

Employees, Trade Secrets and Restrictive Covenants

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CHAPTER 1

The “*Actio Servi Corrupti*” from the Roman Empire to the Globalised Economy

Anselm Kamperman Sanders

A. INTRODUCTION

Unlike most fields of intellectual property law, the issue of unfair competition and trade secrets is addressed in international agreements in a rather incomplete manner. Article 10bis Paris Convention and the 1995 World Trade Organisation (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Article 39 offer no particular guidance let alone an obligation on how trade secrets should be protected. In the absence of large scale global labour mobility, this has thus far not presented a major problem. The TRIPS Agreement merely provides the conditions under which protection can be sought:

“Article 39 – Protection of Undisclosed Information

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.

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 practices¹ so long as such information:

1. Footnote 10 to the TRIPS Agreement reads:

“For the purpose of this provision, ‘a manner contrary to honest commercial practices’ shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were

- (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.”

However, a growing number factors make the lack of an unequivocal global standard for the protection of undisclosed know-how and business information increasingly problematic. One only needs to think of globally operating companies, the growth of the borderless wired and wireless knowledge economy, the formation of free trade areas and customs unions, and the outsourcing of research and development to jurisdictions where skilled specialists can be found to see why this is so. Given the fact that in the absence of intellectual property rights, information is non-rival and non-exclusive,² the risks of misappropriation of knowledge are likely to become even more pronounced in future.

B. *ACTIO SERVI CORRUPTI*

It has been purported that the private legal action granting commercial relief for corrupting another’s servant in Roman law is the genesis of the protection of trade secrets today.³ Although this assertion has been refuted,⁴ cases of industrial espionage have often targeted the knowledgeable employees of a competitor. Successful “corruption” of another’s employees or nationals has however, not always been perceived as unfair.

A case in point is the way in which Robert Fortune (16 September 1812 – 13 April 1880), the Scottish botanist and traveller who was sent by the Royal Horticultural Society to collect plants in China, was revered in his time. Despite having successfully

involved in the acquisition. Members to these conventions have so far been able to deal with the issue of protection of trade secrets on a strictly national basis.”

- 2. See European Commission, press Release 28 November 2013, “Commission Proposes rules to help protect against the theft of confidential business information”, available at http://europa.eu/rapid/press-release_IP-13-1176_en.htm: “Trade secrets are ... substantially different from IPRs, which confer exclusivity”.
- 3. Arthur Schiller, “Trade Secrets and the Roman Law: The *Actio Servi Corrupti*” (1930) 30:6 *Columbia Law Review* 837-45.
- 4. Alan Watson, “Trade Secrets and Roman Law: The Myth Exploded” (1996) 11 *Tulane European and Civil Law Forum* 19, at 19: “Schiller is sadly mistaken as to what was going on. ... The *actio servi corrupti* presumably or possibly could be used to protect trade secrets and other similar commercial interests. That was not its purpose and was, at most, an incidental spin-off. But there is not the slightest evidence that the action was ever so used. In this regard the *actio servi corrupti* is not unique. Exactly the same can be said of many private law actions including those for theft, damage to property, deposit, and production of property. All of these could, I suppose, be used to protect trade secrets, etc., but there is no evidence they were. It is bizarre to see any degree the Roman *actio servi corrupti* as the counterpart of modern law for the protection of trade secrets and other such commercial interests.”

wrested the territory of Hong Kong and further trade concessions from China at the conclusion of the First Opium War in the 1842 Treaty of Nanking, the English still did not have access to tea, their most popular drink, which was produced inland. Westerners were not allowed to travel into the Chinese interior. Fortune first travelled through China for three years around 1843, often in disguise, and published his journals in a book on his adventures that brought him to the attention of the British East India Company.⁵ They recruited Fortune and assigned him the task of breaking the Chinese tea monopoly. During his second trip to China’s Fujian, Guangdong, and Jiangsu provinces from 1848 to 1851, Fortune managed to smuggle 20,000 black and green tea plants out of the country in “Wardian cases” (a terrarium popularised by Dr. Nathaniel Bagshaw Ward⁶ from 1829 onwards) with the purpose of planting them in the territory that the East India Company did control; the Assam region in India. At first many of the tea plants that Fortune had “liberated” from Chinese soil perished in India and Fortune’s bio-piracy almost came to nothing. Fortune had, however, also managed to recruit eight Chinese tea experts who assisted in the set-up of the Indian tea plantations and transferred their knowledge on producing, curating, harvesting, and drying the tea. As a result of this concurrent transplant of plants and poaching of talent, the Chinese tea trade collapsed and India became the biggest tea exporter during Fortune’s lifetime.

