

**REPORT**  
**EUROPEAN COMMISSION CONFERENCE OF 29 JUNE 2012**  
**"TRADE SECRETS: SUPPORTING INNOVATION,**  
**PROTECTING KNOW-HOW"**

This Conference, organised in Brussels by the European Commission (DG Internal Market and Services), aimed at debating the role and importance of trade secrets for the European economy and the question of the possible protection of trade secrets at the EU level. The Conference also aimed at collecting stakeholders views on the industry survey on this topic to be undertaken later in 2012 by an external consultant on behalf of the European Commission.

A webcast of the Conference (in DE, EN, ES, FR, IT and NL) is available online at: [http://ec.europa.eu/internal\\_market/iprenforcement/conferences\\_en.htm](http://ec.europa.eu/internal_market/iprenforcement/conferences_en.htm).

This report of the Conference comprises a detailed summary record of the different interventions<sup>1</sup>.

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<sup>1</sup> N.B. While every effort is made to be as accurate as possible with this summary report, it does not in any way replace the verbatim proceedings of the Conference, which should thus be considered the only complete record of the event.

## SUMMARY RECORD

### OPENING SESSION

**Mr Delsaux (European Commission)** opened the Conference on behalf of the European Commission and welcomed participants. He explained that the main reason for the event was to establish a comprehensive dialogue with stakeholders and experts on (i) the role and importance of trade secrets in innovation and competitiveness in the EU – including for SMEs and start-ups, and (ii) the relevance of their legal protection within the Internal Market. He recalled that trade secrets (which are clusters of information and knowledge that companies develop throughout time, in a process that requires significant investment in human resources and safeguards) are used by companies of any size (SMEs and large companies); that they cover many forms of intangible assets, such as know-how, technology and formulas, but also commercial and marketing data; and that they are widely used across all sectors in the economy.

Mr Delsaux mentioned that, in these difficult times for our economies, innovation is a key aspect for stimulating growth in Europe and, in this context, the issue of trade secrets is important. He added that the relevant question is whether we should do something at EU level and, if so, what. He reported that the Commission services have been working on this issue for some time. A first study report that screens the existing national laws on trade secrets was published earlier in 2012; and a second study is being carried out to provide a more comprehensive picture of how trade secrets are used in practice and how important they are to European companies. He stressed that this fact-finding phase of the project needs to be done in dialogue and cooperation with stakeholders in order to understand what are the real problems, the legal and economic situation and the possible solutions. He stated that the Commission services will carry out a full assessment before deciding what should be done.

### TRADE SECRETS AND EU POLICY

**Mr Bergevin (European Commission)** presented the agenda of the day. He noted that no legislation specific to trade secrets has yet been established at EU level, and that there is little understanding amongst the general public on what trade secrets are. He explained that trade secrets and confidential business information are probably at the core of competitiveness of any European company, with many companies not realising how valuable these assets are until they lose them. For this reason, difficulties with getting redress against misappropriation of trade secrets would be addressed in the first session of the Conference.

Mr Bergevin pointed out that the main question before the participants is whether the possibilities of redress currently accessible in the Union are fit for purpose, explaining that this issue was partly addressed by a study prepared on the Commission's request by Hogan Lovells last year. The study, which would be presented later, had shown that means of getting redress largely differ across the Member States. He further explained that even if the forthcoming study confirmed their economic significance, justification for undertaking an action at EU level would require further consideration, in respect of 1/ whether the existing redress is effective across the Member States, 2/ whether there exist best practices that could be promoted, 3/ whether these different approaches to trade

secrets' protection may have a chilling effect on companies working together through joint ventures and agreements ("network innovations"), and 4/ whether the companies do not engage in cross-border cooperation because of their concern about insufficient protection against trade secrets' misappropriation. At the end of his opening remarks, Mr Bergevin encouraged all the participants to actively engage in the discussions and expressed his hope that the above questions will be addressed in the course of the Conference, and thereafter in the course of the dialogue that will follow from it throughout this year. This would help the Commission's services to assess whether there is a real need for action.

## **MISAPPROPRIATION OF CONFIDENTIAL BUSINESS INFORMATION**

### **Mr Guillaume Geoffroy, Alstom**

Mr Geoffroy presented an example of misappropriation of technology that his company had suffered from. This had occurred within the EU during a tender for a power plant in Bulgaria. The example demonstrated how, to date, his company had not been able to achieve redress and proportionate compensation from the misappropriation.

Alstom is active in the sectors of power generation and environmental control systems. In these sectors one of the technologies that the company uses provides for wet flue gas desulphurisation. This technology is basically composed of trade secrets including know-how, proprietary and confidential information. Very few parts of the relevant equipment and devices used in the processes are patented. Although this is a mature technology, Alstom constantly invests significant amount of money in R&D to improve the efficiency of the wet desulphurisation process and also in order to meet increasingly stringent emissions regulations.

As regards the case, in 2004 Alstom licensed the technology in question for the Chinese territory under an agreement with a Chinese company named "Insigma". One year after entering in this contractual relationship, Insigma stopped paying royalties and sublicensed the technology to an affiliate. Alstom therefore terminated the agreement and took action in the Singapore International Arbitration Centre to seek redress. During the proceedings, Insigma denied committing any infringement and claimed that once the agreement was terminated by Alstom, it had reverted to using technology provided by its former Italian partner named "Idreco". In 2010, the Singapore Arbitration Court awarded Alstom USD \$ 35M as compensation for the unpaid royalties and the illicit use of its technology in China.

Meanwhile, in 2008 Insigma and its Italian partner Idreco formed a consortium and submitted a tender for the Maritza East 2 project in Bulgaria, funded by the EU and EBRD. Despite the warnings from Alstom to the Bulgarian authorities, the Commission and EBRD, on the illicit use of Alstom's technology by the consortium, and information about on-going litigation in the Singapore Arbitration Court, the Bulgarian authorities awarded the contract to Insigma. In addition to this, Alstom also denounced the fact that the consortium had fraudulently misrepresented its references in order to meet the qualification criteria. This matter was investigated by OLAF and the EBRD, who confirmed the fraud.

In response, Alstom filed complaints on infringement of intellectual property before the Commission and EBRD and was referred by these institutions to address its case directly

to the Bulgarian authorities. In early 2011, Alstom filed a complaint before the Bulgarian Commission for the Protection of Competition. Whereas the latter recognised that OLAF's final case report confirmed the fraudulent misrepresentation of the references of the Idreco/Insigma consortium, it ruled that Alstom's technology was not "an exceptional engineering achievement" which could constitute a valuable trade secret, and therefore that redress on the basis of unfair competition could not be sought.

This decision ignoring the Singapore arbitration sentence was appealed by both Alstom and the consortium. The appeal confirmed the decision on the IPR but invalid on procedural grounds **as regards** [?] the decision in relation with the fraud. So far, Alstom has been unable to obtain any recognition of a trade secret infringement within Bulgaria, though an extraordinary appeal is pending. At the same time, the contract granted to Insigma and Idreco in Bulgaria has been show-cased by the same company in subsequent bids. The only positive outcome to date has been the withdrawal of the EU and EBRD funding awarded for Maritza East 2 project.

Mr Geoffroy stressed that the above case has had serious consequences for Alstom, including substantial job losses in Europe. He concluded by explaining that the need to enforce one's rights separately in 27 different jurisdictions constitutes a serious problem. He outlined that the authorities refused to Alstom any access to the project information which could have provided evidence that Alstom IPR was violated; strikingly all these refusals were grounded upon the protection of the trade secrets of the Idreco/Insigma consortium. Mr Geoffroy indicated that contrary to what occurred in Bulgaria, further to a 6 week discovery proceeding, Alstom was granted access by a Chilean tribunal to all the documentation for a project in Chile where the consortium has also violated Alstom's IPR. Alstom believes that there is an urgent need for uniform EU legislation in this domain.

### **Mr Patrick Schriber, DuPont de Nemours**

Mr Schriber presented DuPont de Nemours, a diversified industrial company with a large focus on R&D and innovation, which is the core to its future growth and viability. The company invests over 2 billion USD a year in R&D with very significant part of this investment leading to improvements that are not patentable, and therefore only protectable via trade secrets.

