Tripping Over the EU Trade Secret Directive: "Reasonable Steps" to Get Back on Track

Bianca Fox
St. John's University School of Law, bianca.fox17@my.stjohns.edu

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TRIPPING OVER THE EU TRADE SECRET DIRECTIVE: “REASONABLE STEPS” TO GET BACK ON TRACK

BIANCA FOX*

ABSTRACT

Trade secrets are a crucial tool for global firms today, including those that do business within the European Union (“EU”). The 2016 European Union Trade Secret Directive (“Directive”) attempted to establish uniform trade secret protection across all twenty-eight EU Member States but created problems in its wake. In particular, the Directive put no restrictions on whether Member States could specify certain “reasonable steps” that businesses must take in order to be afforded trade secret protection. This Article argues that Member States should be required to follow the trade secret definition laid out in Article 2 of the Directive and not be allowed to implement specific heightened criteria for the “reasonable steps” prong. This approach would allow trade secret protection among all Member States to remain fair and predictable for businesses that practice within any of the individual States and would better ensure that the Directive accomplish its stated purpose.

*Articles & Notes Editor, New York International Law Review; J.D. Candidate 2020, St. John’s University School of Law; B.S. 2017, Florida State University.
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INTRODUCTION

As trade secrets become more commercially valuable in the business world, global trade secret protection is becoming increasingly crucial. Trade secrets are a foundation of many businesses, especially in developing countries. In 2016 alone, there were almost twenty-seven million active businesses among the twenty-eight Member States (“Member States”) within the European Union. Businesses, regardless of their size or industry, frequently use trade secrets because they are universally recognized and crucial for maintaining a competitive edge. Adequate global trade secret protection is important, because without it, businesses would be less likely to collaborate with other companies and be unwilling to share their secrets with essential personnel, which would ultimately slow down the innovation process.

Businesses seeking trade secret protection are subject to the laws of the country in which they seek protection in. Before the enactment of the 2016 European Union Trade Secret Directive (“Directive”), trade secret protection among Member States was scarce and disconnected. For instance, the United Kingdom, which is home to more than 5.7 million businesses, had no formal definition of a trade secret and put no restriction on what could be considered a trade secret. Therefore, the United Kingdom would not be able to offer adequate trade secret protection. Notably, one of the founding principles of the European Union was free trade among its members who remain committed to liberalizing world trade. One of the European Union’s greatest features is the single market

4. Pooley, supra note 3.
8. Nirwan, supra note 5.
9. Trade, https://europa.eu/european-union/topics/trade_en (last visited Feb. 18, 2019). The European Union is made of twenty-eight sovereign and independent Member States that delegate decision-making powers to specific institutions that will decide on matters that have a common interest for each Member State. The EU in Brief (Oct. 29, 2019), https://europa.eu/european-union/about-eu-
as it allows for free movement of services and goods between Member States without internal borders or regulatory hurdles. Thus, Member States, in their desire to provide for “the smooth functioning of the single market,” needed a more uniform system of trade secret protection.

As more new businesses incorporate themselves and do business within the European Union, the need for protection of potential trade secrets also increases. Currently, Member States of the European Union are unobstructed from creating stricter requirements regarding “reasonable steps” under the trade secret definition set forth in the Directive. That is, each Member State may implement its own specific requirements for “reasonable steps” into its trade secret law. This Note will argue that Member States should follow the trade secret definition laid out in Article 2 of the Directive and not be allowed to implement specific heightened requirements to the “reasonable steps” prong, at each individual States’ discretion.

Part I of this Note will provide background on what a trade secret is and its importance. Part I will also discuss the leading multilateral agreement for intellectual property (“IP”), the Trade-Related Aspects of Intellectual Property Rights Agreement (“TRIPS”), which the Directive derived its definition of a trade secret from. Part II will identify and summarize what inspired the implementation of the Directive and discuss the current, known implementation of the Directive in various Member States. Part III will compare the approaches of other jurisdictions in their determination of “reasonable steps” to outline the alternative routes Member States could take when implementing and developing their own trade secret law. Part IV will offer critiques and suggestions for preventing the disparate implementation of the “reasonable steps” prong of the trade secret definition in the Directive by Member States. The Note then offers some concluding thoughts in Part V.