This strategy was also used by the Portuguese. In the early 1800s the Emperor of China had gifted tea plants to the Portuguese King João VI, who was then residing in Brazil. In 1860 the orange plantations in the Azores succumbed to a virus and an alternative crop was sought. The tea plants that had been growing in the Rio de Janeiro palatial gardens were transported to São Miguel, one of the islands in the Azores archipelago, in an attempt to replace the orange tree orchards with tea plantations. This only worked when two Chinese natives, a tea expert and an interpreter from Macau, were recruited and brought over in 1878 to assist in turning the ornamental plants into tea-producing plantations for the manufacture and export of tea. The tiny island of São Miguel is the only place in Europe where tea is produced. To this day bio-piracy and the misappropriation of indigenous knowledge are strongly interlinked.⁷

Fortune, who documented the exploits of his second voyage in two books,⁸ returned to China for a third visit from 1853 to 1856 and is said to have been able to

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5. Robert Fortune, *Three Years’ Wandering in the Northern Provinces of China* (London, John Murray 1847), detailing his first visit to China.
 6. Nathaniel Ward, *On the Growth of Plants in Closely Glazed Cases* (London, John van Voorst 1842), who in “Chapter IV. On the Conveyance of Plants and Seeds on Ship-board”, p. 45 *et seq.*, describes the experiments in transporting coffee plants, ferns, and various other plants under various weather conditions and during lengthy voyages.
 7. See Convention on Biodiversity (1993), available at <http://www.biodiv.org>; see also Graham Dutfield, *Intellectual Property Rights, Trade and Biodiversity* (London/Sterling, Earthscan 2000); and Susan Laird (ed.), *Biodiversity and Traditional Knowledge – Equitable Partnerships in Practice* (London/Sterling, Earthscan 2002).
 8. Robert Fortune, *A Journey To The Tea Countries Of China; Including Sung-Lo And The Bohea Hills; With A Short Notice Of The East India Company’s Tea Plantations In The Himalaya Mountains* (London, John Murray 1852); *Two Visits to the Tea Countries of China and the British Tea Plantations in the Himalaya: with a Narrative of Adventures, and a Full*

sustain himself for the rest of his life from the proceeds of these and further popular publications on his travels.⁹ Robert Fortune thus became known as a heroic scientific explorer who could easily have served as inspiration for George Lucas' Indiana Jones character. What is known is that Fortune did not perceive his actions as infringing upon anyone's intellectual property rights, believing firmly that plants belonged to no-one and should benefit the whole of humanity.¹⁰ Recruiting the Chinese tea experts and tapping into their knowledge was thus in the interest of the greater good.

Contrast this story with the tale of José Ignacio López de Arriortúa.¹¹ During his tenure at General Motors, which lasted until 1992, López had been instrumental in turning Opel's dire financial situation around through cost reductions and introducing efficient production methods. Because of his success, he was known as the "Grand Inquisitor", "Super López", or "Inaki". When López was drafted in by GM to repeat the exercise in Detroit, he instead moved to Volkswagen in 1993, taking three of his close associates with him. Curiously López did not have a contract with GM, as the corporate culture held that persons at the top would never leave "The General" voluntarily.

GM accused López and his three associates of breach of trade secrets, claiming that he had taken with him ten years' worth of Opel production plans, blueprints for a superefficient production plant (Plant X), and other private insider GM information. Germany's leading news weekly *Der Spiegel* put López on the front cover calling him "*Der Skrupellose*", the one without scruples.¹² VW was sued by GM in the United States, a civil case which was settled in 1997 by VW paying GM USD 100 million in cash and USD 1 billion in car parts. López had by then already resigned from VW and was forced to pay USD 230,000 in civil fines. Ironically he only escaped extradition to the United States for criminal charges due to the fact that he was involved in a serious car accident in his home country Spain in 1998. To this day, "Inaki" tops many lists of nefarious industrial spies. "*Der Skrupellose*" induced some of his colleagues to follow him to Volkswagen and VW was in turn forced to pay up for the acquisition of trade secrets in the full knowledge that López was not at liberty to disclose this information.