Mr Schriber noted that strong legal protection is essential to justify and maintain constant expenditures on R&D and innovation as well as subsequent investment in industrial production. He stated that patents are a central pillar of this protection, but that trade secrets are an equally important measure, as they complement patents but also provide for a separate form of protection. He pointed out that the "improvements" that stem from R&D are frequently the fruit of lengthy and costly trial periods and yet many such "improvements" will never reach the level of patentability if considered in isolation. However, when considering the company's competitive performance, such process and/or manufacturing improvements and know-how are just as valuable and worthy of protection as an individual patentable invention would be. He further explained that key patented inventions can often take years to achieve commercial viability, and that during this whole period they are being incrementally improved. Therefore, without such complementary protection of these incremental "improvements", the benefits of patentable inventions might never reach the market.

In view of the above, DuPont believes it is very important for trade secrets to be fully recognised as a form of IP and be awarded proper protection against theft and misuse. In

the company's opinion even if trade secrets have been clearly recognised as a specific form of IP in the TRIPS agreement, the transposition of this legal framework is currently clearly insufficient on both European and national level. Mr Schriber further commented that what exists today is essentially a legislative patchwork, which in of itself represents a major deterrent from taking legal action and hence restrains cross-border investment in innovation. In Mr Schriber's opinion, theft of intellectual property embodied in trade secrets is emerging as a major competitive threat to the European economy in general, and to European companies in particular. This situation will impact on the EU's ability to remain an innovation leader, and as a consequence, will be detrimental to the sustainability of jobs. Mr Schriber pointed out that although the EU is not the only research intensive market facing this problem, other research intensive economies like US and Japan, whilst also struggling with this issue, tend to have much better toolboxes available to combat the infringements in question, e.g. the US Uniform Trade Secret Act.

According to Mr Schriber there are multiple reasons explaining the increasing level of misuse and theft of trade secrets. Amongst these he singled out the following:

- The internet, cybercrime and vulnerability of corporate computer networks make access to data easier and faster than before;
- Delocalisation and outsourcing of manufacturing activities creates vulnerability;
- The increase in the need for joint bids to achieve tenders, such as the previously reported case of Alstom, that can make it harder to assess the legality of an offer;
- The greater competitive intensity which industries are facing pushes some companies to extremes to get access to a missing piece of technology.

In response to this DuPont has implemented a lot of internal protection policies and procedures, including access control to data, segregation of data, and on-going monitoring of data flows. In the company's opinion it is very difficult to determine whether trade secrets are being stolen or misused without such measures being put in place.

Mr Schriber explained further that his company had to face a number of serious cases of misappropriation or theft of trade secrets within the past 10 years, with several of them leading to high-visibility litigation, criminal indictments and jail terms for individuals involved.

One such case concerned "Kevlar" - a high performance fibre invented in 1965 and manufactured commercially from 1971 with plants currently located in the USA, Europe and Japan. Since patents for the fibre and its production have largely expired, the viable and competitive exploitation of plants is secured today largely via incremental process and consequential product "improvements" that are protected as trade secrets. In 2007, a competitor hired a former DuPont employee as a consultant in its American branch office. After running internal investigations it became clear that some transfers of data occurred, and the company sought the FBI's assistance. While the US Department of Justice and other law enforcement agencies were running their investigations, DuPont suffered from other attempts to access confidential information. Eventually the suspected employee was found guilty and went to prison.

In parallel to the criminal case, DuPont launched a civil claim against said competitor under the Virginia enactment of the Uniform Trade Secret Act for concerted and

persistent theft of DuPont's trade secrets. As a result of document discovery ordered by the court, the defendant returned 5000 pages of documents, some of which had not been identified as being leaked beforehand. Subsequent discovery revealed that additional DuPont employees were involved in passing documents and information. DuPont was awarded damages of USD \$ 920 million (not collected yet) calculated on the basis of the investment in the on-going R&D.

In DuPont's opinion trade secrets are clearly a form of intellectual property and need to be afforded effective protection against abuse. The company is neither advocating the creation of new legal monopolies, nor for the banning reverse engineering or limiting independent parallel development. The company expressed its support for a fair competition environment, but stressed that theft and subsequent exploitation of someone else's IP cannot be tolerated.

Mr Schriber concluded his presentation with a call for adequate protection for trade secrets in EU, which cannot in his opinion be achieved through the existing legislative patchwork, and thus requires a consistent approach across the Member States.

### **Mr Patrick Ozoux, Michelin**

Mr Ozoux focused his presentation on two examples of trade secret theft that Michelin was suffered from. He also brought to participants' attention the importance that trade secrets have for SMEs.

Mr Ozoux started by comparing how the precise know-how necessary to produce a high-performance tyre could be compared to the precise know-how applied by a highly experienced chef to produce high quality macaroons. He explained that the precise temperatures applied in melting compounds were important IP knowledge but obviously that these could not be patented.

The first example of trade secret theft he referred to was discovered in May 2005 during a rally in Japan, where Michelin was testing a prototype tyre. The new tyre had proven to be a huge success, giving Michelin's team supremacy in the rally. After the competition one of the tyres was stolen from Michelin's stand. The tyre, being a prototype, had not been previously commercialised and as such its compound and design was a trade secret. Following the theft the secret was disclosed (through reverse engineering) and caused serious damage to Michelin by depriving it of its first-mover advantage on the professional rally market.

The second example cited occurred in 2007. Mr Ozoux recalled receiving a phone call from a competing tyre manufacturer, who warned him that his company had received an e-mail from an unidentified person offering to sell confidential information on Michelin's production processes. With the support of French authorities the company found out that the person in question was a former employee who used to work at Michelin's research centre, and managed to leave the company with a hard disk containing more than 13.000 files. The fact that most of these files were encrypted, and that information was classified as confidential, was irrelevant as the person in question disposed of codes necessary for the encryption. The information stolen covered a vast array of secrets including new more efficient production processes, mould and plate designs, high performance data launch times and plans for new tyres over the forthcoming three years and their development plan development plan up to 2012, which included i.a. the quantities of tyres to be manufactured by each plant and organizational chart for Michelin's technical services in Asia. This information was offered to Michelin's competitor for a mere

115 000 EURO. In the course of investigation it was identified that the e-mail had been sent from a cyber café in London. Since the theft had not taken place in the UK and that the provisions in UK law were less clear than those in France, the former employee was "trapped" to return to Paris from London, arrested and eventually convicted for two year imprisonment. This was of little consolation to Michelin, given that they discovered that he had managed to contact three other different companies.

Mr Ozoux went on to explain the importance that trade secret have for SMEs. He considered the statement that protection of trade secrets is beneficial only for big market players to the detriment of SMEs, to be a myth. He explained that Michelin in its activity largely relies on subcontractors, the majority of whom are SMEs. These subcontractors are closely involved in the conception and construction of products and services provided by the company, and thus, also need to benefit from the protection of confidential information. Mr Ozoux reported that his company applies a code of good business ethics in all procurement relations with contractors, no matter the size of the company. One of the core principles included in this code is an obligation to reciprocally protect confidential information of both partners. The lack of adequate redress against theft of such information undermines such commitments between contractors, especially big companies cooperating with SMEs. It therefore attenuates the results of such cooperation because the companies prefer to keep some of the information secret, limiting the scope of exchange. On the other hand, where such sufficient legal redress against theft of trade secrets is guaranteed, the business partners are encouraged to intensify this exchange, what reinforces the relation between the companies and leads to closer cooperation and of-course to enhanced, innovative and growth enhancing performance in the relevant market.

Concluding, Mr Ozoux stated that for Michelin a uniform protection of confidential information, on the level comparable to that in is in US or Japan, is essential not only for the sake of stimulating growth and job creation, but also to ensure that SMEs can play their key role in the EU innovation economy.

### **Mr John M. Ulliman, AMSC**

In the first part of his presentation Mr Ulliman explained the business activity that his company is engaged in, describing the investment made in, and the role of intellectual property.

American Superconductor (AMSC) considers intellectual property as a starting point for the company's business model, and has invested approximately one million USD over the years in IP. The company is engaged in two primary businesses: power generation, with the focus on renewable power sector and wind turbines (wind turbine designs, support and power electronics), and power distribution (power electronics related to the grid, superconductor technology). AMSC is the world's number one in design and manufacture of superconductor wire. He explained that despite the fact that the AMSC's activity is global, the company tends to develop its IP-related assets in US and Europe.

