

## EU Directive Proposal: Trade Secret

Natalja Sosnova

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# EU DIRECTIVE PROPOSAL: TRADE SECRETS

NATALJA SOSNOVA\*

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## I. INTRODUCTION

Trade secrets are valuable business assets that play important roles in both economic growth and in fostering innovation,<sup>1</sup> as trade secrets can protect both technical (e.g. a pesticide formula, a chocolate cookie recipe, or an electronic board game scheme) and non-technical information (e.g. “customer lists, sales data, or business strategies”).<sup>2</sup> In the United States (U.S.), there exists widely established case law and statutory law on trade secret protection,<sup>3</sup> for example, the Uniform Trade Secrets Act (UTSA),<sup>4</sup> which has been adopted in forty-nine U.S. states,<sup>5</sup> and the Economic Espionage Act (EEA),<sup>6</sup> which protects trade secrets at the federal level. In the European Union (EU), there is no harmonized law regarding the protection of trade secrets, and the national laws of twenty-eight EU Member States offer various interpretations of trade secrets, and rather different protections for trade secrets. On November 28, 2013, the European Commission (EC) submitted a 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 (Commission Draft).<sup>7</sup> After objections were raised by various industries, the Council of the European Union approved a general approach for establishing a new legal framework for the protection of trade, and a compromised text of the proposal was introduced to the public in May of 2014 (Council Proposal).<sup>8</sup> Later came another proposal for amendments<sup>9</sup> and the

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1. STUDY ON TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION IN THE INTERNAL MARKET, at 2 (Apr. 2013), [http://ec.europa.eu/internal\\_market/iprenforcement/docs/trade-secrets/130711\\_final-study\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf).

2. Katarzyna A. Czapracka, *Antitrust and Trade Secrets: The U.S. and the EU Approach*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 207, 210 (2008).

3. *Id.* (“U.S. courts have held that a recipe for chocolate chip cookies, a pesticide formula, a scheme for an electronic board game, computer hardware design, some elements of computer software, and information relating to nontechnical aspects of business such as customer lists qualify for protection under trade secret laws.”). *Id.* at 210.

4. UNIF. TRADE SECRETS ACT § 1 (UNIF. LAW COMM’N 1985).

5. *Id.* The U.S. states that have not adopted the UTSA are Massachusetts and New York.

6. Economic Espionage Act of 1996, 18 U.S.C. §§ 1831–1839 (2012).

7. COUNCIL OF THE EUR. UNION, 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 (Nov. 28, 2013), [http://ec.europa.eu/internal\\_market/iprenforcement/docs/trade-secrets/131128\\_proposal\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/131128_proposal_en.pdf) [hereinafter COMMISSION DRAFT].

8. GENERAL APPROACH 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, COD (2013) 0402 (May 19, 2014), <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209870%202014%20INIT> [hereinafter GENERAL APPROACH TO THE PROPOSAL].

9. This paper does not analyze the draft report of *Constance Le Grip* as of June 2015, seeking

legislative process is not yet finished. This paper will further discuss the Council Proposal as the latest draft of the EC Directive.

The differences in the legal protection of trade secrets provided for by the EU Member States imply that trade secrets do not enjoy an equivalent level of protection<sup>10</sup> in the EU, leading to “fragmentation of the internal market in this area.”<sup>11</sup> Furthermore, current differences complicate the enforcement of protections for trade secrets in cases of cross-border infringement.<sup>12</sup> Thus, the Council Proposal is intended to establish and harmonize the protection against misappropriation of trade secrets within the EU.<sup>13</sup>

### A. *The Purpose of the Article*

This article is focused on applying the Council Proposal’s rules to the manufacturing industry, especially in relation to employees and business partners. This article will address the most important provisions of the Council Proposal using hypotheticals and case law from the U.S. and the EU. The vast majority of cases, however, will be U.S. cases as they are more instructive for this purpose.<sup>14</sup>

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to provide more respect for freedom of expression, media freedom, and protection of whistle-blowers. However, the European Parliament legal affairs approved this draft report on June 16, 2015, and gave “a mandate to start informal talks with the Council with a view to reaching a first-reading agreement.” See *Trade Secrets: Freedom of Expression Must Be Protected, Say Legal Affairs MEPs*, EUR. PARLIAMENT (June 6, 2015), <http://www.europarl.europa.eu/news/en/news-room/content/20150615IPR66493/html/Trade-secrets-freedom-of-expression-must-be-protected-say-legal-affairs-MEPs>. VOTING LIST ON THE DRAFT REPORT ON PROTECTION OF UNDISCLOSED KNOW-HOW AND BUSINESS INFORMATION (TRADE SECRETS) AGAINST THEIR UNLAWFUL ACQUISITION, USE AND DISCLOSURE, COD (2013) 0402 (June 15, 2015), [https://polcms.secure.europarl.europa.eu/cmsdata/upload/1392a228-a9b1-4860-b725-a52325da631b/VL-2013\\_0402\(COD\)\\_Trade%20secrets\\_LZ\\_Le%20Grip\\_final.pdf](https://polcms.secure.europarl.europa.eu/cmsdata/upload/1392a228-a9b1-4860-b725-a52325da631b/VL-2013_0402(COD)_Trade%20secrets_LZ_Le%20Grip_final.pdf). *Legal Affairs – Draft reports*, EUR. PARLIAMENT COMM., <http://www.europarl.europa.eu/committees/en/juri/draft-reports.html?ufolderComCode=JURI&ufolderLegId=8&ufolderId=00273&linkedDocument=true&urefProcYear=&urefProcNum=&urefProcCode> (last visited Dec. 10, 2015).

10. Similar to the U.S., in 1979 “[t]he UTSA was promulgated to address concerns about the ‘uneven’ development of trade secret law and to combat the resulting ‘undue uncertainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret.’” *CDC Restoration & Const., LC v. Tradesmen Contractors, LLC*, 274 P.3d 317, 329 (Utah Ct. App. 2012); UTAH CODE ANN. §§ 13–24–1 to 13–24–9 (West 2015).

11. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 7.

12. Roland Knaak, Annette Kur, & Reto M. Hilty, *Comments of the Max Planck Institute for Innovation and Competition of 3 June 2014 on the Proposal of the European Commission for a Directive on the Protection of Undisclosed Know-How and Business Information (Trade Secrets) Against Their Unlawful Acquisition, Use and Disclosure* 1, 2 (Max Planck Institute for Innovation & Competition Research Paper No. 14-11, 2014).

13. Andrzej Drzewiecki, *Proposed EU Trade Secrets Directive: Shaping the New EU Legislation on the Protection of Trade Secrets*, 75 ZESZYTY NAUKOWE POLITECHNIKI ŚLĄSKIEJ 19, 20 (2014).

14. STUDY ON TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION IN THE

### B. Trade Secrets' Importance for the Manufacturing Sector

Trade secrets are important to many different industries.<sup>15</sup> A majority of the available empirical evidence on trade secrets focuses on the manufacturing sector, containing “numerous surveys of firms regarding the importance of trade secrets in appropriating the returns to innovation investments.”<sup>16</sup> Trade secrets “are ranked as better protection mechanisms than patents, in particular with regard to process innovations.”<sup>17</sup>

Very few empirical analyses of the use of litigation to seek remedies against trade secret theft have been published. Of the three studies identified, all relate to the trade secret litigation in the U.S. No economic or statistical analyses of trade secret litigation in [EU Member States] were identified as part of the economics literature survey. The US cases instructive in terms of the industries and types of misappropriation claims that may arise under EU member country trade secrets laws, and the role played by private parties in the protection of valuable trade secrets.<sup>18</sup>

The bulk of “cases involve[] alleged misappropriators known by the trade secret owner,”<sup>19</sup> along with the participation of either an employee or a business partner.<sup>20</sup>

## II. THE COUNCIL PROPOSAL FOR THE EU TRADE SECRETS DIRECTIVE

### A. The Scope

Article 1 of the Council Proposal sets out the minimum rules on the protection against the unlawful acquisition, use, and disclosure of trade secrets. The EU Member States may introduce more far-reaching protection of trade secrets than those required in the Council Proposal, provided that there is full compliance with the specific mandatory rules of the Proposal.<sup>21</sup> This means that the Council Proposal provides only minimum requirements, but not full harmonization regarding the protection of trade secrets within the EU. In this

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INTERNAL MARKET, *supra* note 1, at 105.

15. *Id.* at 2.

16. *Id.*

17. *Id.*

18. *Id.* at 105.

19. *Id.* at 106.

