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Q247

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

Responsible Reporters: by Sarah MATHESON, Reporter General John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General Yusuke INUI, Ari LAAKKONEN and Ralph NACK Assistants to the Reporter General

National/Regional Group	Italy
Contributors name(s)	Caterina PASCHI, Camilla CARAVATI, Giovanni CICCONE, Cesare GALLI, Simona LAVAGNINI, Alessia LOFFREDO, Francesco MACCHETTA, Francesca MORRI, Lorenza MOSNA, Andrea VESTITA and
e-Mail contact	Fabrizio.Sanna@orsingher.com
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I. Current law and practice

Aspect (i) - Overlap with restraint 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)?
	no If not please comment.:
	Trade secret protection it is not barred as a restraint of trade in any case restrictions in freedom/ability to work are determined under the general principles of Antitrust/Competition law.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

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?
	Italian law does not lay down any criteria for the distinction between general skills or knowledge acquired during the course of employment and company in-huse knowledge; therefore the threshold defining the boundary between such knowledge is identified by the case-law and Doctrines according to which a piece of information is not eligible as trade secret unless it has been kept confidential and the

employees have been duly informed about its confidential nature. In any case some case law held the view that pieces of information that the former employee cannot memorize cannot be considered part of his/her general skills or knowledge (see Court of Bologna, 15.6.2006).

General skills or knowledge are not protected, while the use and disclosure of trade secret are forbidden both by Article 2598 Italian Civil Code, as an act of unfair competition, and by Articles 98 and 99 of the Italian Industrial Property Code.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

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

Express confidentiality clauses may be broader than the general duty of confidence. Apart from that, the use of such clauses could be an effective method to clearly identify what kind of company's confidential information/trade secrets are intended to be protected during and after the employment relationship (see above answer no. 2).

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?

Under Articles 98 and 99 of the Italian Industrial Property Code former employees are prohibited from disclosing and using confidential information acquired during the course of employment until this information becomes generally known for causes not depending on the former employees conduct.

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?

yes

If yes, is there any distinction between the types of knowledge they can use?:

General skills or knowledge acquired during the course of employment may be freely used and disclosed after the termination of the employment relationship, while the use and disclosure of trade secret are forbidden under the above mentioned rules.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes

If so, which employees, and what is the rationale for any distinction between employees?:

Higher obligation of confidentiality / non-use can be obtained through specific contractual clauses, which are more frequent for employees with particular skills and/or who play particular roles in the organization of the company (eg. R&D department, Marketing department).

Aspect (ii) - Ensuring confidentiality during Court proceedings

6)	<p>What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?</p>
<p>In general, all the briefs, deeds and documents submitted during the proceedings are confidential and accessible only by the parties and their respective lawyers and counsels, while the final decision is public. Moreover in civil proceedings normally the hearings are not public.</p> <p>Further restrictions to the access to trade secrets through specific measures may be ordered by the Court on a case by case basis, balancing the need to ensure protections to the confidential information with the right of defense of the other parties.</p>	

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):

a)	restricted access to the hearing and / or evidence;
Yes	

b)	disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
Yes	

c)	non-confidential versions of documents being provided to all except authorised individuals;
No	

d)	only non-confidential parts of any judgment / decision publicly available?
No	

7)	<p>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?</p>
<p>No, the above measures do not apply by default. In granting protective measures the Judge must give appropriate directions for preserving confidentiality of the information acquired (Article 129 Italian Industrial Property Code). In any case, the party who needs to protect its confidential information from being accessed by the other party during civil proceedings has to submit a substantiated request to the Judge.</p>	

8)	<p>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?</p>
<p>As a general rule the information voluntarily disclosed without limitation in the frame of civil proceedings can be subject to further use and disclosure, while that which has been disclosed under confidentiality duties cannot. This is not a current Italian Court practice but it is a material aspect and it should be enforced as a tort according to Article 2043 Italian Civil Code or, in appropriate cases, as an</p>	

act of unfair competition, according to Article 2598 of the Italian Civil Code.

Aspect (iii) - Valuation of loss

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

yes

If so please answer the following sub-questions::

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?