In modern times, the *actio servi corrupti*, the action against the corruption of the servant, therefore addresses both the corruptor and the corrupted, but it should not come as a surprise that drawing the line between free and fair competition on the one hand, and breach of trade secrets on the other remains in the eye of the beholder. In today's globalised and networked economy, the question of protection

Description of the Culture of the Tea Plant, the Agriculture, Horticulture, and Botany of China (London, John Murray 1853).

9. Robert Fortune, *A Residence Among the Chinese; Inland, On the Coast and at Sea* (London, John Murray 1857); *Yedo and Peking; A Narrative of a Journey to the Capitals of Japan and China, with Notices of the Natural Productions, Agriculture, Horticulture and Trade of those Countries and Other Things Met with By the Way* (London, John Murray 1863).
10. Sarah Rose, *For All the Tea In China: Espionage, Empire, and the Secret Formula for the World's Favourite Drink* (London, Hutchinson 2009).
11. See also Chapter 5.
12. "Der Skrupellose VW-Manager López unter Verdacht: Industrie-Spionage" (1993) 47:21 *Der Spiegel*, 24 May 1993, available at <http://www.spiegel.de/spiegel/print/d-9280405.html>.

of trade secrets has become increasingly relevant. In the context of international trade agreements, great emphasis is placed on the protection of intellectual property and investor confidence. In order to safeguard technology-transfer across borders, harmonisation or at least a minimum of convergence of the rules on trade secret protection is key. Article 39 TRIPS provides some notions on the protection of trade secrets against their unlawful acquisition, use or disclosure by third parties, but this provision still allows for diverging national definitions of the concept of “trade secret” and of the scope of protection.¹³ In any event a trade secret has three parts: (1) information; (2) reasonable measures taken to protect the information; and (3) deriving independent economic value from not being generally known. Legislative developments on this issue in the European Union and in the United States are therefore extremely relevant for the ongoing negotiations on the Transatlantic Trade and Investment Partnership Agreement (TTIP). In the United States trade secret law was until recently primarily based upon the laws of each of the 50 states.¹⁴ These state laws are predominantly based on the Uniform Trade Secret Act (UTSA), a model law of the National Conference of Commissioners on Uniform State Laws,¹⁵ which has been adopted by 48 of the 50 states,¹⁶ the District of Columbia, the US Virgin Islands and Puerto Rico.

On 11 May 2016, new federal legislation entered into force in the form of the Defend Trade Secrets Act of 2016 (DTSA).¹⁷ The DTSA creates a federal cause of civil action for misappropriation of trade secrets that is similar to the protection offered under the UTSA. This means that in addition to state courts, federal courts can now deal with cases involving trade secrets.

In the European Union, the laws of the Member States¹⁸ are to be harmonised by a 2016 Directive on the protection of trade secrets (Trade Secrets Directive), whereby they must bring into force the laws and administrative provisions necessary to comply with the Directive by 9 June 2018.¹⁹

13. EU Study on trade secrets and confidential business information in the internal market (July 2013) http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf

14. Elizabeth Rowe and Sharon Sandeen, *Trade Secrecy and International Transactions* (Cheltenham/Northampton, Edward Elgar 2015).

15. Uniform Trade Secrets Act, model law, as amended in 1985 (© The National Conference of Commissioners on Uniform State Laws 1985), available at http://www.wipo.int/wipolex/en/text.jsp?file_id=130067.

16. Only New York and Massachusetts have not adopted the UTSA. In these states, trade secrets are protected under common law.

17. An Act to amend Chapter 90 of Title 18, United States Code, to provide federal jurisdiction for the theft of trade secrets, and for other purposes, available at <https://www.congress.gov/114/bills/s1890/BILLS-114s1890enr.pdf>.

18. See Chapters 4-9 for an overview of the current state of the law in the United Kingdom, Germany, the Netherlands, France, Italy, and Spain.

19. Directive 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, (2016) *Official Journal of the European Union*, 15 June 2016, L157/1.

