THE BASELINE OF TRADE SECRETS LITIGATION IN THE EU MEMBER STATES

EXECUTIVE SUMMARY
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EXECUTIVE SUMMARY

Trade secrets and confidential business information are critically important to the growth, competitiveness and innovative performance of European businesses. In the current globalised market, characterised by increasingly pressing and extensive competition, intangible assets are capable of providing a competitive advantage to all sorts of companies and business sectors. Where innovation does not fulfil the requirements of patentability, trade secrets become a pivotal tool for companies to protect their business knowledge. The same can be said for companies that, even though developing patentable inventions, prefer not to make public their innovations, or for start-ups that have not the financial resources to recur to patent registrations.

When dealing with trade secrets, the main purpose of the Member States’ (MSs) legislators has been to protect business secrets, but also to address other interests, such as openness and freedom of information. The balance between these interests relies on the one hand in providing the protection that companies need to be able to continue their research and development without the risk of misappropriation of valuable innovative knowledge, and on the other hand in securing interest in a transparent society with a great exchange of information.

This report constitutes ‘The Baseline of Trade Secrets Litigation in the EU’, commissioned by the EUIPO’s European Observatory on Infringements of Intellectual Property Rights (the Observatory) to set a benchmark for the ‘initial report on the litigation trends regarding the unlawful acquisition, use or disclosure of trade secrets pursuant to the application of the Directive (EU) 2016/943’. The Observatory will draft such report by 9 June 2021 in accordance with Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 (the Directive)\(^1\).

The main objective of the study is to analyse trade secrets litigation in the different EU MSs, as well as the profile of parties involved and courts dealing with trade secrets matters, through the mapping of the national legal systems, competent courts and procedures in place, including remedies against the unlawful acquisition, use or disclosure of trade secrets.

To this end, the report provides for a description of all 28 EU MS legal systems for the protection of trade secrets, considering the status quo and potential issues to solve. Furthermore, a cross-MS analysis in terms of a comparative overview of national case-law is provided in a dedicated section.

The present study has highlighted a high degree of heterogeneity between single MS legislation on the protection against the unlawful acquisition, use or disclosure of trade secrets. The main differences that emerged from the study attain to elements such as the presence/absence of a national definition of trade secrets, the scope of protection and the sources of law. Also, the availability of case-law on trade secrets considerably diverges across the EU, thus mirroring the differences in how effective the existing means of protection and the remedies available are perceived in the different MS.

The first difference among the national legal systems refers to the lack of a precise definition of ‘trade secret’, which has made it difficult for companies to prove that certain information and/or data qualifies as a ‘trade secret’ and, thus, may obtain the connected remedies in the event of illicit conduct.

In several MSs, legislation does not provide for a specific definition of ‘trade secret’, which has thus been developed by the relevant case-law. This is the case in Denmark, Belgium, Germany, Ireland, Spain, France, Cyprus, Luxembourg, Austria, the United Kingdom and Greece, where national courts have often been guided by the definition as set forth in the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which determines what kind of information and under what conditions a trade secret should be classified. Indeed, the TRIPS is not self-executing (even though binding for each member of the World Trade Organization (WTO)) and the provided definition of ‘trade secret’ is applicable in MSs only where national law adopted such definition and/or case-law makes explicit reference to such definition. In these countries some courts have also cited the definition as provided for by the Directive, even if not in force yet, since it develops and incorporates into the European legal system the trade secret concept provided for by the WTO.

The only two countries where a definition of ‘trade secret’ is set forth by the Industrial Property Code are Italy and Portugal. However, there are a number of MSs where the definition of ‘trade secret’ is provided in one or more legislative acts.

In Bulgaria, for example, the definition is set out in the Supplementary Provisions to the Bulgarian Law on Protection of Competition (BLPC) as well as in the Bulgarian Access to Public Information Act.

