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NOTE

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To:	Permanent Representatives Committee
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Subject:	Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure - General Approach

Delegations will find a note from the Presidency on explanations about the changes, compared with document 8461/14.

ANNEX

Hellenic Presidency of the Council of the European Union

Explanations for Delegations on changes compared to the Second Presidency Compromise Text of 1 April 2014 (8461/14).

Article 2 (Definitions)

Article 2(1)(b): the reference to "actual or potential" commercial value has been deleted from this Article. Therefore, the text of the definition remains identical to that of the TRIPS Agreement. A reference to "potential commercial value" remains in recital 8.

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

Article 3(2)(a): a missing comma has been added between "access to" and "copying". There is no change in substance.

Article 3(4): the expression "directly or indirectly" has been added. This addition tries to make sure that the trade secret holder has the possibility to act against all persons in the chain of recipients who may have received information following an original unlawful acquisition, use or disclosure, but not directly from the first unlawful acquirer.

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

Article 4(1)(b): a small linguistic/technical change has been made ("valid " instead of "enforceable") to be more consistent.

Article 4(2)(c): a necessity test has been added to this clause. It makes sure that the disclosure of information to the trade unions was needed for the exercise of the representative functions.

Article 6 (Proportionality and abuse of litigation)

Article 6(1): the introductory sentence has been amended to avoid giving the impression that Member States should be instructing the judicial authorities on how to apply the rules and to align the language to that of Article 3 of Directive 2004/48/EC.

Article 6(2): the first subparagraph is amended to explain that the possibility to award damages to the respondent could be one of the possible measures. As a result of this change, the third sub-paragraph becomes unnecessary and is therefore deleted.

Article 7 (limitation period)

In the first sentence, there is a technical change following the request of some delegations. In certain countries, the limitation period applies to the substantive claim itself rather than to the possibility of bringing actions before courts.

In the last sentence, the duration of the limitation period is extended to 6 years, following the request of some delegations.

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

Amendments introduced:

- Article 8(1): the language ('duly reasoned application' instead of 'justified request') is adapted to ensure alignment of paragraphs 1 and 2 on the reference to the applications to be made to the judicial authorities and avoid interpretation difficulties. This should not result in lowering the test necessary for obtaining the measures in question, one should naturally assume that the reasoning in the request must sufficiently justify the application of the measure.

- Article 8(2): a reference to 'alleged trade secrets' is added in points (a) and (b) of the second subparagraph in order to align the wording of this second paragraph to that of the first paragraph which also makes reference to the 'trade secret and alleged trade secret'. In addition, the text has been amended to reflect the discussion of the meeting of the Working Party of 10 April. The text now makes clear that the respective lawyers of the parties must be part of any limited number of persons having access to the relevant hearings/evidence.

- See also recital 14.

Overall view on this Article.

Article 8 aims at facilitating the disclosure of trade secrets by the interested party in civil proceedings dealing with a case of alleged unlawful acquisition, use or discloser of a trade secret, by lowering the risk of loss of the trade secret through leakage.

It is important to note that once the information forming the trade secret is disclosed to the public, or becomes generally known, the trade secret is irreversibly lost. It is therefore often the case that companies, whenever victims of a trade secret misappropriation by a dishonest party, will refrain from taking their case to the court with fear of making their position even worse. The risk of definitive loss of a trade secret is the main obstacle to an effective protection against unlawful acquisition, use or discloser of a trade secret. At the same time, the defendant may need or wish to also disclose trade secrets in order to defend himself from the allegations (e.g. by proving prior use of the information covered by the trade secret).

Article 8 concerns information carried to the proceedings by a party to the proceedings for the unlawful acquisition, use or disclosure of a trade secret at a stage where there is no decision from the court recognising the information as a trade secret (it should be noted that this Article does not concern the protection of trade secrets in any other type of proceedings). The information is provided in order for the court to be able to assess whether there is a trade secret worthy of protection, so that a ruling can be given on whether there has been an unlawful acquisition, use or discloser of a trade secret.

