



# What protection for trade secrets in the European Union? CEIPI's observations on the proposal for a directive on the protection of undisclosed know-how and business information

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*In November 2013, the European Commission published a proposal for a directive on the protection of undisclosed know-how and business information (trade secrets). A second version of this proposal, already amended by the Council in May 2014, gained the approval of the Committee on Legal Affairs of the European Parliament at the end of June 2015, thus officially entering the legislative phase. The Centre for International Intellectual Property Studies (CEIPI), a university institute dedicated to teaching and research on intellectual property, is strongly interested in the issues raised by this proposal. For this reason, the Centre intends to propose a certain number of observations aimed to the European Union's legislator.*

Trade secrets and intellectual property have a close and longstanding relationship: the use of trade secrets may present an alternative or a complement to a patent.<sup>1</sup> This link explains the

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<sup>1</sup> See on this issue: J.-C. Galloux, "Concours, cumul et coexistence du secret et des droits de propriété intellectuelle", in : C Geiger and C. Roda (eds.), *Le droit de la propriété intellectuelle dans un monde globalisé, Mélanges en l'honneur du Professeur Joanna Schmidt-Szalewski*, Collection of the CEIPI, Lexis Nexis, 2014, p. 129 sq. ; W. Cohen, R. Nelson, J Walsh, "Protecting their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)", *National Bureau of Economic Research*, 2000. For a general discussion on the justifications for legal protection of trade secrets, see D. Friedman, W. Landes, R. Posner, "Some Economics of Trade Secret Law", *The Journal of Economic Perspectives*, 1991, Vol. 5, No. 1, pp.61-72; R. Bone, "A new look at trade secret law: doctrine in search of justification", *California Law Review*, 1998, Vol. 86, No. 2, pp. 241-313; M. Lemley, "The surprising virtues of treating trade secrets as IP rights", *Stanford Law Review*, 2008, Vol. 61, No. 2, pp. 311-353; M. Risch "Why Do We Have Trade Secrets?", *Marquette Intellectual Property Law Review*, 2007, Vol. 11, pp. 1-76.

inclusion of provisions related to undisclosed information in the TRIPS agreement<sup>2</sup> and the leading role currently played by the Unit on the Fight Against Counterfeiting and Piracy of the European Commission on the drafting of the proposal for a directive on the protection of undisclosed know-how and business information (trade secrets).<sup>3</sup> The European Commission recognised the high heterogeneity of the protection granted to trade secrets within the European Union and concluded that this would result in a fragmentation of the internal market, detrimental to companies and businesses. As this situation would also reduce the incentive to innovate and the competitiveness of trade secrets owners, the Commission underlined the need for a harmonized approach.<sup>4</sup>

At the same time, other national legislators also manifested a strong interest on this issue. In France, the draft bill “*Carayon*”, which intended to institute a criminal protection for trade secrets, was adopted in a first reading session of the Assemblée nationale on 23 January 2012.<sup>5</sup> Afterwards, following a political changeover, a new bill related to trade secrets was published on 16 July 2014, with the objective of proposing criminal as well as civil protection for trade secrets.<sup>6</sup> This text was finally included within the law proposal for growth, economic activity and equality of economic opportunity (the so-called “*Macron*” law), but was dropped in January 2015 following a strong protest by French journalists, extremely worried about this

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<sup>2</sup> Section 7 of the TRIPS Agreement for the protection of undisclosed information (Article 39). On the scope of protection, see J. de Werra, in: Ch. Geiger (ed.), *Le droit international de la propriété intellectuelle lié au commerce: L'accord ADPIC, 20 ans après*, Collection du CEIPI, 2016 (forthcoming) ; D. Gervais, *Protection of Undisclosed Information*, in : *The Trips Agreement : Drafting History and Analysis*, 4<sup>th</sup> ed., Sweet and Maxwell, London, 2012, §§2.477 ; N. P. de Carvalho, *The Trips Regime of Antitrust and Undisclosed Information*, Kluwer Law International, Alphen aan den Rijn, 2008, p. 189 ; J. Busche, P.T. Stoll, *Schutz nicht offenbarter Informationen*, in : *TRIPs, internationale und europäisches Recht des Geistiges Eigentums*, Carl Heymanns Verlag, München, 2007, pp. 557 sq.

