ORGALIME

Position Paper

Brussels, 26 January 2015

Orgalime position paper on the proposal for a directive on the protection of "trade secrets"

Orgalime welcomes the proposal for a directive on the protection of "trade secrets" drafted under article 114 of the Treaty of Functioning of the European Union.[1] Our industry supports the initiative of the Commission to ensure an efficient and practical protection of trade secrets. This is consistent with a thriving and innovative European market, which will – now more than ever – shift towards a market of research, development and innovation.

In today's economy, information and know-how - representing the result of R&D investments, creativity and business initiative - have become the key factors for developing and maintaining competitive advantage. Trade secrets are particularly important to small and medium sized enterprises (SMEs) that perform most of their innovation work when exploring new specific technical solutions to a potential customer's needs.

Furthermore, manufacturers are deploying the latest ICT-based machines, systems and networks capable of independently exchanging and responding to information in order to manage industrial production processes and logistics and operate energy networks, etc., and are starting to discover the potential of "big data" and analytics. The fourth industrial revolution (known as Industrie 4.0, Smart Industry, etc…) will rely heavily therefore on trade secrets and therefore the proposed directive should be the guardrail of such innovative developments in the engineering sector, which Orgalime considers as essential for Europe's industrial renaissance.

The misappropriation and misuse of trade secrets represents a serious problem and threat for our industry. Trade secret protection is generally weak in most EU countries, the conditions for, and

[1] 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 * COM/2013/0813 final - 2013/0402 (COD) *

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scope of its protection varies significantly from country to country depending on the existing statutory mechanisms and case law.

Businesses suffer from a lack of purpose-built and harmonised legislation against such practices. It is necessary to have a unitary system in place, which gives owners of trade secrets an effective and practical way to ensure the protection of their trade secrets.

Orgalime strongly approves and supports the following modifications introduced by the Council:

- no intentionality or gross negligence criteria should be required for the unlawful conduct to exist in the case of primary infringers (Article 3)
- The limitation period extended to six years (Article 7).

Nevertheless, Orgalime is strongly concerned regarding some parts of the proposal as further explained below, especially in relation to definitions which might lead to confusion or even lower the protection level that is currently provided by some member states at the moment.

1. DEFINITIONS

While it is considered preferable to find a common definition of what a trade secret is, we believe that the definition of the directive might be too narrow.

Article 2.1 lit b. states, among other things, that a trade secret has to have commercial value because it is a secret. This does not seem to fit the practical use of a trade secret: a trade secret is actually kept secret because it has a commercial value, not the other way round.

Orgalime therefore calls for a more consistent and broader definition.

Article 2.1 lit c) of the proposal asks for "reasonable steps under the circumstances […] to keep it secret". Even though this part of the definition can be found in the "TRIPS" Agreement, it can be deemed as too wide. It is left unclear what actions can be considered as "reasonable steps".

For example, some jurisdictions provide for a wide array of protection even prior to any signed contracts - so called pre-contractual protected obligations. These pre-contractual obligations do not require formal agreements. Negotiating parties therefore do not need to sign any documents to have their rights protected. It is important that such negotiations should not be made more bureaucratic by having to sign "pre-contractual contracts" or to declare information as secret. It is left unclear if – for example - a common secrecy clause in an employment contract will be considered as a "reasonable step" under the proposed directive.

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Orgalime therefore calls for a more transparent definition of actions needed to fulfil the requirement of "reasonable steps".

Article 3.2 and Article 4.1. lit. c include a number of definitions which in our view are unclear: for example "honest commercial practices, non-contractual obligation, legitimate interest". We believe it would be important to have a sufficient degree of clarity as to the meaning of such definitions to prevent that the scope of protection might find itself watered down.

Orgalime therefore calls for a clearer definition of terms such as "honest commercial practices, non-contractual obligation and legitimate interest". In addition, the interference of this proposed directive with practices used in some Member States should be avoided, where the issue of trade secrets falls within the area of social partners' dialogue and/or under labour law regulations.

2. REVERSE ENGINEERING

The proposed directive expressly allows for reverse engineering as lawful behaviour. While this is consistent with most national legislation, legalising reverse engineering must not lead to encouraging unlawful or unfair behaviour such as infringement of intellectual property rights or unfair competition law; most Member States' legislation include provisions on unfair competition or parasite copy, as mentioned in the Study on Trade Secrets and Parasitic Copying [2].

While the draft directive is aiming at a higher protection of Trade Secrets, its provisions on reverse engineering seem to fall behind the current level of protection, at least in some jurisdictions.

