

Summary Report

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Question 247

Trade secrets: overlap with restraint of trade, aspects of enforcement

This Working Question concerns four distinct aspects relevant to the protection of trade secrets.

- 1) What, if any, is the extent of overlap between trade secret protection and laws prohibiting 'restraint of trade'?

In some jurisdictions, doctrines prohibiting contractual and other restraints on the mobility of workers could intersect with trade secret protection. For example, trade secret protection may make it practically very difficult or impossible for a person to move jobs and continue working in their field.

- 2) How to ensure that confidentiality is kept in the course of court proceedings?
- 3) Whether and when are damages appropriate as a remedy in relation to trade secret violations?
- 4) Alternative methods of evidence collection, especially in jurisdictions which do not have a system of discovery

This Working Question addresses commercially valuable trade secrets, as distinct from know-how generally. Although the legal approach taken to protecting trade secrets may in some cases be the same as the approach to protecting confidential know-how, almost all Groups recognise a difference between the two, and the methods they use to distinguish between the two are summarised below in Part I at (i)(2).

The Reporter General has received Reports from the following Groups (in alphabetical order): Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, the Caribbean Regional Group, the Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, the Republic of Ireland, Italy, Japan, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Paraguay, the Philippines, Poland, Portugal, the Republic of Korea, the Russian Federation, Singapore, Spain, Sweden, Switzerland, Turkey, the Ukraine, the United Kingdom, the United States, Uruguay and Venezuela. 45 Reports were received in total. All of the Reports were very helpful and assisted greatly.

The Reports provide a comprehensive overview of national and regional laws and policies relating to trade secrets. This Summary Report does not attempt to reproduce the detailed responses given by each Group. If any question arises as to the exact position in a particular jurisdiction, or for a detailed account of any

particular answer, reference should be made to the original Reports. See <https://www.aippi.org>.

A summary of the Reports follows. Where percentages of responses are given, they are to the nearest 5%.

In Part IV below, some conclusions have been drawn in order to provide guidance to the Working Committee.

As background, it is noted that Article 39 of TRIPs is relevant to trade secret protection. It is reproduced in full below since a number of Group Reports refer to it.

SECTION 7: PROTECTION OF UNDISCLOSED INFORMATION

Article 39

1. In the course of ensuring effective protection against unfair competition as provided in Article 10*bis* of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.

2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

(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 commercial value because it is secret; and

(c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

I. Current law and practice

Aspect (i) - Overlap with restraints of trade

1) **Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?**

If a trade secret is viewed as capable of permitting a restraint of trade, the protection given to trade secrets might be restricted in some circumstances so as to allow worker/employee mobility.

There was substantial diversity in views on whether trade secret protection might be viewed as a restraint of trade. The regimes limiting the enforcement of trade secret laws varied but included competition law, contract law, and laws regarding general public policy/constitutional laws.

Around a third of the Groups suggested that trade secret protection could be viewed as a restraint of trade, in certain circumstances. Just under a quarter indicated that trade secret protection itself is not viewed as a restraint of trade, but other laws such as competition law might prevent trade secret enforcement actions.

Another third were firmly of the view that trade secret protection is not viewed as a restraint of trade. A small number of Groups took the view that in no circumstances should trade secrets be viewed as restraints of trade, because they could be legitimate restraints compliant with other laws such as competition law. For example, trade secret protection might be classified as per se pro-competitive, and thus inherently not anti-competitive.

In summary, just over half the Groups considered that in some circumstances at least the enforcement of trade secrets can be prevented if the enforcement results in an objectionable restraint of trade, or has equivalent effect. There was no uniformity in the exact legal mechanism used to prevent enforcement.

2) **How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?**

About a quarter of the Groups report that their laws do not distinguish between types of knowledge. Thus, any knowledge, regardless of whether it is routine knowledge, which otherwise qualifies as a trade secret, can be protected.