20. *Id.*

21. Strict compliance is required with Articles 4, 5, Article 6(1), Article 7, the 2nd subparagraph of Article 8(1), Articles 8(3), 8(4), 9(2), Articles 10, 12 and Article 14(3) of the Proposal. COMMISSION DRAFT, *supra* note 7, at arts. 4–6(1), 7, 8(1) para. 2, 8(3), 8(4), 9(2), 10, 12, 14(3).

author's view, minimum harmonization can undermine the intended effect of the Council Proposal and "disturb the balance of the Council Proposal, the provisions of the [Proposal] must neither be undercut nor exceeded by the implementing national legislation."<sup>22</sup> Thus, the full harmonization of trade secret law would provide more effect and consistence within the European Union.<sup>23</sup>

### B. Definitions

#### 1. Trade Secret

Article 2(1) of the Council Proposal provides the definition for trade secrets.<sup>24</sup> Recital 8 of the Council Proposal explains that this "definition should . . . be constructed as to cover business information, technological information, and know-how where there is both a legitimate interest in keeping confidential and a legitimate expectation in the preservation of such confidentiality."<sup>25</sup> Article 2(1) of the Council Proposal states that trade secret is information that 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.<sup>26</sup>

In brief, for information to be considered a trade secret, the Council Proposal requires three elements: (i) secrecy; (ii) commercial value; and (iii) reasonable protection.<sup>27</sup>

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22. See generally Knaak, Kur, & Hilty, *supra* note 12, at 4.

23. *Id.*

24. *Id.* at 5; see COMMISSION DRAFT, *supra* note 7, art. 2(1).

25. COMMISSION DRAFT, *supra* note 7, at recital 8. In comparison, the definition of trade secret under the UTSA is more specific:

"Trade secret" means information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

UNIF. TRADE SECRETS ACT § 1(4).

26. COMMISSION DRAFT, *supra* note 7, art. 2(1)(a)–(c).

27. Key ingredients of a trade secret include "the de facto secrecy of information and the

*a. Requirement of Secrecy*

Article 2(1)(a) of the Council Proposal provides that the confidential information shall be “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.”<sup>28</sup> In other words, secrecy shall comply with two requirements: (i) the secret shall be a body, precise configuration, or assembly of its components; and (ii) shall not be generally known among, or readily accessible to, persons within the circles that normally deal with the kind of information. An example of a body, precise configuration, or the assembly of its components could be a customer list<sup>29</sup> or detailed instructions of a specialty beer brewing process. An example of generally known information could be a situation where a beer brewing process in general is very well known to all brew masters from competing breweries. Information that is “not readily accessible” could occur in a case where a beer manufacturing method is not only readily accessible to competitors, but also accessible to the employees of different departments (e.g. the information is not known only to specific employees of the beer brewing department or to the brew master alone). Nonetheless, “secrecy does not need to be absolute,”<sup>30</sup> and it will be enough if “it would be difficult or costly for others who could exploit the information to acquire it without resort to wrongful conduct.”<sup>31</sup> However, if an interested person can find or reach “the information without a great deal of sacrifice, the matter is public and cannot be considered a trade secret.”<sup>32</sup> Lastly, the area of knowledge shall be limited to persons within the circles that normally deal with the kind of information in question. For instance, the beer brewing process is very well known to every brew master at every brewery. However, the general knowledge of the beer brewing process is typically not known to a professor of immigration law because the immigration law professor usually does not belong to the circle that generally deals with the beer brewing methods or processes.

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owner’s continued efforts to maintain this secrecy.” Czapracka, *supra* note 2, at 234.

28. COMMISSION DRAFT, *supra* note 7, art. 2(1)(c).

29. *See, e.g.,* Ecolaire Inc. v. Crissman, 542 F. Supp. 196, 205–06 (E.D. Pa. 1982); Am. Precision Vibrator Co. v. Nat’l Air Vibrator Co., 764 S.W.2d 274, 278 (Tex. Ct. App. 1988), *appeal stayed*, 771 S.W.2d 562 (Tex. Ct. App. 1989); *see also* 1 MELVIN F. JAGER, TRADE SECRETS LAW § 3:3 (2015).

30. Czapracka, *supra* note 2, at 225.

31. *Id.* at 225–26.

32. *Id.* at 234–35.

*b. Requirement of Commercial Value*

Article 2(1)(b) of the Council Proposal addresses the second required element for information to be considered a trade secret, which requires that the information derive commercial value.<sup>33</sup> Recent suggestions proposed as amendments to the Council Proposal seek to clarify commercial value with the words “actual or potential”<sup>34</sup> commercial value. U.S. law extends trade secrets to information that “afford[s] an actual or potential economic advantage over others”<sup>35</sup> or to information that “derives independent economic value, actual or potential.”<sup>36</sup> The commercial value of the information directly depends on the level of secrecy. Once the secret is revealed, the commercial value of the information decreases or disappears. For example, a highly creative marketing campaign of a new product line has a very high commercial effect, especially in its concentrated market (which is comprised of various competitors fighting between each other for the consumer). Thus, once the information on the marketing campaign or new product leaks to a competitor, the value of the campaign decreases significantly, and this information is worthless once it is revealed to the public.

*c. Requirement of Reasonable Protection*

Article 2(1)(c) of the Council Proposal sets out the third element for information to be considered trade secret. The information shall be “subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.”<sup>37</sup> This third element, in turn, consists of two sub-elements: (i) reasonable steps under the circumstances and (ii) that the person is lawfully in control of the information.

*i. Requirement of Reasonable Steps*

Reasonable steps, such as requiring employees to sign confidentiality

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33. COMMISSION DRAFT, *supra* note 7, art. 2(1)(b).

34. EUROPEAN PARLIAMENT, COMMITTEE ON LEGAL AFFAIRS, DRAFT REPORT ON 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, at 11, COM (2013) 0813 (Feb. 10, 2015), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE546.885%2b01%2bDOC%2bPDF%2bV0%2f%2fEN> [hereinafter DRAFT REPORT].

35. “A Trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.” RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (AM. LAW. INST. 1995).

36. Czapracka, *supra* note 2, at 223. See 18 U.S.C. § 1839 (2012).

37. COMMISSION DRAFT, *supra* note 7, art. 2(1)(c); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 2(1)(c).

agreements that prohibit disclosing some process, method, or other important information, shall be taken to protect the information. For example, the beer company can enter into non-disclosure and non-compete agreements with its employees, especially the brew master and scientists who are responsible for and familiar with the beer company's unique brewing methods and processes.<sup>38</sup> Furthermore, it is important to keep these agreements with employees in a special locked room, on a special server, or in a folder protected with passwords or restricted access; although, it is not necessary to keep documents in a special bank vault. However,

the ingredient that gives Coca-Cola its distinctive taste . . . has been tightly guarded since Coca-Cola was first invented and is known by only two persons within the Coca-Cola Company. The only written record of the secret formula is kept in a security vault . . . which can only be opened upon a resolution from the Company's Board of Directors.<sup>39</sup>

Nevertheless, it is enough to consider steps reasonable if the steps show that the person wants to protect the information.<sup>40</sup> In other words, the efforts must

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38. For more information about the unique method for creating pure cultures of yeast free from bacteria and wild yeast that was applied in the Carlsberg breweries for the first time in 1883, *See generally Louis Pasteur and Carlsberg Cure the 'Beer Disease,'* CARLSBERG GRP., <http://www.carlsberggroup.com/Company/heritage/Research/Pages/Pasteur.aspx> (last visited Nov. 19, 2015).

39. *Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985).

40. *See Com-Share, Inc. v. Comput. Complex, Inc.*, 338 F. Supp. 1229, 1234–35 (E.D. Mich. 1971), *aff'd*, 458 F.2d 1341 (6th Cir. 1972) (stating that “the utmost caution was used by plaintiff in protecting the secrecy of software. Each page of the listings embodying plaintiff's systems contained ‘Com-Share, Inc. Company Confidential.’ ‘Passwords,’ . . . are built into the systems to prevent unauthorized access. Magnetic tapes . . . are kept locked when not in use. These protections have been built into the systems themselves, not only in order that no customer can have unauthorized access to any other customer's data base or specialized technology, but also in order that no employee of the company itself can have unauthorized access to any system.”); *see also* *Structural Dynamics Research Corp. v. Eng'g Mechs. Research Corp.*, 401 F. Supp. 1102, 1117 (E.D. Mich. 1975) (holding that the technical and business information was treated by plaintiff in a manner consistent with the preservation of its confidentiality. “[T]he confidential nature of development work was specifically called to each employee's attention in his individual confidential disclosure agreement.” Defendants knew that information was confidential and proprietary to plaintiff.); *see also* *Radium Remedies Co. v. Weiss*, 173 Minn. 342, 348 (1928) (stating that secrecy need not be total; depending on the circumstances, only partial or qualified secrecy will do); *see also* 1-1 ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS* § 1.04 (2015) (efforts to safeguard secrecy: “posting of warning or cautionary signs or using document legends[;] restricting visitors[;] maintaining internal secrecy by dividing the process by dividing the process into steps and separating the various departments on the several steps[;] using unnamed or coded ingredients[;] keeping secret substances and documents under lock[;] limiting access to computer materials by use of passwords to prevent unauthorized access and keeping magnetic tapes, flow charts, symbolic and source code under lock and key when not in use . . . . Industry-wide

be reasonable “under the circumstances to maintain secrecy.”<sup>41</sup>

What would not be considered reasonable steps in this author’s view? If important documents are forgotten by someone in a meeting room after negotiation meetings, or if signed agreements are left carelessly at a company’s reception or secretary desk that are not in a sealed envelope and do not provide notice that the information is “confidential,” such steps will not be considered as reasonable protection and does not show that the owner of these agreements cared to protect the information that could be learned from these agreements.<sup>42</sup>