Article 8 provides some reassurance to trade secret holders and to defendants by two means. Firstly, it establishes a general duty of not using or disclosing confidential information for all those who have, through their participation in the proceedings, access to the trade secret at stake. Secondly, it allows the court to take specific measures to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of the legal proceedings, in particular the possibility of restricting the circle of persons with access to such information.

According to Article 8(1) the general duty not to use or disclose confidential information shared with the court covers the persons that during the course of the proceedings have access to the trade secret or alleged trade secret (such as court officials, lawyers, translators, experts and witnesses). This constraint is entirely justified and does not constitute a heavy burden for those who are not concerned by the information in question and who have no legitimate interest in or claim over it, and who only have gained knowledge of the trade secret incidentally by virtue of their participation in the proceedings. This duty is established in a general manner because the court is not in a position to identify all the persons who in the course of the proceedings will have access to that information, and the circle of persons in question will in any case change overtime. Hence, it may not always be feasible to require the judge to individually identify all the persons that should be bound by the duty of non-use and non-disclosure. On the other hand, the information covered by such duty should be clearly identified. Therefore, under paragraph one the interested party must file a duly reasoned request for the treatment of a piece of information as confidential. The court will therefore decide on a case-by-case basis, whether a duty of non-use and non-disclosure should be imposed and, if so, it will identify the information to be treated as confidential. This is a significant improvement vis-à-vis the proposal of the Commission. Those subject to the above mentioned duty will be automatically exonerated from it, without any need to apply for a decision in that respect, in two situations: (1) when the information is found by a final judicial decision not to constitute a trade secret, and (2) when the information in question becomes generally known among or readily accessible. The aim is to avoid imposing on those subject to the obligation the burden of having to go to court when it is clear that the information in question is in the public domain.

Article 8(2) empowers (but does not oblige) the courts to limit the circle of persons with access to confidential information. These persons will be subject to the above mentioned duty of non-use and non-disclosure foreseen in paragraph one. The possibility of restricting such access, already existing in some Member States, is one of the most important features of the proposal. It is not aimed at solely excluding the third parties and the public in general from accessing confidential information, but also to restrict within the parties to the proceedings the number of persons with access to documents and hearings where details of the alleged trade secret are revealed or discussed. This possibility is particularly important whenever a legal person is party to the proceedings. Trade secret holders often restrict the number of persons of their organisation with knowledge of the trade secret. Such limitation is one of the steps that companies usually take in order to preserve the secrecy of the information that they try to protect as a trade secret. It is therefore reasonable to allow the court to apply for measures aimed at achieving a similar result as regards the number of persons from the defendant with access to the trade secret of the plaintiff (or the reverse, if the trade secret at stake belongs to the defendant). This measure is essential from the perspective of limiting the risk of undesirable leakage of the trade secret at stake.

However, it must be underlined that the granting of the measures referred to in Article 8(2) is not automatic and their application should not undermine the right of the opposing party to a fair trial. Here again the text of the provision has improved considerably thanks to the discussions at the Working Party. Different safeguards are now foreseen. Firstly, the measures referred to in Article 8(2) must only be applied upon on a duly reasoned application by the interested party. Secondly, in any case, restricting of the circle of persons entitled to have access to the documents/hearings in question should not lead to excluding the parties themselves. It is important to underline that the parties will be always represented. However, this representation may be reduced to some persons only, provided that at least one natural person from each party and their respective lawyers or representatives to the proceedings will have access to full access to such the documents, hearings, records or transcripts at stake. This does not mean that the judge must always and in all cases select one and only one natural person from each party. The concrete number of persons entitled to have access may be higher and will depend on the case at stake. Thirdly, Article 8(3) additionally requires the competent judicial authorities to make an assessment of the proportionality of such measures. In making their assessment the competent judicial authorities will have to take into consideration the need to ensure the rights to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate of third parties, and any potential harm for either of the parties, and where appropriate third parties.

Article 8 should not be seen as an unbalanced provision in favour of the trade secret holder (who can be the plaintiff, but also the defendant as explained above), but rather the reflection of the specific nature of trade secrets. It must be borne in mind that disclosure of a trade secret to the public results in a definitive loss of the secret and the impossibility to revert to the previous situation.