Around 15% of the Groups report that their laws distinguish between general skills (which, even if confidential, cannot be protected as trade secrets) and more important information. This is the approach adopted in the UK under *Faccenda Chicken*. Around 20% of the Groups indicate that under their laws, general skills or knowledge acquired during employment, common knowledge, literary knowledge accessible to everyone, and general economic data do not qualify as “trade secrets” in the first place even if confidential and is therefore, not protected as a trade secret. Similarly, the approach in around a quarter of the Groups is that trade secrets are defined very restrictively and are accordingly less likely to encompass general information and common knowledge. The Caribbean Regional Group indicates that employers must specifically identify and notify relevant trade secrets to employees, and usually, general knowledge is less likely to be specifically identified and notified.

The strength of the link between a business and the content of the information can be relevant too: in Norway and Sweden, only “specific” knowledge relating to a business is a trade secret for that business, and in Switzerland only “specific” knowledge relating to a “specific” business (not known by all businesses) is a trade secret. In a similar vein, there is debate in Germany and Latvia about whether knowledge/experience acquired “honestly” from work is a trade secret.

In total, approximately 70% of Groups take the view that, one way or another, a trade secret action based on common but non-public knowledge and general information useful for a specific job in all enterprises in a sector should not succeed.

The Dutch Group raised a query as to whether the proposed new EU Directive properly distinguishes between “real” trade secrets and non-public general knowledge of an employee.

- 3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment? If yes:**
- a. are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee’s duty of confidence permitted; and**
 - b. how long after the end of employment does an ex-employee’s duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?**

Virtually all Groups indicate that employees are under a duty of confidence, even if such a duty is not contractually mandated.

The length of any surviving obligation of confidentiality varied. The non-contractual obligation of confidentiality may (and typically for many Groups does) last forever, although in some countries the non-contractual obligation terminates upon termination of employment, perhaps continuing longer if there is a separate contractual confidentiality obligation. The length of any permissible express contractual non-compete provision varied, e.g. Brazil – 2-5 years, China: 2 years.

- 4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment? If yes, is there any distinction between what types of knowledge they can use?**

Virtually all Groups responded in the positive – that is, workers may use general knowledge acquired in the course of their earlier employment in the place of their new employment.

- 5) Are certain employees subject to a higher obligation of confidentiality / non-use? If so, which employees, and what is the rationale for any distinction between employees?**

More than 80% of the Groups reported that certain employees are subject to a higher obligation of confidentiality, depending on a variety of factors:

- seniority, fiduciary duties e.g. for directors
- position in corporate management/works council/board

- depends on seniority, access to information, and position in corporate management/board/works council
- depends on whether field is large and possibilities to work in other, non-competing firms
- position of employee and access to key information
- access to key information, and/or
- the type of job/industry sector, e.g. banking.

Aspect (ii) - Ensuring confidentiality during Court proceedings

- 6) What measures or provisions are available to preserve the secrecy of trade secrets during court proceedings? For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):**
- restricted access to the hearing and / or evidence;**
 - disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;**
 - non-confidential versions of documents being provided to all except authorised individuals;**
 - only non-confidential parts of any judgment / decision publicly available.**

A majority of the Groups reported that these measures are available in their jurisdictions, with the primary purpose being to preserve the confidentiality in the trade secret:

- more than 85%: restricted access to the hearing and / or evidence;
- more than 40%: disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
- more than 75%: non-confidential versions of documents being provided to all except authorised individuals;
- more than 90%: only non-confidential/redacted parts of any judgment / decision publicly available,

or all of the above, depending on what the Court considers necessary.

The Danish and Swiss Groups indicated that instead of providing confidential evidence to legal representatives only, such evidence might be provided to independent experts. Legal representative-only access is generally rare, and not possible in some countries. The problem identified is that the parties (and not just their representatives) have the right to know the case to which they must answer.

The German Group points out that it is difficult, under German procedure, to protect information in pleadings initially, prior to a Court decision commencing protection. Under German procedure, it is also not possible to prevent a defendant from misusing the trade secret – but it is possible to prevent a defendant from further disclosing the trade secret.

A very small number of Groups report that there are insufficient procedures under national law to protect the confidentiality of trade secrets being litigated.

