



## Comments

of the Max Planck Institute for Innovation and Competition

of 3 June 2014

**on the Proposal of the European Commission for a Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure of 28 November 2013, COM(2013) 813 final**

The Max Planck Institute for Innovation and Competition is a research institute within the Max Planck Society. Its main purpose is to undertake basic research on legal and economic issues on intellectual property and competition law. One main focus of its activity is the study of European intellectual property and unfair competition law. The Institute regularly advises governmental bodies and parliaments, at both the national and the international level. The Institute hereby provides its comments on the European Commission's Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure of 28.11.2013, (COM) 813 final. All references in these Comments to the compromise proposal of the Council Presidency refer to the proposal of 19 May 2014 (Doc 9870/14).<sup>1</sup>

### I. General Considerations

1. Fundamentally, the Institute supports the initiative of the European Commission to harmonise trade secret protection. The existing differences in the Member States' legal systems complicate the enforcement of such protection in cases of cross-border infringement.
2. Article 39 TRIPS already sets minimum standards of protection to be provided by each Member State. Nevertheless, it is unclear to what extent these standards have been implemented in the individual jurisdictions or whether Member States have chosen to go beyond the threshold set out in TRIPS. Legal transparency in that regard is obscured by the fact that Member States have implemented trade se-

---

<sup>1</sup> The Institute's Comments of 12 May 2014 (in German) under [www.ip.mpg.de](http://www.ip.mpg.de) refer to the Council Presidency's compromise proposal of 4 March 2014 (Doc 7039/14).

cret protection within different types of codifications. It is true that pursuant to Article 6(2) in conjunction with Article 4(1) of the Rome II Regulation cross-border infringements of trade secrets are governed by a single law. However, this does not prevent distortion of competition as long as the substance of legal protection varies among the Member States. Only the harmonisation of trade secret protection will be able to provide equal conditions for competition.

3. The above-mentioned legal disparities can also hamper cooperation between nationals of Member States when that implies the development and exchange of secret know-how. This may have a negative impact on the willingness of holders of trade secrets to conclude such agreements.
4. It is also noteworthy that the current legal provisions may negatively affect the mobility of inventors and other persons who have the potential to generate know-how. In this regard, the proposed Directive has a positive impact, as the establishment of clear and harmonised rules between employers and employees reduces the risk of litigation. However, it is important to ensure that the new legislation does not lead to an increase of non-competition covenants or non-disclosure agreements, which would most likely adversely affect employment mobility and spin-off/start-up activities of inventors and other individuals.
5. To achieve the goal of strengthening the internal market, the incentives for basic and follow-on innovations have to be balanced by taking into account the effects deriving from the certain protection of secret information on the one hand and a broader scope to use such information on the other. From the perspective of innovative companies, the harmonisation of trade secret protection will lead to positive effects, in view of the fact that the risk of losing secret know-how in the event of cross-border cooperation will be substantially diminished. In order to create incentives for innovation e.g. in the case of start-up activities, it is necessary to enact legislation that is clear on issues such as when the use of know-how is unlawful or to what extent the use of trade secrets obtained through reverse engineering is allowed.
6. In the light of the above, the Institute is of the opinion that harmonisation of trade secret protection will yield positive effects, provided that the content of the proposed Directive is well balanced and sufficiently comprehensive, without jeopardising the necessary flexibility of the legal assessment in each individual case.