<sup>3</sup> Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, COM(2013) 813 final, 28 November 2013. See about this proposal: T. Aplin, “A critical evaluation of the proposed EU Trade Secrets Directive”, *Intellectual Property Quarterly*, 2014, No. 4, p. 262 ; T. Cook, “The proposal for a Directive on the Protection of Trade Secrets in EU Legislation”, *Journal of Intellectual Property Rights*, 2014, Vol. 19(1), p. 54. J.-M. Garinot, “L’Union européenne au secours du secret des affaires”, *Dr. & patr.*, 2014, No. 232, p. 20 ; S. Nuno Sousa, “What exactly is a trade secret under the proposed directive?”, *Journal of Intellectual Property Law & Practice*, 2014, p. 923 ; L. G. Vaqué, “Secret d’affaires: l’urgente nécessité d’adopter une directive face à l’inefficacité de l’application de l’accord sur les ADPIC”, *RDUE* 2015, Vol. 3 p. 347 ; V. Falce, “Trade Secrets – Looking for (Full) Harmonization in the Innovation Union”, *IIC* 2015, p. 940.

<sup>4</sup> Explanatory memorandum to the Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), p. 5.

<sup>5</sup> Proposition de loi n° 3985 visant à sanctionner la violation du secret des affaires, adoptée en première lecture par l’Assemblée Nationale, le 23 janvier 2012.

<sup>6</sup> Proposition de loi n° 2139 relative à la protection du secret des affaires, enregistrée à la Présidence de l’Assemblée Nationale, le 16 juillet 2014.

legislation and viewing it as a hindrance to their investigative work and as a threat to the protection of their sources.<sup>7</sup>

Nevertheless, if the legislative dynamic in countries such as France seems to be at a temporary stalemate, this was not the case at the European level. Indeed, a directive proposal was published by the European Commission on the 28<sup>th</sup> of November 2013. This proposal was then amended by the European Council in May 2014, before being submitted to the Committee on Legal Affairs of the European Parliament, which released a new version on 22 June 2015.<sup>8</sup> In terms of contents, the proposal on the one hand emphasises, following most of the European States' approach, the clear difference of nature existing between the protection of trade secrets and intellectual property rights.<sup>9</sup> On the other hand, the European legislator is considering a purely civil protection of trade secrets: the harmonisation of criminal law was in fact considered too complex to implement, considering the difference of the legal basis concerned (article 83(2) TFEU for criminal matters), and potentially too disruptive for the legal systems of the different Member States.<sup>10</sup> It is also likely that the past failed attempt to harmonise criminal sanctions of the intellectual property rights within the European Union discouraged the European legislator from moving in this direction<sup>11</sup>, this being one of the points that provoked a fierce discussion when the project of the “*Anti-Counterfeiting Trade*

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<sup>7</sup> Petition “Secret des affaires: informer n’est pas un délit”, *Le monde*, 28 janvier 2015.

<sup>8</sup> Report on the proposal for a directive of the European Parliament and the Council on the protection of undisclosed know-how and business information (trade secrets), (COM(2013)0813 – C7-0431/2013 – 2013/0402(COD)), 22 June 2015.

<sup>9</sup> The tenth recital of the directive proposal specifies unequivocally “in the interest of innovation and to foster competition, the provisions of this Directive should not create any exclusive right on the know-how or information protected as trade secrets”. See on this point, J. Lapousterle, “Les secrets d’affaires à l’épreuve de l’harmonisation européenne”, *Recueil Dalloz*, 2014, p. 684.

<sup>10</sup> See the impact assessment accompanying the document proposal for a Directive of 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, SWD/2013/0471 final, p. 61 sq. The recital 9 quater proposed by the Committee on Legal Affairs of the European parliament states “this Directive does not provide for criminal penalties to be imposed on persons who unlawfully acquire, use or disclose a trade secret. It is thus without prejudice to the right of the Member States to supplement its civil- and commercial-law provisions with measures under the criminal law. Where Member States draft such measures, however, they should take full account of the safeguards laid down in this Directive, in order to ensure that a proper balance is struck between the protection of trade secrets and business freedom, freedom of expression and freedom of information”.

<sup>11</sup> It should be recalled that the harmonization regarding criminal sanctions for counterfeiting has not been realized so far, due to a strong opposition within the European Parliament to the directive proposed on this subject by the European Commission. This EP opposition led to the withdrawal of the proposal by the Commission on September the 18<sup>th</sup> 2010. See on this question: Ch. Geiger (ed.), *Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research*, Edward Elgar, 2012.

*Agreement*” (ACTA) was rejected by the European Parliament at a large majority in July 2012<sup>12</sup>.