Damages are available as a remedy for trade secret violation under the same rules that hold for any Intellectual Property Rights Infringement, namely Article 125 Italian Industrial Property Code. In particular damages are quantified taking into account different criteria as: i) loss of profits due to the infringement activity ii) net profits earned by the infringer through the infringement activity and iii) in appropriate cases non economic elements such as moral damages. Compensation for further damage, such as expenses incurred for responding to the infringement or damage to image and diluted value of the trade secret caused by loss of exclusivity and/or disclosure and determined through economic methods, may also be added to the amount. Upon request of the right holder, damages can also be assessed in an overall amount that in any case could not be lower than the amount of royalties that the infringer would have to pay if he had obtained a license from the right holder.

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?

yes

Please comment:

Compensation for moral damages is admitted as well, also considering that violation of trade secret could amount to a criminal offence (Article 623 Criminal Code). Moral damages could be assessed in an overall sum determined on equitable basis (see Supreme Court of Cassation, 11 March 1998, no. 2677)

d) If so, how is moral prejudice defined and how are such damages quantified?

Moral damages are included among non patrimonial damages and are determined on equitable basis.

Aspect (iv) - Proving infringement

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

According to general rules, the burden of proving both the existence of trade secret eligible for protection (under the prerequisites set forth by Article 98 Italian Industrial Property Code for trade secret protection, or those set forth by Article 2598 Civil Code, for acts of unfair competition) and the violation (i.e. illicit acquisition and/or use and/or disclosure of the confidential information) is upon the

right holder. Circumstantial evidence is considered sufficient to establish the violation: see for instance the decision in the Italian landmark case on trade secrets – Court of Milan, October 3 1994 (preliminary injunction); Court of Milan, February 2 2000 (decision on the merits); and Court of Appeal of Milan, November 29 2002 – , where was considered sufficient evidence: (a) the derivation of the defendant’s products from the plaintiff’s formulas, even as non-identical formulations of them; (b) the fact that said formulas cannot be obtained through reverse engineering; and (c) the absence of investments by the defendant which can justify the independent obtainment of said formulas.

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 breach of contract is the necessary condition for a breach of confidence. Under the Italian law breach of confidence is a specific case of unlawful acquisition of trade secrets. Should such be the case, additional elements as disclosure and/or use of the information should be evidenced to amount to a trade secret violation.

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?

yes

If so, in what circumstances? :

Constructive knowledge of a trade secret by an ex-employee/new employer may be considered a piece of circumstantial evidence of misappropriation in addition to other elements (see above under answer no. 10), in such cases the burden of proof switches to the infringer.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Italian Industrial Property Code (art. 121) provides for discovery measures consistent with EC Directive no. 48/2004. Art. 121 *bis* expressly provides both in the interim proceedings and in proceedings on the merits for order to disclose documents/information also against third parties involved in the infringement.

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?

yes

If yes, what is this threshold?:

Yes. Violation of trade secret could be proven through circumstantial evidence. The threshold thereof is indicated by Article 2727 Italian Civil Code whereby the pieces of circumstantial evidence should have the requirements of “seriousness, precision and concordance”.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards

are in place to prevent abuse?:

Yes. The Italian law is consistent with EC Directive no. 48/2004. To obtain protective measures (“descrizione”) or seizure the claimant must show that (i) it has a prima facie case, and (ii) there is an actual risk that the enforcement of its right might be frustrated or significantly impaired should the claimant have to resort to ordinary proceedings on the merits. Ex parte orders are also available provided that a specific risk in informing the other party prior to the execution of the order could be evidenced.

The Court could adopt measures to ensure protection to the confidential information of the defendant (see answer no. 6 above).

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?

According to art. 129 Italian IPC seizure can be requested both to secure evidence and to prevent items entering into circulation or, more in general, to prevent the assumed infringer from using/disclosing the trade secrets.

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

Aspect (i) - Overlaps with restraint of trade

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

no
If not, why?:

No, see answer no. 1

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

No, such obligations should apply in any case in which the information is eligible as trade secrets/confidential information.

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? Why/why not?

Yes: see points 6 and 8 above. The information that has been disclosed under confidentiality duties in the frame of civil proceedings cannot be subject to further use and disclosure.

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? Why/why not?

Applying obligations of confidentiality to information independently developed by the defendant prior or

after to the proceedings would be an excessive restriction, also in the light of art. 39 TRIPs Agreement that does not entitle the trade secret holder to prevent the use of confidential information that have been autonomously developed by third parties. In case the defendant has independently developed the information after the proceedings it should be evaluated on a case by case basis whether such information has been developed completely independently or if the information is the result of a development/elaboration of the trade secret learned by the defendant during the course of the proceedings. In this latter case the obligation should apply.