7. In principle, the Proposal does indeed appear well balanced. This is achieved not least by the limitations set forth in Article 4 (for more details see *infra* III), as well as to some extent by the provisions on enforcement and on protection of confidentiality during legal proceedings; in the latter regard some modifications are called for (see *infra* IV).
8. As regards the scope of the Proposal, it must be noted that certain issues are left unregulated. In particular, the Proposal does not address issues arising in the context of post-contractual non-disclosure obligations imposed on former employees. This is no small gap, considering the practical importance of the topic. On the other hand, it might be an overly challenging task to draft a Directive that regulates potential conflict situations in all their complexity and variety, and at the same time pays due respect to the principles of national labour and contract law. Those aspects can only be addressed in a general manner in the introductory provisions, or by amendments to the provisions defining the scope and limitations of protection (see *infra*, II and III).
9. The same applies to other non-regulated issues such as the ownership of trade secrets in the context of cooperation agreements, including the determination of who has standing to sue in the event of an infringement. The Proposal cannot be expected to provide clear-cut answers to this kind of problem. Instead, these issues should be resolved on a contractual basis between the parties or, in the absence of such agreements, by the relevant applicable law.
10. The Proposal takes a markedly flexible approach to the scope of protection as well as to exceptions and limitations by including a number of "open" clauses which – following a list of more detailed criteria – refer in a general manner to honest commercial practices, thereby invoking the standard enshrined in Article 10<sup>bis</sup> (2) Paris Convention. It is true that this legislative technique entails certain risks for the purposes of harmonisation, due to the fact that the basic notion of honest commercial practices in B2B relations was excluded from the scope of harmonisation by the Unfair Commercial Practices Directive (2005/29/EC) and has so far only become part of the Community *acquis* in specific constellations, particularly in trade mark law. Nevertheless, it can be expected that potential differences in national practice will be overcome or at least diminished on the basis of an appropriate autonomous interpretation guided by the Court of Justice of the European Union.

11. The open-ended character of the provisions defining the scope and limitations of protection is also in conformity with the Commission's position not to regulate trade secret protection as an exclusive right (Recital 10) and instead regard it as a part of unfair competition law. However, it remains unclear whether this approach is binding or whether Member States are free to consider trade secrets as IPRs, as is the case in Italy.
12. The issue is of little relevance when it comes to the substantive content of the protection, which in any case is regulated in the Directive. However, it plays a role in the complementary application of the Enforcement Directive 2004/48/EG (see *infra* para. 16) and the determination of the applicable law under the Rome II Regulation (*infra* para. 17).
13. In order not to jeopardise the harmonising effect or disturb the balance of the Proposal, the provisions of the Directive must neither be undercut nor exceeded by the implementing national legislation. Accordingly, the Directive should require **full harmonisation**. This precludes the enactment of additional legislation for the protection of trade secrets in the national unfair competition rules, as well as the application of criminal rules that are premised on a higher protection level. The compromise draft of the Council Presidency stating that the proposed Directive should merely provide for minimum harmonisation should be rejected.

## II. Scope of the Directive

### 1. Application of other provisions

14. The Directive defines its scope of application in a positive manner in Article 2 and negatively in Recital 28. Pursuant to this recital, the application of "other relevant law in other areas including intellectual property rights, privacy, access to documents and the law of contract" shall remain unaffected. In the event of an overlap between the Enforcement Directive and the proposed Directive the latter, as *lex specialis*, is to prevail over the former. These definitions and recitals leave open a number of questions.
15. The explicit reservation made with regard to the application of other legal provisions, particularly contract law, is to be welcomed. This clarifies, *inter alia*, that the provisions agreed upon in employment contracts with the intention of safeguarding trade secrets are not af-

ected by the Directive, as the Proposal does not directly pertain to labour law. In the framework of the proposed Directive, the balance to be struck between, on the one hand, the interests of the employer to protect its trade secrets, and on the other hand, the interest of the employee to use lawfully acquired knowledge after leaving the company, should guide the interpretation of Article 3 and Article 4.

16. The relationship between the proposed Directive and the Enforcement Directive has not been adequately regulated. Recital 28 may convey the impression that, in principle, the Enforcement Directive is applicable to the protection of trade secrets and that only in the event of overlap with the Trade Secret Directive will the latter take priority and thus prevail. This interpretation is, however, difficult to reconcile with the unfair competition approach adopted by the Proposal, which appears to preclude the application of the Enforcement Directive. In order to avoid the referral of such questions to the Court of Justice of the European Union, it should be expressly stated in the proposed Directive itself or in its preamble that the Enforcement Directive is not applicable to the protection of trade secrets.
17. The classification of the proposed trade secret protection under the Directive as protection against unfair competition likewise settles the question of which provision in the Rome II Regulation determines the applicable law. If, in accordance with the aforesaid, trade secret protection is deemed an act of unfair competition, the applicable law is determined by Article 6 and Article 4 of the Rome II Regulation. If, on the contrary, the protection afforded by Article 3 of the Proposal were to be considered as granting an intellectual property right, the relevant provision of the Rome II Regulation would be Article 8, para. 1. In order to provide clarity in that regard, the Directive should expressly stipulate that the applicable law in case of infringement is determined by Article 6 of the Rome II Regulation.