Given the wide scope of application and great ambition in terms of applicable measures, procedures and remedies proposed, the trade secrets directive proposal fosters an intense debate. Echoing the objections formulated in France, the core of the debate is twofold: (I) the scope of protection, which may appear too wide and (II) the reaching of a balanced protection.

## **I. The planned scope of protection**

The definition of trade secret affects the beneficiaries of its protection and the type of information covered, which could lead to the exclusion of certain categories of stakeholders. In this regard, notwithstanding the common framework provided by the TRIPS agreement, the Member States of the European Union maintained diverging approaches. In fact, certain Member States insist on the link between trade secrets and companies or on the prejudice that would result for the latter in case of unauthorised acquisition of trade secrets. In this sense, the draft bill submitted by the deputy Bernard Carayon, intended to criminalise the “violation of the companies’ trade secrets”. Similarly, some legislative approaches (such as those of Sweden and Bulgaria) define trade secret as information linked with a commercial activity or, in some other cases, an explicit reference to companies is even included, such as in Poland, Slovakia and Germany.<sup>13</sup>

By way of comparison, it is interesting to observe that no explicit link to companies is made in the EU proposal, which adopts instead the trade secret’s definition contained in the TRIPS agreement and considers that the holder of trade secret should be defined as “any natural or legal person lawfully controlling a trade secret”. Nevertheless, some additional information is set out in the recitals of the directive: the first of them mentions “businesses and non-commercial research institutions”, whereas the eighth states that the definition of trade secrets “should therefore be constructed as to cover business information, technological information

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<sup>12</sup> Ch. Geiger, “Assessing the Implications of the Anti-Counterfeiting Trade Agreement for the European Union: Legitimate Aim but Wrong Means”, in: P. Roffe and X. Seuba (eds.), *“The ACTA and The Plurilateral Enforcement Agenda: Genesis and Aftermath”*, Cambridge: Cambridge University Press, 2014, p. 313.

<sup>13</sup> Study on Trade Secrets and Confidential Business Information in the Internal Market, Baker & McKenzie, April 2013, p. 24. In German law *see*: Art. 17 of the law on unfair competition (UWG).

and know-how where there is both a legitimate interest in keeping confidential and a legitimate expectation in the preservation of such confidentiality”.

This deliberate choice of the European legislator to opt for a wide definition of the beneficiary of the protection, disconnected from any reference to companies, can be explained for various reasons, such as the will to protect trade secrets during the phase that precedes the creation of the company, the difficulties encountered in defining exactly what a company is or the wish to extend the protection to public persons under public law. This nevertheless raises legitimate questions concerning the scope of the intended protection. In fact, if the protection of research institutions’ secrets seems unquestionably necessary, it must be noted that nothing excludes, in the current state of the draft directive, its application for the benefit of private individuals, who consider themselves deprived of secrets with commercial value.<sup>14</sup> As professor Tanya Aplin pointed out, celebrities may therefore perfectly consider that the newly established protection applies also to them because their private information has commercial value.<sup>15</sup>

The study of the preparatory work surrounding the adoption of the directive proposal reveals an attempt to provide a meaning for the requirement of “commercial value”, which could limit, as a corollary effect, the scope of application. Being in favor of refocusing the protection, the Council has therefore suggested adding the following clarification in the eighth recital of the directive proposal: “Such information or know-how should furthermore have commercial value, whether actual or potential. Such information or know-how has commercial value especially insofar as its unauthorized acquisition, use or disclosure is likely to harm the interests of the person lawfully controlling it in that it undermines his or her scientific and technical potential, business or financial interests, strategic positions or ability to compete.” Going even further, the opinion of the Committee on Industry, Research and Energy of the European Parliament proposed to reserve the benefit of the protection only to information that has “actual or potential significant commercial value because it is secret and because its disclosure would be significantly detrimental to the legitimate economic interest of the person lawfully controlling it”<sup>16</sup>.

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<sup>14</sup> S. Nuno Sousa, “What exactly is a trade secret under the proposed directive?”, *Journal of Intellectual Property Law & Practice*, 2014, p. 923.

<sup>15</sup> T. Aplin, “A critical evaluation of the proposed EU Trade Secrets Directive”, *op. cit.*, p. 262; S. Nuno Sousa, *op. cit.*, p. 928.

<sup>16</sup> Opinion of the Committee on Industry, Research and Energy of the European Parliament, 2013/0402(COD), 29.04.2015 p. 23.