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?

yes
If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?

no
If not please comment.:

Damages and injunctive relief have different and complementary function therefore damages should not be assessed as an alternative to the injunctive measure. See below under point d)

b) only where injunctive relief is not adequate

no
If not please comment.:

See above answer 21 a)

c) only where injunctive relief is not necessary?

no
If not please comment.:

See above answer 21 a)

d) If by default, why?

Damages should be available by default, because they have a different and complementary function compared to injunctive relief: damages are committed as a compensation for the loss while injunctive relief is a prohibitory injunction with the function to prevent any non authorized use.

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

yes
If yes, in what circumstances? :

The constructive knowledge of a trade secret by an ex-employee should be imputable to the new employer if there is at least circumstantial evidence that the employer knew that there was a misuse.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?
 yes
 If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:
 Ex parte preservation orders are extremely important in trade secret matters but our legal system does not provide for ex parte hearing. After the enforcement of said measures a hearing with both parties should be scheduled for checking whether the prerequisites of a prima facie case (fumus boni juris) and urgency (periculum in mora) really hold.

b) Should pre-action evidence seizure orders be available?
 yes
 If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:
 Ex parte seizure orders are extremely important in trade secret matters but our legal system does not provide for ex parte hearing. After the enforcement of said measures a hearing with both parties should be scheduled for checking whether the prerequisites of a prima facie case (fumus boni juris) and urgency (periculum in mora) really hold.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?
 The Court should adopt measures to ensure protection to the information subject to interim measures (mostly with respect to information not related with the claim).

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?
 Yes

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.
 Generally speaking, we do not think that an enforcement action for a trade secret violation should be barred as a restraint of trade. In any case the circumstances when trade secret protection may imply restraint of trade should be determined under the general principles of Antitrust/Competition law, without any special rule.

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?

Also in this case the general principles of Antitrust/Competition law should apply.

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 reason for releasing the employees from their obligation of confidentiality, apart from public interest reasons.

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?

All the briefs, deeds and documents submitted during Court proceedings should be accessible only by the parties and their respective lawyers and counsel and that further restrictions to the access to trade secrets should be ordered by the Court on a case by case basis, balancing the need to ensure protection to the confidential information with the right of defense of the other parties.

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?

Confidentiality/non use obligation should cease to apply in respect of the defendant considering the autonomous developing of the secret information. The fact that a party other than claimant independently developed the same information does not affect per se the protection of such information against third parties, unless it has been legitimately disclosed and it is not confidential anymore.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

The same rule set forth for any IP rights violation/act of unfair competition should apply to trade secret violation, including loss of profits, disgorgement of infringer's profits, reputation damages, dilution of trade secrets' value, moral prejudice. A reasonable royalty fee or license should be also provided as a minimum amount of damages.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Yes, for moral damages quantification should be left at the discretion ex aequo et bono of the Courts.

Aspect (iv) - Proving infringement

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

The same rule set forth for any IP rights violation/act of unfair competition should apply to trade secret violation, including protective measures and seizure.

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

See answers 24 and 29.

Summary

Under Italian law trade secret protection it is not viewed as a form of restraint of trade. The right of an ex employee to use knowledge acquired in previous employments depends on the nature of the information although Italian law does not provide for a distinction to identify the boundary between what can be considered as part of skills and knowledge deriving from the employment experience and what is to be considered as company in-house knowledge; the threshold between such categories is identified by the Case-law and Doctrines.

In general our legal proceedings system provide for confidentiality for all relevant documents involved in a case and further restrictions to the access to trade secrets through specific measure can be ordered by the Courts on a case by case basis.

Under Italian Industrial Property Code damages are an available remedy for IP rights including trade secret violations. The quantification is calculated on the basis of different criteria as the negative economic consequences suffered by the right holder, profits earned by the infringer and in appropriate cases non economic elements such as moral damages, usually assessed in an overall sum determined on equitable basis. An overall amount corresponding to the royalty that the infringer should have pay for the licit exploitation is another criteria set forth by the law.

To establish violation of a trade secret the right holder has to proof the existence of a trade secret eligible to protection and the misuse of it. The violation could be established also by circumstantial evidence and to prove infringement Italian Industrial Property Code provides for discovery measures and other methods for securing evidence such as protective measures ("descrizione") and seizure.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.