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NOTE

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To:	Permanent Representatives Committee
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Subject:	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 - General Approach

I. INTRODUCTION

1. On 28 November 2013, the Commission submitted a draft proposal for new rules regarding the protection of trade secrets against their unlawful acquisition, use and disclosure. The legal basis of the draft directive is the Article 114 of the TFEU which provides for the smooth functioning of the single market.

2. This proposal is within the context of the flagship initiative "Innovation Union", one of the pillars of the "EU 2020 strategy", under which the Commission undertook to create an innovation-friendly environment. Within this framework, the Commission adopted a comprehensive strategy to ensure that the Single Market for intellectual property functions smoothly. This strategy also extends to areas complementary to intellectual property rights (IPRs) such as trade secrets.
3. The Economic and Social Committee delivered its opinion on 25 March 2014
4. The European Data Protection Supervisor delivered its opinion on 12 March 2014
5. The European Parliament has not started the discussions yet.

II. STATE OF PLAY

1. The Presidency started the discussions in January 2014 at the working party meeting level and it appeared clearly that the overall objective of the draft directive met a large consensus between the Member States which welcomed this initiative. Six meetings of the working group took place and discussions can be summarized as follows:

Member States agreed on the need to explicitly state in the draft directive that national law may provide for more far-reaching protection against the unlawful acquisition, use or disclosure of trade secrets than that required in the draft directive (see the second subparagraph of Article 1). In doing so, it was felt appropriate to clarify that such more far-reaching protection should comply with certain principles, limits and safeguards provided for in the text which aim at ensuring a sound and balanced legal framework, in particular as regards the rights of the defendant.

Member States agreed that the draft directive should not interfere with their national prerogatives regarding criminal law. Member States were satisfied with the wording of Article 5 and the initial sentence of recital 8 which both refer to civil redress only.

Member States also agreed that the definition of trade secret in the draft directive should be in line with the definition set out in the World Trade Organisation Agreement on Trade-related Aspects of Intellectual Property Rights (known as the TRIPS Agreement).

Member States discussed on the conduct that should be considered as an unlawful acquisition, use and disclosure of a trade secret (Article 3). It resulted from this discussion that, while an element of dishonest behaviour would be needed, no intentionality or gross negligence criteria should be required for the unlawful conduct to exist in the case of primary infringers (e.g. the one that takes steps to acquire the information, the one that breaches a confidentiality duty); however, in principle a knowledge criterion should be required in the case of passive receivers of information (third parties) for their conduct to be unlawful (without prejudice to the possibility for Member States not to require such criterion in their national law pursuant to the application of the minimum harmonisation clause in Article 1). It also resulted from this discussion that expressions borrowed from criminal law (e.g. theft, bribery) should rather not be used in Article 3 and that such conduct should be described in objective terms.

Member States discussed the need to ensure that persons will not be liable for the acquisition, use or disclosure of a trade secret when the law requires or allows it. This concerns *inter alia* the case in which public authorities may be authorised to collect information for the performance of their duties. This resulted in the introduction of new paragraph 1a into Article 4.

It emerged from the discussion that some of the measures, procedures and remedies foreseen in the draft directive should take better account of existing solutions in national civil law. This concerned in particular the consequences of abusive litigation – Article 6(2) – and the question of the limitation period – Article 7. Member States were also of the opinion that the duration of the limitation period should be extended compared to the Commission Proposal.

Member States found that the mechanisms for preservation of confidentiality of information foreseen in Article 8 should be subject to additional safeguards, requirements and limits aimed at reinforcing legal certainty and full respect for the rights of the parties to a fair trial.

Member States agreed that it was necessary to provide the competent judicial authorities with more flexibility when assessing the need for the adoption of injunctions (whether definitive or provisional) and corrective measures – Articles 10(2) and 12(1).

It emerged from the discussions that Member States should be able to establish a more favourable regime to employees in what concerns their liability for damages in case of unlawful acquisition, use or disclosure of a trade secret – Article 13(1).

2. Following the deliberation on the Working Party of 10 April 2014 and the written comments sent by delegations, the Presidency revised the compromise text of the proposal as set out in the Annex to this document.

The **main** changes in comparison to the **initial** proposal thus incorporated address the above-mentioned issues in point 6 and, in a nutshell, consist of :

- the need for a minimum harmonization, allowing Member States to apply stricter measures (Article 1),
- the unlawful acquisition use and disclosure of trade secrets (Article 3) where the presentation of the cases of unlawful conduct has been simplified and clarifications have been added in Article 4 on the lawful acquisition of trade secrets,
- the limitation period now extended to six years (Article 7),
- the preservation of confidentiality in the course of legal proceedings (Article 8) where the new wording strikes the balance between the protection of trade secrets and the right of the parties to a fair trial.
- the possible delivery of infringing goods to charitable organisation, provision which is no longer compulsory in the compromise (Article 11.3),
- Damages and the protection of employees (Article 13).

III. CONCLUSION

7. The Permanent Representatives Committee is invited to:

- reach an agreement on the basis of the Presidency compromise text as set out in the Annex to this note;
- submit the text of the general approach to the Competitiveness Council on 26 May 2014; and
- invite the Council to
 - confirm the agreement on the general approach and
 - invite the Presidency to start negotiations with the European Parliament on the basis of this general approach, with a view to reaching an agreement at first reading.

Changes to doc 8461/14 are indicated in **bold underline** and ~~strikethrough~~.

