **Duty of Employees.** Employees are typically, but not everywhere, under **an implied duty of confidentiality during the term of employment**. Express agreements to keep information confidential are enforceable during the term of employment. There is **wide variation as to what an employee's duties are after termination of employment**. Some jurisdictions will continue to impose an implied duty after the end of employment. Many restrict enforcement of **express contracts** for confidentiality after employment as well. A **typical restriction on both express and implied duties is that they do not apply to general skills and knowledge and cannot interfere with the employee's ability to make a living**.

5. Trade Secrets Protection Index, by component and country, 2010



Trade Secrets at EU level



Trade Secrets at EU level

- ✓ No harmonised system for the protection of trade secrets within the EU.
- ✓ All Member States offer some form of protection; in one or two Member States protection is extremely limited.
- ✓ The **manner of protection varies** from State to State.
- ✓ Common law countries (UK and the Republic of Ireland) have effective trade secret protection despite having no specific trade secret legislation.



Trade Secrets at EU level

- ✓ Trade secrets are not generally viewed as intellectual property rights. Some Member States regulate protection of trade secrets in a similar manner to "traditional" intellectual property rights.
- ✓ One Member State (Sweden) has an **Act on the Protection of Trade Secrets**.
- ✓ Other Member States (Germany) have trade secret provisions in legislation aimed at **unfair competition, labour laws and criminal law**.
- ✓ Other Member States, (UK and the Republic of Ireland) have **no statutory form of protection for trade secrets and use the law of confidence to protect them**.
- ✓ In yet further jurisdictions (Netherlands) **general tortious liability** extends to trade secret infringement.
- ✓ **Contractual liability** is used to protect trade secrets, in particular in relation to employees, in most Member States.
- ✓ In one Member State (Malta) protection arises solely from the law of contract so there is no means of protection where no contractual relationship exists.

Trade Secrets at EU level

‘Know-how’ means a **non-patented technical knowledge** (Reg. CE n. 2349/1984);

‘Know-how’ means a **package of non-patented practical information**, resulting from experience and testing by the franchisor, which is secret, substantial and identified (**Reg. CE n. 4087/1988**);

‘Know-how’ means a **body of technical information** that is secret, substantial and identified in any appropriate form (**Reg. CE n. 556/1989 and n. 240/1996**);

‘Know-how’ means a **package of non-patented practical information**, resulting from experience and testing, which is **secret, substantial and identified**: ‘secret’ means that the know-how is not generally known or easily accessible; ‘substantial’ means that the know-how includes information which is indispensable for the manufacture of the contract products or the application of the contract processes; ‘identified’ means that the know-how is described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality (**Reg. CE n. 2729/1999 and n. 2659/2000**);

Trade Secrets at EU level

‘Know-how’ means a **package of non-patented 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 the 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 (**Reg. CE n. 772/2004 by which Reg. CE n. 2659/2000 was abrogated**);

Definition of trade Secrets at EU level

No uniform definition in EU countries: each jurisdiction has adopted **different eligibility standards for information to qualify as trade secrets.**

Definitions are often spread over different pieces of legislation, which makes it more difficult to reconcile them in a unique and clear concept.

Despite the lack of a uniform definition, **recurrence of certain common requirements** to qualify information as trade secrets:

- (i) it is **technical or commercial information related to the business;**
- (ii) it is secret in the sense that **it is not generally known or easily accessible;**
- (iii) **it has economic value consisting of conferring a competitive advantage to its owner;**
- (iv) **it is subject to reasonable steps to keep it secret.**

Actions and remedies at EU level

Actions available in case of trade secrets violations, **vary** in each Member State.

Generally, evidence must be provided of:

- (i) the existence** of a protectable secret;
- (ii) the infringement** of the protectable secret;
- (iii) the unlawful nature of the misappropriation** or use.

(iv) Additional requirements may need, depending on the nature of the action.

- Where actions are brought in **tort**, the plaintiff must prove the defendant's fault, the damage suffered and the causal link between infringement and damage.
- In case of an **unfair competition** action, the plaintiff is usually required to provide evidence of the infringer's intention to compete with the owner of the secret information.
- If the action is based on breach of contract, the plaintiff must quite obviously demonstrate the existence of an actionable contractual obligation and its breach.

The next EU Directive

The European Commission is working to harmonise the existing diverging national laws on the protection against the misappropriation of trade secrets.

In **November 2013**, the Commission proposed a draft directive that will align existing laws against the misappropriation of trade secrets across the EU.

On **26 May 2014**, the European Commission submitted to the Council and the European Parliament the proposal for the Directive on the protection on the undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.

On **15 December 2015** the European Parliament and the Council reached a preliminary agreement on the text of the Directive. The agreement **need to be formalised** by the European Parliament and the Council.

The proposal harmonises the definition of trade secrets in accordance with existing internationally binding standards. It also **defines the relevant forms of misappropriation and clarifies that reverse engineering and parallel innovation must be guaranteed**, given that trade secrets are not a form of exclusive intellectual property right.