## **2. Definition of trade secret**

18. The definition of “trade secret” provided in Article 2(1), which to a large extent is based on the definition of Article 39(2) TRIPS, is essentially appropriate to define the scope of protection of the Directive. The commercial value requirement ensures that information without any objective value or trivial information is excluded from protection.
19. Nevertheless, some reservations exist as to the inclusion of the criteria spelt out in Article 39(2) TRIPS, according to which trade secrets must be “subject to reasonable steps” to keep them secret. This re-

quirement has been construed in certain TRIPS Members as meaning that trade secret protection requires in every case the adoption of explicit measures or agreements to preserve confidentiality. In particular, the disclosure of trade secrets to a large number of people may then pose considerable difficulties for meeting the confidentiality requirement, especially when that means that it must be proven that each individual was sworn to secrecy. Hence, the objective of harmonisation could be jeopardised through divergent practices on this core issue in the different Member States.

20. In the light of the above, the preamble should indicate that the requirement of “reasonable steps under the circumstances” to maintain secrecy should be interpreted as including, on the one hand, factual measures such as safekeeping in a vault or encryption, and on the other hand explicit agreements. The latter should not mandatorily require agreements having been concluded with each individual to whom the secret was disclosed; however, where such disclosures concern a large group of persons, the secret nature of the information must be conveyed in a strict and unequivocal manner.

### **3. Definition of “infringing good”**

21. The definition of “infringing goods” provided in Article 2(4) gives rise to certain reservations. The term “rechtsverletzende Produkte” used in the German translation of the Proposal poses several questions. This terminology appears to suggest that the goods infringe an intellectual property right and are not the result of an act of unfair competition. The English expression “infringing goods” better encapsulates the essence of the concept. Therefore, it would be more consistent to refer in the German version to “auf der Verletzung eines Geschäftsgeheimnisses beruhenden Produkten” (products based on the infringement of a trade secret).
22. In particular, regarding all goods whose “design, quality, manufacturing process or marketing significantly benefits from trade secrets unlawfully acquired, used or disclosed” as infringing is too far-reaching. Design, quality, manufacturing process and marketing are criteria that are connected to goods in very different ways. As regards the design and manufacturing process the causal link with the use of a trade secret may be evident. Ascertaining this link vis-à-vis the quality of a product may prove more challenging. As a general rule, marketing a good is not connected with the use of a trade secret. It rather constitutes a follow-up act of production, but is not as such the result

of a trade secret use. If the notion of “marketing benefiting from unlawful use of a trade secret” should cover for example marketing campaigns based on customer lists that were unlawfully acquired, it would by far exceed the legitimate purpose of the provision if the products marketed in that manner were classified as infringing.

23. Therefore, in the definition in Article 2(4) the reference to “marketing” as one of the connecting factors for goods that infringe trade secrets should be deleted. Moreover, the term “quality” should be replaced by the more general concept of “characteristics”. This would allow the inclusion of other characteristics aside from the quality of the goods.
24. Moreover, the concept of infringing goods poses additional problems, as its temporal elements remain vague. From the wording of the provision it is not clear whether the consequences spelt out in Article 3(5) arise or continue to apply without time limitations to products that benefit from the unlawful acquisition of a trade secret even when this information later loses its secret nature (possibly triggered by actions of third parties). Whilst the reference to legitimate interests in Article 4(2) may to a certain extent fill the existing gaps in this regard, a substantial degree of uncertainty persists.

### III. Scope of protection

25. Article 3(1) of the Proposal requires Member States to afford civil law protection against unlawful acquisition, use and disclosure of trade secrets. Against this background, Article 3(2) describes unlawful acquisition, while Article 3(3) outlines the meaning of unlawful use and disclosure. It is noteworthy that the Proposal does not provide a definition of these terms. Instead, where necessary the meaning of acquisition, use or disclosure of a trade secret must be established by means of interpretation. This legislative technique is in line with the open nature of the protection provisions.