For instance, the Minnesota Supreme Court in *Jostens v. National Computer Systems, Inc.*<sup>43</sup> illustrates the practical considerations to maintain secrecy.<sup>44</sup> There, the plaintiff failed to ensure that its information remained private.<sup>45</sup> Reasonable steps to keep the information secret would have met the requirements for trade secrets,

but [plaintiff] had allowed tours of its plant, approved publication of an article describing the system, and failed to identify . . . [the] crucial elements of the potential secret.<sup>46</sup> The Court compared this behavior with various forms of reasonable efforts, such as protecting sensitive information with passwords and explaining to employees which items are important secrets.<sup>47</sup>

To the contrary, in *duPont v. Christopher*<sup>48</sup> the “[plaintiff] had apparently not identified with any degree of clarity what parts of visible construction were secret.”<sup>49</sup> The comments to the UTSA notes that “efforts required to maintain secrecy are those reasonable under circumstances.”<sup>50</sup> Courts do not require that extreme and unduly expensive procedures be taken to protect trade secrets

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customs may be viewed as augmenting a trade secret owner’s efforts to protect secrecy.”)

41. See MINN. STAT ANN. § 325C.01, subdiv. 5 (West 2015).

42. See, e.g., *Jostens, Inc. v. Nat’l Computer Sys., Inc.*, 318 N.W.2d 691, 700 (Minn. 1982) (citing *Pressure Sci., Inc. v. Kramer*, 413 F. Supp. 618, 627–28 (D. Conn. 1976), *aff’d*, 551 F.2d 301 (2d Cir. 1976)) (holding that “plaintiff’s failure to require all employees working in a supposedly confidential area to sign a nondisclosure agreement evidenced a fatal lack of concern for confidentiality”).

43. *Jostens, Inc. v. Nat’l Computer Sys., Inc.*, 318 N.W.2d 691, 700 (Minn. 1982).

44. C. HOWARD ANAWALT, *IDEA RIGHTS: A GUIDE TO INTELLECTUAL PROPERTY* 157–58 (2011).

45. *Id.* at 159.

46. *Id.*

47. *Id.* See *Jostens.*, 318 N.W.2d at 694.

48. *E. I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

49. ANAWALT, *supra* note 44, at 163.

50. UNIF. TRADE SECRETS ACT § 1, cmt. 5.

against flagrant industrial espionage.<sup>51</sup> Under the UTSA, “reasonable use of a trade secret including controlled disclosure to employees and licensees is consistent with the requirement of relative secrecy.”<sup>52</sup>

In the highly criticized *Microsoft Corp. v. European Commission* case,<sup>53</sup> the European Court of Justice (ECJ) stated that solutions have been kept secret by Microsoft to preserve an artificial interoperability advantage.<sup>54</sup> Interestingly enough, in this case the ECJ did not find that the technologies were trade secret as they were not novel,<sup>55</sup>

in the sense that they already formed part of the state of the art or were obvious to persons skilled in the art, and, therefore, Microsoft was not entitled to remuneration . . . [M]inor improvements which would represent only a negligible value to the recipients of the interoperability information could not be regarded as innovative.<sup>56</sup>

#### ii. Requirement for Person to Have Lawful Control over the Information

A person shall have a lawful control over trade secret, however the Council Proposal does not provide further explanation of what lawful control is. Article 2(2) gives the definition of a trade secret holder as “any natural or legal person lawfully controlling a trade secret.”<sup>57</sup> Undoubtedly, a trade secret holder can be the owner of trade secret, a licensee using secret information under a license, and a person that obtained the information by independent development or reverse engineering.

In this instance, it is valuable to mention the recent U.S. case *Mattel, Inc. v. MGA Entm’t, Inc.*, which addressed the rights of an employee to control product ideas.<sup>58</sup> In this case, the dispute arose over the ownership of an idea for a new children’s doll created by the plaintiff’s former employee, the defendant, who then exploited the idea.<sup>59</sup> The court held “that an assignment

51. *E. I. duPont de Nemours*, 431 F.2d 1012.

52. UNIF. TRADE SECRETS ACT § 1, cmt. 5.

53. Case T-167/08, *Microsoft Corp. v. Comm’n*, 2012 E.C.R. I-00000.

54. EUROPEAN PARLIAMENT, DIRECTORATE GENERAL FOR INTERNAL POLICIES, TRADE SECRETS, IN-DEPTH ANALYSIS 16 (Apr. 2014), [http://www.europarl.europa.eu/RegData/etudes/note/join/2014/493055/IPOL-JURI\\_NT%282014%29493055\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/note/join/2014/493055/IPOL-JURI_NT%282014%29493055_EN.pdf).

55. *But see* *Structural Dynamics Research Corp. v. Eng’g Mechs. Research Corp.*, 401 F. Supp. 1102, 1117 (E.D. Mich. 1975) (stating that “[a]n overwhelming majority of authorities on the subject have ruled that novelty and uniqueness are not a requirement for trade secret protection”).

56. See Case T-167/08, *Microsoft Corp. v. Comm’n*, 2012 E.C.R. I-00000, para. 35.

57. COMMISSION DRAFT, *supra* note 7, art. 2(2).

58. *Mattel, Inc. v. MGA Entm’t, Inc.*, 616 F.3d 904 (9th Cir. 2010), *as amended on denial of reh’g* Oct. 21, 2010.

59. *Id.* at 907–08.

of ‘inventions’ in an employment contract may not include an assignment of ideas. The employer would thus not have the rights to control product ideas of an employee, once the employee had moved to another company.”<sup>60</sup>

## 2. “Infringing Goods”

Article 2(1)(4) of the Council Proposal gives the definition of “infringing goods.” Infringing goods are the “goods whose design, quality, [functioning,] manufacturing process or marketing significantly benefits from trade secrets unlawfully acquired, used or disclosed.”<sup>61</sup> In this author’s opinion, the definition of “infringing goods” is vague due to the words “significantly” and “quality.” The evaluation of “significantly” or “quality” can result in many disputes regarding the appropriate interpretation of these words. Recent proposals for amendments to the Council Proposal offer to clarify the definition of “infringing goods” by replacing the word “quality” with the word “characteristics” in “order to cover various aspects of the life of the product.”<sup>62</sup> This will broaden the list of other characteristics in addition to the quality.<sup>63</sup>

### C. Acquisition, Use, and Disclosure

#### 1. Unlawful Acquisition, Use, and Disclosure

Article 3(1) of the Council Proposal provides the rights to “trade secrets holders . . . to apply for measures . . . in order to prevent, or obtain redress for, the unlawful acquisition, use or disclosure of their trade secret.”<sup>64</sup> Articles 3(2)–(5) of the Council Proposal sets definitions of unlawful acquisition, use, or disclosure.

##### a. Unlawful Acquisition

Under Article 3(2) of the Council Proposal,

[t]he acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful whenever carried out . . . by:

- (a) unauthorised [*sic*] access to or copy of any documents, objects,

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60. See Stephen McJohn, *Top Tens in 2010: Copyright and Trade Secret Cases*, 9 NW. J. TECH. & INTELL. PROP. 325, 335 (2011); see generally *Mattel*, 616 F.3d 904; see generally 1-1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS (2011).

61. COMMISSION DRAFT, *supra* note 7, art. 2(1)(4).

62. DRAFT REPORT, *supra* note 34, at 16.

63. See also Knaak, Kur, & Hilty, *supra* note 12, at 7.

64. COMMISSION DRAFT, *supra* note 7, art. 3(1).

materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced; . . .

. . .

(f) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.<sup>65</sup>

Here, an example of unlawful copying or appropriation of any documents may occur in a situation when an employee, who is thinking of or planning to leave the company, copies some files to his own computer or data storage device. As a current employee, the employee can copy some documents if he needs the documents directly for his job obligations, but, he is not allowed to use the documents or take them with him when he leaves the company if the copied information contains trade secrets owned by the company.