Mr Ulliman focussed on AMSC's activity related to wind power, explaining that this area amounts to two thirds of the company's business and has its centre of excellence localised in Klagenfurt, Austria. Mr Ulliman described the wind turbine market as a large and rapidly growing one worth some 3 million USD to his company (through licensing and sales of key electronic control systems). In March 2011 AMSC was employing 800 people worldwide in this sector, a number that fell to 400 in March 2012 as a consequence of the misappropriation one of the company's key trade secrets.

Mr Ulliman explained that AMSC business model consists of developing designs for wind turbines, identifying partners who dispose of manufacturing facilities, but do not have the design, and subsequently licensing AMSC's designs to those partners. The company charges a fee and helps its partners to develop their business, by furnishing everything from detailed drawings of turbines to helping its partners to set up factories and launch distribution. The company's policy is to license up to 90% of IP generated and hold back 10% of it to optimise profits. Mr Ulliman noted that the piece that AMSC retains is the electrical control system for the wind turbine - a "box" that is incorporated into the turbine, and which the company does not license, but sells, maintains and updates during the lifetime of the turbine. The software and system in this box is considered as a key trade secret for the company and is central to their business model as all their partners know.

In 2004-2005 the installed wind power installations capacity in China was quite low, but grew at a phenomenal rate in subsequent years. In 2004 domestic wind turbine providers had an 80% share in the market, a number that decreased to only 10% share in 2011. That change was in a large part due to the growth of AMSC's business in China. AMSC's strategy at the time was to help local companies to get involved in the wind turbine market; Sinovel Wind Co. was one of these companies.

It was explained that Sinovel did not have any wind business before 2005, when their cooperation with AMSC started. In 2008 Sinovel became China's largest wind turbine manufacturer, and eventually, in 2010 surpassed GE to become the world's second wind turbine manufacturer, installing nearly 4,400 MW in China. The cooperation between the two companies proceeded well initially, with almost 100% of Sinovel's wind turbines being of AMSC design in March 2011.

Mr Ulliman described the relation between AMSC and Sinovel as a very close one. According to him, AMSC helped Sinovel to get into the business, set up Sinovel's factory and assisted the new partner in field service support. He noted that the cooperation was very beneficial to both companies, pointing out that the subject of the trade secret shared with the Chinese partner was the control logic incorporated in the para-electronic boxes.

This good relationship between the companies stopped in March 2011, when Sinovel suddenly refused shipment of boxes that included the control logic and thus breached its contract. Considering the scale of Sinovel's growth, at that time AMSC were being stretched to the limit to meet their client's requirements in terms of deliveries. The contracts in question were worth more than USD700 million. Sinovel's sudden breach was therefore highly detrimental for AMSC; the situation worsened when AMSC accidentally discovered that Sinovel had colluded with an ex-employee who had stolen a parts of AMSC's IP: the code of the wind turbine control software with low voltage ride through (the latter being of particularly importance due to the specificities of the Chinese market) as well as power converter software code. At this stage Sinovel had already an important business developed in China, two other businesses around the world, and was trying to expand to foreign markets (i.a. Ireland, Greece, Romania, Turkey, Brazil).

In response to the above breach ASMC decided in September 2011 to launch several law suits in China. These cost the company USD 1.3 million. These law suits included:

- A claim before Beijing Arbitration Commission seeking approx. USD5 million for past product shipments and enforcement of contracts valued at approximately USD700 million;
- two cases before Beijing Number I Intermediate Court: first seeking ~ USD360 million in a trade secret case (the largest IP case ever undertaken in China), and second seeking ~USD 5 million compensation for copyright infringement (case includes demands for cease and desist orders).
- an appeal before China's Supreme People's Court for dismissal of a copyright infringement case by the Hainan Number 1 Intermediate Court.

In these cases the evidence is really clear and overwhelming, including an order convicting AMSC's ex-employee, contracts and e-mails proving AMSC's case. AMSC hopes to receive fair compensation, awaits the rulings of the abovementioned courts, and continues cooperation with its other Chinese customers.

## **THE LEGAL FRAMEWORK IN THE EU**

**Ms Sarah Turner (Hogan Lovells)** presented the results of the study carried out for the Commission on the legal framework on trade secrets protection in the EU<sup>2</sup>. She started by reminding the participants that there is no uniform definition of trade secrets. TRIPS Agreement refers to "undisclosed information" and a lot of countries use the TRIPS definition as a basis (i.e. information which is secret, has commercial value; and has been subject to reasonable steps to keep it secret). However, what is actually protectable varies from country to country: e.g. commercial information, technical/industrial information, supplier/customers lists, manufacturing or process secrets (cf. in FR and BE there is statutory protection for the latter).

Ms Turner explained that the law protecting trade secrets in the EU Member States is a bit of a patchwork: only Sweden has an Act wholly directed to the protection of trade secrets; other countries have specific provisions directed to protecting trade secrets (but scattered in different pieces of legislation: cf. commercial code, unfair competition act) and others have more general legislation which can be used to protect trade secrets. She said that many countries use the law of unfair competition (civil and criminal) as the main means of protection and most rely on labour laws (as regards employees) too. Contract law and the law of tort are also used. Finally, in the UK and Ireland there is no statutory legislation, but the law has been judicially created (law of confidence). She classified the EU Member States as follows:

- Most civil law countries rely on unfair competition law to protect trade secrets such as: AT, CZ, DE, DK, PL and RO (civil and criminal law provisions); CY, EL, PT (criminal law provisions only) and BE, BG, EE, ES, FI, HU, LT, LV, SI, SK (civil law provisions only)
- Criminal law (other than unfair competition) is used by most EU Member States (for example AT, BG, CY, DE, DK, EE, ES, FI, FR, HU, IT, LT, LU, LV, NL, PT, RO, SE, SK, SI), but there are few criminal convictions. When there are convictions, penalties include imprisonment and fines, but maximum terms (e.g. 8 years vs. a few months) or amounts differ considerably. Interestingly, in the UK the misuse of a trade

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<sup>2</sup> [http://ec.europa.eu/internal\\_market/iprenforcement/documents/index\\_en.htm#maincontentSec2](http://ec.europa.eu/internal_market/iprenforcement/documents/index_en.htm#maincontentSec2)

secret is not a crime – although if the secret is recorded on a piece of paper, taking the paper could be considered as theft;

- Other forms of protection include tort law (in BE, EL, LU, NL and other countries). In most Member States, protection by contract law against misuse of a trade secret is also possible, but in Malta civil liability for breach of contract is the only protection available. Common law countries (UK, IE) rely on a duty of confidence which can either arise from a contract between the parties or can be implied from the circumstances or the relationship between the parties. Most Member States have protection within their labour laws to avoid misuse of trade secrets by employees.

Ms Turner highlighted the fragmentation and lack of consistency of national laws in relation to the individuals against whom action can be taken (i.e. who can be sued). In some countries, it is possible to take action against anyone who received the information whether he is innocent or dishonest in the receipt of the information. In other countries, it is only possible to initiate action against the parties who dishonestly took the information or where a contract exists. So the first question is whether there is a contract or not, and if there is, whether there is a contractual obligation to keep the information secret. However, often there is no contract (e.g. information disclosed during negotiations; or a third party receives the information from a dishonest person). Confidentiality obligations can usually be enforced against employees during employment, but the position for ex-employees varies quite considerably. Often non-compete agreements are used by companies to enforce their rights post-employment, however these are more limited restrictions than those that can be enforced during employment: e.g. in some cases, damages for breach of confidence after termination can only be available for "extraordinary reasons".

Concerning enforcement issues, she said that in some Member States the "black letter" law or judicially created law is very good, but its effectiveness depends very much on how it is enforced. Issues found relate to procedural tools (e.g. hearings are generally public) and the court system (e.g. the court may describe the trade secret in detail in its judgments), which may discourage plaintiffs from taking action. Another factor affecting results is that it is often difficult to obtain evidence on the misuse. So it is important to have procedures in place allowing to search for (and seize) evidence without the defendant being aware of the application beforehand, and to involve the plaintiff in those search and seize procedures. She also explained that damages and injunctions are generally available in trade secrets cases. Often an injunction is the remedy which the plaintiff is seeking (he wants to stop the misuse of the trade secret), however, in some cases, injunctions are very limited (e.g. no longer than 3 years in some countries) and in some cases there is no remedy at all if the party who received the information did it in good faith.