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

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee¹,

After consulting the European Data Protection Supervisor²,

Acting in accordance with the ordinary legislative procedure³,

¹ OJ C , , p. .

² OJ C , , p. .

³ **Position of the European Parliament of (not yet published in the Official Journal) and decision of the Council of**

Whereas:

- (1) Businesses and non-commercial research institutions invest in acquiring, developing and applying know-how and information, which is the currency of the knowledge economy. This investment in generating and applying intellectual capital determines their competitiveness in the market and therefore their returns to investment, which is the underlying motivation for business research and development. Businesses have recourse to different means to appropriate the results of their innovative activities when openness does not allow for the full exploitation of their research and innovation investments. Use of formal intellectual property rights such as patents, design rights or copyright is one of them. Another is to protect access and exploit the knowledge that is valuable to the entity and not widely known. Such know-how and business information, that is undisclosed and intended to remain confidential is referred to as a trade secret. Businesses, irrespective of their size, value trade secrets as much as patents and other forms of intellectual property right and use confidentiality as a business competitiveness and research innovation management tool, covering a diversified range of information, which extends beyond technological knowledge to commercial data such as information on customers and suppliers (which may involve personal data), business plans or market research and strategies. By protecting such a wide range of know-how and commercial information, whether as a complement or as an alternative to intellectual property rights, trade secrets allow the creator to derive profit from his/her creation and innovations and therefore are particularly important for business competitiveness as well as for research and development and innovative performance.

- (2) Open innovation is an important lever for the creation of new knowledge and underpins the emergence of new and innovative business models based on the use of co-created knowledge. Trade secrets have an important role in protecting the exchange of knowledge between businesses and research institutions within and across the borders of the internal market in the context of research and development and innovation. Collaborative research, including cross-border cooperation, is particularly important to increase the levels of business research and development within the internal market. Open innovation is a catalyst for new ideas to find their way to the market meeting the needs of consumers and tackling societal challenges. In an internal market where barriers to such cross-border collaboration are minimised and where cooperation is not distorted, intellectual creation and innovation should encourage investment in innovative processes, services and products. Such an environment conducive to intellectual creation and innovation is also important for employment growth and improving competitiveness of the Union economy. Trade secrets are amongst the most used form of protection of intellectual creation and innovative know-how by businesses, yet they are at the same time the least protected by the existing Union legal framework against their unlawful acquisition, use or disclosure by other parties.

- (3) Innovative businesses are increasingly exposed to dishonest practices aiming at misappropriating trade secrets, such as theft, unauthorised copying, economic espionage, breach of confidentiality requirements, whether from within or from outside of the Union. Recent developments, such as globalisation, increased outsourcing, longer supply chains, increased use of information and communication technology. contribute to increasing the risk of those practices. The unlawful acquisition, use or disclosure of a trade secret compromises the legitimate trade secret holder's ability to obtain first mover returns using the outputs of its innovative efforts. Without effective and comparable legal means for defending trade secrets across the Union, incentives to engage in innovative cross-border activity within the internal market are undermined and trade secrets are unable to fulfil their potential as drivers of economic growth and jobs. Thus, innovation and creativity are discouraged and investment diminishes, affecting the smooth functioning of the internal market and undermining its growth enhancing potential.
- (4) International efforts taken in the framework of the World Trade Organisation to address this problem led to the conclusion of the Agreement on trade-related aspects of intellectual property (the TRIPS Agreement). It contains, inter alia, provisions on the protection of trade secrets against their unlawful acquisition, use or disclosure by third parties, which are common international standards. All Member States, as well as the Union itself, are bound by this Agreement which was approved by Council Decision 94/800/EC⁴.

⁴ Council Decision of 22 December 1994 concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986-1994) (OJ L 336, 23.12.1994, p.1).

- (5) Notwithstanding the TRIPS Agreement, there are important differences in the Member States legislation as regards the protection of trade secrets against their unlawful acquisition, use or disclosure by other persons. Thus, for example, not all Member States have adopted national definitions of trade secrets and/or unlawful acquisition, use or disclosure of a trade secret, so that the scope of protection is not readily accessible and differs throughout Member States. Furthermore, there is no consistency as regards the civil law remedies available in case of unlawful acquisition, use or disclosure of trade secrets as cease and desist orders are not always available in all Member States against third parties who are not competitors of the legitimate trade secret holder. Divergences also exist across the Member States with respect to the treatment of third parties who acquired the trade secret in good faith but subsequently come to learn, at the time of use, that their acquisition derived from a previous unlawful acquisition by another party.

- (6) National rules also differ as to whether legitimate trade secret holders may seek the destruction of goods manufactured by third parties who use trade secrets unlawfully or the return or destruction of any documents, files or materials containing or implementing the unlawfully acquired or used trade secret. Also, applicable national rules on the calculation of damages do not always take account of the intangible nature of trade secrets, which makes it difficult to demonstrate the actual profits lost or the unjust enrichment of the infringer where no market value can be established for the information in question. Only a few Member States allow for the application of abstract rules on the calculation of damages based on the reasonable royalty or fee which could have been due had a licence for the use of the trade secret existed. Additionally, many Member States rules do not provide for appropriate protection of the confidentiality of a trade secret if the trade secret holder introduces a claim for alleged unlawful acquisition, use or disclosure of the trade secret by a third party, thus reducing the attractiveness of the existing measures and remedies and weakening the protection offered.

