TUESDAY WEBINARS

LIVE

EUIPO
EUROPEAN UNION INTELLECTUAL PROPERTY OFFICE

Trade secrets in the EU. Latest case-law developments and litigation trends

Tuesday 27 February 2024
10.00 to 11.00 (CET)

Speakers:
Bryan KHAN - University of Turin
Maurizio BORGHI - University of Turin
Plamen IVANOV – Observatory Department, EUIPO (Moderator)

EUIPO
EUROPEAN UNION
INTELLECTUAL PROPERTY OFFICE

Disclaimer

** This document contains the answers to relevant questions submitted by the audience during the webinar that could not answered during the live session, and to which an answer is possible.*

** The views expressed are strictly personal and should not be attributed to the EUIPO. Nor shall the EUIPO be held responsible for the opinions expressed or advice given in the videos and presentations.*

TUESDAY WEBINARS

How do we enforce the trade secret principle in the least developed countries?

According to **Article 39 of the TRIPS Agreement**, **Members of the WTO** (this includes also the least developed countries) **shall protect undisclosed information**, and 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 that is contrary to honest commercial practices.

Further details as to how trade secrets are enforced in the **least developed countries** shall be found in **their national legislation**.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

I would be interested to know how damages, in case of unlawful use of a trade secret, have been calculated and if there are any national judgements on this topic. Thank you.

Article 14 of the TSD sets out the **concept that damages have to be paid for the actual prejudice suffered by the trade secret** (TS) **holder** as a **result of the unlawful acquisition, use or disclosure of the trade secret**, taking into account **appropriate factors**, such as the negative economic consequences, including lost profits that the injured party has suffered, any unfair profits made by the infringer and, in some cases, elements other than economic factors such as moral prejudice.

Unfortunately, **no trends in accounting methodologies** (how damages are calculated) can be observed, perhaps since the trade secret judgments are less detailed because the subject matter is confidential.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

To what extent can Trade Secrets registered in the EU under EU law be enforced in the US (which has a similar system in legislation) and/or Canada (where Trade Secrets are based in common law)?

Firstly, **trade secrets are not registered**.

Then, **if the question refers to the enforceability** of a trade secret of an EU company in other jurisdictions, it is true, as the attendee rightly said, **that the US system is similar to what we have in the EU**, **while protection and enforcement in the UK or Canada is based on common law.**

Under common law the three requirements (information must be capable of being protected, the defendant must be under an implied obligation of confidentiality, and there must be a breach of this obligation) are different than the ones foreseen in the TS Directive.

Nevertheless, **they are highly consistent with the Directive**, which is **a replica of Article 39 of the TRIPS agreement**. So, in terms of a definition, the TRIPS agreement already provides for international harmonisation.

I would like to know more about trade secrets and ADR, thank you!

There is **no public visibility of the trade secrets cases resolved thanks to ADR** because of the **confidential nature of ADR**.

However, **trade secrets stakeholders tend to be very cautious** about litigation and often opt instead for ADR, because they are concerned that their trade secrets could be revealed during court proceedings.

This explains why the **TS Directive's provisions on confidentiality measures are so important**. Also, private international law factors can be particularly complicated, such as establishing where the damage has occurred, for choice of law reasons. This is why stakeholders see ADR as an attractive option.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

What kind of circumstances may allow companies to request a disclosure of trade secrets in the IP field?

One circumstance may be where **EU or national rules require the disclosure of information**, including trade secrets, to the public or to public authorities. Rules on public access to documents or on transparency obligations of national public authorities.

Disclosure of a trade secret in the context of statutory audits performed in accordance with EU or national law should also be treated as lawful.

It is useful to differentiate between **two possible situations**: (A) **The TS exists but is then lawfully disclosed pursuant to public law**, and (B) **The TS does not exist because it does not meet the secrecy criterion**, because the information is legitimately accessible through some process of public law.

- **Situation (A)** is provided for as a form of 'lawful access' under TSD Article 3(2), which states 'The acquisition, use or disclosure of a trade secret shall be considered lawful to the extent that such acquisition, use or disclosure is required or allowed by Union or national law.'
- In contrast, **situation (B)** is where the court deems that a TS does not even exist in the first place because it does not meet the standard of 'not…generally known among or readily accessible to persons within the circles that normally deal with the kind of information', because the effects of some public law make the information readily accessible. If the TS does not exist because it does not meet the criteria for protection, then there is no issue with regard to the lawfulness of disclosure.

What is the best and safest way to guard a trade secret?

A **combination of legal and technical means** would be the best way to protect your trade secrets.

- **Appropriate non-disclosure provisions** should be envisaged in the **employment contracts**, and the **contracts with distributors** and all other kind of business partners. The applicable law and the competent court in the case of a breach of contract should also be carefully selected.