For example, legislation in Germany considers reverse engineering under certain conditions as unfair competition. Hence, the level of protection of Trade Secrets in businesses such as the chemical, software, mechanical engineering and, electrical and electronics industries will be significantly lowered if the use of findings by means of reverse engineering are allowed in the future without any limitation, which is not in line with the goals of the proposed directive.

Orgalime therefore calls for a more careful approach on legalising reverse engineering. The directive should not be used for lowering the level of protection regarding slavish copies which are the outcome of a reverse engineering process. Member states should therefore, in our view still be able to sanction such behaviour, for example under unfair competition legislation.

[2] Study on Trade Secrets and Parasitic Copying (Look-alikes) MARKT/2010/20/D - Hogan Lovells Final Report on Parasitic Copying for the European Commission.

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3. CONDITION OF INTENTIONALITY OR GROSS NEGLIGENCE

Under the initial text of the proposal, the acquisition of a trade secret was unlawful only under the condition that it has been carried out intentionally or with gross negligence.

This provision would have obliged the trade secrets' holder, although the victim of an obviously unlawful acquisition arising from, for example, unauthorised access, infringement of a confidentiality agreement or deception, to prove that the author of such practice has acted "intentionally or with gross negligence". This requirement to provide such evidence would be difficult to fulfil and will inevitably lead to discussions and to slowing down procedures.

For this reason, we welcome the Council proposal, which states that, while an element of dishonest behaviour is needed, no intentionality or gross negligence criteria should be required for the unlawful conduct to exist in the case of primary infringers.

Orgalime therefore calls for a provision of unlawful acquisition of the trade secret, which does not require the criteria of intentionality or gross negligence.

4. LIMITATION PERIOD

The limitation period provided by the initial text of the proposal – between one to two years – was, in our view, too short considering that:

- in some Member States, such a period according to the existing legislation is longer;
- the discovery of the faulty behaviour (time after the manufacturing of the products using the trade secrets) and the time to gather evidence are specially difficult for the matter of secret information, and that it is not appropriate to provide a period which could block a large number of procedures.

Orgalime therefore welcomes the amendment brought by the Council, and calls for a limitation period which should be of at least six years.

5. COMBINATION BETWEEN TRADE SECRETS AND DIRECTIVE 2004/48 – LEX SPECIALIS

The second sentence of the Recital 28 excludes the provision applicable to enforce the intellectual property rights if the scopes of the proposal and the Directive 2004/48/EC are overlapping. It is not clear what kind of situation is targeted by the Recital. For instance, if information is part of a patent claim, it will and cannot be a secret. Secret information, such as unprotected know-how, may sometimes be useful to the implementation of the patent, but is normally not overlapping.

In any case, this sentence would possibly exclude the enforcement of some intellectual property rights and weaken these rights. Legislation on trade secrets should not bring such a result, because it could in this case be bad for innovation.

Orgalime therefore calls for a clarification that the proposed directive on trade secrets is not limiting intellectual property rights in any way.

6. ABUSE OF LITIGATION

Article 6.2 provides for sanctions against an applicant of litigation who is found to have initiated legal proceedings in bad faith. While one should ensure that the means of litigation are only to be used in a fair way, the proposed directive provides for sanctions of such unfair use of litigation. These sanctions are – at least in some jurisdictions – unknown or only limited to applicants acting in bad faith who start litigation proceedings at the Highest Courts. In general, such sanctions seem to be unnecessary: an applicant is normally forced to bear the costs (often upfront) of the court procedure anyway, at least in jurisdictions with the so called “loser pays principle”.

Orgalime therefore calls for a deletion of this article.

7. CONDITIONS OF APPLICATION, SAFEGUARDS AND ALTERNATIVE MEASURES

In Article 12 we do not see the basis in allowing for compensation as an alternative to injunction where a trade secret is being misused. In the IPR Enforcement directive, this is an option that is left to Member States’ discretion to implement.

ORGALIME does not, therefore, see any justification for having this option introduced in this context.

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8. CONCLUSION

Orgalime welcomes the initiative of the Commission to ensure efficient and practical protection of trade secrets. This is consistent with a thriving and innovative European manufacturing industry and internal market, which will – now more than ever – shift towards a market dependent on research, development and innovation.

Nevertheless, ORGALIME calls for a straightforward directive, which

- Does not lower any (already implemented) protection of trade secrets
- Provides clear and reasonable terms and definitions

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