Ms Turner concluded with some general observations:

- the law across the EU Member States is very fragmented as it stands. There are different approaches in different Member States as to how to protect trade secrets and how to enforce trade secrets rights. There are also differences in approach within Member States as to ways of dealing with trade secrets.
- there is a need for consistency both in the types of information that can be protected (the question arises on whether there is a need for a definition – noting that the flexibility of the TRIPS approach is perhaps the way forward) and regarding enforcement (e.g. the way trade secrets are dealt with in the courts); and

- a particularly sensitive issue is the balance to be achieved between employers and employees, particular post-employment.

**Mr Schriber** (DuPont de Nemours) intervened to confirm that access to evidence is essential to be successful in this area and he recalled that Directive 2004/48/EC on the enforcement of intellectual property rights has rules on this issue but that do not of-course currently cover trade secrets.

## **PROTECTION OF TRADE SECRETS – THE GLOBAL PERSPECTIVE**

**Mr Lorenzo de Martinis** (Baker & McKenzie) introduced the study that his firm is conducting for the Commission and which would complement the study carried out by Hogan Lovells. The goal is to assess the potential gains of an Internal Market initiative in the field of trade secrets. The general working hypothesis is to examine whether new harmonised legislation directed at the enforcement of trade secrets may impact significantly on innovation and economic growth in the EU by: making the Fifth Freedom a reality; providing a competitive advantage for the European economic system in the global context; and making Europe a safe harbour to develop, exchange and use innovations.

For Mr de Martinis:

- Trade secrets matter because they optimise intellectual property (IP) protection (one of the framework conditions for business to innovate). From a purely legal perspective, trade secrets fill the gap between the twin pillars of IP law (patent and copyright) and innovation, given that the former are not always adapted to protect all types of investments in the latter (e.g. scope of protection of patents; nature of protection of copyright which cannot protect, for instance, know-how or algorithms). He underlined in this regard that there is also a change in the nature of business research that increasingly consist of large investments resulting in small innovative steps but which have an important economic value if they can be aggregated over time. Finally he explained that, from a globalisation perspective, valuable information/technology is less secure once one moves out of the domestic environment and, thus, an efficient protection of trade secrets across borders should remedy this fear to externalise know-how and thus promote the flow of information necessary for growth in the knowledge based EU and global markets.
- In principle, trade secrets appear as a perfect IP protection tool because: (i) there is no general limitation in their subject matter; (ii) the relationship between practical and legal protection is seamless; (iii) they apparently imply no costly and time consuming administrative requirements – which is an advantage in particular for SMEs; (iv) they are an immediate complement to contractual protection and security measures, increasing efficiency; and finally (v) they are fine tuned to the needs of the information society/service economy.

Mr de Martinis described the scope of the study being conducted for the Commission, which tries to give a comprehensive analysis in a wider, global context: its geographical scope covers all 27 EU Member States plus 3 non EU jurisdictions, including Japan, and the US which are used as comparative purposes for the assessment of the protection of trade secrets; the study will review IP and civil law, criminal law and competition law; it will analyse the economic rationale and drivers for legal protection; and it will also

include a field survey which should explore the perceptions and operative needs of stakeholders. He indicated that the goal would be to design a future legal framework finding a right balance *vis-à-vis* conflicting policies and market players' interests (e.g. the protection of firms' innovation, employee mobility and maintaining the free flow of knowledge). This requires examining possible conflicts with competition law (cf. abuse of dominant position, entry barriers) and the case for penal sanctions against misappropriation practices. Concerning this latter issue, he suggested looking at two examples: US (which is considered as offering the best redress against trade secret theft at the present time) and Japan (which has a recently updated legal framework on this issue). Criminal enforcement is traditionally considered not effective in the US and Japan because of: the high standard of proof required; the dependence on the public prosecutor's initiative (US); no damage compensation within the criminal proceedings (Japan); and generally the reluctance to use this procedure against competitors/business partners. However, criminal enforcement provides a strong deterrence on individuals; it allows for criminal liability of companies (business offence) and it provides for more effective judicial measures (search, seizure, injunctions).

Finally, Mr de Martinis said that, in preparing the study, they are trying to verify assumptions and identify best practices by observing what others do. He highlighted the following themes:

- the American (the uniform act on trade secrets protection which has been implemented in almost all of the US states) and Japanese experiences show the usefulness of uniform and *ad hoc* legislation for the protection of trade secrets;
- the usefulness of a clear definitions of trade secret misappropriation, as shown by the Japanese definition;
- that legislation includes a full range of injunctive relief to guarantee the protection of the trade secrets;
- concerning damages, the literature suggest that more flexibility regarding the proof of actual loss may be required;
- a good practice in the US is to preserve secrecy during litigation;
- concerning the relationship between employers and employees there are two different cultural models: the inevitable disclosure doctrine in the US (which gives prevalence to the interests of the employer) vs. cultural self-restraint in Japan; and
- in the Japanese legislation, there is a tendency to reduce the adversarial nature of the confrontations between the companies involved. There are several alternative dispute resolution systems to avoid going to court.

## **ROUNDTABLE 1:**

### **ENFORCING TRADE SECRETS AGAINST MISAPPROPRIATION.**

- Moderator: Dr Alexander von Mühlendahl (Bardehle Pagenberg)
- Dr. Björn Kalbfus (Gleiss Lutz)

- Dr. Michael Fammler (Baker & McKenzie)
- Mr Robert Anderson (Hogan Lovells)
- Mr Emmanuel G. Baud (Jones Day)

Dr von Mühlendahl invited the participants at the roundtable to provide their views on a selection of topics related to the enforcement of rights against misappropriation of trade secrets. He raised a number of questions that were discussed:

How can a company confirm that its suspicions about misappropriation of trade secrets are true? How can one collect information/evidence on that misappropriation? **Dr. Fammler** believed that it is important for companies to have an internal strategy plan already developed, including the following key steps: (i) carry out internal (secret) investigations and consider whom to involve (e.g. the corporate security department, the IT and legal departments); (ii) take a holistic approach, i.e. if misappropriation from an employee, consider what to do with the employee (to keep him or to terminate the contract) as this will have an impact on the legal strategy later on (i.e. it is not the same to deal with an existing employee or a former employee).

**Mr Anderson** stressed that the basic point to remember is that trade secrets are very different from other types of intellectual property. Usually, in the case of patent infringements one has the evidence about the information on the misuse. Quite frequently, with trade secrets this is not so: in most cases the trade secret holder does not know and there is little that can be done. In his experience, people involved in trade secrets litigation are often dishonest people – contrary to patent litigation – so the ability to obtain evidence from the possible defendant is limited. He said that the cases where one gets the lead is because there has been a disaffected employee or because a competitor who was offered the information may have cold feet about using the trade secret being offered to him and thus tells the trade secret proprietor. Even then, collecting evidence is difficult unless the person who made the misappropriation makes a mistake (Mr Anderson reported a case where the person who misappropriated the trade secret tried to sell it to a third party and asked for a cheque to be sent to his accountant. Through an ex-parte order, the accountant was asked to disclose the identity of that person).