#### 1. Unlawful acquisition

26. Pursuant to Article 3(2), an unlawful acquisition of a trade secret occurs if it is committed, intentionally or with gross negligence, by one of the acts listed in the provision. These include, *inter alia*, theft (b), bribery (c), deception (d), breach or inducement to breach a confidentiality agreement or any other duty to maintain secrecy (e), and any other conduct which, under the circumstances, is considered contrary to honest commercial practices (f). The wording of the provision could be improved in several regards.

27. First, it should be noted that the link between the listed unlawful acts and the fault elements (intent or gross negligence) is inappropriate. As a matter of principle, fault on the part of the infringer should only play a role when determining the sanctions. As such, a claim for damages usually requires fault, while it is not taken into consideration in a claim for injunctive relief. The infringing acts listed in Article 3(2) (theft, bribery and deception) are at the same time criminal law acts that require an implicit intent, whereas the reference to “any other conduct” which is considered contrary to honest commercial practices in paragraph 2(f) refers to a concept from unfair competition law. Liability for unfair commercial behaviour as such does not require fault. In view of this, the terms “intentionally or with gross negligence” should be deleted from Article 3(2) of the Proposal, as provided for in the compromise draft of the Council Presidency.
28. The reference to the criminal law notions expressed in Article 3(2)(b)–(d) is also problematic. These offences have not been harmonised and could therefore be interpreted in an inconsistent manner within the different Member States. This is particularly relevant in the case of bribery, which does not present clear contours in the private commercial context. Hence, if courts applied their own national criminal law when handing down their judgements, the harmonisation objective could not be achieved. In order to ensure an autonomous interpretation, the modes of unlawful acquisition should be circumscribed, for instance by referring to the taking of documents or the procurement of information through deception, physical or psychological force, as well as by other unlawful means.
29. Article 3(2)(e) deems unlawful any acquisition carried out through breach of or inducement to breach a confidentiality agreement or any other duty to maintain secrecy. In these cases, the trade secret is obtained from another party who previously acquired the secret. The acquisition of trade secrets through third parties was already expressly mentioned in footnote 10 of Article 39(2) TRIPS to clarify the meaning of “honest commercial practices”. Likewise, the infringement by a third party or by the second acquirer by using and disclosing a trade secret is regulated in Article 3(4) of the Proposal. In accordance with footnote 10 of Article 39(2) TRIPS this provision requires that the alleged infringers at the time of use or disclosure knew or should have known under the circumstances that the first acquirer was using or disclosing the trade secret unlawfully.



30. In the light of footnote 10 of the TRIPS Agreement it seems that the type of unlawful acquisition described in Article 3(2)(e) is unsystematically placed. It would be more appropriate to include it within Article 3(4). As such, this provision should cover the acquisition by a third party who at the time of the use or the disclosure was aware or should, under the circumstances, have been aware that the trade secret was obtained from a third person who had acquired it or was using or disclosing it unlawfully. Thus, the case described in Article 3(2)(e) could be deleted.

## **2. Unlawful use and disclosure**

31. The unlawful use and disclosure of a trade secret as provided for in Article 3(3) should not be subject to the additional condition that the infringer acts intentionally or with gross negligence, as mentioned above in the context of unlawful acquisition. The unlawfulness of the use or disclosure of a trade secret by a person who in accordance with Article 3(3)(a) has acquired the trade secret in an unlawful manner should not be connected to intention or gross negligence. The same applies to the assessment of the unlawfulness of the use or disclosure of a trade secret pursuant to Article 3(3)(b) or Article 3(3)(c). Under both provisions the trade secret has been obtained lawfully but is used or disclosed as the result of a breach of a confidentiality agreement or some other duty to maintain secrecy, or the breach of a duty to limit the use of a trade secret. Hence, fault would only arise in the context of Article 3(4) as regards persons who obtained the trade secret from another person.
32. In Article 3(3)(c) an additional clause referring to the legitimate interest of former employees could be included for the purpose of ensuring that the use of knowledge acquired through experience is not limited. Such a clause could read as follows: "...unless such duty limits the use of personal information and experience gained honestly in the course of employment or any other contractual relationship in an inappropriate manner. Rules on collective bargaining agreements and other mandatory rules of national labour law shall remain unaffected".