The case, *duPont v. Christopher*<sup>66</sup> is an example where an employee copied objects containing trade secrets or objects from which the trade secret could be deduced. In that case, the Christophers, the defendants, were hired to take aerial photographs of the plaintiff's plant and new construction site by an unknown third party.<sup>67</sup> duPont was building a new plant and before it could build the roof over its highly-secret new process for producing methanol, the Christophers took aerial photographs of the new construction.<sup>68</sup> Photographs of the duPont facility were taken and delivered to the third party.<sup>69</sup> The court held that aerial photography is an improper method of discovering the trade secrets exposed during construction of the plant, and regardless of whether the flight was legal or illegal in that sense, the espionage was an improper means of discovering the trade secrets.<sup>70</sup>

In *Avery Dennison Corp. v. Four Pillars Enter. Co.*, an employee stole "Avery[']s] formulas and other confidential information for eight years and pass[ed] them on to [Four Pillars],<sup>71</sup> which, in turn, modified Avery's formulas,<sup>72</sup> created new products, and saved significantly on research and streamlining its manufacturing process."<sup>73</sup> The Court of Appeals affirmed the trial court decision about misappropriation of trade secrets.<sup>74</sup> The court

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65. *Id.* arts. 3(2)(a), 3(2)(f).

66. *E. I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

67. *Id.* at 1013.

68. *Id.*

69. *Id.* at 1012–13, 1015.

70. *Id.* at 1012, 1017.

71. *Avery Dennison Corp. v. Four Pillars Enters. Co.*, 45 F. App'x 479, 482 (6th Cir. 2002).

72. *Id.* at 486.

73. *Id.* at 487.

74. *Id.* at 480.

highlighted that even if a defendant may have altered a trade secret, this does not relieve it from liability.<sup>75</sup>

The Council Proposal does not provide further explanation of what honest commercial practices means. In this instance, the Paris Convention and the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS Agreement) are helpful.<sup>76</sup> In regards to conduct contrary to honest commercial practices, the court in *Kewanee Oil Co. v. Bicron Corp.* stated that trade secret law is driven by “the maintenance of standards of commercial ethics.”<sup>77</sup> “The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world.”<sup>78</sup> The meaning of contrary honest commercial practices does not “extend to the use of protected information by third parties who obtained it in accordance with honest commercial practices.”<sup>79</sup>

*b. Unlawful Use or Disclosure*

Article 3(3) of the Council Proposal states the following:

The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder . . . by a person who is found to meet any of the following conditions:

- (a) has acquired the trade secret unlawfully;
- (b) is in breach of a confidentiality agreement or any other duty to maintain secrecy of the trade secret;
- (c) is in breach of a contractual or any other duty to limit the use of the trade secret.<sup>80</sup>

Article 3(3) of the Council Proposal stipulates that use or disclosure is unlawful if the use occurs without the trade secret holder’s consent, if acquired

75. *Id.* at 487 (citing *Pioneer Hi-Bred Int’l v. Holden Found Seeds, Inc.*, 35 F.3d 1226, 1239 (8th Cir. 1994)).

76. Article 10bis of the Paris Convention and in art. 39, § 2, n. 10 to the TRIPS Agreement, “contrary to honest commercial practices” is defined under note 10 as “at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.” Paris Convention for the Protection of Industrial Property, opened for signature Mar. 20, 1883, art. 10bis, 21 U.S.T. 1583, 828 U.N.T.S. 305 (revised 1967); Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Result of the Uruguay Rounds, 33 I.L.M. 83, § 7, art. 39, § 2 n.10, (1994); *see also* Czapracka, *supra* note 2, at 272.

77. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974).

78. *Id.* at 481–82.

79. Czapracka, *supra* note 2, at 210.

80. COMMISSION DRAFT, *supra* note 7, art. 3(3)(a)–(c).

unlawfully, if the use or disclosure breaches a confidentiality agreement, or if the use or disclosure breaches some other contractual duty to minimize the use or disclosure of the trade secret.<sup>81</sup> Regarding unlawful use, *duPont v. Christopher*<sup>82</sup> and *Avery v. Four Pillars*<sup>83</sup> are informative. In both cases, third parties used trade secrets that were acquired unlawfully and were acquired without the trade secret holders' permission.<sup>84</sup> Unlawful use or disclosure and breaching a confidentiality agreement usually happen between an employer and an employee,<sup>85</sup> agency or agencies, or contractors that are supposed to provide certain services.

Unlawful acquisition can also occur when there is a breach of a contractual or any other duty to limit the use of the trade secret. This can happen, for example, when an information technology administrator who is responsible for the protection of the company's server from unauthorized use fails to do so, or when a trade-secret licensee breaches his obligation to control or limit the use of the trade secret. The requirements of Article 3(2) and 3(3), in regards to unlawful acquisition, use, or disclosure of trade secrets apply to situations when the person, at the time of acquisition, use, or disclosure of trade secrets should have known that the trade secret was obtained unlawfully.<sup>86</sup> "The . . . production, offering or placing on the market of infringing goods, or import, export or storage of infringing goods . . . shall also be considered unlawful use of a trade secret" when the person carrying out such activities knew or should have known, under the circumstances, that the trade secret was used unlawfully.<sup>87</sup>

An example of unlawful use could be a situation where a beer company knowingly uses a unique beer yeast formula stolen from a competitor for its own beer production.

## 2. Lawful Acquisition, Use, Disclosure and Exceptions

Article 4 of the Council Proposal provides rules for lawful acquisition, use, and the disclosure of trade secrets and exceptions.

Article 4(1) of the Council Proposal states

The acquisition of trade secrets shall be considered lawful when

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81. *Id.*

82. *E. I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

83. *Avery Dennison Corp. v. Four Pillars Enters. Co.*, 45 F. App'x 479 (6th Cir. 2002).

84. *See generally E.I. duPont deNemours & Co.*, 431 F.2d 1012; *Avery Dennison Corp.*, 45 F. App'x 479.

85. *Avery Dennison Corp.*, 45 F. App'x 479.

86. COMMISSION DRAFT, *supra* note 7, arts. 3(2), 3(3).

87. *Id.* arts. 3(45)–(5).

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) any other practice which, under the circumstances, is in conformity with honest commercial practices.<sup>88</sup>

*a. Independent Development*

Article 4(1)(a) of the Council Proposal states that independent development of some information shall be considered lawful.<sup>89</sup> This means that “a person who independently discovers, [creates,] or develops information identical to another’s trade secrets without relying on confidentially received information or improper means incurs no liability.”<sup>90</sup>

*b. Observation or Study of Publicly Available Product  
or Being in Lawful Possession*

Article 4(1)(b) of the Council Proposal describes two situations: (i) “observation, study, disassembly or test of a product or object that has been made available to the public or [(ii)] that it is lawfully in the possession of the acquirer of the information”<sup>91</sup> who is free from any legally valid duty to limit the acquisition of the trade secret.<sup>92</sup>

*i. Reverse Engineering*

As mentioned above, Article 4(1)(b) of the Council Proposal consists of two elements: activity (i.e. observation, study, disassembly, or test) and domain (i.e. public domain). In order to comply with these two elements, the person who observed, studied, disassembled, or tested the product must prove that the product in question was available in the public domain. In other words, the person must have easily acquired the information or the information was completely unprotected.<sup>93</sup> The Council Proposal states that

88. *Id.* art. 4(1).

89. *Id.* art. 4(1)(a).

90. DONALD S. CHISUM ET AL., UNDERSTANDING INTELLECTUAL PROPERTY LAW 239 (2d ed. LexisNexis 2011).

91. COMMISSION DRAFT, *supra* note 7, art. 4(1)(b).

92. *Id.* art. 4(1)(b).

93. CHISUM ET AL., *supra* note 90, at 240.

[i]n the interest of innovation and to foster competition, the provisions of this Directive should not create any exclusive right on the know-how or information protected as trade secrets. Thus, independent discovery of the same know-how or information remains possible. Reverse engineering of a lawfully acquired product is a lawful means of acquiring information.<sup>94</sup>

The Council Proposal fails to give further explanation of reverse engineering. In *Kewanee v. Bicon*, reverse engineering was defined as “discovery by fair and honest means such as independent invention, [or] accidental disclosure.”<sup>95</sup> There, the court explained that “trade secret [law] does not offer protection against discovery by fair and honest means such as independent invention, accidental disclosure, or ‘reverse engineering.’”<sup>96</sup> In *Learning Curve Toys v. PlayWood Toys*, the court stated that “reverse engineering can defeat a trade secret claim, but only if the product could have been properly acquired by others.”<sup>97</sup> There, PlayWood disclosed its concept to Learning Curve in the context of a confidential relationship.<sup>98</sup> The court stated “Learning Curve had no legal authority to reverse engineer the prototype that it received in confidence.”<sup>99</sup> As Professor Milgrim stated:

A potent distinction exists between a trade secret which *will be* disclosed if and when the product in which it is embodied is placed on sale, and a ‘trade secret’ embodied in a product which has been placed on sale, which product admits of discovery of the ‘secret’ upon inspection, analysis, or reverse engineering . . .<sup>100</sup> Until disclosed by sale the trade secret should be entitled to protection.<sup>101</sup>

Although a secret may be easy to replicate or duplicate, this does not negate the information being protected as a trade secret prior to that time.<sup>102</sup> Comment 1 to the UTSA describes reverse engineering as: “starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must also occur by fair and honest means,

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94. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 10.

