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UK Employment Lawyers Association (ELA) submission on the proposed directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (the "Directive")

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1. BACKGROUND TO THIS SUBMISSION

- 1.1 ELA has considered the wording of the Directive from an English law perspective and this submission is on that basis; however, the points raised may also be applicable in respect of other jurisdictions.
- 1.2 Whilst it is acknowledged that the Directive focuses on the protection of intellectual property, it should be noted that this submission considers the application of the Directive in the employment context. Employers are keen to protect their confidential information from being misused by employees who often have full access to this information as part of their employment. A departing employee may take confidential information to a new employer or use confidential information to compete with the employer.
- 1.3 In light of this, we see an advantage to consultation taking place with those responsible for employment law within the EU institutions before the Directive is finalised. This is with a view to ensuring a consistent and coherent approach is taken across intellectual property and employment law, areas of law both impacted by this Directive.

2. EXECUTIVE SUMMARY

- 2.1 This submission focuses on the need for clarity in the Directive around its scope.
- 2.1.1 Is each Article intended for maximum or minimum harmonisation across Member States?
- 2.1.2 Is the Directive intended to apply to employment law as well as intellectual property law in the Member States, bearing in mind that trade secrets are relevant to both areas of the law?
- 2.2 The submission also identifies suggested areas of the Directive to be clarified, made consistent (i.e. in setting limitation periods) and potential gaps in the Directive to be addressed.

3. THE PROPOSED SCOPE OF THE DIRECTIVE

- 3.1 It is recognised in the recitals to the Directive that there are important differences in Member States' legislation as regards the protection of trade secrets. For example, not all Member States have adopted national definitions and there is no consistency as regards civil law remedies available to the innocent party. The Directive seeks to ensure a "*sufficient and consistent level of redress across the internal market in the case of unlawful acquisition, use or disclosure of a trade secret*".
- 3.2 It is unclear to us the extent to which the Directive is intended to supplement the existing laws of the Member States that deal with trade secrets and confidential information or whether it is intended to replace them with the Directive.
- 3.3 Article 2(2) of the Treaty on the Functioning of the European Union ("**TFEU**") states that once the Union has legislated in a specific area, Member States may not exercise their competence in that area.
- 3.4 By way of example Articles 2, 3, 4, and 8(1) of the Directive appear to be maximum harmonisation measures which do not allow Member States any discretion on their implementation. These articles define 'trade secrets', their unlawful acquisition, use and disclosure and court powers to preserve confidentiality in the course of proceedings. In

contrast, other articles appear to permit Member States some discretion on their implementation. By comparison the intellectual property directive (2004/48/EC) ("**IP Directive**") expressly allows Member States to apply other sanctions not set out in that directive thereby setting out clearly a minimum harmonisation approach to sanctions.

- 3.5 It is important to determine the areas of law which the Directive is intended to affect given it contains maximum harmonisation measures. Intellectual property law and employment law both deal with the protection of confidential information. There is considerable overlap between the protection available for trade secrets and confidential information in the intellectual property and employment contexts.
- 3.6 Under existing English law protection of confidential information through the duty of confidence would include trade secrets. To prove a breach of confidence the claimant would need to show the information has a necessary quality of confidence (i.e. is not generally known), it was imparted in circumstances of confidence and there has been misuse of the information. This would, arguably, mean a wider scope of protection than is proposed by the Directive, which requires, for example, a trade secret to have been subject to reasonable steps to keep it secret.
- 3.7 In addition, in the UK employment context an employee would have a duty of good faith during employment to keep the employer's confidential information secret. This, again, would seem to be wider than the proposed definition of a trade secret. Also, the types of confidential information which are protectable after termination of employment (more akin to trade secrets) are, arguably, wider than the trade secrets protected under the Directive.
- 3.8 If it is intended to replace national measures, the Directive seems, therefore, to reduce the level of protection afforded under English law, which is potentially at odds with the Commission's position that *"the policy options assessed do not interfere with either contract law or labour law governing relations with employees"*¹ and that the definition of trade secret *"will not be narrower than existing national definitions"*². The Directive has come out of the Commission's intellectual property initiative, and so it appears that the intention is for the Directive to replace Member States' laws dealing with the protection of trade secrets in the intellectual property context only. However, the text of the Directive itself does not refer to employment law or explain its impact on the employment law context.
- 3.9 It is therefore unclear how the overlap in the UK between the intellectual property and employment law contexts will be affected by the Directive, i.e. whether the Directive will replace or sit alongside the protections available in the employment law context.
- 3.10 It is important for this to be clarified and appropriate wording to be included in the Directive to avoid any confusion.

