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Subject:	Annex to the 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 - Addition to the Second Presidency Compromise Text
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Delegations will find a note from the Presidency on explanations about the changes, compared with the First Presidency Compromise Text (Articles 1-11) and Commission proposal (recitals & Articles 12-20).

**Explanations for the delegations on changes compared to : First Presidency Compromise Text
(Articles 1-11) and Commission proposal (recitals & Articles 12-20).:**

Preparation for the Working Party on Intellectual Property (Trade Secrets) on 10 April 2014

Article 1

See below

Article 2 (Definitions)

- **Art. 2(1)(b), “commercial value”**
 - Commercial value may be “potential”. (ex: knowledge and information developed in early stages of research. This change follows comments made by the European Economic and Social Committee as well as by some delegations;
 - a corresponding change has been made in **recital 8**; further clarification on the notion of commercial value has also been added.
- **Article 2(4), “infringing goods”.**
 - the word “functioning” has been added to the definition, since “design” and “quality” were not clear enough.
- N.B. *Some Member States want the directive to define **infringing services** (in some contexts, such as procurement law, ‘bespoke’ software is considered to be a service, whereas ‘off-the-shelf’ software is considered to be goods).*

- However, such change is not needed. The proposal addresses the misappropriation/misuse of trade secrets, and it foresees injunctions against the use of trade secrets. If the provision of the service in question requires the use of a stolen trade secret, the injunctions in Articles 9 and 11 should be enough since they will simply stop the service to address such misuse of the trade secret; a reference to “infringing services” could give rise to confusion and might undermine the level of protection currently offered by the text.
- The situation is different in the case of goods, where the trade secret may concern a manufacturing process and, therefore, the good as such, once manufactured, is “clean”. For this reason, it is necessary to specifically address the question of infringing goods.
- **In any case, specific language has been added in recitals 15 and 16 clarifying that the Directive also encompass the use of trade secrets for the provision of services.**
- Finally, the issue of bespoke software that is considered as a service has been raised: if the court prohibits the use of the trade secret (for example the source code of software which cannot be reconstructed from the executable code) the defendant cannot use the source code, either in software products to be sold as a physical goods, or in IT services. The notion of infringing goods is useful because it allows the court to order the seizure and destruction of the software products that have already been manufactured at the time in which the order is issued. The services that have already been provided cannot be “destroyed” and so the appropriate remedy is damages plus prohibition of future use of the source code. It should also be noted that software is furthermore protected through copyright.

Article 3 (Unlawful acquisition, use and disclosure of trade secrets)

- Firstly, **the new text simplifies the presentation of the cases** of unlawful conduct/
 - **Paragraph 2** deals with the unlawful acquisition of a trade secret by a person who takes “unilateral” steps for that acquisition (i.e. theft, hacking, intrusion and similar behaviour). It also maintains the catch-all clause as regards conduct contrary to honest commercial practices.
 - **Paragraph 3** continues to deal with the unlawful use of the trade secret by two types of people: the person who unlawfully acquired the trade secret as well as by “insiders” (i.e. employees, licensees etc.) who, having originally acquired knowledge of the trade secret in a lawful manner, do not respect either of their obligations not to disclose the trade secret in question nor to use it in certain cases.
 - **Paragraph 4** now deals with the conduct of third parties: i.e. those that receive the trade secret from someone else (who is covered by paragraph 3). The new text also includes the acquisition of trade secrets (and not only the use): therefore, it encompasses situations which were previously addressed in paragraph 2: e.g. bribery, inducing another person to breach a confidentiality duty etc.
 - As a result, there is no need to refer to bribery, deception and inducement to breach a confidentiality duty in paragraph 2, which simplifies the presentation of the cases and avoids using criminal law terms.
 - **Paragraph 5** continues to deal with the specific case of dealings with infringing goods.

- Secondly, **paragraph 2 clarifies that**, as required by the TRIPS Agreement, **two cumulative requirements are needed for the unlawful conduct to be recognised as such**: the absence of consent of the trade secret holder and in addition some form of dishonest behaviour (i.e. points (a) and (f)). In the previous Option A text [i.e. “*in particular in the following cases*”], the second requirement had become an example only. Absence of consent of the trade secret holder alone should not be enough to qualify a conduct as unlawful: reverse engineering, independent discovery, public access to documents, legally required audits and inspections are all means of acquisition of information without the consent of the trade secret holder, but which are not unlawful, because they do not involve a dishonest conduct.
- **Thirdly, some clarification** has been added to the text.
 - **Paragraph 2**: “copying” instead of “copy”; and “appropriation” instead of “taking”, at the request of several delegations and upon confirmation by UK and IE that the word is correct.
 - **Paragraph 3**: “duty not to disclose the trade secret” instead of “duty to maintain secrecy of the trade secret”.