Where does one go once the misappropriation is confirmed? To the police? To a court? What happens when the case is multi-national? How do you decide on which Court to go to? **Mr Baud** explained that, in case of a misappropriation, it is important to: first collect all the necessary evidence (in line with legal requirements, i.e. in many cases information needs to be collected about employees thus one has to respect the rules on the protection of personal data and privacy – which may not allow to search the computers of the employees); and second, go before a judge to request ex-parte investigation measures in order to secure evidence which lies in the hands of third parties (e.g. to avoid that other parties delete data from computers etc.). For this, in France there are such investigation means (cf. Article 145 of the Code of civil procedure) which allow, for instance to search computers: usually, the plaintiff accompanies the police and the *huissier* to the premises of the defendant and he often brings IT experts to carry out searches in the IT devices of the defendant (for this, the plaintiff would have previously identified the key-words in the application for the ex-parte order). An important limit to these investigation means is to respect trade secrets. Concerning investigative powers in Germany, **Dr. Kalbfus** explained there would be two options to carry out investigations: under civil law, there are inspection claims (but the shortcoming is that the plaintiff needs to exactly know

what to inspect, which is difficult in trade secret cases because he often does not know what the defendant has); or under criminal law, through a public prosecutor (who has more powers: e.g. search premises). **Mr Anderson** commented on the extent of search orders. For an ex-parte search order to be accepted, the judge needs to be persuaded that there is a strong case. He referred to a case where a British company had copied data from another UK company and where the stolen data was hosted in a server located in a foreign country. It took 3 days for the IT experts of the company to collect all the evidence. Concerning the French system, which relies on the *huissier* to carry out inspections, he believed it is slightly more limited: the *huissier* is an official who does not know what to look for and possibly has no incentive to spend several days searching for information, in particular when he is facing dishonest people unwilling to cooperate. In many EU jurisdictions, defendants do not have to reply to any question or to provide any paper during the investigations, which is a limitation. **Dr. Kalbfus** recognised that cases involving several jurisdictions are very complicated. He underlined that cooperation with other jurisdictions is unavoidable, because investigative powers (e.g. of a public prosecutor) are national in scope.

Should criminal procedures be preferred over civil procedures, or the reverse? Would you involve public authorities, such as OLAF? **Dr. Fammler** considered that the reply to this question would depend on the circumstances: e.g. there is an element of publicity when the public prosecutor is involved; there are more mature jurisdictions than others; when two competitors which are key players in the market are concerned by the case, involving their respective compliance departments may be of assistance (possibly in combination with criminal proceedings) since companies are wary of being accused of any form of non-compliance. For him, criminal action is more robust. It is preferable if the aim is to stop the wrongdoing, because public prosecutors have means to collect evidence which are not available in civil proceedings. If the main goal of the action is to obtain damages, it could be helpful to also involve any investigative authority such as OLAF at the EU level. **Mr Schriber** (DuPont de Nemours) intervened by agreeing that criminal investigations are useful when certain types of investigative measures are needed: e.g. undercover, wire tapping etc. However, he argued that an important feature of the US judicial system was that most of the guilty judgments in the US were the result of plea bargaining: the accused party often cooperates (thus becoming an informant) in exchange of an attenuated verdict. It is because of this early cooperation factor that the criminal proceedings become useful. However, if the normal procedure is to be followed until obtaining the judgment, this would take too long, whether in Europe or in the US. **Dr. Kalbfus** agreed and added that the deterrent effect of criminal liability is also an important aspect to prevent trade secrets misappropriations. **Mr Anderson** noted that the problem with criminal proceedings is that the plaintiff loses control over the investigation and delays may increase (he explained in this regard that criminal proceedings for trade secrets misappropriation are not possible in the United Kingdom).

Are existing remedies (e.g. injunctive relief, cease and desist orders, damages, criminal convictions, destruction orders) sufficient for trade secrets cases? Can the plaintiff go against the product made thanks to the misappropriated trade secret? **Mr Baud** believed that they may be sufficient if the plaintiff manages to obtain a judgment. However, the main issue at stake is how to assess the damages and, for this, to first assess the value of the trade secrets. This would be a difficult task: in most of the cases the plaintiff fails to demonstrate that the misused information has value. This is why some form of harmonisation would be useful. In France, the plaintiff often loses and gets no remedies. **Dr. Kalbfus** considered that remedies in Germany are adequate, at least in theory. In practice, there seems to be a demanding standard of proof set by judges, higher than for trademark cases. In his view, judges do not sufficiently understand trade secrets and how

valuable they are. More economic justification is needed to convince judges to apply reasonable standards.

Should trade secrets be considered an Intellectual Property (IP) right, in particular in an international context? Should the rules of the Enforcement Directive (2004/48/EC) be applicable or at least certain harmonisation of procedural laws be undertaken?

**Dr Fammler** argued that there is a conceptual problem for trade secrets to be considered as an IP right, because trade secrets (contrary to patents) are secret. In any event, the merits of trade secrets as IP rights is related to the remedies available and possibly the enforceability of trade secrets against third parties and against the products made using misappropriated information. **Mr Baud** and **Mr Anderson** agreed that the question of trade secrets as an IP right is not the most important issue. For **Mr Baud**, trade secret protection rather concerns the unfair competition area and it would be complicated to establish an IP right for trade secrets. **Mr Baud**, **Mr Anderson** and **Dr Fammler** saw merit in a harmonised definition of trade secrets, possibly relying on the TRIPS definition. **Mr Anderson** stated that the main issue is not to have a sophisticated law on trade secrets (as for instance Bulgaria has), but rather to focus on the minimum remedies available. He argued that permanent injunctions should be available for trade secrets protection (he explained, for instance, that in Belgium it is virtually not possible to obtain a permanent injunction for a trade secret misappropriation) and that the rules regarding ex-parte relief of the Enforcement Directive (which are largely optional) would need to be strengthened if that directive was to become applicable. **Dr Fammler** agreed that the key problems relate to procedural rules and the enforcement of judgments. He called for streamlining civil proceedings.

## THE ECONOMICS OF TRADE SECRETS

**Dr. Thomas S. Respass (Baker & McKenzie)** presented the views of the economics literature of trade secrets, which Baker & McKenzie is reviewing for the purposes of the study. He mentioned that more than 250 articles have been reviewed. He explained, by way of background, that economists have for long held that: (a) rewards to innovation encourage allocation of resources to innovative activity; and (b) development, use, and protection of intellectual property (IP) are important determinants of economic performance. In this context, he noted that the area of trade secrets had received less attention in the past by economists compared to other forms of intellectual property (e.g. patents, copyrights). However, for the past 15 years or so, the growing perceived value and important role of trade secrets in innovation and economic performance have captured the attention of economists and sophisticated economic analyses now focus explicitly on the role of trade secrets in encouraging innovation and the development of IP.

Dr. Respass highlighted a number of issues, related to trade secrets and their protection, on which economists may focus and which are part of the review undertaken by the study: (i) the impact of trade secrets on encouraging investments in innovation; (ii) the inter-relationship between trade secrets and other forms of IP; (iii) the efficiency (cost-benefits) of differing legal frameworks that might protect trade secrets ; (iv) the value of trade secrets and their impact on firms, industry sectors, trade, or economic performance; (v) the extent to which SMEs rely upon trade secrets for competitive performance; (vi) the private and social economic welfare consequences of different forms of trade secret protection; and (vii) the empirical evidence regarding role and importance of trade secrets.

Dr. Respass presented some of the high level observations that they have been able to distil to date from the economics literature.

- Firstly, trade secrets are valuable business assets: IP assets, including trade secrets, have grown in value and now represent a substantial portion of firm value and performance. Studies show that trade secrets are indeed present in virtually all industries (not just high tech). In this context, economists have also struggled with the definition of trade secrets. The core issue on which many economists have focused on is that the trade secret's value is related to the ability of the firm to keep the innovation secret and prevent others from free-riding on the investment of the development of that innovation. In some cases there are high costs to protect trade secrets. Literature shows that failure to protect trade secrets can have a devastating effect on firm value and performance.
- Secondly, there is consensus in the literature that trade secrets play an important role in the innovation process. Trade secrets are important means by which firms capture and protect returns to innovation. The literature also shows that trade secrets are especially important in early stages of innovative process – but important at all stages for inventions that may not meet eligibility requirements for patent. Trade secrets also play a role in a variety of innovative environments, such as: complex, cumulative, simultaneous innovations. This means that trade secrets protection provides an alternative to other formal means of IP protection, such as patents or copyright. They are an important tool for optimising, managing, and protecting IP portfolios; and they may be the only means by which smaller firms protect innovations.
- Thirdly, the literature suggests that trade secrets protection is an integral part of the overall system of IP protection: trade secrets protection provides a valuable option to firms, both small and large; and it complements and supplements other forms of IP protection. Firms are thus able to optimise the selection between trade secrets protection (non-disclosure) vs. other IP protection mechanisms (disclosure). Firms can manage these costs/benefits of disclosure at every stage of the innovative process. Another theme in the literature is that trade secrets protection plays an important role in preserving incentives to engage in innovative activity.