(7) The differences in the legal protection of trade secrets provided for by the Member States imply that trade secrets do not enjoy an equivalent level of protection throughout the Union, thus leading to fragmentation of the internal market in this area and weakening the overall deterrent effect of the rules. The internal market is affected in so far as such differences lower businesses' incentives to undertake innovative-related cross-border economic activity, including research or manufacturing cooperation with partners, outsourcing or investment in other Member States, which would depend on the use of the information protected as trade secrets. Cross-border network research and development as well as innovation-related activities, including related manufacturing and subsequent cross-border trade, are rendered less attractive and more difficult within the Union, thus also resulting in innovation-related inefficiencies at Union scale. In addition, higher business risk appears in Member States with comparatively lower levels of protection, where trade secrets may be stolen or otherwise unlawfully acquired more easily. This leads to inefficient allocation of capital to growth-enhancing innovation within the internal market because of the higher expenditure on protective measures to compensate for the insufficient legal protection in some Member States. It also favours the activity of unfair competitors who following the unlawful acquisition of trade secrets could spread resulting goods across the internal market. Legislative regime differences also facilitate the importation of goods from third countries into the Union through entry points with weaker protection, when the design, manufacturing or marketing of those goods rely on stolen or otherwise unlawfully acquired trade secrets. On the whole, such differences create a prejudice to the proper functioning of the internal market.

- (8) It is appropriate to provide for rules at Union level to approximate the national legislative systems so as to ensure a sufficient and consistent level of civil redress across the internal market in case of unlawful acquisition, use or disclosure of a trade secret, **without prejudice to the possibility for Member States to provide for more far reaching protection against the unlawful acquisition, use or disclosure of trade secrets as long as the safeguards protecting the interests of other parties are respected.** For this purpose, it is important to establish a homogenous definition of a trade secret without restricting the subject matter to be protected against misappropriation. Such definition should therefore be constructed as to cover business information, technological information and know-how where there is both a legitimate interest in keeping confidential and a legitimate expectation in the preservation of such confidentiality. Such information ~~and~~ **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. By nature, such definition 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 generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.

- (9) It is also important to identify the circumstances under which legal protection is justified. For this reason, it is necessary to establish the conduct and practices which are to be regarded as unlawful acquisition, use or disclosure of a trade secret. ~~Disclosure by Union's institutions and bodies or national public authorities of business-related information they hold pursuant to the obligations of Regulation (EC) No 1049/2001 of the European Parliament and of the Council⁵ or to other rules on the public access to documents or on the transparency obligations of national public authorities should not be considered unlawful disclosure of a trade secret. The acquisition and disclosure of trade secrets in the context of the exercise of the rights or workers representatives to information and consultation in accordance with Union and national law or practices, and the collective defence of the interests of workers and employers, including co-determination, is also excluded from the scope of unlawful acquisition, without prejudice of any duty of confidentiality imposed on the recipients of information so acquired. The acquisition or disclosure of a trade secret in the context of statutory audits performed in accordance with Union or national law should not be considered an unlawful conduct either.~~

⁵ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p.43).

- (10) 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. Thus, independent discovery of the same know-how ~~and~~ **or** information remains possible. Reverse engineering of a **lawfully acquired** product is a lawful means of acquiring information except when otherwise agreed by contract. The freedom of entering into such contractual arrangements may however be limited by law, such as it is the case of Article 5(3) of Directive 2009/24/EC of the European Parliament and of the Council⁶.

⁶ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ L 111, 5.5.2009, p.16.

(10a) Furthermore, the acquisition, use or disclosure of trade secrets, whenever imposed or permitted by law should not be treated as unlawful. As a result, the acquisition or disclosure of a trade secret by administrative or judicial authorities for the performance of their duties should be lawful. Also, disclosure by Union's institutions and bodies or national public authorities of business-related information they hold pursuant to the obligations of Regulation (EC) No 1049/2001 of the European Parliament and of the Council⁷ or to other rules on the public access to documents or on the transparency obligations of national public authorities should not be considered unlawful disclosure of a trade secret. The acquisition and disclosure of trade secrets in the context of the exercise of the rights or workers representatives to information, consultation and participation in accordance with Union and national law or practices, and the collective defence of the interests of workers and employers, including co-determination, is also excluded from the scope of unlawful acquisition, without prejudice of any duty of confidentiality imposed on the recipients of information so acquired. The acquisition or disclosure of a trade secret in the context of statutory audits performed in accordance with Union or national law should not be considered an unlawful conduct either.

⁷ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p.43)

(10b) Media often make public data or information considered to be a trade secret by another party but the publication of which could be of public interest. As a result, it is important that measures and remedies provided for should not restrict the exercise of the freedom of expression and information (which encompasses media freedom and pluralism as reflected in Article 11 of the Charter of Fundamental Rights of the European Union) whenever legitimate.

(10c) This Directive should not affect the right of the social partners to enter into collective agreements, where foreseen under labour law, as regards duties not to disclose a trade secret or to limit its use and the consequences of a breach of such duties by the party subject to them, provided that any such collective agreement does not restrict the safeguards concerning the exceptions in this Directive when an application for measures, procedures and remedies provided for in this Directive for an alleged acquisition, use and disclosure of a trade secret shall be dismissed.

(11) In line with the principle of proportionality the measures and remedies intended to protect trade secrets should be tailored to meet the objective of a smooth functioning internal market for research and innovation without jeopardising other objectives and principles of public interest. In this respect, the measures and remedies ensure that competent judicial authorities account for factors such as the value of a trade secret, the seriousness of the conduct resulting in the unlawful acquisition, use or disclosure of the trade secret as well as the impact of such conduct. It should also be ensured that the competent judicial authorities are provided with the discretion to weigh up the interests of the parties to the litigation, as well as the interests of third parties including, where appropriate, consumers.