- Fourthly, regarding the so-called **subjective element** (knowledge of the conduct), this is kept in **paragraphs 4 and 5**. It is important to deal with “**innocent**” **third parties**, that is, those receiving information from an insider (e.g. employee) while being unaware of the trade secret misappropriation. A company that acquires information without having reasons to suspect that the information was a stolen trade secret should not be deemed as acting unlawfully.

Protection is not undermined because the third party which was initially “innocent” can still be subject to an injunction prohibiting the use of the trade secret – once the third party is put on notice by the trade secret holder (or once the court issues the order) the third party becomes aware that the trade secret was derived from an act of misappropriation. In other words the acquisition would not be unlawful, but the use of the trade secret would be unlawful once the third party in question gets to know about the misappropriation. Thus, the third party can be prohibited from using the trade secret and it would be liable for any future use.

However, there is no liability for goods that have been manufactured prior to that moment. In a global economy with long supply chains, automatic liability and exposure to destruction of goods manufactured and marketed in good faith would be disruptive and disproportionate. Such results would be tantamount to the protection that is typically provided for intellectual property rights. The proposal keeps the protection of trade secrets within the remits of unfair competition which is not based on property or exclusive absolute rights enforceable vis-à-vis any third party but rather aimed at ensuring minimum standards of honesty in trade.

Article 4 (Lawful acquisition, use and disclosure of trade secrets and exceptions)

- Title:** changes in the title are made to reflect the addition of the new paragraph 1a and the wish of several delegations to use the term “exception” rather than “limitation”.
- Paragraph 1, point (b).** It now clarifies that only contractual clauses that are valid may limit the possibility of reverse engineering a product. Text has been added in **recital 10** to make clear that the reverse engineering of software cannot be limited, as provided for in a Directive 2009/24/EC (legal protection of computer programs). It is noted as well that competition law could apply as well (see recital 27).

- **New Paragraph 1a.** This clarifies¹ that receiving or disclosing information qualifying as trade secrets is not unlawful when required or allowed by (Union or national) law. This new paragraph is a clause of general scope. As a result,
 - (i) there is no need to have a “negative scope” clause in Article 1;
 - (ii) there is no need to keep point (d) of Article 4(2);
 - (iii) there is no need to continue the previous approach of providing for a list of examples of situations which would not be affected by the new Directive (e.g. information and consultation of employees, audits and inspections, etc.).
 - For the avoidance of doubt, recital 9 has been further developed. First, the reference to public access to documents has been enlarged to also include other transparency obligations of public administrations which may not necessarily be upon request of a party (i.e. the issue on the publication of public contracts). Second, the reference to the information and consultation of employees has been added, considering in particular that this issue was already in the original Commission proposal. Third, a reference to statutory audits has been added, following a request by a delegation.
- **Paragraph 2 (chapeau).** at the request of several delegations: “shall be rejected” is replaced by “shall be dismissed”, thus clarifying that the intention of the Directive is not to limit access to court, but rather to make sure that in the circumstances foreseen in Article 4(2), the applicant would not win the case.
- **Paragraph 2, point (a).** The last part of the sentence is deleted, following the discussion at the last working party meeting.

¹ It is important to note that the conduct covered by Article 4(1a) is not caught by Article 3: e.g. if the law foresees that Person P can disclose a trade secret, Person P would not be breaching any contractual confidentiality duty because the law would have restricted such duty.

- **Paragraph 2, point (d).** Deleted, because it is covered by the new paragraph 1a.
- **Paragraph 2, point (e).** A clarification is added, following comments by some delegations to avoid that this text can be construed as making reference to third country law.