4. **COMMENTS ON THE DRAFTING OF THE DIRECTIVE**

4.1 **Article 2(1) – definition of 'trade secret'**

- 4.1.1 Article 2 sets out the definition of trade secret, which appears to be a maximum harmonisation provision. Therefore, the definition should be as clear and precise as possible, avoiding undue vagueness.
- 4.1.2 Article 2(1)(b) requires that the trade secret has "commercial value" because it is secret. It would be useful to understand what is intended by this (what must be shown to prove a trade secret has commercial value?). It would be clearer if this term were defined in the Directive.
- 4.1.3 Article 2(1)(c) requires the trade secret to have been subject to "reasonable

¹ Page 54 of the Commission's Impact Assessment 28.11.2013

² Page 47 of the Commission's Impact Assessment 28.11.2013

steps" to keep it confidential. What would amount to reasonable steps (for example in the context of a trade secret made available to an employee as part of his employment)? Confirmation on what this is intended to cover would be welcome.

4.2 Article 4(2) – clarity over scope of exclusions

4.2.1 Article 4 sets out when a trade secret may be lawfully acquired, used and disclosed so that there is no remedy under the Directive. Some of the categories in Article 4(2) seem unclear. It is important to have certainty as to what they are intended to cover and the scope of each exclusion otherwise this risks satellite litigation on the scope of the exclusions. In particular, Article 4(2)(d) applies an exclusion where the acquisition, use and disclosure is for the purpose of fulfilling a "*non-contractual obligation*" whilst Article 4(2)(e) applies for the purpose of protecting a "*legitimate interest*".

4.2.2 What non-contractual obligations and legitimate interests are intended to be covered?

4.3 Article 7 – limitation periods

4.3.1 The Directive sets a limitation period for bringing claims under the Directive of at least one year but not more than two years after the date on which the applicant became aware, or had reason to become aware, of the fact giving rise to the action.

4.3.2 The UK, like some other jurisdictions, has a much longer limitation period for bringing similar common law claims for breach of confidence (i.e. 6 years). This would materially impact on the innocent party's ability to seek redress.

4.3.3 The Directive gives Member States the ability to set a limitation period of 1 year, 2 years or some period in between. This introduces a degree of inconsistency in respect of the way the Directive may be implemented across Member States. That seems contrary to the intention of the legislation (i.e. a "*consistent level of redress across the internal market*").

4.3.4 Given these two points, we would suggest that either:

- (A) all Member States are required to set the same limitation period (preferably two years not one) thereby creating a consistent approach; or
- (B) each Member State sets their own limitation period consistent with existing similar national remedies, particularly if the intention is for the Directive to run alongside rather than replace some of the domestic law.

4.4 Article 8(1) – scope of confidentiality restrictions

4.4.1 Article 8 requires Member States to ensure that those involved in "*legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal proceedings*" should not be permitted to use or disclose the trade secret.

4.4.2 In a case involving an alleged breach of restrictive covenants where a non-compete restriction has allegedly been breached by a departing employee in the UK, the employer when seeking to demonstrate the enforceability of the restrictive covenants will need to show that it had a legitimate interest it wished to protect. It would also need to show that the non-compete restriction went no further than is reasonably necessary to protect that legitimate interest. The usual legitimate interest sought to be protected by a non-compete restriction is

confidential information. However, the legal proceedings relate to breach of a restrictive covenant rather than acquisition use or disclosure of a trade secret per se.

- 4.4.3 Is Article 8(1) intended to protect trade secrets disclosed during the course of any legal proceedings or is the protection more limited to trade secrets disclosed in litigation concerning their misuse under the Directive? More particularly, is it intended that trade secrets disclosed in the course of disputes to enforce restrictive covenants are covered by Article 8(1)? If so, ideally the language could be amended to clarify the position.

4.5 **Article 9 – scope of interim measures**

- 4.5.1 Article 9 sets out the interim and precautionary measures Member States must ensure the judicial authorities have the ability to order. This includes:

- (A) ceasing or prohibiting use or disclosure of a trade secret on an interim basis;
- (B) prohibiting production, offering or placing on the market or using, importing, exporting or storing infringing goods; and
- (C) seizing or delivering infringing goods to prevent their circulation.

- 4.5.2 Is this list intended to cover "springboard" relief (i.e. to eliminate any unlawful commercial advantage obtained by the breaching party)? This would be consistent with the apparent intention in Article 12(1) albeit that focuses on final orders, rather than interim relief.

4.6 **Preservation of evidence**

- 4.6.1 A notable omission from the Directive is a provision requiring the preservation of evidence. This contrasts with the IP Directive where such provisions can be found in Article 7.

- 4.6.2 Could a provision dealing with preservation of evidence be included in the Directive? If not, can we assume that Member States can rely on their own rules for the preservation of evidence in the context of a claim under the Directive?

4.7 **Freedom of contract**

- 4.7.1 The Directive does not expressly confirm that it is not intended to, and does not, prevent parties from entering into an agreement which makes provision for the protection of trade secrets different from that which is contained in the Directive (for example, the parties agreeing to a wider definition of trade secret/confidential information than the definition of trade secret set out in the Directive).

- 4.7.2 It would be helpful if this could be addressed in the Directive and for confirmation to be provided as to the extent to which parties can opt out of the provisions of the Directive.