The new EU Directive on Know-how

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The EU Directive on Trade Secrets, which I am talking about today, is rather new. That is why a lot of my attorney colleagues and scholars constantly continued to write about this Directive even after I finalized my presentation.

As a consequence, I had to admit that I could do somewhat better with my presentation – and thus changed it quite significantly. Therefore, the version you received is not fully up to date.

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1 WHY KNOW-HOW PROTECTION
“Maybe if we spread the rumor your brother-in-law knows all our trade secrets, the competition will try to steal him away from us.”

WHY KNOW-HOW PROTECTION?

1. **Company-related Reasons**
   * Protection of investments, innovation and of IP capital
   * Confidentiality as management tool
   * Complement and alternative to IP rights
   * Basis for the competitiveness of companies
   * Economically: Obtain first-mover returns

2. **Competition-related Reasons**
   * “Lever for the creation of new knowledge”
   * Promotion of the creation of new and innovative business models
   * Protection of “dynamic, positive and equal business development opportunities”
   * Creation of an environment which encourages intellectual creations and innovations
WHY KNOW-HOW DIRECTIVE?

1. Requirement for Regulation
   * Inconsistent regulations in the Member States
   * Fragmentation of the Internal Market
   * Higher business risks in Member States with lower level of protection

2. International Obligations
WHY ADDRESS THIS ISSUE NOW?

1. Current Status in Many Jurisdictions (e.g. Germany)
   Legal protection of the secrets basically irrespective of measurements to keep secrets confidential

2. Status After Directive Comes into Effect
   Legal protection of trade secrets and secret know-how only if adequate measures to keep them confidential had been taken,
   i.e. measures with regard to organization, structure and monitoring of trade secrets.
   Directive sets a minimum standard for protection to which Member States will have to adhere.
2 THE NEW EU DIRECTIVE
“Directive (EU) 2016/943 of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure”

• to be implemented into national laws by the Member States by **9 June 2018** (Art. 19 (1)).

• Subject matter of the Directive: “Trade Secrets”

• Protected persons
  * trade secret holder
  * companies
    - irrespective of their organization form, size, market share, area of activity, etc.
    - in particular also “start-ups”, SME
  * also: not commercial research facilities

• Takes precedence over Enforcement Directive
THE NEW EU DIRECTIVE

• Full harmonization of the national laws

• Interpretation of national law in accordance with the directives
  • **Before** the end of the implementation period:
    Interpretation of national laws in a way that does not contradict the goals of the Directive
  • **After** the end of the implementation period:
    • Even if the Directive was not or not correctly implemented, the wording and the goals of the Directive have to be observed when national law is applied.
  • The Directive does not affect the exercise of the right to freedom of expression and information.
THE NEW EU DIRECTIVE

• Content of the Directive
  Chapter I  Subject matter and scope
  Chapter II  Acquisition, use and disclosure of trade secrets
  Chapter III  Measures, procedures and remedies
  Chapter IV  Sanctions, reporting and final provisions

• Basic Concepts – Definitions (Art. 2)
  (1) trade secret
  (2) trade secret holder
  (3) infringer
  (4) infringing goods
3 DEFINITION OF TRADE SECRETS
WHAT IS A TRADE SECRET? [Art. 2(1) TSD]

“Four Elements” of a trade secret:

(1) Information
(2) Secrecy (Art. 2 (1)(a))
(3) Commercial value due to secrecy (Art. 2 (1)(b))
(4) Measures to keep it secret (Art. 2 (1)(c))
WHAT IS A TRADE SECRET? [Art. 2(1) TSD]

Similar Concept in Anti-trust Law:

Definition of “Know-how” in Art. 1 (1)(i) EC Block Exemption Regulation on Technology Transfer Agreements No. 316/2014:

“‘know-how’ means a package of practical information, resulting from experience and testing, which is:

(i) secret, that is to say, not generally known or easily accessible,
(ii) substantial, that is to say, significant and useful for the production of the contract products, and
(iii) identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality”.

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1st ELEMENT: INFORMATION

Broadly defined includes:

• technological knowledge
  • formulas (Coca Cola)
  • software, ...

• commercial data
  • information on customers and suppliers
  • business plans
  • market research
  • strategies

• no specific level of creation, novelty or individual character is required.

The format in which the information is accessible is irrelevant!
2nd ELEMENT: SECRECY

• The normative question: Is the information
  • generally known or
  • readily accessible
to the relevant public?