Article 5 (General obligation)

- **No change.**

Article 6 (Proportionality and abuse of litigation)

- **Paragraph 1:** no changes.
- **Paragraph 2:** the new text is closer to the spirit of the Commission's initial proposal, while catering for delegation's concerns.
 - Firstly, the new text requires Member States to **apply appropriate measures, as provided for in national law**, when a claim is manifestly unfounded and abusive or in bad faith. Thus, Member States are free to adopt the measures which are the most appropriate considering their national regime. This was a clear request by delegations.
 - Secondly, the reference to the purpose of the abusive action ("unfairly delaying or restricting the respondent's access to the market or otherwise intimidating or harassing the respondent") has been removed from the text. It has been moved to **recital 12** as an example of abusive behaviour.
 - Thirdly, the new text keeps a reference to the possibility to impose sanctions or to order the publication of the decision, as originally provided for in the Commission's proposal. However, it is clear that these measures are not compulsory.

- Fourthly, the text clarifies, at the request of several delegations, that Member States are free to decide whether these types of measures are to be dealt with in the same proceedings or in separate proceedings.
- Fifthly, the text clarifies that these measures are without prejudice to the possibility to ask for damages. The new text on damages is neutral; the previous Presidency compromise proposal could be interpreted as limiting the possibility to obtain damages only in the case of bad faith claims, which was not intended.
- **Recital 12** has been adapted accordingly.

Article 7 (Limitation period)

- Following comments from delegations on the draft article on the limitation period, the new text aims at better integrating the issue into national law.
- The first two sentences are identical to draft Article 10(1) of the Council’s general approach text on the “*proposal for a Directive of the European Parliament and of the Council on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union*” [Doc. 17317/13].
- The last sentence aims to address the duration of the limitation period. It is inspired by comments from Member States.

Article 8 (Preservation of confidentiality of trade secrets in the course of legal proceedings)

- **Paragraph 1:** three clarifications are added.
 - First, “representatives” is the term reinserted into the text, instead of “lawyers”. This should address delegations’ concerns that in some cases the persons representing the parties will not be lawyers.
 - Secondly, a sentence is added to make sure that the confidentiality obligation only arises when the judge determines that the information must be protected. This should address the concerns raised by several delegations regarding the uncertainty on those participating in the proceedings about what information should be kept confidential.
 - Thirdly, point (a) of the second subparagraph of Article 8(1) now refers to a “final decision”. The question of when the decision is final will depend on national law.
 - Finally, the text maintains - in the same subparagraph of Article 8(1) - the Commission’s proposal according to which the duty of confidentiality ceases to exist whenever the trade secret ceases to exist, without a need for a court decision on that matter. As a general rule legal or contractual obligations cease to exist whenever certain facts so determine. Duties of confidentiality on a trade secret, either when imposed by law or by contract, are no different in that respect. In the case of point (a) of the second subparagraph of Article 8(1) the cessation of the duty will be self-evident for anyone with an interest in the matter. In the case of point (b) of the second subparagraph of Article 8(1) it would not make sense to expect the court to assess ex officio whether the trade secret entered or not in the public domain. A concerned party may eventually have an interest in seeking a declaration from the court on such a matter, but the cessation of its duty of confidentiality should not be dependent of a court decision. Such party should not bear the burden (and probably the costs) of having to request the court to declare the trade secret as non-existent so that it may be released from the duty of confidentiality, when everyone else is free to use or divulge information that has entered the public domain.

- **Paragraph 2:**
 - in points (a) and (b) of the second subparagraph of paragraph 2, the new text clarifies that the judge can restrict access to hearings/evidence to a limited number of persons (so-called “confidentiality club”) but that the parties must always be represented. This was, in essence, the meaning of the wording included in the previous Presidency Compromise text (“specific persons”), in line with the wording of Article 58 of the Unified Patent Court Agreement which aims at protecting trade secrets during patent disputes; however, following the comments of several Delegations, the new text provides more clarity. This new text strikes a balance between the need to safeguard the right of defence and the need to limit the risk of unwanted disclosure of the trade secret.
 - a corresponding change is made in **recital 14**. The language added in recital 14 (“restrict the circle of persons entitled to have access”) is directly inspired by recital 16 of the Council’s general approach text on the *“proposal for a Directive of the European Parliament and of the Council on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union”* [Doc. 17317/13].
- **Paragraph 3:** a reference to the need to ensure the “rights to an effective remedy and to a fair trial” has been added. This corresponds to the title of Article 47 of the Charter of Fundamental Rights of the EU.