C. TRADE SECRET PROTECTION IN THE UNITED STATES OF AMERICA UNDER THE DTSA

The development of trade secret protection in the United States of America can be characterised in that many of US states value free competition and employee mobility. Any claim under the UTSA therefore relies on showing misappropriation of confidential information. That means that in the context of the burden of proof wrongful behaviour must be demonstrated. The Obama Administration in 2013 issued a report addressing its strategy in combatting trade secret theft by hackers, employees, and companies.²⁰ Much of this report is based on the notion that economic espionage is particularly targeting United States companies. The Economic Espionage Act of 1996 made the theft or misappropriation of a trade secret a federal crime, but did not specifically address the civil actions available in case of misappropriation. The DSTA now makes direct reference to the Economic Espionage Act and calls upon the Attorney General of the United States, in consultation with the Intellectual Property Enforcement Coordinator and other appropriate agencies to report to the House of Representatives and the Senate on the scope and breadth of theft of trade secrets of United States companies occurring outside of the United States. In light of this trade agreements and treaties are mentioned as a means to improve the protection against the “theft of trade secrets” outside of the United States.²¹

The DTSA, as a federal instrument²² providing civil actions, does not pre-empt state legislation, which means that plaintiffs can choose to file claims in a state or federal court for the misappropriation of a trade secret that is related to a product or service used in, or intended for use in, interstate or foreign commerce. It is said that federal courts are better equipped to ensure that a uniform body of case law develops in relation to trade secret protection.²³

I. Definition

The UTSA provides for the following definition:

“§1(4) ‘Trade Secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”²⁴

20. *Administration Strategy on Mitigating the Theft of U.S. Trade Secrets* (2013), available at https://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf

21. DTSA, *supra* note 17, Sec. 4, “Report on Theft of Trade Secrets Occurring Abroad”.

22. DTSA, *supra* note 17, Sec. 2, “Federal Jurisdiction for Theft of Trade Secrets”.

23. David Almeling, Darin Snyder, Michael Sapoznikow, Whitney McCollum, and Jill Weader, “A Statistical Analysis of Trade Secret Litigation in State Courts” (2011) 46 *Gonzaga Law Review*, 57-101; and David Almeling, “Four Reasons to Enact a Federal Trade Secrets Act” (2009) 19 *Fordham Intellectual Property, Media & Entertainment Law Journal* 769-98.

24. *Supra* note 13.

The DTSA uses a similar definition of trade secrets, and it contains remedies similar to those available in state proceedings, namely injunctive relief, compensatory damages or payment of a reasonable royalty, and exemplary damages and the recovery of attorneys’ fees, the latter two in the event of wilful or malicious misappropriation. There are also a number of notable differences (see below).

The DTSA provides a definition for the term “misappropriation”, meaning *inter alia* “the acquisition of a trade secret by another by a person who knows or has reason to know that the trade secret was acquired by improper means”. “Improper means” are defined as including theft, bribery, misrepresentation, breach or inducement or a breach of a duty to maintain secrecy, or espionage through electronic or other means. It is specified that reverse engineering, independent derivation, or any other lawful means of acquisition are excluded. Misappropriation also covers the disclosure or use of a trade secret, either through improper means, or if the defendant had knowledge or constructive knowledge that a trade secret was involved.

II. Remedies

The DTSA creates an *ex parte* seizure procedure allowing, in extraordinary circumstances only, the trade secret “owner” to request the seizure of information without the other party being notified. This serves to prevent the party against whom the seizure is ordered from destroying, moving, or hiding materials, or otherwise making them inaccessible to the court. Once the request for a seizure has been granted, a hearing must be set within seven days after the issuance of the order and the materials remain in custody of the court. Furthermore, the DTSA allows for the recovery of treble exemplary damages for wilful or malicious misappropriation, versus double under the UTSA.

III. Confidentiality of Trade Secrets in Legal Proceedings

Unlike most state legislation,²⁵ the DTSA does not require the plaintiff to describe or disclose its trade secrets with particularity before commencing discovery. Under state laws the plaintiff in a written disclosure has to specifically identify each trade secret that he wishes to be considered for discovery against a defendant. The DTSA shields the plaintiff from having to reveal the trade secret in question at an early stage in the proceedings and under federal rules of civil procedure can exercise discretion.²⁶

25. See for example California’s Code of Civil Procedure, Sec. 2019.210:

“In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code), before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.”

26. Federal Rule of Civil Procedure 26. Duty to Disclose; General Provisions Governing Discovery.

IV. Safeguards

Whistle-blowers wishing to address violations of the law are vulnerable to retaliatory action for the misappropriation of trade secrets. Provided that they “disclose trade secrets to law enforcement or court officials in confidence for the purpose of reporting or investigating a suspected violation of law”, the DTSA provides protection from such retaliatory accusations.