## **3. Import and Export**

33. Article 3(5) concerns "infringing products" (regarding the lack of clarity of that term, see II. 3). Apart from the conscious and deliberate production, offering or placing on the market of such goods, the provision also lists their import and export. Due to Article 6(2) in conjunc-

tion with Article 4(1) Rome II Regulation, which establish the law of the Member State where the harm occurs as the law governing acts of unfair competition, the infringing character of import and export is assessed independently of the legal situation in the country from which the goods are exported, or where they are imported. This means that the governing law is the law of the country from which the owner of the trade secret operates his business. If an infringement is found pursuant to those rules, the goods will be deemed as infringing in the meaning of Article 2(4). All cross-border trade in such goods within the EU constitutes unlawful use.

34. Taken literally, the prohibition of import and export also encompasses intra-Community trade. This means that the provision leads to impediments to the free movement of goods in the meaning of Article 34 TFEU. As a matter of principle, this complies with primary law, as it can be justified as necessary under the aspect of honest practices, as set out in *Cassis de Dijon* (Case C-120/78) and subsequent case law of the ECJ. However, the European legislature should not enact provisions that are specifically aimed at hindering the cross-border movement of goods within the internal market. The protection against intra-Community trade in infringing goods is sufficiently ensured if marketing and sales of such goods are prohibited by Article 3(5). The import and export ban should therefore be limited to trade with third countries. Furthermore, it appears problematic that the provision also seems to prohibit import and export by consumers. Given that the mere use of goods that benefit from infringement of trade secrets is not a violation in itself, it should also be clarified that Article 3(5) does not apply to import and export of such goods for personal use or consumption.

#### **4. Reverse engineering**

35. Article 4(1) of the Proposal provides a list of lawful ways in which trade secrets may be acquired. Among those, paragraph (b) refers to the possibility of reverse engineering. This clarification is positively received, especially as hitherto the national legal systems of the Member States have differed on this issue. Following the systematic approach of the Proposal, the admissibility of acquisition of secret information through reverse engineering also means that any subsequent use of the information is equally permitted. It is not feasible to differentiate between acquisition and use. Although the Proposal is to be welcomed in this regard as well, some remarks are called for.

36. First, it must be noted that the Proposal remains largely ineffective as regards the possibility to reverse engineer software. If software is protected under copyright law, reverse engineering is allowed pursuant to Article 6 of the Software Directive 2009/24/EG, but only for a limited purpose, namely, to obtain the information needed to achieve interoperability of an independently created computer program. Using the software as such is not permitted. Pursuant to Recital 28, this provision remains unaffected.
37. On the other hand, the use without restrictions of trade secrets obtained through reverse engineering appears problematic, in particular in sectors where – other than in the case of software – no intellectual property protection is available, although considerable investments are made in the development of new products. Notable examples include the cosmetic industry, which regularly invests quite heavily in the development of perfumes, but where the know-how generated thereby can be decoded with relative ease through reverse engineering. The unrestricted use of such know-how raises concerns that it could pose a substantial threat to the companies concerned, eventually leading to market failure whereby such goods would no longer be produced. Accordingly, it must be assessed whether the existing (quite problematic) prohibition on advertising such products as imitations or replicas should be replaced by other measures that are directly aimed at protecting the relevant interests.