Article 9 (Provisional and precautionary measures)

- **Paragraph 2:** a clarification is made: “acquisition” is replaced by “possession”, since the hypothesis covered by that paragraph is that the trade secret would have already been acquired by the alleged infringer, although not necessarily yet used. This was proposed by one delegation.

Article 10 (Conditions of applications and safeguards)

- **Paragraph 1:** a small clarification added so that the text is identical to that of Directive 2004/48/EC on this point.
- **Paragraph 2:**
 - a small clarification added: “circumstances” instead of “characteristics”;
 - deletion of the reference to the intentional or unintentional character of the conduct.
- **Paragraph 5:** sentence added, following comments by a series of Delegations, to make sure that Member States are free to decide whether these types for measures are to be dealt with in the same proceedings or in separate proceedings.

Article 11 (injunctions and corrective measures)

- **Paragraph 2, point (e):** a drafting clarification made, “applicant” instead of “trade secret holder”.

Article 12 (Conditions of applications, safeguards and alternative measures)

- **Paragraph 1, first subparagraph:** text is adapted in order to match the language in Article 10(2).
- **Paragraph 1, second subparagraph:** the word “judicial” is added;
- **Paragraph 1, second subparagraph and Paragraph 2:** the reference to point (b) of Article 11(1) is added to make sure that all injunctions are covered, not only the ones referred to in point (a) of Article 11(1).

- **Paragraph 3, point (a):** the previous text with the expression “bad faith” and the cross-reference to Article 3(4) was considered unclear by some delegations. The new text aims at providing more clarity in that regard. The scope of the provision should not change.

Article 13 (damages)

- **Paragraph 1:** the text changes in three aspects
 - “appropriate” replaces “commensurate”, to match the wording of Directive 2004/48/EC.
 - “as a result of the infringement” is added, to match the wording of Directive 2004/48/EC and to make clear that there should be a causality link.
 - A second subparagraph is added, to allow Member States to restrict the liability of employees towards their employers in certain circumstances.
- **Paragraph 2:** a small clarification, to make a clear link to the first paragraph. Otherwise, this paragraph remains untouched, in order to match the wording of Directive 2004/48/EC.

Article 14 (publication of judicial decisions)

- **Paragraph 3:** the text is amended in order to deal with a suggestion made by the European Data Protection Supervisor (EDPS). The issue at stake is not only related to natural persons, but also to legal persons when the information on the legal person would allow to identify a natural person (e.g. where the name of the legal persons identifies one or more natural persons). This is explained in paragraphs 25 and 26 of the EDPS Opinion.

Article 15 (sanctions for non-compliance with the obligations set out in this Directive)

- The text is adapted as regards “representative” instead of “legal representative” in order to match the change made in Article 8(1).

Article 16 (exchange of information and correspondents)

- No changes.

Article 17 (reports)

- **Paragraph 1:** The name of OHIM is inserted, instead of the new name proposed by the Commission in the proposal to amend the trademark regulation.
- **Paragraph 2:** small amendment to simplify the drafting.

Articles 18 to 20 (transposition, entry into force and addressees)

- No changes.

Article 1 (subject matter and scope)

- **Second subparagraph:** the text is adjusted as follows:
 - Firstly, the empowerment for Member States is simplified: “Member States may provide”, rather than “This Directive shall not affect the possibility for...”
 - Secondly, instead of “additional or stricter provisions” (which was perceived as unclear by some delegations), the new text now refers to “more far-reaching protection”. This expression is used in recital 16 of the Rental Right Directive. This expression is preferable to “measures more favourable for trade secret holders” which could be perceived as biased.

- Thirdly, the sentence limiting Member States' freedom² is also adjusted by making a reference to the need to ensure "compliance" with certain provisions, rather than requiring "conformity" with those provisions.
- **Also on the second paragraph. It must be noted that the text has not changed as regards the limitation of Member States' scope of action.**

Indeed, the text recalls that there are two limits when Member States want to deviate from the Directive by providing for more far-reaching protection.

- **First limit: the reference to the need to comply with the Treaty is maintained.**

This means, *inter alia*, that the minimum harmonisation clause is not a blank cheque; Member States, when deviating from the Directive, must respect, as mandated by Article 288 TFEU³, the result that the Directive intends to achieve.