The DSTA also addresses the issue of injunctive relief based on the inevitable disclosure doctrine that allows an employer to enjoin a former employee from working in a job that would inevitably result in the use of trade secrets. The inevitable disclosure doctrine thus allows employers to prevent ex-employees from entering the employ of a competitor solely on the basis that he is in the possession of confidential information. The DSTA allows the employer to seek injunctive relief only upon providing evidence of threatened misappropriation. However, individual laws of states governing non-compete agreements are not affected by the DTSA.

Furthermore, a three-year limitation period for civil action is in place from the date on which the misappropriation with respect to which the action would relate is discovered or should have been discovered.

Most concerns²⁷ are, however, raised against the *ex parte* measures that, despite the DTSA’s instruction to the Federal Judicial Center to develop best practices for the execution of seizures and the storage of seized information, are seen as fundamentally prohibitive of competition,²⁸ as the costs of these proceedings are high and are likely to target start-up companies and ex-employees.²⁹

D. TRADE SECRET PROTECTION IN THE EUROPEAN UNION UNDER THE DIRECTIVE

The need to strengthen innovation to safeguard Europe’s future has been articulated over and over again.³⁰ In *Putting Knowledge into Practice: A Broad-Based Innovation Strategy for the EU* (2006),³¹ the European Commission made the point that tackling

27. David Levine and Sharon Sandeen, “An open letter to the sponsors of the revised Defend Trade Secrets Act”, 3 August 2015, available at <https://s3.amazonaws.com/ftt-uploads/tradesecretletter2015.pdf>.

28. See Timothy Maloney, “Patent Enforcement in the United States”, in Christopher Heath (ed.), *Patent Enforcement Worldwide* (3rd edn, Oxford/Portland, Hart Publishing 2015), who at 495 notes that preliminary injunctions are rarely granted in intellectual property disputes.

29. For a critical appraisal of these types of threats see Orly Lobel, “Enforceability TBD: From Status to Contract in Intellectual Property Law” (2016) 96 *Boston University Law Review* 869-93.

30. See Anselm Kamperman Sanders and Meir Perez Pugatch, “From the Lisbon Agenda to Horizon 2020 - An Uneasy Journey: Some Thoughts on European Innovation and IP Policy at a Crossroad”, in Adam Jolly (ed.), *The Handbook of European Intellectual Property Management* (4th edn, London/Philadelphia/New Delhi, KoganPage 2015) 3-9.

31. European Commission, *Putting Knowledge into Practice: A Broad-Based Innovation Strategy for the EU*, 2006. See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0502:FIN:en:PDF>.

the issues of climate change, depleting national resources, sharp demographic changes and emerging security needs were all reliant on Europe’s ability to harness innovation. It also emphasised Europe’s strong tradition of innovation and the way in which the internal market allows innovative products to be commercialised on a large scale. Indeed, it argued that the wealth of creativity across Europe and the strength of cultural diversity must be exploited not only to overcome significant obstacles, but also to allow Europe to compete globally with the world’s biggest economies.

As a follow-up, the *Lisbon Strategy for Growth and Jobs* (2000),³² aimed to make the EU the “most dynamic and competitive knowledge-based economy in the world” by 2010. However, whilst it was quite clear in 2010 that many of these targets had not been met, the Commission refused to admit defeat³³ and instead re-launched its initiative with an even greater ambition under the name *Europe 2020*.³⁴ Europe 2020 highlights the increasing need to create new jobs to replace those that were lost during the financial crisis. It also reaffirms the EU’s conviction that innovation and creativity are the best means of successfully tackling major societal challenges, as they become more urgent than ever. As far as the protection of trade secrets is concerned, a 2013 *Study on Trade Secrets and Confidential Business Information in the Internal Market*,³⁵ found that across all sectors of industry, there was a strong desire for more certainty in the European market, and a great reluctance to bring legal action. Cross-border enforcement was found to be problematic as well, as very few litigants were able to enforce a decision rendered by one Member State court in other Member States.³⁶ Yet the study concluded that many European companies relied on trade secrets as they effectively fill “the gap between copyright and patent protection, the two traditional pillars of intellectual property, for purposes of appropriating the results of investments in innovation. [And that] empirical evidence and stakeholders’ opinions converge on the conclusion that an initiative of the EU Commission in [creating a sound legal environment to protect trade secrets] would contribute to fostering economic growth, competitiveness and innovation in the Single Market.”³⁷

The recitals of the Trade Secrets Directive reflect these ambitions. While using fashionable terms like “open innovation” and “co-created knowledge”, the recitals equally state³⁸ that in the interest of “collaborative research” and “cross-border cooperation” there is a clear need for harmonising the protection of trade secrets against unlawful acquisition, use or disclosure.³⁹ Trade secrets are introduced as “important for business competitiveness as well as for research and development, and

32. European Commission, *Lisbon Strategy for Growth and Jobs*. See http://ec.europa.eu/archives/growthandjobs_2009/.

33. European Commission, *Lisbon Strategy evaluation document*, 2010. See http://ec.europa.eu/archives/growthandjobs_2009/pdf/lisbon_strategy_evaluation_en.pdf.