The Groups did not specifically discuss the following point in detail, but an important issue to be noted is that in very many jurisdictions, trade remedy investigations conducted in order to determine the imposition of anti-dumping duties or safeguard duties etc., adhere to such norms of confidentiality. Confidential data produced by any party is not disclosed to the other parties (in some cases outside lawyers will be provided) and in published reports, reference to confidential data will be redacted appropriately. This primarily occurs due to the harmonization for such procedures under the aegies of the WTO system.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the court that the information merits protection?

Confidential treatment must in practice be requested/justified in all jurisdictions, even though in some an *ex officio* ruling is possible. There was insufficient detailed information across the Reports to determine what the level/threshold for granting confidential treatment may be or should be.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use – after the proceedings have terminated - of the information they gain during the proceedings?

More than two-thirds of the Groups restrict such use.

Aspect (iii) – Valuation of loss

9) Are damages available as a remedy for trade secret violation? If so:

- a. **how (if at all) is that value diluted by publication?**
- b. **how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?**
- c. **can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?**

Damages are available as a remedy in all countries, calculated according to standard principles to reflect the damage caused by the misappropriation in the normal way. For most Groups, this includes the actual loss suffered by the proprietor of the trade secret, or a reasonable royalty as an estimate of such loss, or the unlawful profits of the defendant attributable to the trade secret violation.

Whilst some Groups indicate that no dilution occurs if a trade secret is published, others suggest that the entire value of a trade secret can be lost, reducing damages for a further misappropriation to zero.

The consensus, amongst the Groups indicating that moral damages are recoverable, is that moral damage includes damage to reputation or goodwill. There was no consensus on various other aspects of moral damages, e.g. injury to feelings.

Aspect (iv) – Proving infringement

10) What elements must be proved to establish violation of a trade secret?

A number of variations emerged from the Group Reports:

- a) A few Groups: The plaintiff must show that the secret information is commercial information important to the competitive position of a company, known to a limited circle of people, kept confidential, and there is a legitimate interest in maintaining confidentiality and preventing misuse by others,
- b) Approximately 15% of Groups: The plaintiff must show that it is the legitimate trade secret owner, that the trade secret has commercial value because it is secret, there have been reasonable measures to keep it secret, and the secret was taken unlawfully,
- c) Approximately 25% of Groups: The plaintiff must show the defendant obtained the confidential information (not being public information) by unlawful means/contrary to good commercial practice, or in an unfair manner, and that harm resulted from the misappropriation,
- d) Approximately 15% of Groups: The plaintiff must show the requirements set out in the English case of *Coco v Clark*, i.e. that the information in question is confidential, that information was transferred in circumstances creating an obligation of confidence, and there is an actual or threatened unauthorised use of the information.

The other Groups had requirements similar to a), b) or c) above. Variation d) is common to many common law countries.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

The Argentine Group indicated that a breach of confidence is only actionable as a breach of contract.

The Austrian Group indicated that trade secrets are different to confidential information because they involve competitive information. A similar theme emerged from the Mexican, Dutch and Polish Groups, who explained that trade secrets must have commercial value.

Groups from many common law jurisdictions indicated that their jurisdictions mainly protect trade secrets through an action for an equitable breach of confidence. Such actions apply equally to competitive information and – also – other types of confidential information too (e.g. the UK Group reported that “super injunctions” can be used to protect any information which is confidential). The additional element, according to these Groups, is the special quality associated with Category 3 information according to the *Faccenda Chicken* line of cases, i.e. trade secrets so confidential that, even though they may necessarily have been learned by heart, and even though the employee may have left their employment, they cannot lawfully be used for anyone’s benefit by the employer who owns those trade secrets.

However, as a general rule, the majority of Groups tended to provide trade secret protection in line with the requirements of TRIPs, which involves protecting information which has “commercial value” as trade secrets. Non-commercial information of a personal or private nature might therefore not be protected under relevant trade secret legislation in such jurisdictions, though it could be protected under different mechanisms, e.g. a right to privacy. These aspects were not explored in very great detail in the relevant Group Reports.

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed e.g. if the subject-matter of that ex-employee’s work was closely linked to the trade secret? If so, in what circumstances?

Approximately 75% of Groups indicated that, depending on the facts of the case, knowledge may be imputed, at least such that the origin of the information must be explained.