Similarly, there is no formal and unique definition of ‘trade secret’ under Dutch law: both the Dutch Civil Code (in particular its labour provisions) and the Dutch Penal Code contain indirectly a definition of ‘secret’ or ‘confidential’ information. Czech, Lithuanian and Hungarian legislation provides for a definition of ‘trade secret’ in the Civil Code, while in Croatia the definition and scope of protection of a trade secret are set forth in the Data Secrecy Protection Law. In Finland the definition of ‘business secret’, provided by the Finnish Criminal Code, is generally applied to trade secrets but such definition is to some extent broader than the definition of ‘trade secret’, since it includes the concept of ‘professional secret’. Latvian law does not provide for a specific legal definition of ‘trade secret’, but the Commercial Law and Freedom

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2 In Greece, an indicative definition, only for industrial secrets, is however given by the Greek Industrial Property Law.
3 Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS); source: [https://www.wto.org/english/docs_e/legal_e/27-trips.pdf](https://www.wto.org/english/docs_e/legal_e/27-trips.pdf)
4 All MSs and the EU are members of the WTO and have ratified TRIPS.
5 See, for example, the judgment of the Provincial Court of A Coruña No 241/2016 of 1 July 2016 and the Austrian Supreme Court Decision No 4 Ob 165/16t.
of Information Law of the Republic of Latvia state that the status of a trade secret is attributed by a merchant to information that corresponds to specific criteria. In Romania and Poland the respective unfair competition laws provide for a definition of ‘trade secret’.

In Estonia and Slovenia the definition is regulated by the rules regulating competition, but has also been developed through case-law. Although references to ‘trade secrets’ are included in Maltese legislation, trade secrets per se are not regulated, but it is possible to refer to the concept of fiduciary obligations provided by the Maltese Civil Code. In Slovakia, a definition is set forth in the Slovak Commercial Code.

The only MS that already has a sui generis law on trade secrets is Sweden. The Swedish Act on the Protection of Trade Secrets (the Act) lays down the definition of ‘trade secret’ in its first section. According to the Swedish preparatory works to the Act, the effective protection of trade secrets is fundamental since competitiveness depends to a large extent on the overall knowledge within companies. In particular, the knowledge within companies is more important in comparison to other production factors for the ability to compete in the market and the protection of strategic know-how is often as important as the protection of material assets and (other) intellectual property rights (IPRs).

Notwithstanding the existing Act, a special investigation committee was appointed in Sweden to identify and propose the necessary legislative changes due to the implementation of the Directive with the result that the current Act will be replaced by a new law.

The scope of trade secrets protection varies across MSs. Even if not being provided with an ad hoc legislation, Italy and Portugal expressly include trade secrets in their industrial property codes, classifying them as IPRs and thus applying to trade secrets the remedies planned by the EC Enforcement Directive 2004/48. The remedies of the Enforcement Directive 2004/48 are also applicable in Finland, where trade secrets are considered as IPRs even though no express provision has been enacted in this respect. In France, on the other hand, the Intellectual Property Code addresses a specific protection, but only for manufacturing secrets (‘secrets de fabrique’), punishing the disclosure of manufacturing secrets committed by an employee of a company’s director. The scope of protection is thus quite restricted since it does not include protection for commercial secrets and it refers only to employees and directors. In the remaining MSs general legislation applies. In particular, most MSs, that is, Austria, Bulgaria, the Czech Republic, Germany, Denmark, Estonia, Greece, Spain, Finland, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia rely on unfair competition law when dealing with trade secrets misappropriation. The common law countries Ireland and the United Kingdom have based trade secrets protection on case-law’s interpretation of the breach of confidence tort. Trade secrets are

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6 In the Polish legal system there is not a uniform definition of ‘trade secret’, and confidential information is protected by several acts of law; among them, the main legislative act which provides for a definition of ‘trade secret’, the Act on Counteracting Unfair Competition.
7 In Slovenia, a definition of ‘trade secret’ is provided by different legislative acts (e.g. the Slovenian Companies Act and the Prevention of Restriction of Competition Act).
12 Article L621(1) of the French IPC, referring to Article L1227(1) of the Labour Code.
addressed also through tort law\textsuperscript{13} in Belgium, France, Luxembourg and the Netherlands. Malta relies exclusively on contract law, while the legal system in Cyprus provides for criminal remedies and civil liability only for breach of contract.