34. European Commission, *Europe 2020*. See http://ec.europa.eu/europe2020/index_en.htm.

35. Final Study, April 2013, Prepared for the European Commission, Contract number: MARKT/2011/128/D, Ref. Ares (2016)165284 - 12/01/2016, available at <http://ec.europa.eu/DocsRoom/documents/14900>.

36. *Ibid.* in the study’s conclusions at 151-3, and more specific on litigation statistics 105-9.

37. *Ibid.* at 151.

38. Trade Secrets Directive, *supra* note 19, recital 3.

39. Paul England, “Uniform Trade Secrets Protection of Europe?” (2013) 13 *Bio-Science Law Review* 5, 184-87.

innovation-related performance.” However, there was some trepidation in using the term “trade secret”, as civil society groups could find this terminology troublesome in light of openness, pluralism, transparency and the freedom of expression and information.⁴⁰ In fact the Directive’s title carefully steers away from such opposition by using terms like “protection of undisclosed know-how and business information”. This fact notwithstanding, the European Parliament only adopted⁴¹ the final Directive once safeguards were put in place to protect whistle-blowers, workers in their freedom of movement and the freedom of establishment.⁴²

The Trade Secrets Directive addresses a number of areas where the laws of the Member States diverge. A number of issues stand out: the Directive (1) provides a common definition of trade secret;⁴³ (2) provides for common remedies in the event of unlawful acquisitions, use or disclosure of trade secrets;⁴⁴ and (3) seeks to remedy the dilemma that many holders of a trade secret face when considering whether or not to sue, namely that the confidentiality of the trade secret in court proceedings cannot be assured.⁴⁵

I. Definition

The EU and its Member States are bound by the TRIPS Agreement, which provides minimum standards of protection. According to the Court of Justice of the European Union (CJEU), it is exclusively competent to interpret the WTO Agreements at Europe’s highest court, but it has equally held, in *Dior v Tuk* and *Assco v Layher*,⁴⁶ that: “TRIPS leaves to the Contracting Parties, within the framework of their own legal systems and in particular their rules of private law, the task of specifying in detail the interests which will be protected under TRIPs as “intellectual property rights” and the method of protection, provided always, first, that the protection is effective, particularly in preventing trade in counterfeit goods and, second, that it does not lead to distortions of or impediments to international trade.” Especially with a provision as non-committal as Article 39 TRIPS, this leaves a huge degree of freedom to the Member States to provide for protection of trade secrets.

The Directive provides the following definitions for trade secrets:

“Article 2 – Definitions

For the purposes of this Directive, the following definitions apply:

(1) ‘trade secret’ means information which meets all of the following requirements: (a) it 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) it has commercial value because it is secret; (c)

40. Trade Secrets Directive, *supra* note 19, recital 19.

41. See https://ec.europa.eu/growth/industry/intellectual-property/trade-secrets_en.

42. Trade Secrets Directive, *supra* note 19, recitals 13 and 20, Arts. 5, 7, 11, 13.

43. Trade Secrets Directive, *supra* note 19, Art. 2.

44. Trade Secrets Directive, *supra* note 19, Section 2, Arts. 10-15.

45. Trade Secrets Directive, *supra* note 19, Art. 9.

46. CJEU 14-12-2000, C-300/98 and C-392/98.

it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;

(2) ‘trade secret holder’ means any natural or legal person lawfully controlling a trade secret;

(3) ‘infringer’ means any natural or legal person who has unlawfully acquired, used or disclosed a trade secret;

(4) ‘infringing goods’ means goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed.”

This definition is largely based on Article 39 TRIPS and is quite similar⁴⁷ in content to the definition of the UTSA.⁴⁸ Preamble 14 of the Trade Secrets Directive indicates that the definition encompasses know-how, business information, and technological information where there is both a legitimate interest in keeping them confidential and a legitimate expectation that such confidentiality will be preserved. However, trivial information and the experience and skills gained by employees in the normal course of their employment is excluded from the definition. An important question in this regard will be what information is considered trivial. It would seem that what is meant is information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question. Whatever the employee has therefore learnt in the course of employment that is commonly available through training does not fall within the definition of a trade secret.