- (12) The smooth functioning of the internal market would be undermined if the measures and remedies provided for were used to pursue illegitimate intents incompatible with the objectives of this Directive. Therefore, it is important to empower their judicial authorities to adopt appropriate measures with regard to abusive behaviour by claimants who act abusively or in bad faith and submit manifestly unfounded applications with, for instance, the purpose of unfairly delaying or restricting the respondent's access to the market or otherwise intimidating or harassing the respondent. It is also important that measures and remedies provided for should not restrict ~~the freedom of expression and information (which encompasses media freedom and pluralism as reflected in Article 11 of the Charter of Fundamental Rights of the European Union)~~ or whistleblowing activity. Therefore the protection of trade secrets should not extend to cases in which disclosure of a trade secret serves the public interest in so far as relevant misconduct or wrongdoing is revealed.
- (13) In the interest of legal certainty and considering that legitimate trade secret holders are expected to exercise a duty of care as regards the preservation of the confidentiality of their valuable trade secrets and the monitoring of their use, it appears appropriate to restrict **substantive claims or** ~~the possibility to initiate actions for the protection of trade secrets to a limited period following the date on which the trade secret holders became aware, or had reason to become aware, of the unlawful acquisition, use or disclosure of their trade secret by a third party.~~

- (14) The prospect of losing the confidentiality of a trade secret during litigation procedures often deters legitimate trade secret holders from instituting proceedings to defend their trade secrets, thus jeopardising the effectiveness of the measures and remedies provided for. For this reason, it is necessary to establish, subject to appropriate safeguards ensuring the right to a fair trial, specific requirements aimed at protecting the confidentiality of the litigated trade secret in the course of legal proceedings instituted for its defence. These should include the possibility to restrict the circle of persons entitled to have access to evidence or hearings, or to publish only the non-confidential elements of judicial decisions. **In order to ensure that the right of the parties to a fair trial is not undermined, when the circle of persons entitled to have access to evidence or hearings is restricted, at least one person from each party and its respective lawyer or representative should form part of that circle. Also, in the case that the party is a legal person, the number of natural persons within that circle should be such as to ensure proper representation of that legal person.** Such protection should remain in force after the legal proceedings have ended for as long as the information covered by the trade secret is not in the public domain.

- (15) Unlawful acquisition of a trade secret by a third party could have devastating effects on its legitimate holder since once publicly disclosed it would be impossible for that holder to revert to the situation prior to the loss of the trade secret. As a result, it is essential to provide for fast effective and accessible provisional measures for the immediate termination of the unlawful acquisition, use or disclosure of a trade secret, including when such trade secret is used for the provision of services. Such relief must be available without having to await a decision on the substance of the case, with due respect for the rights of defence and the principle of proportionality having regard to the characteristics of the case in question. **In certain instances, the alleged infringer may be permitted, subject to the lodging of guarantees, to continue to use the trade secret or disclose it, where there is little risk that it will enter the public domain.** Guarantees of a level sufficient to cover the costs and the injury caused to the respondent by an unjustified request may also be required, particularly where any delay would cause irreparable harm to the legitimate holder of a trade secret.
- (16) For the same reason, it is also important to provide for measures to prevent further unlawful use or disclosure of a trade secret, including when such trade secret is used for the provision of services. For prohibitory measures to be effective, their duration, when circumstances require a limitation in time, should be sufficient to eliminate any commercial advantage which the third party could have derived from the unlawful acquisition, use or disclosure of the trade secret. In any event, no measure of this type should be enforceable if the information originally covered by the trade secret is in the public domain for reasons that cannot be attributed to the respondent.

(17) A trade secret may be unlawfully used to design, manufacture or market goods, or components thereof, which may spread across the internal market, thus affecting the commercial interests of the trade secret holder and the functioning of the internal market. In those cases and when the trade secret in question has a significant impact on the quality, value or price of the resulting good or on reducing the cost, facilitating or speeding up its manufacturing or marketing processes, it is important to empower judicial authorities to order effective and appropriate measures with a view to ensure that those goods are not put on the market or are removed from it. Considering the global nature of trade, it is also necessary that these measures include the prohibition of importing those goods into the Union or storing them for the purposes of offering or placing them on the market. Having regard to the principle of proportionality, corrective measures should not necessarily entail the destruction of the goods when other viable options are present, such as depriving the good of its infringing quality or the disposal of the goods outside the market, for example, by means of donations to by charitable organisations.

(18) A person may have originally acquired a trade secret in good faith but only become aware at a later stage, including upon notice served by the original trade secret holder, that his or her knowledge of the trade secret in question derived from sources using or disclosing the relevant trade secret in an unlawful manner. In order to avoid that under those circumstances the corrective measures or injunctions provided for could cause disproportionate harm to that person, Member States should provide for the possibility, in appropriate cases, of pecuniary compensation being awarded to the injured party as an alternative measure, provided that such compensation does not exceed the amount of royalties or fees which would have been due had that person obtained authorisation to use the trade secret in question, for the period of time for which use of the trade secret could have been prevented by the original trade secret holder. Nevertheless, where the unlawful use of the trade secret would constitute an infringement of law other than that foreseen in this Directive or would be likely to harm consumers, such unlawful use should not be allowed.