• Examples for “generally known”:  
  • reports in media 
  • public registers 
  • public presentations on trade fairs, Information events
“commercial value because it is secret” (Art. 2 (1)(b))

- Very broad interpretation of “commercial value”
  - real (market) value
  - future (market) value
  - valuable market position
  - threatening economical disadvantage through unauthorized acquisition or unauthorized use

⇒ Any economic interest connected with the information is sufficient
Examples

- **Raw Data (??)**: Potential value is probably sufficient, e.g. the value the data obtained by the selection of data according to specific criteria or by combination with other sets of data.

- **“Unproductive” information (??)**: e.g.
  - Information on infringement of, for instance, anti-trust provisions (e.g. participation in a cartel)
4th ELEMENT: “MEASURES TO KEEP IT SECRET”

- Directive does not focus on whether the information is inherently secret, but on whether **measures** have been applied to keep the information secret
  - which are adequate according to the circumstances
  - which have been applied by the rightful owner of the information.

- Measures to keep information secret, examples:
  - factual measures
    - personal, territorial and technical restrictions of access to information
  - legal measures
    - secrecy clauses in employment contracts
    - other confidentiality agreements, e.g. non-disclosure agreements
4th ELEMENT: “MEASURES TO KEEP IT SECRET”

• Measures to keep information secret
  • Anti-trust law boundaries!
    cf. Recital 38:
    “This Directive should not affect the application of competition law rules, in particular Articles 101 and 102 of the Treaty on the Functioning of the European Union (‘TFEU’). The measures, procedures and remedies provided for in this Directive should not be used to restrict unduly competition in a manner contrary to the TFEU.”
  • Problem: Insufficient standards of security
  • Example: Judgment of Austrian Supreme Court of Justice of 25 October 2016 – Ticket System: security hole in IT system:
  • Still sufficient measures of secrecy if the company did not have knowledge of the faults
• “Reasonable” Measures
  • Could theoretically be interpreted as obligation to ensure everything has been done, i.e. optimal security
  • However, this is a normative question: What would a objective, reasonable and informed third party consider as adequate under the circumstances?
  ⇒ **Theoretical optimum of protection not necessary!**
4th ELEMENT: “MEASURES TO KEEP IT SECRET“

- Consequences for Practice
  - Protection of secrecy depends on the measures taken by the company
  - Protection strategy and protection concept
  - Review/creation of access restrictions for individual employees/departments
  - Integration in corporate compliance system
  - Increased consideration of the protection of confidential information in contracts with customers and employees
4th ELEMENT: “MEASURES TO KEEP IT SECRET“

• **Examples of Trade Secrets**
  • customer data
  • formulas
  • tender documents
  • construction plans
  • technical composition
  • application for approval for medicines

• **Owner of a trade secret**
  • creator of the trade secret
  • rightful purchases of a trade secret

• **Infringement**
  • acquisition, use, disclosure of a trade secret
  • production, offering or placing on the market of infringing goods
4 LAWFUL ACTS
“Lawful Acquisition”

=> undefined term

=> examples in the Directive
  • independent discovery or creation
  • reverse engineering
  • honest commercial practice

Explicit protection of employees

“nothing shall be understood to offer any ground for restricting the mobility of employees” (Art. 1(3) TSD)

• Employees may use information that is not a trade secret as well as their experiences and skills honestly acquired in the normal course of their employment.

• Distinction:
  Know-how of the company >< experienced employee
Reverse engineering lawful

- Observation, study, disassembly or testing
- Product was been made available to the public or has been lawfully acquired
- Product was free from any legally valid duty to limit the acquisition of the trade secret

=> Directive explicitly permits contractual limitations on the freedom of reverse engineering.

↔ Central idea of the Directive: Company has to take measures into its own hands to protect its know-how!
HONEST COMMERCIAL PRACTICES (Art. 3(1)(d))

- Honest commercial practices
  - Lawful if acquisition or disclosure is required or allowed by Union or national law
  - Will have to be determined by the ECJ
  - Will the ECJ take reference to unfair competition laws in the Member States?
5 UNLAWFUL ACTS
UNLAWFUL ACTS (Art. 4)

Three unlawful acts:

- **Acquisition**
  - unauthorized access to a trade secret

- **Use** = unauthorized use of a trade secret

- **Disclosure** = unauthorized breach of the secrecy by disclosure
UNLAWFUL ACTS (Art. 4)

- **Acquisition** of a trade secret without the consent of the trade secret holder
  - access to,
  - appropriation of, or
  - copying of
  any **documents, objects, materials, substances** or **electronic files**, [...] containing the trade secret or from which the trade secret can be deduced;

  plus: “any other conduct which, under the circumstances, is considered contrary to honest commercial practices.”

- Will national unfair competition laws be applied?