In light of the other definitions, we can conclude that anyone who factually controls confidential information qualifies as someone who can initiate an action against the acquisition, use and disclosure of trade secrets. This places licensees in a position equal to licensors and may raise questions as to whether trade secrets have been lawfully acquired.⁴⁹ Goods that have significantly benefited from the acquisition or use of a trade secret fall within the ambit of the Directive, not unlike goods produced by means of a patented process. Yet since inspection of the goods themselves may not reveal the extent to which unlawfully acquired trade secrets have been used in their production, establishing a causal link between the use of unlawfully acquired undisclosed know-how and business information and any significant benefit is likely to be a contentious issue. The more so since under Article 3 of the Trade Secrets Directive, lawful acquisition of a trade secret is possible through independent discovery or creation as well as through reverse engineering.

II. Remedies

Despite the relative protection afforded to undisclosed know-how and business information under the Directive, the definition of infringing goods and the related

47. Anna Aurora Wennakoski, “Trade Secrets under Review: A Comparative Analysis of the Protection of Trade Secrets in the EU and the US” (2016) 38:3 *European Intellectual Property Review* 154-71.

48. *Supra* note 15.

49. See Trade Secrets Directive, *supra* note 19, Art. 3.

remedies available to the holder of the right offered in Articles 10 (Provisional and precautionary measures)⁵⁰ and 12 (Injunctions and corrective measures),⁵¹ display a level of enforcement akin to those available to intellectual property right holders under the Enforcement Directive (IPRED).⁵²

A number of remedies that are available in case of intellectual property infringement under IPRED,⁵³ are not available in the context of the Trade Secrets Directive.

50. Trade Secrets Directive, *supra* note 19, Art. 10:

1. Member States shall ensure that the competent judicial authorities may, at the request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer: (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis; (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes; (c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.

2. Member States shall ensure that the judicial authorities may, as an alternative to the measures referred to in paragraph 1, make the continuation of the alleged unlawful use of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder. Disclosure of a trade secret in return for the lodging of guarantees shall not be allowed.

51. Trade Secrets Directive, *supra* note 19, Art. 12:

1. Member States shall ensure that, where a judicial decision taken on the merits of the case finds that there has been unlawful acquisition, use or disclosure of a trade secret, the competent judicial authorities may, at the request of the applicant, order one or more of the following measures against the infringer: (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret; (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes; (c) the adoption of the appropriate corrective measures with regard to the infringing goods; (d) the destruction of all or part of any document, object, material, substance or electronic file containing or embodying the trade secret or, where appropriate, the delivery up to the applicant of all or part of those documents, objects, materials, substances or electronic files.

2. The corrective measures referred to in point (c) of paragraph 1 shall include: (a) recall of the infringing goods from the market; (b) depriving the infringing goods of their infringing quality; (c) destruction of the infringing goods or, where appropriate, their withdrawal from the market, provided that the withdrawal does not undermine the protection of the trade secret in question.

3. Member States may provide that, when ordering the withdrawal of the infringing goods from the market, their competent judicial authorities may order, at the request of the trade secret holder, that the goods be delivered up to the holder or to charitable organisations.

4. The competent judicial authorities shall order that the measures referred to in points (c) and (d) of paragraph 1 be carried out at the expense of the infringer, unless there are particular reasons for not doing so. Those measures shall be without prejudice to any damages that may be due to the trade secret holder by reason of the unlawful acquisition, use or disclosure of the trade secret.

52. Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (2004) *Official Journal of the European Union*, 2 June 2004, L195/16.

53. *Ibid.*, Art. 6 – order for the presentation of evidence; Art. 7 – preservation of evidence; Art. 8 – right of information; Art. 9(1)(a) and 11 – injunction against intermediaries

However, the Trade Secrets Directive is a minimum harmonisation Directive, so the Member States can provide for equivalent measures should they so wish.