## 5. Grounds of justification

38. The catalogue in Article 4(2) of grounds justifying the acquisition, use and disclosure of trade secrets allows for a balancing of the interests of trade secret holders to protect their secrets and the interests of third parties to access, use and disclose them on a case-by-case basis. In particular, Article 4(2)(e), which allows undertaking otherwise unlawful acts “for the purpose of protecting a legitimate interest” provides for an open balancing clause. If Article 3(3)(c) is not complemented in the manner proposed above with regard to the specific interest of former employees, persons affected by overly strict non-disclosure agreements could invoke this provision to justify use of their knowledge acquired in an honest manner during the normal course of their employment. This should preferably be clarified through an express reference in Article 4 or in the preamble.
39. It is also important to note that the reference in Article 4(2)(d) to a “non-contractual obligation” must be interpreted as referring to legal

obligations. In this respect the wording of Article 4(1a) in the compromise draft of the Council Presidency is to be welcomed. Even so, it seems problematic that the provision appears to justify any divulgence of a trade secret that is based on a legal duty of disclosure, without previously balancing the interests that support revealing the information and the detrimental effects that arise from such disclosure (or any other use). To be sure, such a duty may already result from the respective legal regulations (see CJEU Case No. C-390/13 – *EMA/InterMune*). Yet this should also be incorporated in the proposed Directive.

#### IV. Enforcement

##### 1. General considerations

40. While Article 5 lays down a general obligation to establish a legal framework containing measures, procedures and remedies to ensure the civil law protection of trade secrets, Article 6 requires that such measures be applied by the courts on a case-by-case basis in a proportionate manner and subject to providing for safeguards against their abuse. Unlike the Enforcement Directive, the Proposal places special emphasis on the proportionality principle as a criterion to be observed by the judicial authorities. The same applies to the protection against abusive litigation. The Institute is in support of this approach.
41. The Enforcement Directive does not stipulate whether and to what extent it is possible to claim for compensation or redress when unjustified claims for infringement are filed. This results in a structural imbalance. Unlike right holders, who can rely on a core set of uniform rules, persons confronted with unfounded claims brought in other Member States or Union-wide cannot avail themselves of uniform principles determining potential compensation. The fact that the proposed Directive bridges this gap is particularly welcome, as unfounded claims of trade secret infringement can cause significant prejudice due to the severity of the accusation. Even prior to the commencement of proceedings, the reputation of the alleged infringer can be compromised and existing business contacts might be affected. Therefore, it should be clarified that appropriate compensation must be paid in the event that the claimant has grossly violated a duty of care or is even guilty of deliberate harmful conduct. Hence, in the preamble (Recital 12) it should be clarified that the sanctions for raising unfounded claims must meet the same standards of efficiency and deterring effect as those applicable in case of infringement.

## 2. Abuse of litigation

42. Although the rationale behind Article 6(2) is to be assessed positively, its wording seems inappropriate. First, it is unclear how judicial authorities are to decide whether a claim is manifestly unfounded and the applicant has initiated the proceedings in bad faith. Typically, when courts decide on claims concerning the unlawful acquisition, use or disclosure of a trade secret that are manifestly unfounded, the case is simply dismissed. Hence, it should be clarified that Article 6(2) concerns the possibility to bring an action or file a counterclaim for compensation by the persons against whom unfounded claims are directed.
43. Further, it is unclear which sanctions the judicial authorities are meant to impose in the event that an action concerning trade secret infringement is regarded as manifestly unfounded and as being brought in bad faith. The only sanction expressly included in the Proposal concerns the publication of the judgment, whereas the award of damages is left to national law. Such legislative abstinence would appear unwise, as it would have a negative impact on the efficiency and deterring effect of the proposed rule. Moreover, it appears too restrictive to limit the possibility of sanctioning unfounded claims to cases where litigation has commenced. The defendant may already be negatively affected in the pre-trial stage, a situation that, depending on the circumstances, should give rise to compensation.
44. Bringing manifestly unfounded and abusive claims may not only damage the reputation of the unjustly accused respondent, but may also cause the loss of business contacts and increase the difficulty of entering the market. Most notably, such proceedings may be very costly. Against this background, the Directive should be amended so as to allow for awarding full compensation of the costs incurred by the defendant. This is of relevance not least in countries where the attorneys' fees are usually calculated according to legal statutes: even if the prevailing defendant is legally entitled to reimbursement of costs under the statutory terms, this will frequently not cover the actual costs incurred, as the fees stipulated on a contractual basis by specialised attorneys are often calculated per hour. In such cases, granting full reimbursement of the costs actually incurred would substantially contribute to ensuring the equality of arms between the parties of the proceedings and to reducing the structural imbalance between the claimant and the defendant in litigation.