95. *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 481 (1974).

96. *Id.*

97. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 730 (7th Cir. 2003).

98. *Id.*

99. *Id.*

100. 1-1 ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS* § 1.05[4] (2002).

101. *Id.*

102. RUDOLF CALLMANN, *CALLMAN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 14.15 (4th ed. 2003).

such as purchase of item on the open market for reverse engineering to be lawful.”<sup>103</sup>

Article 4(b)(ii) of the Council Proposal does not provide an explanation of a situation where a trade secret has been acquired lawfully, but where the acquirer has no legal duty to limit the publication or use of the trade secret. Some examples can be found in the comments to UTSA, for instance (i) “discovery under a license from the owner of trade secret”<sup>104</sup> or (ii) “obtaining the trade secret from published literature.”<sup>105</sup> Another example of lawful possession would be “innocent receipt,” mentioned in the UTSA and the Restatement (First) of Torts.<sup>106</sup> “Innocent receipt may occur through mistake or through a third party’s misappropriation.”<sup>107</sup> It is important to mention that “[a] person who obtains another’s secret through neither improper means nor a confidential relationship has no duty prior to receiving notice of the owner’s rights in the secret.”<sup>108</sup> Additionally, “[e]ven after receiving notice, remedies may be limited (UTSA) or liability nonexistent (Restatement) if the defendant has in good faith paid value for the secret or has otherwise detrimentally relied on the right to use or disclose the secret.”<sup>109</sup>

*c. Other Practices in Conformity with Honest Commercial Practices*

Lastly, in regards to Article 4(1)(c), the Council Proposal states that the acquisition of trade secrets shall be considered lawful when obtained by “any other practice which, under the circumstances, is in conformity with honest commercial practices.”<sup>110</sup> The Council Proposal does not expressly provide the definition of honest commercial practices. However, the Council Proposal describes dishonest practices misappropriating trade secrets “such as theft, unauthorised [*sic*] copying, economic espionage, breach of confidentiality requirements, whether from within or from outside of the Union.”<sup>111</sup> Further, the Council Proposal states

[t]hat while an element of dishonest behavior would be needed, no intentionality or gross negligence criteria should be required for the unlawful conduct to exist in the case of primary infringers . . . in

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103. UNIF. TRADE SECRETS ACT § 1, cmt. 2.

104. *Id.* § 1, cmt. 3.

105. *Id.* § 1, cmt. 5.

106. CHISUM ET AL., *supra* note 90, at 237.

107. *Id.*

108. *Id.*

109. *Id.*

110. COMMISSION DRAFT, *supra* note 7, art. 4(1)(c).

111. *Id.* at recital 3.

principle a knowledge criterion should be required in the case of passive receivers of information (third parties) for their conduct to be unlawful. . . .<sup>112</sup>

### 3. Exceptions for Acquisition, Use, and the Disclosure of Trade Secrets

Articles 4(1a) and 4(2) of the Council Proposal provides exception rules for acquisition, use, and the disclosure of trade secrets.

#### *a. Requirements of EU or National Law of EU Member States*

Under Article 4(1)(a) of the Council Proposal, “[t]he acquisition, use and disclosure of trade secrets shall be considered lawful to the extent that such acquisition, use or disclosure is required or allowed by the Union or EU Member States national laws.”<sup>113</sup> In other words, the acquisition, use, and disclosure of trade secrets shall be considered lawful if pursuant to the laws of the EU or EU Member States.

#### *b. Freedom of Expression, Revelation of Illegal Activity for the Public Interest, and Exercise of Employees’ Representative Functions*

Article 4(2) of the Council Proposal states the following:

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, [*provided that such disclosure was necessary for that exercise*]; . . .
- . . .
- (e) for the purpose of protecting a legitimate interest [*recognized by Union or national law*].<sup>114</sup>

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112. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at 4.

113. *Id.* art. 4(1a).

114. COMMISSION DRAFT, *supra* note 7, art. 4(2).

Thus, Article 4(2) basically provides the following exceptions:

- (1) the right to the freedom of expression and information;
- (2) revelation of illegal activity for the public interest;
- (3) exercise of employees' representative functions; and
- (4) protection of legitimate interests recognized in EU Member States national or EU law.

i. The Right to the Freedom of Expression and Information

The Council Proposal states the “[m]edia often make public . . . information considered to be a trade secret by another party [when] the publication of [such information] could be of public interest.”<sup>115</sup> Thus, the measures “should not restrict the exercise of the freedom of expression and information (which encompasses media freedom and pluralism as reflected in Article 11 of the Charter of Fundamental Rights of the European Union).”<sup>116</sup> The “[d]irective must not pose either a de jure or a de facto threat to journalists’ ability to carry out their work or to the exercise by any person of their freedom of expression, on the basis of legal certainty and in accordance with national and EU law.”<sup>117</sup>

ii. Revelation of Illegal Activity for the Public Interest

Article 4(2)(b) of the Council Proposal states that the person that allegedly acquired, used, or disclosed trade secret is exempted from liability, if (i) the purpose of revealing the trade secret is misconduct, wrongdoing, or illegal activity; (ii) the “acquisition, use or disclosure of the trade secret was necessary for such revelation[;] and [(iii)] that the [person] acted in the public interest.”<sup>118</sup> Protection of trade secrets should not extend to cases where the “disclosure of a trade secret serves the public interest in so far as the information is relevant to revealing misconduct or wrongdoing.”<sup>119</sup> For example, it is important that measures do not constrain whistleblowing activity.<sup>120</sup> This principle could be re-drafted more broadly as “whistle-blowers should be protected, provided that they are acting in the public interest.”<sup>121</sup>

a. “Luxleaks” Tax Avoidance Case and Protection of Whistle-Blowers

The recent “Luxleaks” scandal on tax avoidance in Luxemburg revealed

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115. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 10b.

116. *Id.*

117. DRAFT REPORT, *supra* note 34, at 11.

118. COMMISSION DRAFT, *supra* note 7, art. 4(2)(b).

119. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 12.

120. *Id.*

121. DRAFT REPORT, *supra* note 34, at 10.

that hundreds of multinational companies<sup>122</sup> had secured secret deals in Luxembourg.<sup>123</sup> In December of 2014,<sup>124</sup> Antoine Deltour, a former PricewaterhouseCoopers (PwC) employee, was accused of leaking tax secrets,<sup>125</sup> breaching confidentiality, and violating trade secrets.<sup>126</sup> Deltour copied a large number of files at PwC's Luxembourg office the day before he quit in 2010.<sup>127</sup> He explained that he acted because of his convictions, based on his beliefs, and not to appear in the media.<sup>128</sup> The leaked documents were published on the internet on November 5th and December 9th of 2014 by the International Consortium of Investigative Journalists (ICIJ).<sup>129</sup>

The leaked documents included deals negotiated by PwC on behalf of hundreds of corporate clients.<sup>130</sup> To qualify the companies for tax relief, PwC tax advisers helped create financial strategies to shift profits from one part of a corporation to another in order to reduce or eliminate taxable income.<sup>131</sup> The ICIJ identified companies, including PepsiCo Inc. and Walt Disney Co., who were granted so-called tax rulings by Luxembourg that allowed some corporations to effectively lower the amount of corporate taxes owed to less than one percent.<sup>132</sup> The ICIJ has created a database of 548 tax rulings that

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122. "The documents, known as the 'Luxleaks' showed that more than 300 companies, including PepsiCo Inc, AIG Inc and Deutsche Bank AG, secured secret deals from Luxembourg to slash their tax bills." Henriette Jacobsen, *Vestager Says Will Use "Luxleaks" Documents in EU Tax Probe*, EURACTIV (Nov. 20, 2014), <http://www.euractiv.com/sections/eu-priorities-2020/vestager-says-will-use-luxleaks-documents-eu-tax-probe-310189>; *see also* Leslie Wayne, et. al., *Leaked Documents Expose Global Companies' Secret Tax Deals in Luxembourg*, THE CENTER FOR PUBLIC INTEGRITY (Nov. 5, 2014), <http://www.icij.org/project/luxembourg-leaks/leaked-documents-expose-global-companies-secret-tax-deals-luxembourg>.