III. Confidentiality of Trade Secrets in Legal Proceedings

One of the key provisions in the Trade Secrets Directive addresses the dilemma that any holder of a trade secret faces, namely that he may be compelled to disclose the trade secret to the counterparty in the interest of due process. This means that lawyers and other representatives of the parties, court officials, witnesses, experts and all others participating in legal proceedings may learn of the most sensitive know-how and business information. Whereas the decisions can be removed or redacted and access to the proceedings can be restricted, there is a fundamental notion of fair trial that parties should be able to respond to claims in relation to the trade secrets in question. Article 9(2) of the Trade Secrets Directive allows for the circle of persons to whom confidential information is disclosed to be limited to at least one natural person from each party and the respective lawyers or other representatives of the parties to the proceedings. This limitation is subject to a proportionality test that will have to be conducted in light of the right to fair trial that is guaranteed by Article 6⁵⁴ of the European Convention on Human Rights (ECHR).⁵⁵

IV. Safeguards

In a democratic and open society, diversity and plurality of media is necessary to ensure the fundamental rights of freedom of speech and information.⁵⁶ The conditions under which lawful acquisition, use and dissemination of information can take place has to be clearly described.⁵⁷ Article 5 of the Trade Secrets Directive provides for the protection of media, whistle-blowers, and workers where the disclosure of information serves the purpose of adherence to Union or national law, with the pivotal notion that the revealing misconduct, wrongdoing or illegal activity is with the purpose of protecting the general interest.

whose services are used by a third party; Art. 9(4) – ex parte injunction; Art. 14 – full cost recovery.

54. ECHR Art. 6:

1. In the determination of his civil rights and obligations ..., everyone is entitled to a fair and public hearing by [a] tribunal established by law. Judgment shall be pronounced publicly but the press and public may be excluded from all or part of the trial in the interests of morals, public order or national security in a democratic society, where the interests of juveniles or the protection of the private life of the parties so require, or to the extent strictly necessary in the opinion of the court in special circumstances where publicity would prejudice the interests of justice.

55. See Guide on Article 6 of the European Convention on Human Rights (2013) Council of Europe, available at http://www.echr.coe.int/Documents/Guide_Art_6_ENG.pdf.

56. Art. 10 ECHR and Art. 11 Charter of Fundamental Rights of the European Union.

57. Jean Lapousterle, Christophe Geiger, Norbert Olszak and Luc Desautettes, “What Protection for Trade Secrets in the European Union? A Comment on the Directive Proposal” (2016) 38:5 *European Intellectual Property Review* 225-61.

The Directive incorporates a statutory limitation of a maximum of six years during which action can be brought from the moment of acquisition, use or disclosure. This is very long considering that most ex-employees, the source of most disclosures, will have moved on. Third parties using information also need to be able to gauge their freedom to operate based on a reasonable certainty that they are in fact legitimate users. One can question whether a lot of know-how and business information is of such a nature that it is deserving of such a long limitation period. In an earlier draft of the Trade Secrets Directive the limitation period was two years. This was, however, increased at the insistence of the UK, which has a single legal instrument, the Limitation Act 1980, that employs a standard term of six years for torts.

Another safeguard concerns the right to the freedom to work of employees. Recital 14 indicates that the definition of trade secret “excludes trivial information and the experience and skills gained by employees in the normal course of their employment, and also excludes information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question.” However, it may not always be that clear what knowledge obtained by the employee in the course of his employment can be considered “trivial”, and what cannot. In order to ensure that ex-employees are not at risk of being financially crippled when they inadvertently and unintentionally continue to use their acquired skills in a new position, Member States may “limit the liability for damages of employees towards their employers for the unlawful acquisition, use or disclosure of a trade secret of the employer where they act without intent”.⁵⁸ Without proper harmonisation of post-contractual labour relations and restrictive covenants in the Union, however, the right to freedom to work of employees cannot be properly guaranteed.

E. CONCLUSION

The instruments for the protection of undisclosed know-how and business information in the United States of America and the European Union are converging. Not only is there a large degree of similarity in terms of definitions, procedures and remedies, there also is a common understanding that without proper guarantees for the preservation of confidentiality in the course of legal proceedings, plaintiffs risk disclosing more than they would like to. This is an impediment to the effective protection of trade, however, that seems to now be adequately addressed. United States legislation seems to be much more aware of cross-border and international problems related to the misappropriation of trade secrets, as compared to its EU counterpart. Enhancing the plaintiff’s position in relation to the protection of trade secrets, however, has also raised serious questions in relation to safeguards for third parties, especially employees. Although the European Union Directive provides more safeguards that specifically address fundamental rights as compared to the US legislation, one issue remains problematic. This is the position of ex-employees in post contractual situations covering restrictive covenants, and will be addressed in the following chapter.

58. Trade Secrets Directive *supra* note 19, Art. 14.

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