



## EU Trade Secrets Directive

An overview of the EU Trade Secrets Directive, which the European Council formally adopted on 27 May 2016

### Timetable

On 14 April 2016 the European Parliament voted to adopt the text of a draft Directive on 'the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure', (the "Trade Secrets Directive" or "Directive").

The Directive does not have direct effect in EU member states and needs to be incorporated into the national laws of each member state. The Trade Secrets Directive was formally adopted by the European Council on 27 May 2016. The Directive will need to be implemented by incorporation into domestic law in each EU member state within two years following its entry into force, 20 days after its publication in the Official Journal of the EU. Therefore, the deadline for national implementation will be in around summer 2018. However, this date is an end date and it is likely that national implementation of the directive will be achieved before that in many jurisdictions.

### Aims of the Trade Secrets Directive

The Trade Secrets Directive is an attempt to harmonise the law relating to misappropriation of trade secrets across the EU member states. It is designed to provide a minimum level of protection to trade secrets whilst allowing member states to apply stricter rules should they so wish. There are three main areas that the Directive seeks to address:

- Providing a consistent definition for a "trade secret" and how it can be protected;

- Setting out the remedies that must be in the event of a misuse of a trade secret; and
- Ensuring that national courts can prevent disclosure of trade secrets during legal proceedings.

It establishes a common set of principles, definitions, procedures, safeguards and remedies that must be applied across the EU. Many of the specific provisions are in place to provide the same level of treatment to trade secrets in certain jurisdictions that currently lack the protection available elsewhere. Some provisions of this kind are not specifically targeted at the UK, for example, the requirement that confidentiality be preserved for parties involved in legal proceedings is something that has been traditionally available in the UK and the procedure for preserving confidentiality in UK litigation is commonly used.

It is hoped that the new directive will promote innovative companies by creating a secure environment and thereby ensuring fair and honest competition. The idea is that such a pan-European regime will allow companies to invest in research and innovation in Europe with more confidence.

### Trade Secrets and IP

It is important to note that a trade secret, and confidential information more generally, is not a form of intellectual property. It is not possible to have or to transfer ownership of a piece of confidential information, it is only possible to know or have access to it and to be given permission to use it in certain circumstances. Once someone knows a trade secret or piece of confidential information it is not possible to stop them knowing it.

However, trade secrets do form the basis behind the ability to acquire many forms of intellectual property. For example, inventions must be kept secret before patent applications are filed; and a re-branding exercise usually involves keeping the new brand and trade marks confidential pre-launch.

Trade secrets themselves can be equally, if not more, important than other intellectual property rights. Unlike patents, which can often protect similar ideas, there is no lifespan or expiration date for confidential information. This can make trade secrets very important for long marketed products, the classic examples of which are in the food and beverage industry where recipes for certain goods are critical trade secrets.

## The Key Provisions

### Definition of a Trade Secret

There are three requirements in order for a piece of information to fall within the Trade Secrets Directive as a 'trade secret'. These are that the information must:

- I. Be secret, in the sense that it is not (as a whole or in its precise configuration and assembly) generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- II. Have a commercial value because it is secret; and
- III. Have been subject to reasonable steps to preserve its secrecy.

This is now a very important definition as it will provide certainty to businesses that information falling within it should be protected throughout Europe.

### Unlawful acquisition, use or disclosure

The acquisition of a trade secret is to be unlawful where it is the result of unauthorised access, appropriation or copying, or any other conduct that is contrary to honest commercial practices.

The use or disclosure of a trade secret shall be unlawful if it has been acquired unlawfully or if it is in breach of a confidentiality agreement or other contractual arrangement or any other duty not to disclose or to limit the use of the trade secret.

It shall also be unlawful to acquire, use or disclosure the trade secret if it is known or ought to be known that the trade secret was obtained from someone who themselves was using or disclosing the trade secret unlawfully.

### Infringing Goods

Under the Directive 'infringing goods' are goods which benefit from unlawfully acquired, used or disclosed trade secrets by way of their design, characteristics, functioning, production process or marketing. The production of, offering, placing on the market, importing, exporting, or storage of such infringing goods can also to be unlawful if it was known or ought to have been known that the trade secret was used unlawfully.

### Remedies

The remedies available to trade secret holders under the Directive include:

- Interim and final injunctions to prevent further use or disclosure;
- Prohibition of acts relating to infringing goods;
- Destruction of material embodying the trade secret, including of infringing goods;
- Recall of infringing goods from the market; and
- Damages.

### Limitation period

The Directive establishes a 6-year limitation period for bringing claims.

## What the Trade Secrets Directive Does NOT do

Almost just as important as what the Directive does is what it does not do:

- It does not introduce any criminal acts in respect of trade secrets;

- It does not impact on existing employment law or impose any obligations of confidentiality on employees;
- It does not affect the right to freedom of expression and the freedom of journalism and the media;
- It does not impact other EU or national laws that require the disclosure of trade secrets for reasons of public interest;

## Possible impact on the UK law of confidentiality

In the UK, the law of confidential information has been built up over many years and currently resides in a carefully developed body of case law. There is no statutory law relating to breach of confidence in the UK, and the same is true in approximately a third of the EU (including France and the Netherlands) where protection is secured through other judicial routes / common law. Despite this, in certain aspects the current UK breach of confidence law goes further than the provisions in the Trade Secrets Directive. In those respects the Directive will serve as a guide to the minimum level of protection required and the UK's more strict rules are allowed to continue. Therefore, to the extent that the UK breach of confidence case law already addresses much of the provisions included in the Directive it should continue to be relevant and UK judges are likely to continue to refer to it.

However, the issue of whether the existing body of breach of confidence case law is compliant with the Directive is something that will need to be considered. High Court references to the Court of Justice of the EU are inevitable in the early years of the Directive. This means that in certain circumstances there may be less legal certainty than perhaps is currently the case in relation to breach of confidence claims.

## Steps to take to best prepare for the Trade Secrets Directive

- The Directive should provide more comfort to businesses that if they take reasonable steps to preserve the confidentiality of information that is of commercial value then it will be protectable across Europe. This means that to take advantage of this protection it is crucial to be able to demonstrate that such reasonable steps have been taken. Businesses should:
  - a) Consider the creation of a register of their key trade secrets, which should be subject to protection. These may include things such as know-how, manuals, recipes, formulas, software, business methods, customer information, etc.
  - b) Review their internal policies to ensure that appropriate documents embodying trade secrets are marked as "confidential" and consider the use of password protection, and other forms of protection designed to ensure secrecy in the information;
  - c) Ensure that policies exist for materials that include or embody trade secrets to be stored securely and access be given to only those necessary under clear duties of confidence;
- The Directive does not directly address the employment scenario but equally does not affect contractual arrangements relating to confidentiality and the law of contract. Therefore, it remains important to include suitable confidentiality provisions in contracts with employees, consultants, suppliers and franchisees, etc.

For any further information please contact one of our attorneys via our website at [www.aathornton.com](http://www.aathornton.com).

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