Even though the scope of legal protection may diverge throughout Europe, it has to be said that protection against the disclosure of trade secrets by employees is provided for in all countries, at least in the form of a general confidentiality duty for the employee during an existing employment relationship. The enforceability of non-compete provisions, which are applicable after the termination of employment, may vary substantially among jurisdictions, in accordance with national practices.

Since providing evidence for the existence of a trade secret and of its misappropriation thereof is rather difficult, the study has shown that rights holders adopt a wide range of precautionary practical measures to protect trade secrets, mainly consisting of non-disclosure agreements (NDAs) and non-use agreements, licence and know-how agreements for the commercial transfer and lawful exploitation of technology, as well as non-competing clauses in employment and consultancy agreements and technical security measures for protecting the unlawful acquisition of confidential business information.

Such preventive instruments are crucial for the enforcement of trade secrets since MS courts often require, to grant protection and to issue the requested remedies, that practical steps have been taken by the owner to keep the relevant information secret; that is, that the intention of the owner to keep the information confidential can be proven. Reasonable measures to maintain secrecy could, for example, be achieved by the owner informing third parties about the secrecy of certain information, qualifying it as confidential, as well as by the adoption of the aforementioned preventive measures to avoid unlawful disclosure.

As emerged from the gathered case-law, trade secrets are considered by owners as a piece of a holistic approach and as being part of an overall strategy of protecting and exploiting their innovations and IPRs. The interdependence of such rights (i.e. their use together with other IPRs) can assist rights holders in obtaining effective protection, especially in countries with a low level of specific protection of trade secrets. The fact that the enforcement of trade secrets protection requires pro-active steps to protect them from disclosure implies that trade secrets owners with an established organisational structure, equipped with identified internal procedures and protocols as to the treatment of data, and a higher level of cybersecurity infrastructure, have an increased chance of protecting and enforcing their trade secrets before the competent courts.

\textsuperscript{13} That is, liability for non-contractual responsibility.
Due to the abovementioned differences of legal protection afforded by individual MSs, the current protection of trade secrets against misappropriation at cross-border level is perceived as weak as reported by national experts consulted for this study. Indeed, trade secrets holders’ perception of the available legal systems of protection resulted as being satisfactory overall only in six MSs (Bulgaria, Italy, Lithuania, Ireland, the United Kingdom, Sweden), where critical areas were also identified. On the contrary, in the other MSs, the legal protection afforded to trade secrets has not been perceived as adequate.

From the information retrieved, undertakings are reluctant to start litigation proceedings on trade secrets violation, mainly because of the following reasons:

- burden of proof to demonstrate that the misused information qualifies as a trade secret;
- protection scattered among different sources of law with unclear or insufficient regulation;
- difficulty to secure evidence and high costs related thereto;
- absence of appropriate procedural measures to guarantee confidentiality during litigation proceedings;
- difficulties related to the quantification of damages;
- absence, in certain MSs, of specialised courts to handle trade secrets cases.

While most IPR holders, professional associations and experts welcome the future implementation of the Directive, some concerns have emerged from a general point of view, since the implementation of the Directive into national legislation may give rise to dissimilarities among MSs in the transposition of the protection rules. In fact, although the Directive will go some way to harmonise the legislation of trade secrets in Europe, national implementing legislations might lead to different interpretations of the Directive that will ultimately have to be clarified by the European Court of Justice.

As businesses continue to globalise and develop, the effective protection of trade secrets in the EU seems to be required. There is a great and general interest that competition operates in a healthy, resourceful and efficient manner. Legal practice has shown the importance that IP protection has provided, in a way that fosters innovation and creativity rather than compromises it. The current case-law of various MSs confirms that relationships and knowledge exchanges between companies operating at EU and international levels are hindered by legal uncertainties connected to the different thresholds of trade secrets protection. The harmonisation expected by the Directive should play an important role in removing obstacles that currently deter trade secrets rights holders from enforcing their rights, also through litigation.

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14 For further details on the national experts, please see Section 3 – Methodology.
15 Trade secrets holders’ perception is reported by the national experts consulted for this study.
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