

TRADE SECRETS: CONTEXT AND NORMATIVE FRAMEWORK

Ingrīda Kariņa-Bērziņa, J.D., M.A.L.D
Lecturer, Riga Graduate School of Law

Trade Secrets: Protecting and Enforcing Intellectual Property Rights Webinar
February 8, 2022



Overview

1. Definitions and rationale
2. The normative framework

1. DEFINITIONS AND RATIONALE





What are trade secrets?



Google PageRank algorithms, 1996



WD-40 lubricant «secret sauce» 1953



Kentucky Fried Chicken recipe, 1930s

Examples of trade secrets



Coca-Cola recipe
1891

Campari recipe, 1861



Riga Black Balsam
1752

Definition (Trade Secrets Directive/TRIPS)

A **trade secret** means information which meets all of the following requirements:

- a) it 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) it has commercial value because it is secret;
- c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Why type of information can be kept as a trade secret?

- Know-how
- Methods
- Processes
- Techniques
- Ideas
- Formulas
- Patterns
- Compilations
- Systems
- Procedures
- Plans and strategies
- Business and commercial information

Trade secrets are critical to business

48% of senior executives said trade secrets were **more important to the business** than patents or trademarks.

Significance of trade secrets, by industry:

1. chemical, healthcare, pharma and biotech
2. consumer goods/retail,
3. financial services,
4. industrials,
5. Information and communications technology

Value of TS theft is estimated to be 1-3% of United States GDP each year.

See <https://www.bakermckenzie.com/-/media/files/insight/publications/2017/trade-secrets>



Protecting technical information under law

Legally, two options:

Patents (20-year grant of exclusivity for an invention)

- Advantages: *Prima facie* evidence of rights, easier to defend & monetize
- Disadvantages: not all information qualifies—strict legal requirements, slow, expensive, requires disclosure of invention

Trade secrets

- Advantages: No registration, few limits on what qualifies
- Disadvantages: Once infringed, only recourse is damages/injunction



Comparison: Trade Secrets vs Patents

Last indefinitely

Expire 20 years after filing

Disclosure = loss of protection

Disclosure **required**

Ideas are protected

Ideas not protected

If independently developed or reverse-engineered, no remedy

Infringement not dependent on knowledge of patent

What are the options for protecting confidential information?

- **Contractually**

- Agreements to limit the **flow of information**:
 - Non-disclosure agreements (NDA)
 - Confidentiality clauses
- Contractual **restrictions on activities**
 - Non-compete agreements
 - Non-poaching agreements

- **Under law—**

- Trade secret protection against misappropriation, disclosure

Either way, once the genie is out of the bottle, there is no way to put it back.

When is information kept as a trade secret?

- Where the life cycle of the product or process doesn't (yet) make a clear case for patenting. All patents begin as trade secrets!
- Where information is **not protectible** by other types of IP
 - Cannot be patented (not a patentable invention)
 - Cannot be protected by copyright (ideas as such are not protected)
- Where the information **can be kept secret** because it cannot be reverse-engineered.

Secret: from what or whom?



- This is **not** primarily an issue of «stranger danger»
- The European Commission reports that business is **most** concerned that previous employees will disclose trade secrets to competitors.
- Also of concern:
 - Suppliers, consultants and customers
 - Current employees
 - Cyber-criminals or hackers

See, for example:

<https://ec.europa.eu/docsroom/documents/14837/attachments/1/translations>

2. THE NORMATIVE FRAMEWORK



The Paris Convention for the Protection of Industrial Property (1883)

Article 10*bis*: Unfair Competition

(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

[...]

WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Article 39

1. In the course of ensuring effective protection against unfair competition as provided in **Article 10bis of the Paris Convention** (1967), **Members shall protect undisclosed information** in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices **(10)** so long as such information:
 - (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; and
 - (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret

United States

Defend Trade Secrets Act of 2016

- A federal act, gives private claimants access to federal court
- An amendment to the Economic Espionage Act (EEA) (18 U.S.C. § 1831, *et seq.*)
- Pertains to a product or service used in interstate or international commerce
- Previously: regulated at the state level (nearly all states modeled legislation on Uniform Trade Secrets Act of 1985).
- DTSA supplements but does not replace state law
- Provides additional procedural safeguards, federal remedies

The Trade Secrets Directive

EU Directive 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.

Adopted: June 8, 2016.

Deadline to transpose: June 9, 2018

A minimum standards directive: Member States are free to provide a higher level of protection.

What does the Directive harmonize?

- Article 2(1): Definition of trade secret (consistent with TRIPS)
- Article 3: When acquisition of TS would be lawful
- Article 4: Infringement
- Article 5: When TS protection may not be applied
- Article 8: limitation period: maximum of 6 years to bring a claim
- Article 9: Confidentiality in court proceedings
- Article 10: Provisional measures
- Article 12: Final measures
- Article 14: Damages

What does the Directive not harmonize?