The Presidency believes that the compromise text strikes the balance between on the one hand the protection of trade secrets and the right to an effective remedy, and on the other hand the right of the parties to a fair trial.

Article 9 (Provisional and precautionary measures)

Article 9(2): the deletion of the word "possession" was agreed at the meeting of the Working Party of 10 April.

Article 11 (Injunctions and corrective measures)

Article 11(2)(d): a small linguistic/technical change has been made ("measure" instead of "action") to be more consistent.

Article 11(3): the changes introduced were agreed at the meeting of the Working Party of 10 April. This provision is no longer compulsory and the reference to the conditions to be imposed by the judicial authorities is deleted.

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

Article 12(3), first sub-paragraph, point (a): English language adaptation, no change in substance.

Article 13 (Damages)

Article 13(1), second subparagraph : A change has been made in order to clarify that the liability at stake in this Article concerns liability for damages only, which Member States may limit in the case of employees acting without intent.

Article 14 (Publication of judicial decisions)

Article 14(3): the text has been adapted in order to make sure that there may be other circumstances that the judge could take into account other than the value of the trade secret and the impact of the unlawful acquisition, disclosure or use of the trade secret.

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

Article 15 has been slightly reformulated following the comments of one delegation which feared that the previous text could be understood as requiring Member States to provide for sanctions against the representatives of the parties in relation to the failure to comply with Articles 9 and 11. The new text simplifies the wording and refers only to the persons that fail/refuse to comply with any measure to which they are obliged.

Recitals

(8) Language added to reflect the content of Article 1 as regards the minimum harmonisation clause.

(9) The first two sentences of Recital 9 remain untouched as they provide the justification for Article 3. The rest of Recital 9 is deleted and moved to new recital 10a.

(10) The drafting of the third sentence has been improved to align this recital to the text of Article 4(1)(b). It clarifies that reverse engineering is lawful when the product has been lawfully acquired.

(10a) This new recital has been added to reflect the introduction of paragraph 1a of Article 4. It follows recital 10, which refers to Article 4(1), therefore making the order of the recitals more logical. The first sentence of the new recital 10a explains that the acquisition, use or disclosure of trade secrets, whenever imposed or permitted by law should not be treated as unlawful. Then, the following sentences in the recital provide for some examples of that situation. The first example, requested by a delegation, refers to the acquisition or disclosure of a trade secret by administrative or judicial authorities for the performance of their duties. The rest of the examples were included in the previous versions of recital 9. The word "participation" was added to "information and consultation" in relation to the workers representatives at the request of one delegation, since the relevant EU legislation also refers to participation of workers representatives in some cases.

(10b) This new recital has been added in order to provide more clarity as regards the reference to on freedom of expression and information in Article 4(2)(a). This recital provides an example of legitimate exercise of freedom of information and therefore addresses the question of the usefulness of Article 4(2)(a).

(10c) This new recital deals with the question of the possibility of social partners to enter into collective agreements involving social partners. It is presented in this part of the document since collective agreements are likely to be linked to the question of the scope of protection of trade secrets.

(12) Recital 12 is adjusted following the introduction of Recital 10b.

(13) Recital 13 is adjusted to be aligned to the content of Article 7, as amended by this text.

(14) Language has been added to clearly link the question of the circle of persons that are entitled to have access to evidence or hearings to the need to ensure that the rights of the parties to a fair trial is not undermined. This recital also includes language on the question of the appropriate representation of legal persons by natural persons.

(15) A sentence has been added to better circumscribe the possible measure described in Article 9(2). When judicial authorities decide to allow the defendant to continue the use of the alleged trade secret upon the lodging of guarantees under Article 9(2), there should be a presumption that such action should not result in placing the trade secret in the public domain (see the reference to the "devastating effects" of the possible public disclosure of a trade secret in the first sentence of recital 15).

(19) A sentence has been added to deal with the question of the liability of employees which are public officials. In some Member States liability of public officials towards their employer is limited. This sentence complements the second subparagraph of Article 13(1) on the possibility to restrict the liability of employees under certain circumstances.