13) Does your jurisdiction provide for discovery? If yes, does it provide for discovery at the pre-action stage; and / or against third parties?

Close to 60% of the Groups indicated that discovery is available in their jurisdiction. The vast majority of the Groups indicated that pre-action discovery is available, e.g. via the French *saisie* mechanism or very similar mechanisms. The Groups did not all address third-party discovery in detail.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation? If yes, what is this threshold?

The Chinese and Belgian Groups explained that the possibility of access to the information by the defendant, and an objective similarity between the information and the defendant’s production processes, mean that the burden then shifts onto the defendant to prove that it obtained information lawfully. However, in general, Groups did not all address this issue in detail.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures? If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?

The vast majority of Groups reported that seizure is available as a remedy. The setting of a bond is not required in every jurisdiction.

The French Group explained that the *saisie* procedure, normally used in relation to patents, is also available for trade secrets. The general requirements are that:

- it is applied for prior to any legal process,
- there is legitimate reason for the seizure,
- the measure is proportionate,
- there is a real risk that evidence will otherwise disappear or be destroyed, and
- there are measures to protect confidentiality of the information that is seized.

Some common law countries grant *Anton Piller* type orders, usually requiring very good evidence of misuse of secret information, urgency if otherwise evidence would be destroyed/become unavailable, full and frank disclosure of all known circumstances, and supervision of the search by independent lawyers. Similarly, orders to freeze assets/bank accounts are available in rare circumstances, if there is otherwise a high risk that court judgment would not be satisfied.

A common feature of these orders is that there must be a risk that, were an order not to be granted, the evidence would be destroyed or would not be available.

Similar procedures are available in Argentina, Brazil and other countries, and pursuant to the EU Enforcement Directive.

It is pointed out in the Group Reports of Belgium, Denmark and Luxembourg that no *ex parte* seizure procedure exists under their laws specifically for trade secrets, even though it exists for intellectual property rights generally. There was no consistent position in the Group Reports on whether trade secrets are classified as intellectual property rights.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Just over 50% of Groups indicate that seizures can only be used to secure documentary evidence. Around 25% say that seizures can be used to prevent allegedly infringing products from entering into circulation, as well as securing documentary evidence.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraints of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade? If so, what limits?

Just over 50% of the Groups say limits should be placed to avoid unlawful restraints of trade, and around 40% disagree.

It was clear that the Groups agreed that some non-public information embeds itself in the minds of workers and becomes part of their ordinary professional knowledge which they cannot avoid taking away with them. This is why trade secrets are different from patents and trade marks. Some Groups suggested that if limits are placed on the protection of trade secrets, the same limits would also need to be placed on patent and trade mark enforcement. Due to the difference between trade secrets on the one hand, and patents and trade marks on the other, it is unclear and Group Reports did not explain why limits would also need to be placed on patent and trade mark enforcement.

Two different mechanisms are suggested:

- (1) curtail the definition of trade secrets to not include ordinary, common knowledge,

- (2) place a restriction on the enforcement of trade secrets to prevent enforcement where such enforcement would have the same effect as an unlawful restraint of trade.

There is no clear view in the Group Reports on which method is preferred. However, mechanism (1) might be simpler, as mechanism (2) would necessarily entail changes in more than one area of law.

18) Should different obligations of confidence / non-use apply to different employees? If so, why?

Some 35% of the Groups indicate that higher / stricter obligations should apply, and about 60% of Groups say they should not.

This bias in favour of uniform obligations may, in part, reflect the current law across very many Groups, which provides that the obligations are uniform in nature and apply to all workers equally. However, in practice, senior employees are more likely to have access to more important secrets.

In some countries more information, such as certain accounting information (regardless of whether it would be in itself be classified as a trade secret) is classed as confidential, and company directors / board members cannot disclose it. This can constitute an additional level of protection for confidential but less crucial information, for which it is harder to argue that trade secret protection should be available.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings?

Most answers to this question revealed an assumption that the defendant had unlawfully misappropriated the information from the plaintiff but the enforcement action had simply been unsuccessful (this was not what the question was originally directed to, but is nonetheless a useful situation to consider). Some countries suggested that in these circumstances *res judicata* should not apply and the plaintiff should be allowed to try again.