(19) In order to avoid that a person who knowingly, or with reasonable grounds for knowing, unlawfully acquires, uses or discloses a trade secret benefit from such conduct and to ensure that the injured trade secret holder, to the extent possible, is placed in the position in which he or she would have been had that conduct not taken place, it is necessary to provide for adequate compensation of the prejudice suffered as a result of the unlawful conduct. The amount of damages awarded to the injured holder of the trade secret should take account of all appropriate factors, such as loss of earnings incurred by the trade secret holder or unfair profits made by the infringer and, where appropriate, any moral prejudice caused to the trade secret holder. As an alternative, for example where, considering the intangible nature of trade secrets, it would be difficult to determine the amount of the actual prejudice suffered, the amount of the damages might be derived from elements such as the royalties or fees which would have been due had the infringer requested authorisation to use the trade secret in question. The aim is not to introduce an obligation to provide for punitive damages, but to ensure compensation based on an objective criterion while taking account of the expenses incurred by the holder of the trade secret, such as the costs of identification and research.

This Directive shall not affect national principles on liability for violation of official duty.

(20) To act as a supplementary deterrent to future infringers and to contribute to the awareness of the public at large, it is useful to publicise decisions, including where appropriate through prominent advertising, in cases concerning the unlawful acquisition, use or disclosure of trade secrets, as long as such publication does not result in the disclosure of the trade secret nor disproportionately affect the privacy and reputation of natural persons.

- (21) The effectiveness of the measures and remedies available to trade secret holders could be undermined in case of non-compliance with the relevant decisions adopted by the competent judicial authorities. For this reason, it is necessary to ensure that those authorities enjoy the appropriate powers of sanction.
- (22) In order to facilitate the uniform application of the measures for the protection of trade secrets, it is appropriate to provide for systems of cooperation and the exchange of information as between Member States, on the one hand, and between the Member States and the Commission on the other, in particular by creating a network of correspondents designated by Member States. In addition, in order to review whether these measures fulfil their intended objective, the Commission, assisted, as appropriate, by the European Observatory on the Infringements of Intellectual Property Rights, should examine the application of this Directive and the effectiveness of the national measures taken.
- (23) 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.

(24) It is important that the rights to privacy and personal data protection of any person whose personal data may be protected as a trade secret by the trade secret holder or of any person involved in litigation concerning the unlawful acquisition, use or disclosure of trade secrets and whose personal data are processed are respected. Directive 95/46/EC of the European Parliament and of the Council⁸ governs the processing of personal data carried out in the Member States in the context of this Directive and under the supervision of the Member States competent authorities, in particular the public independent authorities designated by the Member States. Thus, this Directive should not affect the rights and obligations laid down in Directive 95/46/EC, in particular the rights of the data subject to access his or her personal data being processed and to obtain rectification, erasure or blocking of the data where it is incomplete or inaccurate and, where appropriate, the obligation to process sensitive data in accordance with Article 8(5) of Directive 95/46/EC.

⁸ Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23.11.1995, p 31).

- (25) Since the objective of this Directive, to achieve a smooth functioning internal market through the establishment of a sufficient and comparable level of redress across the internal market in case of unlawful acquisition, use or disclosure of a trade secret, cannot be sufficiently achieved by Member States and can therefore, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that same Article, this Directive does not go beyond what is necessary in order to achieve that objective.
- (26) This Directive should not aim to establish harmonised rules for judicial cooperation, jurisdiction, the recognition and enforcement of judgments in civil and commercial matters, or deal with applicable law. Other Union instruments which govern such matters in general terms should, in principle, remain equally applicable to the field covered by this Directive.
- (27) This Directive should not affect the application of competition law rules, in particular Articles 101 and 102 of the Treaty on the Functioning of the European Union. The measures provided for in this Directive should not be used to restrict competition unduly in a manner contrary to that Treaty.

(28) The European Data Protection Supervisor was consulted in accordance with Article 28(2) of regulation (EC) No 45/2001⁹ and delivered an opinion on 12 March 2014¹⁰.

⁹ Regulation (EC) No 45/2001 No 45/2001 of the European Parliament and of the Council of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data (OJ L 8, 12.1.2001, p.1)

¹⁰ OJ C ...

- (28) 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 Council¹¹ and the scope of this Directive overlap, this Directive takes precedence as *lex specialis*.

HAVE ADOPTED THIS DIRECTIVE:

Chapter I

Subject matter and scope

Article 1

Subject matter and scope

This Directive lays down rules on the protection against the unlawful acquisition, use and disclosure of trade secrets.

Member States may provide, in compliance with the provisions of the Treaty, for more far-reaching protection against the unlawful acquisition, use or disclosure of trade secrets than that required in this Directive, provided that compliance with Articles 4, 5, **Article** 6(1), **Article** 7, ~~8(1)~~ **the** second subpragraph **of Article 8(1)**, **Articles** 8(3), 8(4), 9(2), **Articles** 10, 12 and **Article** 14(3) is ensured.

¹¹ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L157, 30.4.2004, p.45).

Article 2
Definitions

For the purposes of this Directive, the following definitions shall apply:

- (1) ‘trade secret’ means information which meets all of the following requirements:
 - (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
 - (b) has actual or potential commercial value because it is secret;
 - (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;
- (2) ‘trade secret holder’ means any natural or legal person lawfully controlling a trade secret;
- (3) ‘infringer’ means any natural or legal person who has unlawfully acquired, used or disclosed trade secrets;
- (4) ‘infringing goods’ means goods whose design, quality, functioning, manufacturing process or marketing significantly benefits from trade secrets unlawfully acquired, used or disclosed.