- **Adequate technical protection** measures **bearing in mind the media on which the trade secrets are kept, should be put in place** – encryption and cryptography tools, cybertheft protection tools, safe boxes, etc.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

As a basic conceptual matter, should it be clarified that trade secrets are, as such, not objects of intellectual property to the extent that no exclusive right is formally declared (e.g. as a patent is) and its content and scope is not published or disclosed to allow for a valid erga omnes exclusivity claim?

There are indeed **different academic views** on whether trade secrets are a form of 'intellectual property' in the traditional sense.

In terms of the point raised, remember that copyright (another form of intellectual property) is not generally infringed where there is 'independent creation', nor does it strictly require any general public disclosure.

As a **practical matter**, however, **different countries may or may not incorporate trade secret protection into their wider intellectual property legal frameworks**. For example, different countries may or may not have extended application of the (lex generalis) Enforcement Directive to trade secrets.

In response to this, Recital 39 of the TSD clarifies that where the Enforcement Directive and the TSD overlap, the TSD should take precedence as lex specialis. It must be noted further, that countries like Italy and Portugal have envisaged explicit provisions related to trade secrets in their Industrial Property Codes. In Finland trade secrets are considered IPRs.

WIPO TS homepage: 'Trade secrets are intellectual property (IP) rights on confidential information which may be sold or licensed.' Article 1.2 of the TRIPS Agreement includes TS in the categories of IP.

Should it be stated that (as provided in the TRIPS Agreement) a trade secret may be protected via the prevention and repression of unfair competition, that is, as an ex post facto action to prevent further access, communication or use of the undisclosed information?

The language of **TRIPS Article 39(2)** states that: 'Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to...'.

This **does not seem to imply that protection is restricted to 'ex post facto' action**.

Furthermore, **Footnote 10 states** that 'a manner contrary to honest commercial practices' **explicitly includes** 'inducement to breach' (breach of confidence), which can be seen as a type of ex-ante disclosure action.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

In light of the above clarifications, what is the legal and theoretical standing and justification for treaty and legal provisions that mandate granting 'exclusive marketing rights' in respect of undisclosed test data with a scope akin to patent rights, but without the disclosure obligation, which is one of the elements that gives balance to the patent system?

As for 'exclusive marketing rights in respect of undisclosed test data' some caution should be taken here about conflating different legal protections. This question seems to refer to **Article 14(11) of Regulation 726/2004** (Authorisation before the European Medical Agency). Under this regulation, authorised products benefit from an 8-year period of data protection and a 10-year period of marketing exclusivity. These are separate legal protections, but as they run concurrently, this is often called the '8+2 Rule'. Recent (2023) proposals to reform the European pharmaceutical regulatory framework make references to balancing 'regulatory incentives for innovation' with access to medicines.

The theoretical basis of test data protection (and marketing exclusivity) is therefore the strategic use of legal incentives for innovation in the medical product industry. This is evidenced by the fact that the proposals make adjustments to the lengths of test data protections, where innovations meet certain public health priority criteria (e.g., comparative trials, or unmet medical needs).

In any instance, protection of clinical test data should not be seen as a trade secret in the strictest sense, especially as European test data protection is time limited. TRIPS Article 39(2) provides the basis for trade secret protection including the criteria of secrecy, commercial value and reasonable steps. Article 39(3) on test data protection sets out a different criterion where 'the origination of which involves a considerable effort'. So, while both 'trade secrets' and 'test data protection' have common roots in TRIPS Article 39, they are distinct. In the case of European medical regulations, test data protection (along with marketing authorisation) might be described as time-limited sector-specific strategic incentives for innovation.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

Are there any advantages or helpful information on trade secrets in regard to tax relief or tax reduction?

Taxation law is very country specific, so one should always look at the tax regulations in the specific jurisdiction where you are based. As a general comment, **many countries have what are called 'patent box'** (or 'innovation box') regimes. These regimes typically offer some reduced tax rates or offer some reduced tax rates on IP-related profits. Traditionally, many of these regimes focus on patent-related royalty revenues, but some jurisdictions include profits from other IP assets, including trade secrets.

Something to note, however, is that **these tax regimes normally follow the principles of a 'nexus approach'**. This means that the taxpayer might be required to demonstrate a clear link between the income derived from the IP asset, and the R&D that generated that specific IP asset. It is therefore not as simple as determining whether trade secrets are eligible for these tax incentives. It is often the case that only trade secrets that are demonstrated as being linked to R&D investments might be eligible.

In any case, **one should consult a taxation expert in your specific jurisdiction, and tax law can be very nuanced**.