Many Groups (about 70%) proceeded on the assumption that the confidentiality of the information still had to be protected, even if the defendant had not misappropriated it. Some countries pointed out that there could be cases in which the litigation revealed that the information had not been confidential after all – in which case it would be unfair to restrict the defendant's future actions.

A small proportion (about 10%) took the view that further dealing in the information should be allowed, if the enforcement action failed.

Another circumstance discussed by some Groups (especially the Dutch Group) is that if the defendant was already aware of the information and had independently developed it, it would be unfair to restrict further dealings by the defendant in the information.

Logically, the answer to the actual question posed to the Groups could be connected to the issue of dilution of trade secret value as discussed under question 9(a) above. If, for instance, disclosure or publication is determined to not dilute the

trade secret or its value, one could logically consider that perhaps the defendant (in the scenario presented in the question) could still be prevented from misappropriating the same (by way of a future enforcement action).

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings?

The proposition that independent development is both a defence to a trade secret enforcement action, and exempts the defendant from obligations of confidentiality, enjoyed near-universal support (85%).

Some countries also commented on whether subsequent development by the defendant could be genuinely independent, where the defendant learnt of the trade secret during the course of proceedings. This has relevance in terms of any potential reversal of the burden of proof (suggested by the German Group) that may occur in any subsequent enforcement action, if the defendant has to positively show that it independently developed the information despite having had access to the information in prior proceedings.

There was no detailed discussion in Group Reports of whether such a reversal would have an inhibiting effect on future R&D, if companies are afraid of developing new technologies for fear of violating their confidentiality restrictions imposed in prior litigation.

Aspect (iii) – Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

Two-thirds of the Groups say damages should always be available, to compensate for the loss suffered. However, the situation of where no loss occurs is not addressed in detail, e.g. if a *quia timet* injunction effectively prevents misappropriation.

Some Groups (e.g. Spain) say that damages should be available in case the injunction imposed in respect of a trade secret violation is breached. This was not a majority view, no doubt because methods for enforcing injunctions vary from one jurisdiction to another.

Aspect (iv) – Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer? If so, in what circumstances?

There is a majority of Groups (about 60%) in favour of actual knowledge being imputed to the new employer as a practical starting point, but the large majority felt that the correct result is highly fact-specific and is best obtained by examining what the evidence shows about the new employer's knowledge.

- 23) Should pre-action evidence preservation orders and seizure orders be available? If so, should the hearings to decide whether or not to grant them be able to take place ex parte?**

The vast majority of Groups (90%+) agree with evidence preservation and seizure orders, on an *ex parte* basis, in appropriate circumstances.

- 24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?**

The vast majority of Groups take the view that the plaintiff cannot misuse such information. The practical measures suggested are protective orders (US Group), evaluation by the plaintiff's lawyers first before passing information to plaintiff's in-house team (Australian Group), and evaluation by a court appointed expert first (Swedish Group). If a Court appointed expert is used, it is not clear from the Group Reports, how the appointment of an expert avoids the need to discuss the characteristics of the plaintiff's (or defendant's) processes at trial.

III. Proposals for harmonisation

- 25) Does your Group consider that harmonisation in this area is desirable?**

Over 90% of the Groups consider that harmonisation is desirable, provided that the protection afforded to trade secrets is not reduced. A number of Groups, for example the Brazilian Group, identify the issues raised by the global economy as a reason for harmonisation. Some Groups, such as the Estonian and French Groups, have only identified harmonisation within Europe as important, and others (e.g. Latvia) consider that both international and European harmonisation would be desirable.

Aspect (i) – Overlaps with restraints of trade

- 26) What should the principles be on the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade?**

There is fairly evenly balanced opinion on whether trade secret enforcement actions should fail on account of being restraints of trade. A minority of the Groups view trade secret protection as so important that it should not be prejudiced in any way, including by doctrines of restraint of trade. A majority of the Groups (around 60%, please see Questions 1 and 17) consider that trade secret protection needs to be curtailed in some circumstances – how those circumstances are legally classified varies by jurisdiction. Some jurisdictions limit trade secret protection via doctrines of restraint of trade, others limit trade secret protection by laws of unfair competition and competition law. There is no uniform approach at present but it is clear a majority of the Groups consider trade secret protection should be limited in one way or another.