In this respect, the CEIPI considers preferable to cautiously delimit the scope of application for the envisaged protection<sup>17</sup>. Indeed, an excessive wide approach to the beneficiaries of the protection and to the type of information covered by the legal text could be counter-productive in creating interference with other applicable sets of rules (like the protection of privacy<sup>18</sup> or of professional secrecy). In order to be accepted and to be truly effective, the protection of trade secrets must, as its name suggests, preserve its roots in the sphere of business life. The protection should also respect an additional criterion of balance.

## **II. The reaching of a balanced protection**

The protection of trade secrets raises important questions at the European and national level. Indeed, this initiative has encountered a strong resistance from journalists and trade union representatives, both denouncing an imbalanced approach capable of hindering freedom of expression and the freedom to work. Beyond the sometimes radical positions adopted by supporters (alarmed by the widespread looting of European secrets) and opponents (primed to denounce the risk of censorship) of trade secrets protection at EU level, the current debate should focus on the research of a well-balanced protection. Therefore the search for equilibrium with respect to certain fundamental rights and freedoms<sup>19</sup> is needed (A). In addition, an efficient conciliation between the protection of trade secret and the principle of adversarial process seems to be one of the major issues of the directive proposal (B).

### **A. The protection of trade secrets confronted with the conciliation with certain fundamental rights and freedoms**

The controversial and polemical positions aforesaid allow an easy identification of the different holders of right and freedoms who could be negatively affected by the protection of

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<sup>17</sup> See, on the very wide scope of application of the proposal, J. Lapousterle, “La protection civile des secrets d’affaires: bilan d’étape”, in: E. Py and J.-M. Garinot (eds.), *La protection des secrets d’affaires : enjeux et perspectives*, Lexis Nexis, 2015, p. 108 sq.

<sup>18</sup> In this respect, it is interesting to note that in the United-Kingdom, the legal protection of trade secrets and of personal information is protected beyond a single action, called “breach of confidence”: see L. Bently, B. Sherman, “Confidential information”, in: *Intellectual property law*, 4<sup>ème</sup> ed., Oxford University Press, New York, 2014, p. 1137 sq.

<sup>19</sup> In that spirit, the recital 23 of the directive proposal states that “this Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union, notably the right to respect private and family life, the right to the protection of personal data, the freedom of expression and information, the freedom to choose an occupation and right to engage in work, the freedom to conduct a business, the right to property, the right to good administration, access to file and preservation of secrecy of business, the right to an effective remedy and to a fair trial and right of defence”.

trade secrets. Journalists and whistle-blowers expressed fears regarding their freedom of expression (1°), whereas certain trade unions were concerned about the impact of the proposal on the employees' freedom to work (2°). Less frequently pointed out, the relationship between trade secrets and the moral right of disclosure granted to the authors of copyright protected work may also be a potential source of conflict (3°).

### **1°) The conciliation with freedom of expression**

Constitutionally protected at national and European level (Art. 10 of the European Convention on Human Rights and 11 of the Charter of Fundamental Rights of the European Union), freedom of expression needs to be reconciled with the protection of trade secrets.<sup>20</sup> In this respect, the directive proposal is taking care to avoid the granting of measures, procedures, and remedies when the use or disclosure of trade secrets is carried out “for making legitimate use of the right to freedom of expression and information” or “for the purpose of revealing an applicant’s misconduct, wrongdoing or illegal activity, provided that the alleged acquisition, use or disclosure of the trade secret was necessary for such revelation and that the respondent acted in the public interest”<sup>21</sup>. The report adopted by the Committee on Legal Affairs of the European Parliament suggests reinforcing the legal safeguards for the benefit of journalists and whistle-blowers by making clear, in the first article of the proposal, that the directive shall not “affect the freedom and pluralism of the media as enshrined in Article 11(2) of the Charter of Fundamental Rights” and by excluding the application for the measures, procedures and remedies provided for in the directive proposal, when the acquisition, use or disclosure of a trade secret is carried out “for the purpose of protecting a general public interest or any other legitimate interest, recognised by Union or national law and through judicial practice” (Art. 4 e).<sup>22</sup>

Even if the use of the notion of “malversation” in the French version of the proposal, both imprecise and without any legal definition contrary to the English concept of wrongdoing, it should be noted that the freedom of expression of journalists and whistle-blowers benefits

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<sup>20</sup> Ch. Geiger, “Reconceptualizing the Constitutional Dimension of Intellectual Property”, in: P. Torremans (ed.), *Intellectual Property and Human Rights*, 3<sup>rd</sup> ed., Kluwer Law International, 2015, p. 115 (spéc. p. 150).

