Insights: Alerts

EU Passes New Trade Secret Directive to Harmonize Trade Secret Laws of Member States

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In late December 2015, the European Union reached an agreement on the terms of a provisional Trade Secrets Directive, which was intended to harmonize the laws governing trade secrets and "improve[e] the effectiveness of the legal protection of trade secrets" across the European Union. *See* Preamble ¶ 1. If approved, the new Directive will significantly transform the manner in which EU member countries protect and enforce trade secrets—both by creating uniform standards for enforcement and requiring cross-border collaboration in the protection of trade secrets. Moreover, if approved, the new agreement will replace a "patchwork" of trade secret laws across the EU with a new, uniform body of law that significantly mirrors the Uniform Trade Secrets Act (which has been adopted by nearly all U.S. states). Although some questions remain as to the scope of certain provisions in the Directive, for the most part, it is a positive development for U.S. companies looking to protect and enforce their trade secrets in European countries.

Background on the Directive

The EU's Trade Secrets Directive was first proposed in November 2013, when the European Commission tasked the EU's 28 member states with developing a body of uniform trade secrets standards to apply to all member states. A primary reason for the proposal was that Europe had historically been a "patchwork" of differing laws on trade secrets protection—with some member countries, such as Bulgaria and Estonia, lacking *any* remedies for the theft of proprietary trade secrets, and many other countries providing only criminal—but not civil—remedies

Beginning in the spring of 2014, the EU member states set out to change this approach, by negotiating and agreeing upon a uniform set of standards for trade secret protection. The final document, announced on December 18, 2015, is formally entitled "Directive on the European Parliament and of the Council on the Protection of Undisclosed Know-How and Business Information [Trade Secrets] Against Their Unlawful Acquisition, Use, and Disclosure" ("the Directive"). The Directive remains a "provisional" agreement that must be voted on and approved by both the EU Council and the European Parliament; a vote is expected later this year. If approved, the Directive will likely take effect in 2016, which means EU member states will have two years (by 2018) to implement its provisions.

Importantly, the Directive recognizes that trade secrets are "potentially important for business competitiveness as well as for research and development and innovative performance." *See* Preamble ¶ 1. Despite being "among the most used form of protection of intellectual creation and innovative know-how by businesses . . . they are at the same time the least protected by the existing Union legal framework." *Id.* ¶ 2. As a result, the Directive seeks to ameliorate the "fragmentation" problem that exists among EU Member States by creating uniform standards for protection and enforcement of trade secrets. These standards are a minimum "floor" that all member countries must follow, but countries are free to impose additional, "more far reaching protection[s] against the unlawful acquisition, use, or

disclosure of trade secrets." *See* Article 1, ¶ 1.

Noteworthy Aspects of the Directive

First, the Directive creates a uniform trade secrets definition, which was previously lacking. Specifically, a trade secret is any "information," including know-how, which i) "has commercial value because it is secret"; ii) is not "generally known. . . or readily accessible to persons" in the industry; and iii) is the subject of "reasonable steps" to protect the information's secrecy. *See* Article 2, ¶ 1. This definition is nearly identical to the Uniform Trade Secrets Act (UTSA) definition (which has been adopted by approximately 48 U.S. states). This definition alone creates harmonization between the United States and the EU when it comes to trade secrets law. The Directive further defines an "unlawful acquisition, use, [or] disclosure" that gives rise to a civil action, *see* Article 3 ¶¶ 1-5, which similarly tracks the definition of a "misappropriation" contained in the UTSA.

Second, the Directive sets forth the types of remedies available to victims of trade secret theft (namely, both injunctive relief and money damages—see Preamble ¶ 15-17). Like the UTSA, it encourages courts in member states to use flexibility in calculating and awarding monetary damages, using "all appropriate factors." *See* Article 13. The Directive further provides that monetary damages may include lost profits or a reasonable royalty that would have been paid if the defendant had negotiated a license for the use of the trade secret instead of misusing it. *Id.*

Finally, the Directive provides for a detailed protocol for the protection of trade secret information once an action is instituted, requiring that member states create mechanisms for the entry of a protective order that would ensure information filed with a court is not publicly available. *See* Article 8 (requiring each member state to develop a protocol for "protecting the confidentiality of the litigated trade secret in the course of legal proceedings instigated for its defense"). The absence of protective orders in many EU member states was noted to be glaring [Preamble ¶ 6] and the Directive attempts to address that absence.

Distinctions Between the Directive and U.S. Trade Secrets Laws

As noted, the vast majority of the Directive's terms overlap with U.S. trade secret laws. Therefore, if passed, the Directive will likely provide for greater consistency when U.S. companies seek to litigate trade secret thefts in EU member countries.

There are a few important distinctions between the Directive and the UTSA, however. Under the Directive, the acquisition of a trade secret is not "unlawful" if the conduct is " in conformity with honest commercial practice" (Article 2a, ¶ 1(c))—thereby applying a subjective, quasi-"good faith" standard to misappropriation). Similarly, the Directive provides that a claim for theft will not be available where the information at issue involves the "use of . . . experience and skills honestly acquired in the normal course of [] employment." *See* Article 1, ¶ 2a(b) (thereby suggesting that an inevitable disclosure theory of misuse would be disallowed).

This broader language creates a potentially broad exemption for information either acquired through "honest" means or through "honest" employment—even if the information may otherwise be confidential. By creating these loopholes, the Directive as currently drafted creates a robust defense against an allegation of trade secret theft, in contrast to the UTSA, which has no such "honesty"/"good faith" defense. Without guidance from the EU member

states' courts, it will be difficult to know how broadly these exemptions will be interpreted, and in the interim, legal practitioners should expect some uncertainty over the scope of these exemptions.

The Directive also provides a safe harbor for whistleblowers who disclose confidential trade secrets "for the purpose of protecting the general public interest." *See* Article 4(b). The UTSA lacks similar protections. And, this exemption is also potentially broad enough to cover any disclosure made with the subjective belief that it is in the "general public interest"—a defense that could immunize a range of otherwise unlawful trade secret misuse. Again, the whistleblower language will need further clarification by EU member states' courts, and until then, U.S. litigants should be aware when pursuing unauthorized disclosures under the EU's proposed trade secrets regime.

Other distinctions included the extension of liability for trade secrets misuse to companies that engage in the "production, offering, or placing on the market . . . infringing goods. . . when the person carrying out such activities knew or should, under the circumstances, have known that the trade secret was used unlawfully." Article 3, ¶ 3(5). This language creates potential contributory liability for a company that produces or "places on the market" infringing goods, if there is evidence that the company knew or should have known that stolen trade secrets were incorporated into the product in question.

Finally, the Directive recommends a statute of limitations of six years for trade secret claims, *see* Article 7, even though the majority of U.S. states apply shorter periods. The UTSA, for example, has a limitations period of only three years. *See* UTSA § 6.

Conclusion

For the most part, the new EU Trade Secrets Directive is good news for American companies doing business in the 28 EU member states, as it harmonizes legal standards and protections for trade secret owners (while largely tracking U.S. state laws). Although additional clarity will be needed on certain provisions of the Directive and their scope—notably Articles 2a and 4—the proposed Directive (if passed) will create a robust legal regime for trade secret protection in the EU, replacing the "patchwork" system currently in place. And, it is good news for companies seeking to ensure their trade secrets are protected in the U.S. and abroad.