A narrow majority is also in favour of restricting the definition of trade secrets such that more ordinary information acquired by an employee useful generally for anyone in that type of job, is outside the scope of protectable trade secrets.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

There is no consensus in the Group Reports. One suggestion made by a few Groups e.g. the Swedish Group, is the payment of reasonable royalty.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

There is no consensus in the Group Reports.

Aspect (ii) – Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during court proceedings, and what conditions should be satisfied for that protection to be given?

The consensus is that *in camera* proceedings (together with partially redacted/blacked out judgments) should be available, at a minimum. There is divided opinion on what further measures should be available. Whilst a confidentiality club appears to be a popular method for limiting access, only a minority of Groups suggest that there should be an absolute right to limit access to outside lawyers only. A number of Groups indicate that there is a greater issue of principle involved in allowing the client to understand the case against it.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

No consensus emerged from the Group Reports.

Aspect (iii) – Valuation of loss

31) How should damages for trade secret violation be quantified?

The consensus in the Group Reports was that a loss of business, the cost of development, undue enrichment or profits, loss of chance, loss of profits of trade secret holder, possibly reasonable royalties, are all appropriate and usual bases for assessing damages.

A small number of Groups (10%) are in favour of allowing recovery of damages for moral prejudice under this point 31). Whilst this is a small minority, a greater number of Groups appear to support the point under point 32) below, and in general, the majority view appears to be that claiming moral damage as a separate head of loss is not matter of great significance because reputational damage should still be recovered as “ordinary” damages if there is a sufficient causal nexus.

An issue for consideration is whether that moral damage (e.g. damage to reputation) would be recoverable otherwise. For example, if the moral damage/damage to reputation has been caused by public statements that are *true*, then recovery under a libel/defamation basis in some jurisdictions would not be possible.

The French Group suggests that all the worldwide damage from the violation be recoverable if the defendant is sued in its place of domicile, in line with the *Fiona Shevill* CJEU decision. It is assumed that this mechanism can only work if double recovery for the same damage is not permitted elsewhere.

32) Should courts award moral damages? If so, how should they be quantified?

About 60% of Groups are in favour. Moral damages include damage to goodwill, damage to reputation, as long as a causal nexus is present from the trade secret violation. Perhaps the nexus is more easily shown to be present when the trade secret underpins goodwill, and especially where the goodwill depends on the trade secret owner being the only one known to have the secret.

Aspect (iv) – Proving infringement

33) What measures to secure or preserve evidence should be available?

More than 80% of the Groups consider that measures to preserve evidence should be available. The Groups generally support the mechanisms currently available in their respective jurisdictions, whether that be a French-type *saisie* or an *Anton Piller* order.

34) What restrictions should apply to the use of seized evidence by the claimant?

Around 50% of the Groups suggest that the information seized can only be used in the proceedings in which the seizure occurs.

The Swiss Group suggests that permission be sought for use in other proceedings. This appears to be a good suggestion for the sensible administration of justice.

IV. Conclusions

Based on the Group Reports, there is good support for harmonisation in the four aspects addressed by this Working Question:

(1) Interaction with restraints of trade

In a number of jurisdictions, restraints of trade (such as restrictions on a worker's ability to work for a competing enterprise if they leave their current employment) that are unreasonable are unenforceable as a matter of public policy. The underlying rationale is that the protection of the interests of the ex-employer has to be proportionate, and that workers should have the ability to move between jobs. The Finnish Group Report identifies a constitutional right to work, which can also justify the unenforceability of restrictions on the right to work.

A worker's ability to move between jobs can, in practice, be hindered or prevented if every single item of information that the worker learns in a job, and uses in the

performance of their everyday duties, is classified as a trade secret which cannot be used in other jobs.