<sup>21</sup> Art. 4.2 a) and b) of the proposed directive. See also the measure of safeguards foreseen in articles 10.2 and 12.1 of the proposal, according to Member States shall ensure that, the competent judicial authorities, take into account “the impact which the granting or rejection of the measures could have on the parties, the legitimate interests of third parties, the public interest and the safeguard of fundamental rights, including freedom of expression and information”.

<sup>22</sup> See also the adding suggested in the recitals 12 bis and 12 ter, which follow the same purpose.

from an express recognition, which demonstrates the spirit of conciliation and the prudence of the European Commission.<sup>23</sup> Additionally, the protection granted reflects the one that journalists and whistle-blowers can already benefit from in the Member States of the Council of Europe, by virtue of a voluminous case law established by the European Court of Human Rights. In fact, the Court has explicitly recognised their right, under certain conditions, to disclose to citizens, information which contributes to the public debate on matters of general interest.<sup>24</sup>

Within this framework, convictions against journalists based on the protection of trade secrets are considered by the Court as interference in the exercise of the freedom of expression, which must, in order to be legitimate, achieve one or more of the goals of Art. 10§2 and be necessary in a democratic society.<sup>25</sup> In the list of goals sufficient to justify restriction to freedom of expression features “preventing the disclosure of information received in confidence<sup>26</sup>. It nevertheless resorts from the case-law of the Court that “in the context of press freedom, there is little scope under Article 10§2 of the Convention for restrictions on political speech or on questions of public interest”<sup>27</sup>

In sum, the aforementioned provisions of the directive proposal seem to be respectful of freedom of expression and in line with the body of case law developed by the European Court of Human Rights. In this regard, the complaint that the proposed text would present some dangers because the illicit nature of the divulgation could only be appreciated *ex post* seems

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<sup>23</sup> It must be noted the explicit reference to the freedom of expression and information, within the main text of the directive proposal and not only in the recital, is rather unusual. The significance of this issue might be illustrated with the LuxLeaks affair, where the French journalist Edouard Perrin, following his revelations was prosecuted in Luxembourg for the violation of trade secrets.

<sup>24</sup> F. Sudre, *Droit européen et international des droits de l'homme*, Puf, 11<sup>th</sup> ed., 2012, n° 337. In order to invoke the freedom of expression, the journalist must “act in good faith and provide accurate, trustworthy information in compliance with journalistic ethics”. Concerning whistle-blowers, the Grand Chamber of the European Court of Human Right considers that a civil servant “in the course of his work, may become aware of in-house information, including secret information, whose divulgation or publication corresponds to a strong public interest” and that the signalling (...) of illegal conduct or wrongdoing in the workplace should, in certain circumstances, enjoy protection”, ECHR, 12 February 2008, *Guja c/ Moldavie*, § 72.

<sup>25</sup> See, for decision concerning the concealment of violation of professional confidentiality, ECHR, 21 January 1999 *Fressoz et Roire c/ France*; or for the infraction of publishing “secret official deliberations”, Grand Chamber of the ECHR, December the 10<sup>th</sup> 2007, *Stoll c/ Suisse*.

<sup>26</sup> Article 10§2 European Convention on Human Rights. Among the restrictions to the freedom of expression, the 2<sup>nd</sup> paragraph Article 10 foresees protection of rights of others. This raises the question of a potential protection of trade secrets under the right of property protected by Article 1 of the first protocol to the ECHR or by Article 17 of the Charter of Fundamental Rights. However, the directive proposal does not seem to follow the property approach, see e.g. T. Aplin, “Right to Property and trade secrets”, in: Ch. Geiger (ed.), *Research Handbook on Human Rights and Intellectual Property*, Edward Elgar Publishing, 2015, p. 437.

<sup>27</sup> ECHR, 16 October 2012, *Smolorz c/ Pologne*, § 30.



somewhat excessive.<sup>28</sup> It must indeed be recalled that in the hypothesis examined, the burden of proof of the unauthorised appropriation of the trade secret lies on the applicant. It is therefore legitimate that once this evidence is established, the burden of proof then shifts to the defendant, who must in turn demonstrate the public interest served by the revelation and its proportionality. Thus, a demonstration in the course of a trial, and therefore in front of a judge, guarantor of individual rights and freedoms, intervenes necessarily afterwards, without having the effect of leaving the journalists and whistle-blowers unprotected.<sup>29</sup>

## **2°) The conciliation with the freedom of work of employees**

Former employees often represent the source of unauthorised disclosure of trade secrets<sup>30</sup>. In order to prevent this risk, trade secrets' holders resort to confidentiality clauses and to non-compete clauses, whose conditions of validity have not been harmonised in Europe<sup>31</sup>. But, at the same time, workers also benefit from a freedom of employment, which should be preserved and which constitutes an important factor for innovation (whose promotion is the stated purpose of the directive): indeed, a worker changing company would have, through the “spill over effect” induced by the change, the potential to generate new synergies<sup>32</sup>.