Chapter II

Acquisition, use and disclosure of trade secrets

Article 3

Unlawful acquisition, use and disclosure of trade secrets

1. Member States shall ensure that trade secret holders are entitled to apply for the measures, procedures and remedies provided for in this Directive in order to prevent, or obtain redress for, the unlawful acquisition, use or disclosure of ~~a~~their trade secret.
2. The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:
 - (a) unauthorised access to, copying or appropriation of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced;
 - (b) deleted
 - (c) deleted;
 - (d) deleted;
 - (e) deleted;

- (f) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.
3. The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder by a person who is found to meet any of the following conditions:
- (a) ~~has~~es acquired the trade secret unlawfully;
 - (b) ~~is~~ be in breach of a confidentiality agreement or any other duty to not disclose the trade secret;
 - (c) ~~is~~ be in breach of a contractual or any other duty to limit the use of the trade secret.
4. The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of acquisition, use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained **directly or indirectly** from another person who was using or disclosing the trade secret unlawfully within the meaning of ~~the~~ paragraph 3.
5. The production, offering or placing on the market of infringing goods, or import, export or storage of infringing goods for those purposes, shall also be considered an unlawful use of a trade secret when the person carrying out such activities knew, or should, under the circumstances, have known that the trade secret was used unlawfully within the meaning of paragraph 3.

Article 4

Lawful acquisition, use and disclosure of trade secrets and exceptions

1. The acquisition of trade secrets shall be considered lawful when obtained by any of the following means:
 - (a) independent discovery or creation;
 - (b) observation, study, disassembly or test of a product or object that has been made available to the public or that it is lawfully in the possession of the acquirer of the information who is free from any legally enforceable **valid** duty to limit the acquisition of the trade secret;
 - (c) any other practice which, under the circumstances, is in conformity with honest commercial practices.
- 1a. The acquisition, use and disclosure of trade secrets shall be considered lawful to the extent that such acquisition, use or disclosure is required or allowed by Union or national law.
2. Member States shall ensure that the application for the measures, procedures and remedies provided for in this Directive ~~shall be~~ **are** dismissed when the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:
 - (a) for making legitimate use of the right to freedom of expression and information;

- (b) for the purpose of revealing a 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;
- (c) the trade secret was disclosed by workers to their representatives as part of the legitimate exercise of their representative functions, **provided that such disclosure was necessary for that exercise**;
- (d) deleted;
- (e) for the purpose of protecting a legitimate interest recognised by Union or national law.

Chapter III

Measures, procedures and remedies

SECTION 1

GENERAL PROVISIONS

Article 5

General obligation

1. Member States shall provide for the measures, procedures and remedies necessary to ensure the availability of civil redress against unlawful acquisition, use and disclosure of trade secrets.

2. These measures, procedures and remedies **referred to in paragraph 1** shall:
 - (a) be fair and equitable;
 - (b) not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays;
 - (c) be effective and dissuasive.

Article 6

Proportionality and abuse of litigation

1. ~~Member States shall ensure that~~ **The** measures, procedures and remedies provided for in accordance with this Directive ~~are to~~ **shall** be applied ~~by the competent judicial authorities~~ in a manner that:
 - (a) is proportionate;
 - (b) avoids the creation of barriers to legitimate trade in the internal market, **and**
 - (c) provides for safeguards against their abuse.

2. Member States shall ensure that competent judicial authorities may, upon request of the respondent, apply appropriate measures as provided for in national law, where a claim concerning the unlawful acquisition, use or disclosure of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith. These measures may, as appropriate, include **awarding damages to the respondent**, imposing sanctions on the applicant or **ordering** the dissemination of the information concerning the decision taken in accordance with Article 14.

Member States may provide that these measures are dealt with in separate proceedings.

~~These measures shall be without prejudice to the possibility for the respondent to claim damages, if Union or national law so allows.~~

Article 7

Limitation period

Member States shall lay down the rules applicable to limitation periods for **substantive claims or** bringing actions for the application of the measures, procedures and remedies provided for in this Directive. Those rules shall determine when the limitation period begins to run, the duration of the **limitation** period and the circumstances under which the **limitation** period is interrupted or suspended. The duration of the **limitation** period shall not exceed **six** ~~five~~ years.

Article 8

Preservation of confidentiality of trade secrets in the course of legal proceedings

1. Member States shall ensure that the parties, their representatives, court officials, witnesses, experts and any other person participating in the legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal proceedings, shall not be permitted to use or disclose any trade secret or alleged trade secret which the competent judicial authorities have, in response to a **duly reasoned application by** ~~justified request of~~ the interested party, identified as confidential and of which they have become aware as a result of such participation or access.

The obligation referred to in the first subparagraph shall remain in force after the legal proceedings have ended. However, it ~~is~~ **such obligation** shall cease to exist in any of the following circumstances:

- (a) where, the alleged trade secret is found not to fulfil the requirements set **out** in point (1) of Article 2 by a final decision;
- (b) where over time, the information in question becomes generally known among or readily accessible to persons within the circles that normally deal with that kind of information.

2. Member States shall also ensure that the competent judicial authorities may, on a duly reasoned application by a party, take specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of the legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret. Member States may also allow competent judicial authorities to take such measures on their own initiative.