Dr Respass explained that the empirical literature on IP-related issues (which include in some cases specific questions on trade secrets) shows that trade secrets are important to all economic sectors. Empirical analyses across a wide range of European industries/countries confirm the importance of trade secrets to firms and overall innovative activity. There is evidence that trade secrets are growing in importance over time and that they are important in all industries, whether product and process industries, manufacturing or services and retail sectors. The literature has also studied the importance of trade secrets for SMEs. Studies conclude that trade secrets are perceived to play an important role in the innovation process of SMEs and may be the company's critical asset in undertaking innovation – if not the only one for SMEs. Studies have focused on the devastating effects for an SME of the loss of a trade secret.

Finally, Dr. Respass made some high level conclusions from the review of the theoretical and empirical economic literature:

- trade secrets are important determinants of firm value and economic performance of industries and economies as a whole;

- trade secrets protection is an integral and important part of overall scheme of IP protection;
- trade secrets are important to all EU industries and the Member States;
- trade secrets and their protection are important to all size firms, but especially important to SMEs.

## **ROUNDTABLE 2:**

### **TRADE SECRETS, INNOVATION AND COMPETITIVENESS.**

- Moderator: Mr Allen N. Dixon (IIPTC)
- Dr Thomas S. Respass (Baker & McKenzie)
- Mr Simon Cheetham (China IPR SME Helpdesk)
- Mr Rubén Bonet (Fractus)

**Mr Allen N. Dixon** (IIPTC) explained that the 2nd roundtable would try to examine 3 important issues regarding innovation and trade secrets:

- Firstly, the free-riding aspect, already identified in the previous presentation of Dr Respass. As reported in a recent study by the European Parliament, "*[w]hen trade secrets are stolen, it results in unfair competition among industry players and stifles innovation in the long run. The products resulting from the theft enter the market, compete unfairly with and undercut the genuine products.*"<sup>3</sup>
- Secondly, he underlined that misappropriation of trade secrets is a growing problem, as shown by a recent report prepared by CREATE.org<sup>4</sup>. For instance, litigation in the US federal courts has increased 400% since 1987. Currently, more than 30 trade secrets cases are brought every year to US Federal Courts (these figures do not include State courts, where most of the litigation takes place since trade secrets law in the US is at State level). He also referred to how the US International Trade Commission has evaluated that misappropriation of trade secrets in China alone cost USD 1.1 billion to the US economy in 2009. Concerning Europe, he explained that the Trade Secrets and Innovation Coalition has done a study showing that in Europe, 91% of the companies surveyed reported they suffered at least 1 theft or unauthorised disclosure of know-how or trade secrets during the past 7 years, nearly one quarter (23%) had this happen more than 10 times; and in 44% of the cases the stolen information was believed to have been used for the production of a competing product.

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<sup>3</sup> Science and Technology Options Assessment Panel (STOA), Study, *Towards an Intellectual Property Rights Strategy for Innovation in Europe*, March 2010, IP/A/STOA/FWC/2008-096/LOT8/C1/SC1; PE 424.762, see p.14, referring to the contribution made by Mr Tindemans, Head of Public Affairs Group, White & Case). This document is available at: [http://www.europarl.europa.eu/RegData/etudes/etudes/stoa/2009/424762/IPOL-STOA\\_ET\(2009\)424762\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/stoa/2009/424762/IPOL-STOA_ET(2009)424762_EN.pdf)

<sup>4</sup> Center for Responsible Enterprise And Trade. [www.create.org](http://www.create.org)

- Thirdly, he explained that there are practical steps that companies can take to protect against misappropriation of trade secrets, as the presentation from the China IPR SME Helpdesk would show later: e.g. security measures, due diligence, best practice in contracting.

Finally, he explained that it will be very important to assess the negative economic impact of the misappropriation of trade secrets on the EU economy and on SMEs in particular which is likely, unfortunately, to be very significant.

**Mr Rubén Bonet** (Fractus) presented the experience of Fractus<sup>5</sup>, a member of Europe 500<sup>6</sup>, in protecting its intangible assets. Fractus is a technological SME, founded in 1999 and largely financed by venture capital (the company raised €20 million in different rounds). It develops innovative (internal) antennas for wireless devices (e.g. mobile phones). Its activity needs strong investment in research and development. Fractus tries to primarily protect its innovation through patents (93 granted so far and 63 applications), particularly in the US (it was ranked as the no1 Spanish commercial entity in terms of US Patent grants during the 2005-2009 period) and it also relies on trade secrets. Since 2005 it focuses on licencing these patents to large manufacturers instead of producing and selling its own products, which it used to do before (now only has 15 employees). The main reason for this was that its technology was being used but also infringed, creating risks for the company which was largely dependent on external private and public financing. The new strategy, which relies on the exploitation of intellectual property rights (in particular patents), has been a key factor for Fractus to earn returns its significant levels of investment in research and development, and allowed Fractus to avoid bankruptcy: (a) as an SME, holding a patent helps in getting the attention of larger corporations (manufacturers that were not purchasing Fractus products are now acquiring licences) and licensing allows to secure revenues (€3 million collected in licensing fees); moreover (b) Fractus sued several companies for patent infringements before US courts (e.g. in 2011 it was awarded \$23 million for an infringement made by Samsung). Mr Bonet underlined that protecting innovation is central to access capital markets.

Concerning the link between patents and trade secrets, he explained that trade secrets protection in the EU could provide another path for innovative SMEs to get protection for their innovation – he referred to Fractus as an example of the need for an efficient legislative IP protection and redress system to protect companies' innovation processes - particularly before being able to patent or because of the lack of resources to patent. For SMEs and start-ups, trade secrets are often the only way to protect innovation. He also explained that, from an SME perspective, access to financing would be easier with better protection for innovation including trade secrets. This should attract the venture capital community/finance industries' interest, which is a key component for SMEs and start-ups. He referred to experiences where venture capitalists refused investment in a particular technology/innovation because of the risk of theft.

In reaction to a question from the moderator on the internal measures to protect confidential information, Mr Bonet explained that his company has confidentiality provisions in contracts with employees, includes non-disclosure agreements in contracts

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<sup>5</sup> [www.fractus.com](http://www.fractus.com)

<sup>6</sup> Europe's 500 is a European organisation and networking platform for growth companies and their entrepreneurs. It represents more than 3000 growth entrepreneurs in Europe who have been listed and awarded at least once under the list of the Top 500 Growth Entrepreneurs in Europe. See: [www.europes500.eu](http://www.europes500.eu).

with business partners, takes a prudent approach in its dealings with other business (and thus it does not necessarily supply all possible information) and is generally very careful with the flow of information.

Replying to a second question from Mr Dixon about the enforceability of patents in Europe, Mr Bonet explained that while innovation is global, the patent system in Europe is currently weak and that patent enforcement in Europe, with 27 legal frameworks, is unaffordable for SMEs. The more global the protection systems, the better for SMEs. Mr Allen underlined that this enforcement problem is the same for the protection of trade secrets.

**Mr Simon Cheetham (China IPR SME Helpdesk)** presented the China IPR SME Helpdesk<sup>7</sup> which is a Commission funded project aiming at assisting EU SMEs doing or planning to do business with or in China. It was set up because of the need to protect innovation by and secure the competitive position of SMEs when meeting the opportunities and challenges faced in China. The China IPR SME Helpdesk receives enquires from EU SMEs on IPR-related issues. Queries have included questions on cases and risks of misappropriation of trade secrets e.g. Chinese employees leaving the company with confidential information and setting up an identical business in China, licensees forwarding commercially sensitive information to competitors, how to prevent misappropriation of trade secrets/know-how when dealing with a business partner in China etc. Taking the sum of the enquiries, trade secrets are one of the 5 most common IPR-related issues that affect EU SMEs in China. In general, (i) SMEs are not always aware of the importance of registered IP rights; (b) they fail to understand the territorial nature of those rights; (c) they make mistakes in the selection of the right business partner in China; (d) SMEs are not efficient in protecting their trade secrets; and (e) they have a wrong perception about protecting intellectual property (IP) in China: protection of IP rights is possible. He noted that different industry sectors face different problems and challenges and that some of these points (e.g. (b) to (d)) are not necessarily China-centric and could also be relevant for SMEs doing business in Europe.