If a TS has been unlawfully acquired, although not used yet, it has nonetheless lost one of its requirements for protection and therefore it cannot qualify as a TS anymore. Accordingly, shouldn't the damage be in re ipsa, namely in the unlawful acquisition itself?

Indeed, **unlawful acquisition of a TS is already an actionable** offence under **Article 4(2).**

There is **no need to demonstrate that the TS has been actually used**. **Unlawful acquisition does not strip the trade secret of its confidential nature**.

Could you give a practical example regarding the 'commercial value'? How can it be proven?

For example, by **estimating the amount of working time needed to independently acquire the information.**

Is a morality value for someone who is an owner of a secret knowledge of example - of a meaning?

The morality aspect is indeed of importance for the trade secret holder.

The trade secrets holder has, therefore, the right to claim damages for the moral prejudice caused by the unlawful acquisition, use or disclosure of the trade secret.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

I am from the Macedonian SOIP. My question comes at a time when we are still in the process of adopting the Law on TS. However, this still needs to be clarified: how do we go about specifying the provisions on civil protection, and the criminal provisions, as well as provisional measures considering that we already have separate laws on this type of protection against violation of trade secrets. Should the Law on trade secrets contain such enforcement provisions as well?

It is a matter of a **legislative solution based on the particularities of your legal system**.

Both options are possible. In the special law on trade secrets, you might envisage a corresponding application of existing enforcement norms that would apply also to trade secret infringement cases.

And you may choose to add some very specific enforcement provisions that only apply to trade secrets in the special law on TS.

In case of overlaps, the special law on TS shall take precedence as *lex specialis* over the general enforcement laws (civil or criminal).

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

Have you ever witnessed a confidentiality agreement integrated into the blockchain via a smart contract?

To date, we have not.
But it should theoretically be possible.

Questions and answers – Trade secrets in the EU. Latest case-law developments and litigation trends

Do you think it is worth protecting trade secrets? In my opinion, the high costs and low enforceability are two major cons for companies.

One should keep in mind that **the nature of trade secrets is that the extent and use of trade secrets are not visible to the public**. This is in comparison with registered rights such as patents and trade marks, where one can examine and assess the exact IP assets that exist. **The Study on Litigation Trends** points towards **various challenges with successfully enforcing a trade secret**. **However, these trends would not give you a sense of the tens of thousands of cases where trade secrets have been successfully internally preserved without any need for legal enforcement**. One might call this an example of '(reverse) survivorship bias'. The point is that challenges in enforcement are an important consideration, but this should not be the entire basis of evaluating the overall potential value of trade secret protection.

In terms of the **costs of implementing 'reasonable steps'**, **many typical measures** can easily be incorporated into **operational practice without disproportionally burdensome incremental costs**. For example, a company working in a digital environment should always have a cybersecurity plan. These plans can then further be adapted to form part of a trade secret protection strategy. Similarly, a company should ideally already have good human resource management practices in place to foster good relationships with employees, as well as legal certainty. Training on trade secret protection, as well as properly drafted contracts, can be integrated into these human resource practices and form part of the company's trade secret strategy.

The novelty requirement for trade secrets in TSD appears to be relatively low. Nevertheless, could information be published in an obscure journal in a foreign language, which could then be retrieved by a diligent searcher and used as defence that the trade secret is not in fact novel? Is there any case-law addressing how accessibility to published information could destroy the novelty of trade secrets?

Novelty is not a requirement for a trade secret to be protected.
It is not a concept dealt with by the TS Directive.

Once a TS has been unlawfully disclosed, is all the protection lost?

If it is publicly disclosed, it would be **impossible for the holder of the trade secret to revert to the situation prior to the loss of the trade secret.**

However, if it is **disclosed to a limited number of persons** (to a competitor), **the further disclosure to a wider circle of persons or the entry into the public domain can be prevented by imposing fast and effective provisional measures for the immediate termination of the unlawful disclosure of the trade secret**. As demonstrated during the webinar, claims for cessation of the use or disclosure of the trade secret are the most common claims.

What is the advantage of treating an asset as a trade secret instead of treating it as only confidential?

The advantage is that you **will enjoy protection under the specific rules that apply to trade secrets**, which may not necessarily apply to all kinds of confidential information since not all confidential information qualifies as a trade secret.

Are there any cases pending regarding AI algorithms / black box problem, where TS is the main argument for defence? Should we expect such cases soon?

We are not aware of such cases, however it looks like trade secret defence may indeed be used against attempts to reveal the AI-algorithms.

And this would be a valid defence, unless legitimate (public) interest requires that these trade secrets be disclosed according to existing EU or national rules. We assume that this would especially be the case where this concerns ethical issues.