The measures referred to in the first subparagraph shall at least include the possibility:

- (a) to restrict access to any document containing trade secrets **or alleged trade secrets** submitted by the parties or third parties, in whole or in part, to a limited number of persons, provided that at least one person from each party, **its respective lawyer or representative to the proceedings and court officials are** ~~has been~~ given full access to such document;
- (b) to restrict access to hearings, when trade secrets **or alleged trade secrets** may be disclosed, and their corresponding records or transcript, to a limited number of persons, provided that at least one person from each party, **its respective lawyer or representative to the proceedings and court officials are** ~~has been~~ given full access to such hearing, records or transcript;
- (c) to make available to third parties a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed.

3. When deciding on the granting or the rejection of the application referred to in paragraph 2 and assessing its proportionality, the competent judicial authorities shall take into account the need to ensure the rights to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate of third parties, and any potential harm for either of the parties, and where appropriate third parties, resulting from the granting or rejection of such application.
4. Any processing of personal data pursuant to paragraphs 1, 2 and 3 shall be carried out in accordance with Directive 95/46/EC.

SECTION 2 PROVISIONAL AND PRECAUTIONARY MEASURES

Article 9

Provisional and precautionary measures

1. Member States shall ensure that the competent judicial authorities may, at the request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer:
 - (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on an provisional basis;
 - (b) the prohibition to produce, offer, place on the market or use infringing goods, or import, export or store infringing goods for those purposes;

- (c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into or circulation within the market.
2. Member States shall ensure that the judicial authorities may, as an alternative to the measures referred to in paragraph 1, make the continuation of the alleged unlawful ~~possession~~, use or disclosure of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder.

Article 10

Conditions of application and safeguards

1. Member States shall ensure that the competent judicial authorities have, in respect of the measures referred to in Article 9, the authority to require the applicant to provide evidence that may reasonably be considered available in order to satisfy themselves with a sufficient degree of certainty that a trade secret exists, that the applicant is the trade secret holder and that the trade secret has been acquired unlawfully, that the trade secret is being unlawfully used or disclosed, or that an unlawful acquisition, use or disclosure of the trade secret is imminent.

2. Member States shall ensure that in deciding on the granting or rejecting of the application and assessing its proportionality, the competent judicial authorities shall be required to take into account the specific circumstances of the case. This assessment shall include, where appropriate, the value of the trade secret, the measures taken to protect the trade secret or other specific features of the trade secret, as well as the conduct of the respondent in acquiring, using or disclosing of the trade secret, the impact of the unlawful use or disclosure of the trade secret, the legitimate interests of the parties and 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.
3. Member States shall ensure that the provisional measures referred to in Article 9 are revoked or otherwise cease to have effect, upon request of the respondent, if:
 - (a) the applicant does not institute proceedings leading to a decision on the merits of the case before the competent judicial authority, within a reasonable period determined by the judicial authority ordering the measures where the law of a Member State so permits or, in the absence of such determination, within a period not exceeding 20 working days or 31 calendar days, whichever is the longer;
 - (b) in the meantime, the information in question no longer fulfils the requirements of point (1) of Article 2, for reasons that cannot be attributed to the respondent.

4. Member States shall ensure that the competent judicial authorities may make the provisional measures referred to in Article 9 subject to the lodging by the applicant of adequate security or an equivalent assurance intended to ensure compensation for any prejudice suffered by the respondent and, where appropriate, by any other person affected by the measures.
5. Where the provisional measures are revoked on the basis of point (a) of paragraph 3, where they lapse due to any act or omission by the applicant, or where it is subsequently found that there has been no unlawful acquisition, use or disclosure of the trade secret or threat of such conduct, the competent judicial authorities shall have the authority to order the applicant, upon request of the respondent or of an injured third party, to provide the respondent, or the injured third party, appropriate compensation for any injury caused by those measures.

Member States may provide that these measures are dealt with in separate proceedings.

SECTION 3

MEASURES RESULTING FROM A DECISION OF THE MERITS OF THE CASE

Article 11

Injunctions and corrective measures

1. Member States shall ensure that, where a judicial decision is taken finding an unlawful acquisition, use or disclosure of a trade secret, the competent judicial authorities may, at the request of the applicant order against the infringer:
 - (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret;

- (b) the prohibition to produce, offer, place on the market or use infringing goods, or import, export or store infringing goods for those purposes;
- (c) the adoption of the appropriate corrective measures with regard to the infringing goods.

2. The corrective measures referred to in point (c) of paragraph 1 shall include

- (a) deleted
- (b) recall of the infringing goods from the market;
- (c) depriving the infringing goods of their infringing quality;
- (d) destruction of the infringing goods or, where appropriate, their withdrawal from the market, provided that such measure~~-action~~ does not undermine the protection of the trade secret in question;
- (e) the destruction of all or part of any document, object, material, substance or electronic file containing or implementing the trade secret or, where appropriate, the delivery up to the applicant of all or part of those documents, objects, materials, substances and electronic files.

3. Member States ~~shall ensure~~ **may provide** that, when ordering the withdrawal of the infringing goods from the market, the judicial authorities may order, at the request of the trade secret holder, that the goods be delivered up to the holder or to charitable organisations ~~under conditions to be determined by the judicial authorities aimed at ensuring that the goods in question do not re-enter the market.~~
4. The judicial authorities shall order that the measures referred to in point (c) of paragraph 1 be carried out at the expense of the infringer, unless there are particular reasons for not doing so. These measures shall be without prejudice to any damages that may be due to the trade secret holder by reason of the unlawful acquisition, use or disclosure of the trade secret.