- **Second limit: the list of articles that must be respected by Member States when providing for "more far-reaching national protection" also remains (a small adjustment is made as regards the reference to Article 6). Those articles provide for safeguards protecting the market and/or the defendant. Those articles are particularly important in order to ensure a balanced and proportionate approach: a trade secret does not provide any exclusive right (contrary to intellectual property rights) and it is important that the other parties benefit from sufficient safeguards. For this reason, it should be avoided that any national more protective measure would jeopardise those safeguards.**

² It should be noted that Member States are completely free to provide for measures which are "additional" to those in the Directive in the sense that they are "out of the Directive's scope". This is the case for example of rules on preservation of evidence and right to information, *ex parte* provisional and precautionary measures, etc.

³ Article 288 of the Treaty on the Functioning of the European Union says the following: "*A directive shall be binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods.*"

The provisions in question are the following:

- Art. 4 deals with lawful acquisition, use or disclosure of a trade secret and with exemptions. Is it conceivable to allow national rules to prohibit independent discovery or creation?
- Article 5 and 6(1) deal with general principles that would need to be respected in any case (almost all of them are in the TRIPS Agreement anyway).
- Article 7 (limitation period). If Article 7 was not included in the list, a Member State could establish a 30-year limitation period with the argument that such extended limitation period would grant “more far-reaching protection” of trade secrets. Yet, such national measures would severely undermine the *effet utile* of Article 7.
- Article 8(1) second subparagraph. This provision makes sure that if information is not or no longer a trade secret, it can be freely used. It is not conceivable to allow Member States to establish the contrary.
- Articles 8(3), 10(2), 12(1) and 14(3): they establish the proportionality test. “More protective measures” should not result in eliminating a proportionality assessment.
- Article 8(4) deals with data protection rules that need to be respected anyway by any national measure.
- Articles 9(2), 10(1), 10(3) to 10(5) provide safeguards for the defendant in relation to provisional measures.

- Article 12(2) provides for safeguards for the defendant in relation to definitive injunctions: injunctions should not remain in place if the information is in the public domain.
- Article 12(3) provides for an alternative measure instead of injunctions for the benefit of innocent third parties. It would not be appropriate that this measure would be eliminated by national rules providing for “more far-reaching protection” of trade secrets.
- **Third sub-paragraph.** The third sub-paragraph is deleted because this issue is now covered by the new text in Article 4(1a)⁴. Therefore, there is no need to have a “negative scope” clause in Article 1 which would contain examples (e.g. information and consultation of employees).

However, for the avoidance of doubt, recital 9 has been amended as regards such “negative scope”. The reference to the information and consultation of employees has been added, considering in particular that this issue was already in the original Commission proposal.

Recitals

(1) and (2)

- references to competitiveness and small clarifications added at the request of some Member States;
- reference to personal data added at the request of the European Data protection Supervisor.

⁴ The new paragraph 1a in Article 4 aims at clarifying that receiving or disclosing information qualifying as trade secrets cannot be unlawful when required or allowed by Union or national law. This new paragraph is a clause of general scope.

(6) clarification point at the request of a Delegation.

(8)

- reference to “civil” added in order to match the content of the Directive, in particular Article 5.
- Reference to “actual or potential commercial value” to match the change made in Article 2(1)(b)
- Example of “commercial value”.
- Changes in the last sentence to match the wording of Article 2(1)(a).

(9)

- Changes made following the introduction of paragraph 1a of Article 4.
- The reference to the “transparency obligations of national public authorities” should encompass the concern raised by a Member State on the publication of public contracts.

(10)

- Text has been added in **recital 10** to make clear that reverse engineer of software cannot be limited, as provided for in a different Directive.

(11)

- Text amended to reflect the changes made to Article 10(2) and 12(1).

(12)

- Text amended to reflect the changes made to Article 6(2).

(14)

- Text amended to reflect the changes made to Article 8(2). The language added (“restrict the circle of persons entitled to have access”) is directly inspired by recital 16 of the Council’s general approach text on the “*proposal for a Directive of the European Parliament and of the Council on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union*” [Doc. 17317/13].

(15) and (16)

- For the avoidance of doubt, specific language has been added in recitals 15 and 16 clarifying that the Directive also encompass the use of trade secrets for the provision of services.

(17)

- Clarification requested by Delegations.

(24)

- Text amended following the comments made in the opinion of the European Data Protection Supervisor.