Attempting to reach such conciliation, the eighth recital of the proposed directive under consideration affirms that the definition of trade secrets “should exclude trivial information and should not extend to the knowledge and skills gained by employees in the normal course of their employment and which are known among or accessible to persons within the circles that normally deal with the kind of information in question”. Yet, if this way to resolve the conflict seems to present, in theory, some clarity, it nevertheless raises some important issues when, in practice, it comes to drawing a distinction between what should be considered as a trade secret and what should be part of the skills gained by an employee.

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<sup>28</sup> “Secret des affaires: une dangereuse directive européenne”, text signed by a coalition of NGOs, Médiapart, 23 March 2015.

<sup>29</sup> See on this subject: A. Linkenheld, “Directive secrets d'affaires: une meilleure protection de l'innovation à assurer dans le respect des droits fondamentaux”, Rapport d'information n° 2856, Commission des affaires européennes de l'Assemblée Nationale, June 2015, p. 18.

<sup>30</sup> Study on Trade Secrets and Confidential Business Information in the Internal Market, Baker & McKenzie, April 2013, p. 128.

<sup>31</sup> *Ibid.*, pp. 39 sq. The heterogeneity of the conditions of validity of these clauses is nevertheless not a specificity of the internal market of the European Union. For instance, because the lack of federal competence for this material in the US, strong divergences can be observed from one state to another.

<sup>32</sup> It is interesting to note that non-compete clauses are not enforceable in the state of California. For some authors, this factor fostered the development of the Silicon Valley: see, M. Motta, T. Roende, “Trade Secret Laws, Labour Mobility and Innovations”, 2002, CEPR Discussion Paper No. 3615, p. 28.

The examination of the directive proposal by the Committee on Legal affairs of the Parliament revealed the importance of this issue and this subject provoked a high number of amendments<sup>33</sup>. The text, as initially drafted by the European Commission, offered as a remedy to these difficulties the aforesaid 8<sup>th</sup> recital, but nevertheless subordinated the characterisation of illegal acts to the demonstration of an intentional fault or of gross negligence. By proposing to remove this subjective element, the Council has opened the way for an increase of legal proceedings that may be brought against employees without having the opportunity to demonstrate their good faith. However, probably wishing to counterbalance this rigor, the Council foresaw in Article 13.1 of the directive proposal that “in accordance with their national law and practice, Member States may restrict the liability for damages of employees towards their employers for the unlawful acquisition, use or disclosure of a trade secret of the employer when they act without intent”. Thus the good faith of the worker should not be considered at the stage of characterisation of the infringement, but rather as a weighing means in calculation of damages.

As some commentators have observed, the Council seems thus to leave it up to the Member States to regulate the post-employment contract phases and to provide a legal framework for the recourse to confidentiality clauses and non-compete agreements, confirming therefore the absence of harmonisation on an issue of considerable practical significance.<sup>34</sup> Nevertheless, it may be insufficient to leave to the Member States the possibility to limit the damages due by the employee, particularly in the case where the secret character of the information is ignored. Far from being marginal, a situation might arise in case for instance of old measures of protection taken before the employee was hired, which have not been communicated to all the colleagues (perhaps in temporary employment?) with sufficient clarity.<sup>35</sup>

Considering these plausible situations, would it not be preferable to exclude clearly the existence of an unauthorised access or of an unlawful use or disclosure in the absence of an

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<sup>33</sup> Indeed, the report adopted by the Committee on Legal Affairs of the European parliament suggests to reaffirm in the main text of the directive (article 1.2 d) and article 3 bis) the principle of the distinction aforesaid but insists on its recitals on the need not to avoid the creation of barriers to labour mobility (2<sup>nd</sup> and 12<sup>th</sup> recitals).

<sup>34</sup> Also mentioning this point, while considering that the effort of harmonization would have been excessively ambitious: R. Knaak, A. Kur and R. M. Hilty, Comments of the Max Planck Institute for Innovation and Competition 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: *IIC*, 2014, p. 953.