1. Trade secrets are **not** considered intellectual property rights under the Directive.

Consequences:

- Cannot benefit from the IPR Enforcement Directive
 - Example: Pre-litigation evidence collection mechanisms
 - Cannot benefit from the EU Customs Enforcement Regulation.
 - Example: border control measures
2. Criminal sanctions are **not** harmonized under the Directive.

Infringement under the Trade Secrets Directive (Article 4)

- **Misappropriation, or unlawful acquisition**—obtaining trade secret by improper means, including hacking, stealing, misrepresentation, or any other conduct contrary to honest commercial practices.
- **Unlawful use and disclosure**—improperly using trade secrets obtained through misappropriation or disclosing trade secrets in contravention of law or duty
- Applies also to those who «**knew or should have known**» that the TS was obtained unlawfully
- Knowingly **producing goods** also a type of TS infringement

Remedies under the Trade Secrets Directive (Articles 10-14)

- Injunctive and corrective relief
 - Provisional measures: injunction, seizure of goods
 - Permanent measures: injunction, recall, destruction
- Damages (Article 14): “damages appropriate to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret.”
 - Lost profits
 - Unfair profits
 - Moral prejudice

Transposition of the Directive in the Baltic countries

- **Estonia**

- Restriction of Unfair Competition and Protection of Business Secrets Act (new legislation, 2019)
- New provisions added to Code of Civil Procedure

- **Latvia**

- Trade Secret Protection Act (new legislation, 2019)
- Chapter 30⁸ in Civil Procedure Act (2019, adds PI mechanism)
- Law on Competition protections against unfair competition retained

- **Lithuania**

- Law on Legal Protection of Trade Secrets (2019)
- Civil Code updated
- Amendments to Code of Civil Procedure
- Law on Competition protections against unfair competition retained

The Trade Secrets Directive in action

- **All three countries** introduce non-pecuniary damages (moral harm) which are optional under the Directive.
- **Some minor differences** can be found in extent of employee liability for TS infringement (not limited in LV, LT), ways that remedies may be ordered.
- **All three countries** already had provisions for criminal sanctions prior to the Directive (see next slides).

What is the current situation?

Even with the Directive, trade secret litigation remains at a fairly low level in Latvia and Estonia, with more activity in Lithuania.

The next years will reveal whether and how the Directive delivers on its promise of strengthening protection for trade secrets across Europe.

Criminal sanctions for trade secrets infringement: Estonia

§ 377 of the Penal Code. Unjustified disclosure and use of business secrets

(1) Disclosure or use of a business secret of which the person became aware in connection with his or her professional or official duties without the permission of the relevant undertaking, if such act was committed for commercial purposes or with the aim to cause damage, is punishable by a pecuniary punishment or up to **one year** of imprisonment.

(2) The same act, if committed by a legal person, is punishable by a pecuniary punishment.

Criminal sanctions for trade secrets infringement: Latvia

Section 200 of the Criminal Law

(1) For a person who commits disclosure of non-disclosable information which is not an official secret, if it has been committed by a person who not a public official and who in accordance with the law is liable for the storage of information,

the applicable punishment is the deprivation of liberty for a period of up to **one year** or temporary deprivation of liberty, or community service, or a fine.

(2) For a person who commits unauthorised acquisition of a commercial secret for the use or disclosure by himself or herself or another person, or commits unauthorised disclosure of the commercial secret to another person for the same purpose, as well as commits illegal disclosure of inside information of the financial market,

the applicable punishment is the deprivation of liberty for a period of up to **two years** or temporary deprivation of liberty, or community service, or a fine.

(3) For a person who commits stealing of the information indicated in Paragraph one or two of this Section,

the applicable punishment is the deprivation of liberty for a period of up to **three years** or temporary deprivation of liberty, or community service, or a fine

Criminal sanctions for trade secrets infringement: Lithuania

The Criminal Code

Article 210. Commercial Espionage

A person who unlawfully acquires the information considered to be a commercial secret or communicates this information to another person shall be punished by a fine or by restriction of liberty or by arrest or by a custodial sentence for a term of up to **two years**.

Article 211. Disclosure of a Commercial Secret

A person who discloses the information considered to be a commercial secret which was entrusted to him or which he accessed through his service or work, where this act incurs major property damage to the victim, shall be punished by community service or by a fine or by restriction of liberty or by arrest or by a custodial sentence for a term of up to **two years**.

Thanks!





Ingrīda Kariņa-Bērziņa

ATTORNEY
UNIVERSITY LECTURER

www.karina-berzina.legal
ingrida@karina-berzina.legal
+371 2862 4842
[linkedin.com/in/ikberzina](https://www.linkedin.com/in/ikberzina)
twitter.com/ikberzina