123. Jacobsen, *supra* note 122; Wayne, et al., *supra* note 122.

124. Stephanie Bodoni, *Ex-PwC Auditor Charged in Leaks of Luxembourg Tax Cases*, BLOOMBERG BUS. (Dec. 15, 2014), <http://www.bloomberg.com/news/articles/2014-12-15/ex-pwc-auditor-charged-in-leaks-of-luxembourg-tax-cases>; *see also* Simon Bowers, *World Unites to Decry Prosecution of Source Behind LuxLeaks Tax Scandal*, GUARDIAN (Dec. 23 2014), <http://www.theguardian.com/world/2014/dec/23/prosecution-source-luxleaks-tax-scandal-letter-luxembourg-auditor-antoine-deltour>.

125. Bodoni, *supra* note 124; Bowers, *supra* note 124.

126. Neil Chenoweth, *LuxLeaks Accused Antoine Deltour: "I Did My Duty"*, AFR.COM (Dec. 17, 2014), <http://www.afr.com/news/policy/tax/luxleaks-accused-antoine-deltour-idadid-my-duty-20141216-128m6w>.

127. *Id.*

128. Matthew Dalton, *Suspected LuxLeaks Leaker: I Am Part of a Bigger Moment*, WALL ST. J. (Dec. 15, 2014), <http://blogs.wsj.com/brussels/2014/12/15/suspected-luxleaks-leaker-i-am-part-of-a-bigger-movement/>.

129. *Another Ex-PwC Employee Charged in Luxembourg Tax Leaks*, MNE TAX (Jan. 24, 2015), <http://mnetax.com/another-ex-pwc-employee-charged-luxembourg-tax-leaks-6450>.

130. Wayne et. al., *supra* note 122.

131. *Id.*

132. Bodoni, *supra* note 124.

have been approved by Luxembourg officials with a stamped and signed confirmation letter.<sup>133</sup> The files cover the period from 2003 to 2011, and include only those rulings that bear evidence.<sup>134</sup> The ICIJ published a review of 28,000 pages of confidential documents<sup>135</sup> regarding companies that have enjoyed effective tax rates of less than one percent on the profits they have shuffled into Luxembourg.<sup>136</sup> The ICIJ created this database with scanned documents that are completely publicly available.<sup>137</sup> The accusations currently against Deltour are made under Luxembourg law<sup>138</sup> and hold a possible imprisonment term of five years.<sup>139</sup> The application of the Council Proposal's principles on the exemption of liability of a person that acted in the public's interest (possibly as a whistleblower) with the purpose of revealing illegal activity would give Deltour the hope on fair trial under harmonized EU law on trade secrets.

### iii. Exercise of Employees' Representative Functions

Recital 17 of Council Proposal states that

[a]cquisition and disclosure of trade secrets in the context of the exercise of the rights of workers representatives to information, consultation and participation in accordance with the [European] Union and EU Member States national law or practices, and the collective defense of the interests of workers and employers, including co-determination, is also excluded from the scope of unlawful acquisition, without prejudice of any duty of confidentiality imposed on the recipients of information so acquired.<sup>140</sup>

This exclusion also applies to acquiring or the disclosure of a trade secret while performing statutory audits.<sup>141</sup>

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133. Galizia et. al., *Explore the Documents: Luxembourg Leaks Database*, THE INT'L CONSORTIUM OF INVESTIGATIVE JOURNALISTS (Dec. 9, 2014), <http://www.icij.org/project/luxembourg-leaks/explore-documents-luxembourg-leaks-database>.

134. *Id.*

135. Wayne et al., *supra* note 122.

136. Jacobsen, *supra* note 122.

137. Galizia et. al., *supra* note 133.

138. Bowers, *supra* note 124.

139. Stephanie Bodoni & Tom Mackenzie, *The Quiet Man Who Made Big Trouble for Little Luxembourg*, BLOOMBERG BUS. (Feb. 22, 2015), <http://www.bloomberg.com/news/articles/2015-02-23/the-quiet-man-who-made-big-trouble-for-little-luxembourg>.

140. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 10a.

141. *Id.*

iv. Protection of Legitimate Interests Recognized in EU Member States  
National Law or EU Law

The acquisition, use, or disclosure of trade secrets whenever imposed or permitted by law should not be treated as unlawful. Consequently, “the acquisition or disclosure of a trade secret by administrative or judicial authorities for the performance of their duties should be lawful.”<sup>142</sup> Additionally,

disclosure by Union’s institutions and bodies or EU Member States national public authorities of business-related information they hold pursuant to the obligations of Regulation (EC) No 1049/2001<sup>143</sup> . . . or to other rules on the public access to documents or on the transparency obligations of national public authorities should not be considered unlawful disclosure of a trade secret.<sup>144</sup>

v. Privilege in U.S. Law as Protection from Liability

In the U.S. Restatement (First) of Torts,<sup>145</sup> the “liability only exists where use or disclosure is not privileged by the general need to promote a public interest or by individual’s need to defend against an infringement charge.”<sup>146</sup> This privilege applies in cases where a witness is compelled by law to disclose trade secrets in testimony.<sup>147</sup> However, this testimonial privilege does not protect a witness from liability for breach of contract based on voluntary disclosure.<sup>148</sup> The court in *ITT Telecom v. Dooley* held that the privilege exception is inapplicable to the defendant’s voluntary disclosures that allegedly violated his non-disclosure agreement.<sup>149</sup>

4. Limitation Period

*a. Maximum Six Years for the EU*

Six years is the maximum period for substantive claims or for bringing

142. *Id.*

143. Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding Public Access to European Parliament, Council and Commission Documents, 2001 O.J. (L 145) 43.

144. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 10a.

145. RESTATEMENT (FIRST) OF TORTS §757 (AM. LAW INST. 1939).

146. CHISUM ET AL., *supra* note 90, at 240; *see also* RESTATEMENT (FIRST) OF TORTS §757, cmt. d.

147. *See* RESTATEMENT (FIRST) OF TORTS § 757, cmt. d.

148. CHISUM ET AL., *supra* note 90, at 240. *See* *ITT Telecom Products Corp. v. Dooley*, 262 Cal. Rptr. 773, 781 (Cal. Ct. App. 1989).

149. *ITT Telecom Products Corp.*, 262 Cal. Rptr. at 783.

actions for the application of the measures, procedures, and remedies under Article 7 of the Council Proposal.<sup>150</sup> However, this does not necessarily mean that all EU Member States will include this maximum period in their national laws when implementing the Proposal. The Council Proposal provides only minimal harmonization, and EU Member States are free to set different limitation periods not exceeding six years.<sup>151</sup> In this author's view, this can result in different limitation periods for bringing claims and application of the measures among EU Member States. For example, if Finland set a two-year limitation period, but Spain sets a six-year limitation period, corporations that have subsidiaries in these countries will be faced with different limitation periods for bringing claims for trade secrets violations. Furthermore, the Council Proposal provides no limitations for EU Member States to decide when the limitation period will begin to run, and under which circumstances the limitation period will be interrupted or suspended. In this author's opinion, the full harmonization of limitation periods throughout the common EU market would be more appropriate.

*b. UTSA: Statute of Limitations*

Under the UTSA, the "action for misappropriation must be brought within [three] years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered[.]" and for this purpose, "a continuing misappropriation constitutes a single claim."<sup>152</sup>

5. Abusive Litigation

The Council Proposal stipulates that safeguards shall be applied against the abuse of measures, procedures, and remedies.<sup>153</sup>

EU Member States shall ensure that [courts] . . . apply appropriate measures as provided for in national law, where a claim concerning the unlawful acquisition, use or disclosure of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith.<sup>154</sup>

These measures may include awarding the respondent damages, imposing on the applicant sanctions, or ordering information regarding the decision to be

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150. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, art. 7.

151. *Id.* at 6, and art. 1.

152. UNIF. TRADE SECRETS ACT § 6.

153. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, art. 6(1).