Without establishing criminal sanctions, **the proposal harmonises the civil means** through which victims of trade secret misappropriation can seek protection, such as:

- **stopping the unlawful use and further disclosure of misappropriated trade secrets;**
- **the removal from the market of goods manufactured on the basis of a trade secret illegally acquired;**
- **the right to compensation for the damages.**

The next EU Directive

The EU will have a common, clear and balanced legal framework which will discourage unfair competition, facilitate collaborative innovation and the sharing of valuable know-how.

The draft directive deals with **unlawful conduct** by which someone acquires or discloses, without authorisation and through illicit means, information with commercial value that companies treat as confidential in order to keep a competitive advantage over their competitors.

If no unlawful conduct takes place, the relevant disclosure of the trade secret is out of scope of the draft directive and therefore not affected by it.

Even when a trade secret is misappropriated, the draft directive foresees a specific **safeguard in order to preserve the freedom of expression and right to information** (including a free press) as protected by the Charter of Fundamental Rights of the European Union.

The Italian experience



Know-how and trade secret at Italian level

Italian trade secret protections are found in:

- ✓ **Article 1 of the Italian Industrial Property Code** “For the purposes of this code, the words industrial property shall include trademarks and other distinctive signs, geographical indications, designations of origin, designs and models, inventions, utility models, topographies of semiconductor products, **business confidential information** and new plant varieties”
- ✓ **Articles 98 and 99 of the Italian Industrial Property Code**– Protects business information and technical – **industrial expertise**, including commercial ones, where such information:
 - (a) **is secret**, i.e., **not generally known or readily accessible** to experts in the industry;
 - (b) **has economic value**, i.e. provides a business advantage for the company over its competitors;
 - (c) **is subject to measures** that can be considered **reasonably adequate** to keep it secret.
- ✓ To improve its compliance with TRIPS, **Article 99** of the Italian IP Code has been amended in 2010 to enhance remedies for trade secret violations. With these amendments, the protection of trade secrets is broad:
 - (i) **infringers can be prohibited from continued use of the misappropriated trade secrets**;
 - (ii) **courts may take steps to eliminate the effects** of stolen trade secrets, including destroying goods produced from exploiting the trade secret; and
 - (iii) **people** who violate the unfair competition laws with fraud, malice, or negligence **may be personally liable for damages**.

- ✓ Articles 2598 (n. 3) –2601 of the Italian Civil Code.: Unfair Competition
- ✓ Article 2105 of the Italian Civil Code provides that all employees owe a duty of loyalty to their employer, and prohibits them from misappropriating their employers' secrets:
 - “[A]n employee cannot engage in business, either for his own account or for the account of third persons, in competition with his employer **nor divulge information** pertaining to the organization and methods of production of the enterprise, nor use it in such a manner as may be prejudicial to the enterprise.”

Civil remedies



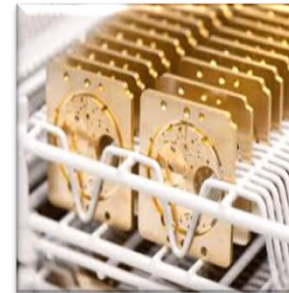
- A. Injunctions (ordinary action + interim relief)
- B. Return of trade secrets/destruction of infringing goods
embedding trade secrets (ordinary action + interim relief)
- C. Compensation for **damages**
- D. **Seizure** of trade secrets infringing goods and
description/preliminary technical assessment
- E. **Withdrawal** from the market of infringing goods
- F. **Publication of the decision**
- G. **Restraint measures**

Practical issues



Patentable, unpatented and unpatentable inventions: computer software, formulas, product testing, quality control technique

Technical secrets, manufacturing know-how, training procedures



Compilation of information, technical design, list of clients or suppliers, financial and technical rules

Precautions

CONFIDENTIAL

The "best-kept trade secrets in the world". The procedures for protecting the formula for Coca - Cola according to an affidavit given by a senior vice-president and general counsel for Coca-Cola in a court case, are as follows: **The written version of the secret formula is kept in a security vault at the Trust Company Bank in Atlanta, and that vault can only be opened by a resolution from the Company's Board of Directors. It is the Company's policy that only two persons in the Company shall know the formula at any one time, and that only those persons may oversee the preparation.**

The Company refuses to allow the identity of those persons to be disclosed or to allow those persons to fly on the same airplane at the same time.



Precautions

CONFIDENTIAL

! Requirement for protection: SECRET

Reasonable precautions to keep the information secret. Technical measures; Legal measures

- **Marking information as confidential:** by marking the information as confidential or proprietary, those who gain access to the information are aware of its status and must realize that they have to keep the information secret.
- **Nondisclosure agreements or confidentiality clauses:** A nondisclosure agreement (NDA) is a contract in which it is agreed to keep certain information secret. With a non-disclosure agreement, the owner of a trade secret can share information with a third party without damaging the secrecy of the information. This makes it easy to prove a case of trade secret misappropriation. Often an NDA is single-sided: one party supplies the information and the other must keep it a secret. An NDA can also be mutual or double-sided: both parties exchange information and agree to keep the information they receive a secret.
- **Restricting dissemination:** Make sure that trade secret information is only disseminated to those people who have a real need to know the information..
- **Information security policy** including trade secret protection policy
- **Awareness and education to employees** on issues related to information security
- **Storing confidential information safely**

Thank you!

Contacts: e.grassi@sssup.it; uvr@sssup.it
www.jointto.it