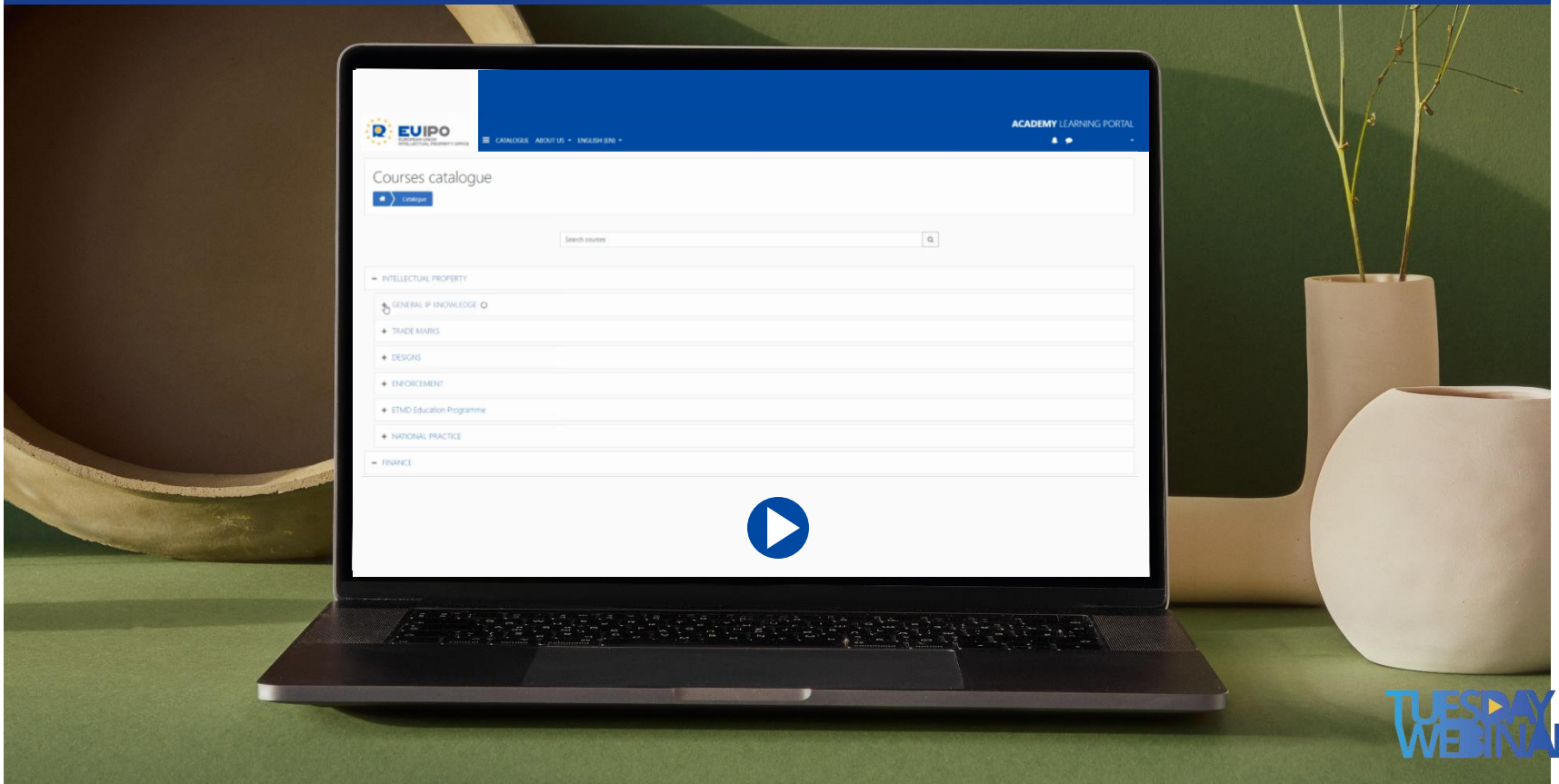
In case of litigation, should everyone who is granted access to the file by the judge sign a confidentiality agreement or be subjected to an obligation of non-disclosure, under pecuniary sanctions?'

Any such measures should be **decided by the competent court and be provided for in a court order or in an equivalent document issued by the court rather than a confidentiality agreement**.

As for the breach of the obligation not to disclose any information to which access is granted, the courts may impose the sanctions provided for other instances for non-compliance with court orders as provided for by the procedural rules of the respective Member State.

EUIPO
EUROPEAN UNION
INTELLECTUAL PROPERTY OFFICE

Keep in touch with the EUIPO Academy



TUESDAY WEBINARS

EUIPO
EUROPEAN UNION
INTELLECTUAL PROPERTY OFFICE

www.euipo.europa.eu

@EU_IPO

EUIPO

EUIPO.EU

THANK YOU

TUESDAY WEBINARS