

CLIENT ALERT

EU Lays Foundation For Harmonized Trade Secret Protection Across Member States

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On November 28, 2013, the [European Commission \(EC\)](#) proposed a directive "on the protection of undisclosed know-how and confidential business information (trade secrets) against their unlawful acquisition, use and disclosure." If adopted, the directive will establish a common definition of "trade secrets" and set of remedies in all 28 European Union (EU) Member States. The proposed directive now goes to the European Parliament and EU Member State governments via the European Council for adoption.

As in the United States, trade secret theft in Europe has been a front page issue in recent years. Many European businesses and international companies with facilities in Europe heavily rely upon confidential know-how and information to become or remain competitive. While there is a growing appreciation that intellectual property is essential to innovation and corporate valuation, the means to rapidly extract and misuse that information are more readily available than ever with the advent of new technologies and the integration of an increasingly international work force. Corporations are also turning to trade secret protection with greater frequency because of the increasing expense and difficulties in international patent enforcement.

Recent EC studies have confirmed the following contradiction: trade secrets are among the most frequently used means to protect innovation, but, among the forms of intangible property, are provided the least protection under the existing hodgepodge of Member State laws. The existing trade secret protection framework in Europe is scattered to say the least. For example, although the EU is bound by the Agreement on Trade-Related Aspects of Intellectual Property Rights, and in particular Article 39 that deals specifically with trade secrets, the laws of most Member States either altogether lack a definition of trade secrets or do not specify how or in what circumstances they should be legally protected. In many Member States, the law has no provisions for injunctions or other measures to safeguard trade secrets during litigation. This has an impact on a macro-economic scale. The EC studies confirm that investment in R&D in Europe is considerably lower than in its major trading partners, in particular the U.S. and Japan, which adversely affects the introduction of new products, processes, and services.

In an effort to provide more comprehensive protection, the EC's proposed directive promises timely and effective judicial relief and uniform remedies for misuse of trade secrets. The proposed directive will oblige Member States to create mechanisms for preserving the confidentiality of trade secrets in court proceedings (restricting access to exhibits and hearings, preparing non-confidential versions of judicial decisions, etc.). The proposal also provides for preliminary injunctions and precautionary seizure of misappropriated infringing goods. Available remedies will include prohibitions on the use or disclosure of trade secrets; prohibitions on the production, marketing or use of goods derived from misused trade secrets; obligations on the misappropriator to destroy or deliver to the trade secret holder all the information relevant to the trade secrets; and product recalls and/or the destruction of goods derived from misused trade secrets. As to damages, the EC proposal seeks to ensure compensation based on objective criteria while taking account of the expenses incurred by the holder of the trade secret in enforcing its rights. The proposal does not embrace punitive damages or the cross-border enforcement of civil judicial decisions, and it does not have a criminal provision. To prevent abuse of the injunction provision, the proposal empowers courts to impose monetary sanctions for claims made in bad faith and even for the publication of the ruling refusing trade secret protection.

In many ways, the EU proposed directive parallels efforts in the U.S. to harmonize the law through federal legislation. [See previous client alerts on [August 13, 2012](#), [February 21, 2013](#), and [July 22, 2013](#)]. The discontinuity between jurisdictions in Europe, which presently lacks any meaningful uniformity between Member States, however, is far more severe than in the U.S., where 48 of the 50 states have now adopted some version of the Uniform Trade Secrets Act. Efforts on both sides of the Atlantic can be understood as part of the broader concern with protection of trade secrets by corporate and state sponsored entities.

For this reason as well, trade secret protection is one of the topics currently under discussion in the negotiations for a free trade agreement between the U.S. and the EU Transatlantic Trade and Investment Partnership (TTIP). Both sides are thought to be keen to use this agreement to signal the importance of effective protection of trade secrets, but the ability to agree on meaningful disciplines is currently hampered by the absence of a unified legal framework governing trade secrets protection in the EU. The EC's proposal is likely to increase confidence that this element of intellectual property policy can be addressed effectively in the U.S.-EU trade agreement, even as the United States Congress has also taken recent steps to enhance trade secrets protection in the U.S.

The EC's proposal will now be considered by the European Parliament and by EU member state governments. It is uncertain whether the European Parliament, in particular, will be inclined to treat the proposal as a priority, bearing in mind the Parliament's rejection of the Anti-Counterfeiting Trade Agreement last year. The approval of this directive by the European Parliament and the European Council and its implementation into the national laws of the EU member states could take considerable time. In the meantime innovative companies will have to continue to contend with the dozens of different national legal regimes dealing with trade secret protection in the EU. Corporations with operations or competitors in Europe, however, will need to watch these developments closely because they may usher in a new and, for IP holders, more friendly regime.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

Jan-Diederik Lindemans

Partner – Brussels

Phone: +32.2.282.1832

Email: jlindemans@crowell.com

Kristof Roox

Partner – Brussels

Phone: +32.2.282.1843

Email: kroox@crowell.com

Mark A. Klapow

Partner – Washington, D.C.

Phone: +1 202.624.2975

Email: mklapow@crowell.com