- Official notes to Art. 39 TRIPS: Acts such as breach of contract, breach of trust, incitement.
UNLAWFUL ACTS (Art. 4)

- **Use or disclosure** of a trade secret
  - **Use**
    - use of the secret
    - every economic utilization of the secret
      - e.g. use for own purpose, sale
  - **Disclosure**
    - Breach of confidentiality by disclosure of secret vis-à-vis
      - public or
      - persons within the circles that normally deal with the kind of information in question

⇒ Important to only disclose secrets to third parties using an NDA
**Exception Whistleblowing (Art. 5)**

- **Exception to protection** in the prevailing public interest
  - Protection of freedom of opinion and information (Art. 5 (a))
  - Protection of “whistleblowing” - Art. 5 (a), Recital 20:
    
    “The measures, procedures and remedies provided for in this Directive should not restrict whistleblowing activity. Therefore, the protection of trade secrets should not extend to cases in which disclosure of a trade secret serves the **public interest**, insofar as directly relevant misconduct, wrongdoing or illegal activity is revealed. (...)

- No limitations as to what someone can do with the trade secret or when someone acts in the public interest.

  \[ \Rightarrow \text{Suggests a broad scope. Ultimately courts must decide what is in the public interest.} \]

- Obligation by the company to prove the unlawfulness of acting.
6 MEASURES, PROCEDURES AND REMEDIES
MEASURES, PROCEDURES AND REMEDIES

(1) Measures, procedures and remedies (Arts. 6 – 9)
   • General obligations, proportionality, abuse of process
   • Limitation period
   • Confidentiality in legal proceedings

(2) Provisional and precautionary measures (Arts. 10 – 11)
   • Measures against the infringer (Art. 10)
   • Conditions of application and safeguards
   • General obligations, proportionality, abuse of process

(3) Measures resulting from a decision on the merits of the case (Arts. 12 – 15)
   • Court injunctions and corrective measures (Art. 12)
   • Conditions of application, safeguards (Art. 13)
   • Damages (Art. 14)
   • Publication of judicial decisions (Art. 15)
(1) **Limitation period (Art. 8)**
- shall not exceed 6 years
- Germany at present:
  - Unfair competition law: 6 months (Sec. 11 Unfair Competition Act)
  - Civil law: 3 years (Sec. 196 German Civil Code)

(2) **Confidentiality in legal proceedings (Art. 9)**
- German procedural law will have to be adapted
Provisional and precautionary measures (Arts. 10 – 11)

Aims

⇒ Preliminary cessation or, if applicable, preliminary prohibition of the use or disclosure of the trade secret

⇒ Prohibition of the production, offering, placing on the market or use of infringing goods, import, export or storage of infringing goods for those purposes

⇒ Seizure or surrender of the suspected infringing goods, including imported goods, so as to prevent their entry onto, or circulation on the market;

• Continuation of unlawful use is subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder
MEASURES, PROCEDURES AND REMEDIES

Measures resulting from a decision on the merits of the case (Arts. 12 – 15)

= Main Proceedings: Aims

⇒ Cessation or, if applicable, prohibition of the use or disclosure of the trade secret

⇒ Prohibition of the production, offering, placing on the market or use of infringing goods, import, export or storage of infringing goods for those purposes

⇒ The adoption of the appropriate corrective measures with regard to the infringing goods

⇒ 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
Measures resulting from a decision on the merits of the case (Arts. 12 – 15)
= Main Proceedings: Aims
⇒ Damages

Conforms with the requirements from the Enforcement Directive No. 2004/48/EC

* triple damage calculation
* limitation of liability for employees

against an infringer, “who knew or ought to have known” the unlawfulness of the acquisition, use or disclosure of the trade secret
7 WHAT SHOULD YOU DO NOW?
WHAT SHOULD YOU DO NOW?

- Check your current / future confidential contract agreements:
  - Involved with **third parties**? Sign a legally binding NDA.
  - Check clauses in your **current** contracts and review your **future** contracts.
  - Decide to preclude **reverse engineering**.

- **Important for prosecution:** Take adequate steps to prevent the disclosure of your confidential information!
  - Due diligence of **internal company provisions**, legal **standards** and **provisions** of IT-security!
  - Check your **security measures** and make everything traceable.
  - Possibly create a **company handbook** for know-how and trade secrets / establish a **company policy** for information security.
  - Necessary steps for all **protectable trade secrets** to prevent access to third parties (fixed place of storage; encrypting mechanism; definition of persons who may have access; mark confidential documents as confidential).

- **Train and alert your staff regarding trade secrets.**
8 CONCLUSION
Efficient protection of trade secrets and secret know-how will depend on the protection measures the companies take themselves!
Thank you for your attention!
Any questions?

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