Article 12

Conditions of application, safeguards and alternative measures

1. Member States shall ensure that, in considering a request for the adoption of the injunctions and corrective measures provided for in Article 11 and assessing their proportionality, the competent judicial authorities shall be required to take into account the specific circumstances of the case. This assessment shall include, where appropriate, the value of the trade secret, the measures taken to protect the trade secret, or other specific features of the trade secret, as well as the conduct of the infringer in acquiring, using or disclosing of the trade secret, the impact of the unlawful,use or disclosure of the trade secret, the legitimate interests of the parties and 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.

When the competent judicial authorities limit the duration of the measure referred to in points (a) and (b) of Article 11(1), such duration shall be sufficient to eliminate any commercial or economic advantage that the infringer could have derived from the unlawful acquisition, use or disclosure of the trade secret.

2. Member States shall ensure that the measures referred to in points (a) and (b) of Article 11(1) are revoked or otherwise cease to have effect, upon request of the respondent if in the meantime the information in question no longer fulfils the conditions of point (1) of Article 2 for reasons that cannot be attributed to the respondent.
3. Member States shall provide that, at the request of the person liable to be subject to the measures provided for in Article 11, the competent judicial authority may order pecuniary compensation to be paid to the injured party instead of applying those measures if all the following conditions are met:
 - (a) the person concerned at the time of use or disclosure ~~did not know or~~ **neither knew nor** had reason, under the circumstances, to know that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully;
 - (b) execution of the measures in question would cause that person disproportionate harm;
 - (c) pecuniary compensation to the injured party appears reasonably satisfactory.

When the pecuniary compensation is ordered instead of the order referred to in points (a) and (b) of Article 11(1), such pecuniary compensation shall not exceed the amount of royalties or fees which would have been due, had that person requested authorisation to use the trade secret in question, for the period of time for which use of the trade secret could have been prohibited.

Article 13

Damages

1. Member States shall ensure that the competent judicial authorities, on the application of the injured party, order the infringer who knew or ought to have known that he or she was engaging in unlawful acquisition, use or disclosure of a trade secret, to pay the trade secret holder damages appropriate to the actual prejudice suffered as a result of the infringement.

In accordance with their national law and practice, Member States may **restrict** ~~adopt~~ ~~rules restricting~~ 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.

2. When setting the damages pursuant to paragraph 1, the competent judicial authorities shall take into account all appropriate factors, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the trade secret holder by the unlawful acquisition, use or disclosure of the trade secret.

However, the competent judicial authorities may also, in appropriate cases, set the damages as a lump sum on the basis of elements such as, at a minimum, the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the trade secret in question.

Article 14

Publication of judicial decisions

1. Member States shall ensure that, in legal proceedings instituted for the unlawful acquisition, use or disclosure of a trade secret, the competent judicial authorities may order, at the request of the applicant and at the expense of the infringer, appropriate measures for the dissemination of the information concerning the decision, including publishing it in full or in part.
2. Any measure referred to in paragraph 1 of this Article shall preserve the confidentiality of trade secrets as provided for in Article 8.

3. In deciding whether to order a measure referred to in paragraph 1 and assessing its proportionality, the competent judicial authorities shall take into account whether the information on the infringer would allow to identify a natural person and, if so, whether publication of that information would be justified, in particular in the light of the following criteria: the possible harm that such measure may cause to the privacy and reputation of the infringer, the conduct of the infringer in acquiring, disclosing or using the trade secret and the likelihood of further unlawful use or disclosure of the trade secret by the infringer. The competent judicial authorities shall also take into account, where appropriate, **other circumstances, in particular** the value of the trade secret and the impact of the unlawful **acquisition**, disclosure or use of the trade secret.

Chapter IV

Sanctions, reporting and final provisions

Article 15

Sanctions for non-compliance with the obligations set out in this Directive

Member States shall ensure that the competent judicial authorities may impose sanctions on ~~the parties, their representatives and any other~~ person who fails or refuses to comply with any measure adopted pursuant to Articles 8, 9, and 11.

The sanctions provided for shall include the possibility to impose recurring penalty payments in case of non-compliance with a measure adopted pursuant to Articles 9 and 11.

The sanctions provided for shall be effective, proportionate and dissuasive.

Article 16

Exchange of information and correspondents

For the purpose of promoting cooperation, including the exchange of information, among Member States and between Member States and the Commission, each Member State shall designate one or more national correspondents for any question relating to the implementation of the measures provided for by this Directive. It shall communicate the details of the national correspondent(s) to the other Member States and the Commission.

Article 17

Reports

1. By XX XX 20XX [three years after the end of the transposition period], the Office for Harmonisation in the Internal Market (Trade Marks and Designs), in the context of the activities of the European Observatory on Infringements of Intellectual Property Rights, shall prepare an initial report on the litigation trends regarding the unlawful acquisition, use or disclosure of trade secrets pursuant to the application of this Directive.

2. By XX XX 20XX [four years after the end of the transposition period], the Commission shall draw up an intermediate report on the application of this Directive and submit it to the European Parliament and the Council. This report shall take due account of the report referred to in paragraph 1.
3. By XX XX 20XX [eight years after the end of the transposition period], the Commission shall carry out an evaluation of the effects of this Directive and submit a report to the European Parliament and the Council.

Article 18
Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by XX XX 20XX [24 months] after the date of adoption of this Directive at the latest. They shall forthwith communicate to the Commission the text of those provisions.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 19
Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 20
Addressees

This Directive is addressed
to the Member States.

Done at Brussels,

For the European Parliament *For the Council*
The President *The President*