<sup>35</sup> See in this sense, J. Lapousterle, *op.cit.*, p. 123.

intentional fault or of a gross negligence? In this way, without proceeding with the harmonisation of the post-contractual clauses, the distinction of the 8<sup>th</sup> recital between the knowledge and skills gained by employees in the normal course of their employment and trade secrets could be effectively guaranteed.

### **3°) Conciliation with the right of disclosures of the authors of copyrighted works**

Under the French law, the authors enjoy, by the mere fact of their creation, an exclusive right on its created work enforceable against all persons<sup>36</sup>, which include attributes of moral and economic nature. Those moral rights include the right of divulgation by virtue of which the author “alone shall have the right to divulge his work”, to determine the method of disclosure and to fix the conditions thereof (Article L. 121-2 of the French Intellectual Property Code). Thus, a conflict could occur in the hypothesis where an employee creates a work and claim to divulge it, whereas his employer would refuse this on the ground of preserving the trade secrets of the company<sup>37</sup>.

There is little doubt on what the answer would be to that question *de lege lata* under French law: in the absence of any collective work or software (which are both subject to a derogation), the article L. 111-1 al. 3 of the French Intellectual Property Code lays down the principle that “the existence or conclusion of a contract for hire or of service by the author of a work of the mind shall in no way derogate from the enjoyment of the right afforded by the first paragraph”. Accordingly, the employment contract appears to be neutral from the point of view of the devolution of rights, which remain on the side of the employee who creates the work. The latter shall therefore fully enjoy the benefits of his moral rights, which include the above-mentioned right to divulge the work (or not to divulge it). Furthermore, this moral right is inalienable and the employee cannot renounce them in a prior and general way by contract<sup>38</sup>.

With regard to the French law, the protection of trade secrets could not circumvent the right of

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<sup>36</sup> Art. L. 111-1 al 1<sup>er</sup> of the French Intellectual Property Code.

<sup>37</sup> See on this issue, T. du Manoir de Juaye, “A propos de la proposition de loi sur le secret des affaires du 16 juillet 2014”, *RLDI*, October 2014, p. 70.

<sup>38</sup> Art. L. 121-1 of the French Intellectual Property Code. It remains the question of the validity of confidentiality clauses accepted by the employee. The answers to this question may significantly diverge in Europe depending on the role accorded to moral right in the national legislation.

disclosure, granted for the creator, whether or not he or she is an employee<sup>39</sup>. The directive proposal, however, avoids taking a position on this sensitive issue. It is true that the moral right remaining largely outside the efforts of harmonisation and that the approaches adopted within the Union vary widely. However, the 28<sup>th</sup> recital of the directive proposal published by the European Commission indicates that “the measures adopted to protect trade secrets against their unlawful acquisition, disclosure and use should not affect the application of any other relevant law in other areas including intellectual property rights, privacy, access to documents and the law of contract. However, where the scope of application of Directive 2004/48/EC of the European Parliament and of the Council and the scope of this Directive overlap, this Directive takes precedence as *lex specialis*.”

Even if the directive 2004/48/EC only concerns the “measures, procedures necessary to ensure the enforcement of intellectual property rights”, the precedence given to the protection of trade secrets may be surprising: why, indeed, a protection mode that seems to be broader and less delimitate than the one of intellectual property right should prevail<sup>40</sup>? Moreover, the 28<sup>th</sup> recital could be used to support interpretation unfavourable to intellectual property rights holders. In our opinion, it might be necessary to reverse the perspective and to affirm, on the contrary, that the protection of trade secrets could not prevail on the right recognised for the benefit of their authors, inventors or derivative right holders.

## **B. The preservation of the trade secrets during in the course of the trial**

The trade secrets’ holder, victim of the disclosure or the misuse, faces a major dilemma: to publicly disclose, for the need of the process, the secret misused with the risk of further accentuate the disclosure of its content, or to loose his trade secrets case. This issue is essential in the perspective of the intended harmonisation; in fact, more than a third of the companies having renounced the option to litigate in court following a divulgation or a misuse

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<sup>39</sup> On the contrary, in Common-Law countries, the employer and not the employee is considered the author of the work produced as part of their employment contract (work for hire). The German law presents an intermediate solution: it foresees that for a work produces under an employment contract, the employer might exercise the right of disclosure. *See* for instance: U. Loewenheim, G. Schriker, *Urheberrecht Kommentar*, 4<sup>th</sup> ed., C.H. Beck, Munich, 2010, § 43, n° 73.

<sup>40</sup> J. Lapousterle, *op.cit.*, p. 124.

of their trade secrets explain this choice by their refusal of having to divulge even more secrets during the process<sup>41</sup>.