Mr Cheetham explained that SMEs often consider IP rights-related issues as complex, costly and not relevant for them. This leads them to do less than they could do otherwise to protect their innovation. He underlined that for innovative micro-enterprises trade secrets may be the only option, from a financial point of view, to protect their businesses. They need to be aware of the basic steps to protect their confidential information, such as: secure physical storage for documents; use digital security methods (e.g. encryption keys, digital rights management system for digital documents); mark trade secrets documents, whether physical or digital, as confidential, require non-disclosure agreements of all relevant personnel and of business partners; but, above all, avoid "hiring a thief and then giving the thief the keys to the company safe". Most of the issues SMEs face are associated with people. In this regard, laws have an impact on the protection measures businesses take: experience in China shows the need to identify confidential documents as such in order to have statutory protection or to foresee contractual protection (e.g. relevant clauses in employment contracts or non-disclosure agreements with business partners). He also explained that SMEs' vulnerability comes from within the company, contrary to large corporations. Real industrial espionage cases concerning SMEs are rare and in any case better resolved than the issues normally faced

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<sup>7</sup> The China IPR SME Helpdesk provides free, confidential, business-focused advice on China IPR to EU SMEs. The Helpdesk has prepared several guidance documents including a Guide to Protecting Your Trade Secrets in China and a Guide on technology transfer to China. [www.china-iprhelpdesk.eu/](http://www.china-iprhelpdesk.eu/)

by SMEs. He also indicated that good practice measures are transferable on a global level. Mr Cheetham underlined that the main practical challenge for SMEs relates to costs. SMEs generally take the less costly steps. Any EU uniform method of protecting trade secrets can only reduce costs for SMEs. It would also raise the level of protection and awareness levels, so that SMEs can take the necessary steps to help themselves.

In reply to a question from Mr Dixon as to what extent this was a SME-only problem, Mr Cheetham explained that around 5% of the enquiries received by the Helpdesk address trade secrets specifically, which is a significant proportion per se. In addition, many other enquiries do touch upon trade secrets aspects too (e.g. having problems with business partners or ex-employees, or issues about protecting an invention).

Replying to a second question from Mr Dixon on general patterns or trends that could apply to protecting intellectual property in any country, Mr Cheetham indicated that the Helpdesk always advises to apply for an IP right if the intellectual asset is registrable and to take care to protect it, which includes the reasonable basic steps also mentioned by Mr Bonet: e.g. confidentiality clauses with employees and business partners, even when you start discussing any commercially sensitive information and no contract has been concluded yet. Those principles are appropriate for doing business everywhere, not just in China.

**Dr Thomas S. Respass (Baker & McKenzie)** indicated that some of the comments made by the previous two speakers are echoed in the economics literature and selected a few of them. Firstly, he said first that those financing innovation want to understand the steps that SMEs have taken to protect their innovation, which are the rights they have in this regard and which are enforceable before courts. **Mr Bonet** replied that for an investor who wants to put money in a technological company, it is important to put it in a safe place: i.e. good protection for the technology developed (patents and trade secret protection). This is an essential criterion to convince any investor to invest in a technological company.

Secondly, **Dr Respass** referred to a comment made by Mr Cheetham that there can be a relationship between the measures that a firm can take to protect its intellectual property and the costs of those measures, which can be too expensive. He asked whether a trade secrets protection law could reduce those costs. **Mr Cheetham** replied that a uniform system of protection would reduce costs. Currently, different national systems make protection more costly for SMEs. He agreed that trade secrets protection is more cost-effective for SMEs.

Thirdly, **Dr Respass** invited Mr Bonet to expand on the question of the cost of patents as a factor that favours SMEs' reliance on trade secrets protection to protect innovation. **Mr Bonet** replied that many SMEs, in particular start-ups, often do not have enough resources (time and money) to apply/manage IP rights or funds to register them.

As a reply to a question from **Mr Dixon** on the state of play of the review of the economics literature within the study being conducted for the Commission, **Dr Respass** explained a draft summary of the economics literature had been submitted to the Commission, which had commented on that draft. Currently, Baker & McKenzie is reviewing that draft in order to re-submit it to the Commission in due course. The Commission would make it public at the end of this process.

Replying to a second question from **Mr Dixon** on whether there is less litigation on trade secrets in Europe than in the US or simply lack of data, **Dr Respass** said that there was

indeed a lack of data in the EU but that two important studies in the US present data on litigation before US Federal Courts and US State courts respectively.

**Dr Respass** replied to a third question of **Mr Dixon** on the valuation of trade secrets. He explained that trying to measure the level of profits that could be made in the future from trade secrets and/or how much damages one could collect in case of misappropriation of a trade secret could be a challenging exercise. This is particularly the case in the technological area, where it is difficult to predict the lifetime of a particular innovation. If what is measured are cost savings from the use of trade secrets or incremental profits (e.g. from the differentiation of a new product which allows for a price increase), then it is possible to come up with some reliable measures of value. Sometimes it would be needed, as a starting point, to look at the actual investment made to develop the new technology.

### **General discussion**

**CEFIC** explained that the chemical industry is interested in the confidential business information issue. However, **CEFIC** underlined that there is another aspect to be examined. As a highly regulated industry, chemical companies submit substantial information to public authorities. This information is sometimes sensitive; however competitors may try to have access to it under the "right to know" rule. **CEFIC** requested that these data should be kept confidential when stored by public authorities or, if accessed by third parties, this should be considered a breach of confidential business information as well. Upon the question of **Mr Dixon** as to whether the existing EU rules which provide some protection for certain pharmaceutical/agro/chemical data submitted to public authorities were not enough, **CEFIC** replied that there are cases where data is under custody by authorities and should be kept confidential. This would relate to Article 39 of TRIPS.

**Mr Hagel** (consultant on IP strategy) commented that, in practice, one needs to be selective as to the information disclosed to third parties. Some valuable information should not be disclosed but kept for oneself. A second aspect he highlighted is that the need for a company to exercise vigilance on the treatment of confidential information works both ways: a company needs to also protect the confidential information it receives from a business partner and to take the necessary precautions. This is even a more important aspect, since it can put a risk its reputation as a reliable business partner.

**Mr Dixon** asked **Michelin** whether trade secrets misappropriation was a smaller problem in Europe than in the US. **Michelin** said that the fact that one needs to face different countries, with different legislation, results in difficulties for enforcing rights, which is penalising for European companies. He referred to the case presented by **Michelin** in the morning session: in that case, it was necessary to attract the person who stole the trade secrets into France in order to take that person to Court – if he had remained in the UK, prosecution would have not been possible. A similar case has been discovered now in the US, affecting a competitor of **Michelin**. It would be interesting to compare the two cases, once the US case has finished: i.e. see how much time the court case would take in the US (for **Michelin** in the EU, the case took 3 years) and what the penalty would be.

**Mr Dixon** concluded that it seems that European companies have as many problems as US companies but a harder system to try to deal with them.

**Mr Bergevin** recognised that the absence of sufficient data on litigation in the IP area is a major handicap for policy development. He also highlighted that the cost of litigation seems to be an important issue for SMEs and needs to be addressed.

### **SURVEYING THE INDUSTRY: PRESENTATION OF METHODOLOGY.**

**Prof. Luigi Alberto Franzoni (University of Bologna)** presented the methodology for the industry survey which forms part the *Study on Trade Secrets and Confidential Business Information in the Internal Market* carried out by Baker & McKenzie for the European Commission. He explained that the study should clarify the role of trade secrets in Europe's innovation performance and in the creation of sustainable jobs and, in this context, it should also give particular attention to SMEs. He mentioned that the study should cover the following specific elements: whether there are economic justifications for granting legal protection to trade secrets; whether and how trade secrets are used to complement and/or substitute IP rights (in particular patents); whether trade secrets are applied in all business activities and whether there are sectors where trade secrets are of particular importance; the extent to which trade secrets and confidential business information are important assets for SMEs; what are the implications of the protection of trade secrets in the context of developing cross-border business within the Internal Market, including as regards the costs involved, and the ease and effectiveness of their enforcement; whether the current legal fragmentation of the protection of trade secrets across the Internal Market results in sub-optimal reliance on them; whether this fragmentation is negatively impacting: (a) on the EU's innovation performance, including vis-à-vis the US; and (b) on the sharing of valuable information, including in particular know-how and technology transfer agreements, across borders of the Member States and how improvements in the legal framework of trade secrets protection could facilitate the sharing and transfer of technology and know-how throughout the EU.