There is general support within the Groups for ensuring that the definition of trade secrets, in the context of laws for the protection of trade secrets, misuse of confidential information, breach of fiduciary duties and any other relevant laws, should be drafted appropriately so as to exclude information which is commonly known and necessary for the performance of specific jobs in an industry sector, even if a given employer were to consider the same to be confidential or an enforceable trade secret. For example, common skills learnt by an accountant working in Company X should not be classified as trade secrets if they move to work as an accountant in Company Y. However, the same accountant would be misusing a trade secret if they were to take with them confidential information on the industrial processes used only in Company X.

The draft EU Directive on the protection of trade secrets (COM/2013/0813 final - 2013/0402 (COD)) defines trade secrets as follows in Article 2(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 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.*

The lawful acquisition of a trade secret is defined in Article 4(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;*
- (c) *exercise of the right of workers representatives to information and consultation in accordance with Union and national law and/or practices;*
- (d) *any other practice which, under the circumstances, is in conformity with honest commercial practices.*

and permitted activities in relation to trade secrets are listed in Article 4(2):

Member States shall ensure that there shall be no entitlement to the application for the measures, procedures and remedies provided for in this Directive 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 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;*
- (c) *the trade secret was disclosed by workers to their representatives as part of the legitimate exercise of their representative functions;*
- (d) *for the purpose of fulfilling a non-contractual obligation;*
- (e) *for the purpose of protecting a legitimate interest.*

It is unclear if the ‘honest commercial practices’ defence under Article 4(1)(d) or the protection of a ‘legitimate interest’ under Article 4(2)(e) will necessarily address the issue in sufficient detail. One avenue to investigate would be whether there should be clarification that general professional information is “*generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.*” This investigation would be based on the fact that approximately 70% of the Groups take the view that, one way or another, a trade secret action based on common but non-public knowledge and general information useful for a specific job in all enterprises in a sector should not succeed. Around a quarter of Reports say that their preferred approach to allowing workers to move with the “information in their heads” is to limit the definition of trade secrets so as not to encompass information that is generally useful in an industry sector.

(2) Confidentiality of trade secrets in court proceedings

There is ample support for the proposition that proceedings for trade secret violations should, on the application of at least one of the parties (an appeal should presumably lie from such application if the other party is not satisfied), if appropriate and if the Court so rules:

- a. be tried *in camera*;
- b. have the Court record sealed such that third parties do not gain access (including any pleadings filed prior to such sealing);
- c. involve a confidentiality agreement fashioned according to the circumstances of the case such that each party understands the case they must meet, and the trade secrets of the plaintiff and the defendant are each protected from disclosure to the other sufficiently. This may, according to approximately 40% of the Groups, where appropriate and where no less onerous measure is available, involve disclosure to only the outside lawyers of a party; and/or
- d. result in a public judgment either omitting or redacting the confidential information.

(3) Damages

There is support amongst many Groups for allowing the recovery of moral damages / damage to reputation in connection with a trade secret violation, especially if no other legal route to the recovery of such damage would be available. However, it is not clear whether there is a substantive difference between introducing moral damages as a separate head of loss, and including reputational damage as part of “ordinary” damages provided that there is a sufficient nexus.

There is near-universal support for the proposition that damages should be available generally for trade secret violations, provided that a trade secret subsists, and misappropriation and loss can be shown. Where a trade secret has become entirely public through a misappropriation, then it ceases to be a trade secret and it would become difficult to prove that a protectable trade secret still exists if there is a further (mis)appropriation. It is agreed by the Groups that some dilution in the value of a trade secret occurs if the confidentiality of that trade secret is eroded by limited publication, but there is no support in the Group Reports for the proposition that this dilution should eliminate all damages, as long as it can still be shown that the trade secret subsists. One reason for this is that the damage recoverable may not be

based on the value of the trade secret to its proprietor and the actual contribution of the trade secret to increased sales, but may be based on the unlawful profits of the defendant.

(4) Gathering of evidence

There is strong support for measures to allow pre-action seizures of documentary evidence relevant to trade secret violations. The procedures and safeguards established by national law for such seizures (in patent or trade mark infringement cases) appear to be sufficient, according to most, if not all, of the Groups. Therefore the extension of already-existing seizures to trade secret violations may be sufficient, provided that sufficient confidentiality safeguards as per (2) above are implemented for such seizures.