In order to remedy this situation, the European Commission has included, in its directive proposal, article 8, which safeguards the protection of trade secrets in the course of judicial proceedings in a vigorous way. Indeed, after recalling the necessity, for any person taking part in a legal proceeding, to refrain from any disclosure or use of a trade secret, to whom she would have had access, article 8.2. entitles the judge, on the request of a party, to take specific measures necessary to preserve the confidentiality of any trade secret, including:

- “to restrict access to any document containing trade secrets submitted by the parties or third parties, in whole or in part;
- to restrict access to hearings, when trade secrets may be disclosed (...)
- to make available a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed”

The text states also that the competent judicial authorities might restrict to the legal representatives of the parties (excluding the parties themselves) only the right to access to certain elements of proof involving trade secrets and, in exceptional circumstances, even the access to the hearing.<sup>42</sup>

Nevertheless, is this article sufficiently respectful of the rights of the defence? As a corollary of the right to a fair trial, the principle of adversarial proceeding (Art. 6 ECHR, fundamental principle of the right of the European Union) implies “that right means in principle the opportunity for the parties to have knowledge of and comment on all evidence adduced or observations filed, even by an independent member of the national legal service, with a view to influencing the court’s decision”<sup>43</sup>. Likewise, an enhanced protection of

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<sup>41</sup> Study on Trade Secrets and Confidential Business Information in the Internal Market, Baker & McKenzie, April 2013, p. 145. Confronted with these issues, the French law for example seems to be particularly poor: *see* J.M. Garinot, *Le secret des affaires*, LexisNexis, 2013, pp. 161-175.

<sup>42</sup> This procedural mechanism may appear pioneering. It is in fact based on the premises of a procedure developed by the Landgericht Düsseldorf in patent infringement litigations. This procedure tries to conciliate on the one hand the efficiency of the action for patent infringement and on the other hands to protect the legitimate interest of the defender regarding the preservation of his trade secrets. For a short presentation of the procedure: Study on Trade Secrets and Confidential Business Information in the Internal Market, Baker & McKenzie, April 2013, p. 34; For a in-depth analysis, *see*. M.R. McGuire, “Know-how: Stiefkind, Störenfried oder Sorgenkind?”, *GRUR*, 2015, p. 424.

<sup>43</sup> ECHR, 27 March 1998, *J. J. c/ Pays-Bas*, § 43.

secrets during the trial might violate the principle of publicity of the debates (Art. 14§1 of the international Covenant on Civil and Political Rights, Art. 6§1 ECHR)<sup>44</sup>.

The Council, concerned about reaching a better conciliation with these fundamental procedural guarantees, has attempted to restrict the scope of article 8 of the directive proposal. Thus, in its last amended version, any restriction to the access to the documents or the hearing is only possible if “at least one person from each party, its respective lawyer or representative to the proceedings and court officials are given full access” to those documents or hearings. Still, the debate is far from over: the aforementioned principle does not present unrestricted scope and can be tempered. For instance, the European Court of Human Rights, even if reluctant to tolerate restrictions of the right to fair trial, has acknowledged that the principle of adversarial proceeding “does not imply that the debate be held on any piece produced but only those which affect the outcome of the dispute”<sup>45</sup>. In the same direction the text protecting the principle of public debate allows exceptions, notably “in the interest of morals, public order or national security” (Art. 6§2 ECHR). Without presuming the direction that will be finally chosen by the European legislator, the rephrasing of article 8 of the directive proposal suggested by the Council seems to be more respectful of the principle of adversarial proceeding, and in this respect worthy of approval. Only the elements, which do not affect the outcome of the dispute, should escape the contradictory debate between the parties.

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<sup>44</sup> Compare to the scope of the right to a fair trial in the framework of the implantation of intellectual property rights: J. Griffiths, “Enforcement of intellectual property rights and the right to a fair trial”, in: Ch. Geiger (ed.), *Research Handbook on Human Rights and Intellectual Property*, *op. cit.*, p. 438; R. Knaak, A. Kur and R. M. Hilty, Comments of the Max Planck Institute for Innovation and Competition 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: *IIC*, 2014, p. 953, point. 47.

<sup>45</sup> F. Sudre, *op. cit.*, n° 259. See also on the limits of the principle of adversarial proceeding, L. Cadiet, J. Normand, S. Amrani-Mekki, *Théorie générale du procès*, 2<sup>nd</sup> ed., Puf, 2013, n° 185.