### 3. Limitation period

45. The limitation period set forth in Article 7 is unusual in the context of EU Law. Other than in the Community Plant Variety Rights Regulation No. 2100/94, hitherto no provisions on limitation of actions exist at the EU level either in intellectual property law or in unfair competition law. The proposed Directive provides in Article 7 for a maximum limitation period of two years after the applicant's becoming aware of the facts that triggered the action. As such, this limitation period seems to be unsatisfactory.
46. Actions for unlawful acquisition, use and disclosure of trade secrets may arise in completely diverse situations. While unlawful acquisition and disclosure usually take place in the form of individual actions, unlawful use regularly occurs in the form of a sequence of similar actions. In particular, where the litigation is concerned with production and marketing of goods in which the trade secret is embodied, the claims do not relate to one individual action, but rather to a series of acts. Hence, either a different limitation period commences after each action or the limitation period for all of them starts running only after the last of the relevant actions begins. By solely referring to awareness of the last fact giving rise to the action as the event triggering the commencement of the limitation period, Article 7 does not provide for a clear rule in cases in which infringing goods have been marketed during an extended period of time. In view of this, the Proposal should clarify in Article 7 that the limitation period for continued actions begins when the last action ends. Furthermore, the limitation period should be three years instead of the proposed two-year period.

### 4. Preservation of confidentiality

47. The provisions in Article 8 on the preservation of confidentiality during litigation set forth specific procedural rules for the protection of trade secrets. Without the adoption of specific measures to preserve the secret nature of trade secrets, the procedural enforceability of the infringement actions would be called into question. Secrecy could be lost by the mere act of filing the lawsuit and on that basis the claims could be dismissed. In view of this, the provisions on the preservation of confidentiality during litigation should play a central role in the regulation of the enforcement of claims based on an alleged infringement of a trade secret. Therefore, it is important to ensure compliance with the principle of the right to a fair hearing. This principle is anchored in constitutional law in the Member States. In the EU juris-

diction it is derived from the right to a fair trial set forth in Article 47, para. 2, of the Charter of Fundamental Rights of the European Union. Article 8 of the proposed Directive takes this principle appropriately into consideration.

## 5. Interim Measures

48. Article 9(1) spells out the interim and precautionary measures that the competent national authorities are entitled to grant against the alleged infringer. The Proposal mentions explicitly the cessation or the prohibition of use or disclosure of trade secrets (a), the prohibition to produce, offer, place on the market or use infringing goods, as well as their import, export or storage for these purposes (b), and the seizure or delivery of goods that allegedly infringe trade secrets (c). Unlike the Enforcement Directive, the Proposal does not include the possibility that courts impose penalty payments in accordance with their national law in the event that interim measures are violated. This gap should be closed. Without such possibility, it cannot be ensured that the interim measures will be duly observed.

## 6. Continuation of conduct; securities

49. Article 9(2) requires Member States to ensure that courts subject the continuation of the acquisition or use of the trade secret to the lodging of guarantees. Apparently, these are conceived as alternatives to interim measures. Hence, persons having acquired or using a trade secret may be given permission to continue the allegedly infringing actions if appropriate securities are provided.
50. Although this provision corresponds to Article 9(1)(a) of the Enforcement Directive, it appears problematic in the case of trade secrets. First, it is unclear which cases should be encompassed by the continuation of the unlawful acquisition of a trade secret. As a rule, acquisition occurs as a single action carried out by an individual person. Once the secret is acquired, the acquisition cannot continue, unless what is meant thereby includes disclosing the secret to other persons. If such further disclosures were admitted by court order, the secret nature of the allegedly infringed trade secret would be jeopardised. The secret nature of the information would likewise be endangered if it were permitted by court order to continue an allegedly unlawful use or exploitation of a trade secret after providing securities. The interests of both parties can appropriately be safeguarded through interim measures that are subject to the conditions set forth

in Article 10(1) and (2) as well as through the possibility that courts order applicants to lodge securities pursuant to Article 10(4).