154. *Id.* art. 6(2).

disseminated.<sup>155</sup>

In *Akzo Chemie v. Commission*, the CJEU noted that a “party who has submitted a complaint may not . . . be given access to documents containing business secrets[, otherwise this] would lead to the unacceptable consequence that [it] might be inspired to lodge a complaint . . . solely in order to gain access to its competitors’ business secrets.”<sup>156</sup>

## 6. Preservation of Confidentiality in the Course of Legal Proceedings

Pursuant to Article 8 of the Council Proposal, the confidentiality of trade secrets shall be maintained in the course of legal proceedings.<sup>157</sup> This obligation shall remain in force after the conclusion of legal proceedings.<sup>158</sup> However, such obligation will cease to exist if “(a) the alleged trade secret is found [by a final decision] not to fulfill the requirements [for trade secret, or] . . . (b) where over time, the information in question become generally known.”<sup>159</sup>

### *a. Specific Measures*

The EU Member States must ensure that courts take measures to preserve confidentiality on a duly reasoned application by a party or on their own initiatives.<sup>160</sup> The Council Proposal’s minimum requirement for measures grants the option

(a) to restrict access to any document containing trade secrets or alleged trade secrets . . . to a limited number of persons, provided that at least one person from each party, its respective lawyer or representative to the proceedings and court officials are given full access to such document;

(b) to restrict access to hearings, when trade secrets or alleged trade secrets may be disclosed, and their corresponding records or transcript, to a limited number of persons, provided that at least one person from each party, its respective lawyer or representative to the proceedings and court officials are given full access to such hearing, records or transcript; [and]

(c) to make available to third parties a non-confidential version of any judicial decision, in which the passages containing trade secrets have

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155. *Id.* art. 6.

156. Case 53/85, *AKZO Chemie BV & AKZO Chemie UK Ltd. v. Comm’n*, 1986 E.C.R. I-01965, para. 28.

157. COMMISSION DRAFT, *supra* note 7, at art. 8.

158. *Id.*

159. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, art. 8(1)(a)–(b).

160. *Id.* art. 8(2).

been removed.<sup>161</sup>

#### Courts of EU Member States

[S]hall take into account 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, resulting from the granting or rejection of such access.<sup>162</sup>

The Council Proposal expresses the willingness to provide more flexibility to the appropriate judicial authorities when considering the need to issue injunctions and other corrective measures.<sup>163</sup>

#### *b. UTSA: Preservation of Secrecy*

In regards of the requirements for the preservation of secrecy for courts dealing with trade secret cases, the UTSA states that:

court[s] shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.<sup>164</sup>

Comparing with Council Proposal, the text of the UTSA provides a briefer description of the requirements for the preservation of secrecy, but gives specific and helpful examples.<sup>165</sup>

#### 7. Provisional and Precautionary Measures

Article 9 of the Council Proposal provides the rights of a trade secret holder to order the provisional and precautionary measures against the alleged infringer. These measures include:

- (a) the cessation of or . . . the prohibition of the use or disclosure of the trade secret . . . ;

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161. *Id.* art. 8(2)(a)–(c).

162. *Id.* art. 8(3).

163. *Id.* at 5.

164. *Id.*

165. UNIF. TRADE SECRETS ACT § 5.

- (b) the prohibition to produce, offer, place on the market or use infringing goods, or import, export or store infringing goods for those purposes;
- (c) the seizure or delivery of the suspected infringing goods, including imported goods, so as to prevent their entry into or circulation within the [EU] market.<sup>166</sup>

Alternatively, courts may apply “the continuation of the alleged unlawful acquisition, use or disclosure of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder.”<sup>167</sup>

In the U.S., injunctions during discovery and trial are common.<sup>168</sup> Since public disclosure of a trade secret terminates its protectability, the threat of disclosure, which can happen at any moment, constitutes irreparable injury.<sup>169</sup>

## 8. Injunctions and Corrective Measures

Injunctive and corrective measures are provided for in Article 11 of the Council Proposal.<sup>170</sup> The Council Proposal also highlights the global nature of trade in which requiring an injunction is the prohibition of importing infringing goods into the EU.<sup>171</sup>

### *a. Injunctive Measures*

Injunctive measures are

- (a) the cessation of or . . . the prohibition of the use or disclosure of the trade secret;
- (b) the prohibition to produce, offer, place on the market or use infringing goods, or import, export or store infringing goods for those purposes; [and]

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166. COMMISSION DRAFT, *supra* note 7, art. 9(1)(a)–(c); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 9(1)(a)–(c).

167. COMMISSION DRAFT, *supra* note 7, art 9(2); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 9(2).

168. See CHISUM ET AL., *supra* note 90, at 242 & n.296 (citing *Salomon v. Hertz*, 40 N.J. Eq. 400 (Ch. 1886) (issuing a “preliminary injunction for technical business information”)); *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970)).

169. CHISUM ET. AL., *supra* note 90, at 242, n.298 (*Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 119 (3d Cir. 2010) (issuing a preliminary injunction enjoining former executive from working for competitor)).

170. COMMISSION DRAFT, *supra* note 7, art. 11; GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 11.

171. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 17.

(c) the adoption of the appropriate corrective measures with regard to the infringing goods.<sup>172</sup>

For example, an injunctive measure, which is the cessation, the prohibition, or the disclosure of the trade secret, can be applied in a case where a competitor recruits executive or key employee with intimate knowledge of the company. For example, Brewery “B,” a competitor, hires a marketing director with intimate knowledge of Brewery “A’s” strategic marketing plans. In this case, Brewery “A” can argue that any decision the marketing director would make in his new position would inevitably be influenced by his knowledge of Brewery “A’s” plans. This type of injunction is being used in the U.S. and is based on the “inevitability” of disclosure,<sup>173</sup> which can result from a previous employment relationship.<sup>174</sup> In a similar U.S. case, *PepsiCo, Inc. v. Redmond*, the court approved an injunction and prevented the executive from taking a new position for the period of six months.<sup>175</sup> There, PepsiCo, Inc. sought a preliminary injunction against a former employee, William Redmond, and the employee’s new employer, the Quaker Oats Company, in order to prevent Redmond from disclosing PepsiCo trade secrets in his new job with Quaker and from taking on any duties relating to beverage pricing, distribution, and marketing.<sup>176</sup> Other U.S. courts, however, have rejected the concept of “inevitable disclosure” as insufficient to justify an injunction.<sup>177</sup> The UTSA provides the possibility to enjoin actual or threatened misappropriation.<sup>178</sup>

*b. Corrective Measures*

The Council Proposal provides corrective measures, which include:

- (b) recall of the infringing goods from the market;
- (c) depriving the infringing goods of their infringing quality;

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172. COMMISSION DRAFT, *supra* note 7, art. 11(a)–(c); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 11.

173. CHISUM ET AL., *supra* note 90, at 242.

174. *See Bimbo Bakeries USA, Inc.*, 613 F.3d at 102 (issuing a preliminary injunction enjoining former executive from working for competitor).

175. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1272 (7th Cir. 1995).

176. *Id.* at 1263; *see also* *Nucor Corp. v. Bell*, No. 2:06-CV-02972-DCN, 2008 WL 9894350, at \*1 (D.S.C. Mar. 14, 2008) (holding that the former employee was enjoined from participating in competitor’s production of steel).

177. *See Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277 (Cal. Ct. App. 2002) (holding that the inevitable disclosure doctrine did not bar employee from working for competitor); *Kelly Servs., Inc. v. Marzullo*, 591 F. Supp. 2d 924 (E.D. Mich. 2008) (finding that “company’s allegations of “inevitable disclosure” were insufficient to justify injunction to preclude former employee from violating confidentiality and nonsolicitation agreement”).

178. UNIF. TRADE SECRETS ACT § 2.

- (d) destruction of the infringing goods or . . . withdrawal from the market, provided that such measure does not undermine the protection of the trade secret in question;
- (e) the destruction of all or part of any document, object, material, substance or electronic file containing or implementing the trade secret or, where appropriate, the delivery up to the applicant of all or part of those documents, objects, materials, substances and electronic files.<sup>179</sup>

Corrective measures shall be carried out at the expense of the infringer unless there are particular reasons for not doing so, and without prejudice to any damages that may be due to the trade secret holder.

*c. Injunction as the Prohibition of Importing Infringing Goods in the EU*

As mentioned before, the Council Proposal highlights the global nature of trade that requires an injunction as “the prohibition of importing [infringing] goods into the [European] Union or storing them for the purposes of offering or placing them on the market.”<sup>180</sup>

*d. Duration of Injunctions*

Under the second paragraph of Article 12(1), the duration of the injunction shall be sufficient “to eliminate any commercial or economic advantage that the infringer could have derived from the unlawful acquisition, use or disclosure of the trade secret.”<sup>181</sup> Injunctions shall be “revoked or otherwise cease to have effect, upon request of respondent if in the meantime the information in question no longer fulfils [*sic*] the conditions [of trade secret] . . . for reasons that cannot be attributed to the respondent.”<sup>182</sup> Similar conditions regarding the duration of injunctions are stated in the UTSA.<sup>183</sup> Hence, the perpetual injunction is possible taking into account the unlimited duration for the protection of trade secrets.<sup>184</sup>

## 9. Pecuniary Compensation

Under Article 12 of the Council Proposal, pecuniary measures can be applied instead of injunctions or corrective measures to the person that in good

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179. COMMISSION DRAFT, *supra* note 7, art. 11(2)(b)–(e).