Concerning the methodology, Prof. Franzoni explained that it is inspired by the OSLO Manual for the measurement of innovation data (EUROSTAT, 2005). The focus, however, would not be on innovation but on business information, which has a much broader scope. A side benefit would be to also allow comparing the results of the study survey with those of the Community Innovation Survey, carried out for more than 20 years, so as to better relate trade secrets to innovation. Concerning the target population for the survey, it would encompass the EU business enterprise sector, including both goods-producing and services industries. Only private and non-marginal enterprises (with at least 10 employees) would be included in the survey. They would be grouped in small-medium sized (10 to 250 employees) and large companies (in excess of 250 employees). As to the industry sectors to be covered, he explained that the list of sectors shown on the slides would need to be refined so as to capture those which are more relevant from the trade secrets perspective. In doing so, their intention is to avoid including sectors with low relevance, as identified in a recent French survey (e.g. wholesale trade, transportation/storage, information services activities or architectural/engineering activities) and, at the same time, to try capturing a more detailed granularity in other sectors with high relevance, such as manufacturing. The intention of Baker & McKenzie would be to include at least 728 companies in a structured survey, according to the following repartition: (business sector [at least 14] x country [at least 13] x size [2] = 364) x [at least] 2. He also explained that they intend to run focussed surveys on some industries.

Prof. Franzoni also introduced the draft questionnaire for the survey<sup>8</sup> and provided explanations on the different reasons for each of the questions. This draft questionnaire had 4 sections: (A) company general information; (B) company business activity; (C) management of trade secrets (questions 1 to 10) and (D) protection of trade secrets (questions 11 to 27). In principle the main questionnaire will be identical for all sectors, but for the focussed surveys, it will be possible to differentiate. Replies will be consolidated and individual replies will not be made publicly available.

Prof. Franzoni called for comments from the audience on the questionnaire and also offered the possibility to submit written comments to Baker & McKenzie by 15 July 2012.

### **General discussion on the questionnaire**

**Mr Bergevin (European Commission)** invited participants to provide constructive criticism to the questionnaire but also to reply to the future survey. He emphasized the importance of this exercise for the Commission. He also referred to the importance of the single market dimension and the need to collect data on differences among Member States.

**Mr Huggard (The Huggard Consulting Group)** referred to a recent research on the importance of the fragrance industry. He explained that the fragrance industry (part of the consumer goods industry) employs 950 000 uniquely dependent jobs which are directly dependent on companies' ability to keep trade secrets. It has a gross value added of 50 billion, essentially because branding is possible.

**IFRA (International Fragrance Association)** made some preliminary comments on the questionnaire and announced the future submission of written comments. IFRA's major concern related to how the questionnaire could obtain qualitative views and suggested to interview, in depth, a sample of respondents. IFRA referred to a recent study it carried out on trade secrets in the fragrance sector and shared its experience to ensure a successful survey. IFRA also explained that identifying the right person to reply to the questionnaire is a key factor for its success; the questionnaire should read like a novel (how the questions flow is important); it should be made 'palatable' to the respondent; companies need help to understand that they are using trade secrets in order to be attracted by the questionnaire. IFRA offered to test the questionnaire with a group of companies from its constituency. Concerning the industry sectors, IFRA requested that the fast-moving consumer industries – which rely on trade secrets – should be included in the sample, rather than the mining sector. Concerning the subject at hand, IFRA explained that the plaintiff (trade secrets holder) often loses the cases in front of the court, because of the high level of evidence required etc. (IFRA provided an example concerning a case in Austria where it was proven that the ex-employee had stolen information in her computer and showed part of it in a presentation to competitors, but this was not considered enough evidence by the court). This may result in having to pay damages to dismissed employees, which deters from going to court. IFRA also referred to procedural rules which were not adapted for searching evidence (IFRA provided an example concerning a case in France where the defendant was announced in advanced by the court that a search would take place the following day).

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<sup>8</sup> It was made available to participants in advance of the meeting on the Conference website.

**CEFIC (European Chemical Industry Council)** made some preliminary comments on the questionnaire and announced the future submission of written comments. CEFIC suggested that the questionnaire would need to be improved: some parts are too lengthy; when "country" is mentioned, it is not clear if it refers to EU Members States or to third countries; the definition of trade secrets in the questionnaire does not include formulae etc. CEFIC also explained that in question 13, the questionnaire should address the risk that the divulgation of the trade secret could be made by public authorities. It further suggested to perhaps present the questions differently to SMEs and to large companies. Concerning the representativeness of the sample announced by Prof. Franzoni (i.e. to collect data from companies in 13 EU Member States), CEFIC warned about the risks that the sample does not truly represent the chemical industry in the EU: i.e. while 25% of the turnover is done in Germany, there is no relevant chemical industry in Malta. This would need to be taken into account to make the sample representative.

**Mr Hagel (Francis Hagel Consultant)** said that there is an interaction between trade secrets and IP rights and it is not always easy to separate the value between IP rights and trade secrets: for instance, while software is covered by copyright, secrecy is needed to preserve the code; similar issues would arise regarding designs and patents. Concerning question 5 on the "licencing" of trade secrets, he explained that transfer of trade secrets is very common in industry but often part of a wider agreement (e.g. collaboration agreements, manufacturing etc.), not necessarily called "licencing", and where trade secrets are not necessarily identified as such. He drew the attention of the audience to a legal procedure in the US, where the International Trade Commission (ITC) can block imports when the imported goods are manufactured using misappropriated information. He suggested drawing lessons for Europe.

**Mr Laroche (Laroche Conseil)** expressed reservations on the validity of the questionnaire and predicted unreliable results. He said that respondents must understand the questions, be willing to reply and be honest in their replies. He suggested to conduct 50 interviews in order to gather additional information beyond the questionnaire. He requested the questionnaire to be translated and advised to have a pilot phase first.

**Mr Ozoux (Michelin)** recalled that trade secrets have a jobs and growth dimension. A company whose trade secrets are misappropriated will lose competitiveness, will lose growth and jobs. Additionally, if trade secrets are misappropriated by a third country company, then we will have lost growth and jobs in the EU.

**Mr De Martinis (Baker & McKenzie) and Prof. Franzoni (University of Bologna)** reacted to the comments made by the participants. Concerning the gathering of qualitative views, they explained that the questionnaire is needed in order to gather some quantitative data, as required by the Commission. However, they agreed that it would be useful to include in the study some information on experiences/anecdotal evidence/best practices and said that this would be included in the final report. Concerning the geographical representation of companies and their representativeness within a given sector, they agree that any data collected would need to be reinterpreted to take account of this factor. Concerning the question of the value of trade secrets, Prof. Franzoni explained that the questionnaire will not ask for the value of the trade secrets, as any reply would be discretionary. Concerning the length of the questionnaire, they agreed to streamline it and make it less complex.

**Mr Bergevin (European Commission)** underlined that trade secrets are also important for the services economy. Trade secrets are important for business services, advertising, franchising schemes etc. Concerning the question of the qualitative vs. quantitative data,

Mr Bergevin explained that obtaining quantitative data from the survey was important for the Commission. Concerning international issues, he said that we first need to put our house in order.

### **CLOSING REMARKS**

**Mr Bergevin (European Commission)** considered that the main purpose of the Conference, i.e. to discuss the draft questionnaire for the survey on trade secrets with the participants, had been met. Very valuable comments were made at the Conference and Baker & McKenzie had committed to take them into account to improve the questionnaire. He hoped that the survey would be distributed as broadly as possible.

He also reminded participants that it would be possible to send comments on the draft questionnaire to Baker & McKenzie up to 15 July 2012.

Mr Bergevin also considered that the Conference showed how important the protection of trade secrets is for the economy and the need for action. He ended by thanking speakers, moderators and participants for the excellent presentations and their involvement in the Conference.