## **7. Assessment of proportionality**

51. Similar to Article 9(3) Enforcement Directive, Article 10(1) requires Member States to implement in their legal systems the possibility for judicial authorities to oblige applicants to provide prima facie evidence that the requirements for protection (trade secret, ownership) are met and that an infringing action has occurred (unlawful acquisition, use or disclosure). Article 10(2) requires that judicial authorities, when making a decision on the grant or rejection of the application for interim measures and the assessment of their proportionality, take into consideration a number of specific criteria. This provision does not correspond to any of the provisions of the Enforcement Directive and it does not seem appropriate in its current form. It would make more sense to clarify, as the Council Presidency does in its compromise proposal, that the decision depends on the specific circumstances of each individual case and that the criteria listed are merely examples.
52. In order to be granted, interim measures must always concern an emergency situation in the sense that it is unacceptable for the applicant to wait until a decision is made in ordinary proceedings. The urgency of the measures is not listed among the criteria set forth in Article 10(2). In the interest of achieving a harmonised judicial practice in the Member States, urgency should be included as one of the criteria listed.

## **8. Measures resulting from a decision on the merits of the case**

53. If an infringement (unlawful disclosure, unlawful use or unlawful disclosure) has been found, Article 11(1) obliges Member States to provide for the following sanctions to be imposed by the judicial authorities: the cessation of the use or disclosure of the trade secret (a), the prohibition to produce, offer, place on the market or use infringing goods (b) and the adoption of the appropriate corrective measures with regard to the infringing goods (c).
54. The express prohibition to produce, offer, and place on the market or use infringing goods set forth in subparagraph (b) seems redundant. These actions are regarded as modes of use of a trade secret pursuant to Article 3(5) and accordingly fall under the scope of Article 11(1)(a).



## 9. Alternative financial compensation

55. The rules on financial compensation of the injured party provided in Article 12(3) of the Proposal are apparently based on the optional model set forth in Article 12 of the Enforcement Directive. According to the Proposal, any order of compensation is subject to the three conditions mentioned in paragraphs a to c. Against this background, Recital 18 emphasises that the possibility of an alternative financial compensation is meant to benefit persons who acquired a trade secret in good faith from someone else. The condition specified in paragraph c of the German version (“eine finanzielle Entschädigung der geschädigten Partei scheint nach vernünftigem Ermessen eine zufriedenstellende Lösung zu sein”) should be replaced, in accordance with the English version, by the wording of Article 12 of the Enforcement Directive, which provides for the payment of compensation, when “pecuniary compensation appears reasonably satisfactory” (“wenn die Zahlung einer Abfindung als angemessene Entschädigung erscheint”).

## 10. Claims for information and preserving of evidence

56. The Proposal does not contain claims for information and preserving of evidence. As the Enforcement Directive does not apply to infringement of trade secrets due to its unfair-competition character, those issues would be governed by principles of national law, which is not a desirable result, in view of the prevailing legal diversities. It is true that simply transposing the rules enshrined in the Enforcement Directive may appear problematic, as claims for information and preserving of evidence could be misused for unauthorised discovery of business information. However, that risk can arise as well if the matter is referred to national law, whereas in the framework of the proposed Directive it would be possible to take precautions, such as those applying to protection of confidentiality in proceedings, or, where appropriate, by limiting the scope of the claims.
57. For those reasons as well as in view of the importance of such claims for the protection of trade secrets, claims for information and preserving of evidence should be included in the proposed Directive. In this context it should be observed that the provisions of the Enforcement Directive must be adapted to the specific features of trade secret protection. Thus, the information provided cannot be limited to the channels of distribution, quantities and prices of infringing goods. In cases of unlawful acquisition or unlawful disclosure it will often be crucial to



be informed of the names of persons to whom the secret knowledge has been revealed. Only then is it possible to enjoin further infringement and to appraise the full extent of the use made of the information. Furthermore, it must be ensured that the claims for information and preserving of evidence are granted only under consideration of all circumstances of the individual case and subject to the principle of proportionality. Guidance can be provided in that context by the catalogue of criteria set forth with regard to prohibitive injunctions and corrective measures.