180. *Id.* at recital 17; GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, recital 17.

181. COMMISSION DRAFT, *supra* note 7, art. 12(1), ¶ 2; GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 12(1), ¶ 2.

182. COMMISSION DRAFT, *supra* note 7, art. 12(2); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 12(2).

183. UNIF. TRADE SECRETS ACT § 2.

184. CHISUM ET AL., *supra* note 90, at 244.

faith received trade secret without knowledge of its unlawful nature or origin.<sup>185</sup> In order to avoid situations when the corrective measures or injunctions could cause disproportionate harm to that latter person, the pecuniary compensation may awarded to the injured party as an alternative measure,

if all the following conditions are met:

- (a) the person concerned at the time of use or disclosure neither knew nor had reason . . . to know that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully;
- (b) execution of the measures in question would cause that person disproportionate harm; [and]
- (c) pecuniary compensation to the injured party appears reasonably satisfactory.<sup>186</sup>

However, the “pecuniary compensation shall not exceed the amount of royalties . . . which would have been due, had that person requested authorisation [*sic*] to use the trade secret . . . for the period of time for which use of the trade secret could have been prohibited.”<sup>187</sup>

## 10. Damages

Article 13 of the Council Proposal provides the obligation to EU Member States to ensure that courts “order the infringer[s] who knew or ought to have known that he or she was engaging in unlawful acquisition, disclosure or use of a trade secret, to pay the trade secret holder damages commensurate to the actual prejudice suffered.”<sup>188</sup>

### *a. Employee’s Liability May be Limited*

EU Member States, in accordance with their national law, may restrict the liability for damages of employees for the unlawful acquisition, use, or disclosure of a trade secret of the employer when they act without intent.

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185. COMMISSION DRAFT, *supra* note 7, art. 12(3)(a); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 12(3).

186. GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, art. 12(3)(a)–(c); *see generally* COMMISSION DRAFT, *supra* note 7, art. 12(3)(a)–(c).

187. COMMISSION DRAFT, *supra* note 7, art. 12(3); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, art. 12(3), para. 2.

188. COMMISSION DRAFT, *supra* note 7, art. 13(1); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, art. 13(1).

*b. Factors for Setting Damages and Lump Sum as Alternative*

When deciding the amount of damages, courts “shall take into account all appropriate factors, such as [i] the negative economic consequences, including lost profits . . . [ii] any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as moral prejudice caused to the trade secret holder.”<sup>189</sup> Alternatively, courts may “set the damages as a lump sum on the basis of elements such as, at a minimum, the amount of royalties or fees which would have been due if the infringer had requested authorisation [*sic*] to use the trade secret in question.”<sup>190</sup>

*c. Amount of Damages vs. Amount of Pecuniary Compensation*

The principles set out in the last sentence of Article 12(3), pecuniary compensation, for “good faith” cases, and the last sentence of Article 13(2), damages in lump sum for “bad faith” cases, are very similar in the calculation of amounts to be paid to trade secret holder.<sup>191</sup> Additionally, there is a possibility that in “good faith” and “bad faith” cases of trade secret infringement, the amount of pecuniary compensation is not to exceed the amount of royalties, and the amount of damages, if set as a lump sum at a minimum in the amount of royalties, can result in similar amounts to be paid to trade secret holder.<sup>192</sup> The application of such principles theoretically causes unreasonably unequal rights to the benefit of person that in bad faith received trade secret.

*d. The USTA and U.S. Case Law*

Under the USTA, “damages can include both the actual loss caused by the misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.”<sup>193</sup> Damages may also be measured by the “imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret.”<sup>194</sup> However, “in order to justify this alternative measure of damages, there must be competent evidence to support of the amount of a reasonable royalty.”<sup>195</sup> In a case of willful and malicious misappropriation, the court can award

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189. COMMISSION DRAFT, *supra* note 7, art. 13(2); GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art. 13(2).

190. COMMISSION DRAFT, *supra* note 7, art. 13(2), para. 2; GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at art 13(2), para. 2.

191. COMMISSION DRAFT, *supra* note 7, arts. 12(3), 13(2).

192. *Id.*

193. UNIF. TRADE SECRETS ACT § 3(a).

194. *Id.*

195. *Id.* § 3(a) cmt.

exemplary damages in addition to the actual recovery in an amount not to exceed twice that recovery.<sup>196</sup> In a recent U.S. case,<sup>197</sup> a California court, “addressing the rule that a reasonable royalty available for trade secret misappropriation only where neither damages nor unjust enrichment are ‘provable,’”<sup>198</sup> concluded that a “reasonable royalty is available . . . where plaintiff could not prove any loss and defendant made no actual profits” and, therefore, the fact that defendant establishes that it lost money from the misappropriation does not defeat a claim for reasonable royalties.<sup>199</sup>

### III. FUTURE CHALLENGES

#### A. Handling Employees

Handling employees and ensuring their loyalty is a perpetual challenge for employers. In actuality, “employees may be one of the biggest leaks of improperly disclosed trade secrets.”<sup>200</sup> In the U.S., “[t]he majority of cases involves alleged misappropriators known by the trade secret owner involves either an employee or a business partner.”<sup>201</sup> The same tendency will most likely be followed in Europe after the Council Proposal’s adoption. When unified legal standards for trade secrets are implemented in the EU, both employers and employees will become aware of their rights and duties, which can significantly affect the amount of legal proceedings in the EU.

Therefore, every company, especially those in the manufacturing industry, should take practical steps now (if they are not already in place) to protect the trade secrets it owns or uses from misappropriation, and limit the possibility of litigation. For instance, companies should (i) describe the information considered to be a trade secret, (ii) identify when the information was originally created, (iii) describe the development of the information or how it was obtained; (iv) list the persons that have access to the information, (v) give a “level of classification required to provide adequate protection of the secrecy

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196. *Id.* §3(b).

197. *Ajaxo Inc. v. E\*Trade Fin. Corp.*, 115 Cal. Rptr. 3d 168, 185 (Cal. Ct. App. 2010) (holding “that E\*Trade did not profit from its misappropriation, unjust enrichment is not ‘provable’ . . . [s]ince E\*Trade had consistently and successfully taken the position that Ajaxo’s actual losses are not provable, E\*Trade is estopped from arguing otherwise. Thus, since neither actual loss nor unjust enrichment is provable, the trial court had discretion . . . to order payment of a reasonable royalty”).

198. 1-1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01[3] (2011).

199. *Id.*; *Ajaxo Inc.*, 115 Cal.Rptr. 3d at 172.

200. ERIC M. DOBRUSIN, INTELLECTUAL PROPERTY CULTURE: STRATEGIES TO FOSTER SUCCESSFULLY PATENT AND TRADE SECRET PRACTICES IN EVERYDAY BUSINESS 269 (2008).

201. STUDY ON TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION IN THE INTERNAL MARKET, *supra* note 1, at 106.

of the information,”<sup>202</sup> (vi) enter appropriate and relevant non-disclosure and non-compete agreements with employees, and (vii) include trade secrets’ protection measures in intellectual property and overall business strategy.”<sup>203</sup>

Similarly important, employers need to “establish strong psychological loyalty with its employees to stand a better chance of seeing its non-disclosure and non-compete agreements being effective and thus safeguarding its trade secrets.”<sup>204</sup>

#### IV. CONCLUSION

The adoption of the Council Proposal will establish unified legal standards for defending trade secrets across the EU. As a result, trade secrets will be able to “fulfil [*sic*] their potential as drivers of economic growth and jobs”<sup>205</sup> within the EU. Furthermore, unified standards will provide greater incentives for businesses to engage in innovative cross-border activity within the internal market. Some of the Council Proposal’s provisions still need improvements and adjustments to business needs and realities. Additionally, full harmonization of trade secret protection would be more efficient than the currently proposed minimum harmonization. Nevertheless, irrespective of some deficiencies in the Council Proposal’s text, the Council Proposal, as such, is a long awaited and vital step towards trade secrets’ harmonization for all EU countries.

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202. CHRISTOPHER M. ARENA & EDUARDO M. CARRERAS, *THE BUSINESS OF INTELLECTUAL PROPERTY* 253 (2008).

203. *See generally* TALHIYA SHEIKH, WORLD INTELLECTUAL PROPERTY ORGANIZATION, *TRADE SECRETS AND EMPLOYEE LOYALTY*, [http://www.wipo.int/sme/en/documents/trade\\_secrets\\_employee\\_loyalty.html](http://www.wipo.int/sme/en/documents/trade_secrets_employee_loyalty.html) (last visited Nov. 20, 2015).

204. *Id.*

205. *See* GENERAL APPROACH TO THE PROPOSAL, *supra* note 8, at recital 3; COMMISSION DRAFT, *supra* note 7, at recital 3.