I. DEFINING A TRADE SECRET AND ITS IMPORTANCE

A. The Definition of a Trade Secret and The Importance of One

Most individuals associate trade secrets with confidential business information that gives a company a competitive edge in its respective


industry. Broadly speaking, a trade secret “consists of information and can include a formula, pattern, compilation, program, device, method, technique or process.” More specifically, trade secrets can include consumer profiles, distribution methods, advertising strategies, client lists, and manufacturing processes. There are forms of trade secrets common to many businesses such as internal company business data, database designs, source codes for software, processes for business development, and so on. A few famous and demonstrative examples of trade secrets are the Coca-Cola recipe, the Google search algorithm, and the metrics behind the New York Times Bestseller list.

A trade secret is used worldwide because it goes wherever the business goes and the only costs associated with it are those necessary to keep it a secret. In addition, a trade secret has an immediate effect, is not limited in time, and is not subject to compliance with formalities, which includes telling a government agency about the valuable information. Not having to disclose secret and valuable information can be very appealing to many businesses. Unlike a patent, a trade secret does not need to be “new, novel or unique” nor does it have to be complicated. Hence, when patents are not granted to protect things such as business methods, mathematical formulas, software, or even the presentation of information, trade secrets can provide protection. A trade secret, however, cannot be commonly known by the public. Enforcement of a trade secret is more difficult than enforcement of a patent because trade secret protection varies widely from country to country. Moreover, a trade secret loses protection when it becomes publicly known, regardless if the disclosure was authorized or unauthorized.

20. Nirwan, supra note 5.
22. Patents or Trade Secrets?, supra note 18.
23. What Is a Trade Secret?, https://www.rocketlawyer.com/article/what-are-trade-secrets rl (last visited Feb. 3, 2019). Illegal disclosure, or misappropriation, such as theft of the information or broken non-disclosure agreements, can be remedied by court injunctions or suing for damages. In some
A trade secret has the downfall of not protecting against independent discovery and reverse engineering, and instead only protects against unauthorized disclosure and use. However, unauthorized disclosure and use, or misappropriation, encompasses a wide range of conduct including wrongful use, wrongful acquisition, and wrongful disclosure of another’s trade secret. More specifically, wrongful use is when someone uses the confidential information of another without permission. Wrongful acquisition is when someone who knows or reasonably should know that the information they are taking is confidential but they take the information anyways. Lastly, wrongful disclosure is similar to wrongful use and it can be either intentional or accidental, meaning an individual can still be held liable for misappropriation even if disclosure of the trade secret was unintentional. By proving wrongful use, wrongful acquisition, and/or wrongful disclosure, the trade secret holder can be afforded remedies in court. Therefore, despite only having the opportunity to protect a trade secret once it has been taken, the benefits of a trade secret can outweigh the benefits of a patent in certain business circumstances, such as economic constraints including paying the fees associated with a patent.

A trade secret does not have to last forever and can eventually be turned into a patented product or process. Nevertheless, because trade secrets are not registered, maintaining secrecy is vital to their protection. Secrecy efforts can include storing the information in a restricted area, limiting employee access, marking the information as “confidential,” using non-disclosure and non-compete agreements, using password protection, and so forth. Secrecy does not have to be absolute, thus revealing the information to certain employees, investors, or manufacturers does not disqualify the information from trade secret protection. Reasonable efforts for maintaining secrecy of the information is a main component of

countries, there are grace periods between public disclosure of a trade secret and filing a patent on the secret. Courage, supra note 17.

24. Menell, supra note 19, at 90 (reverse engineering is “starting with the known product and working backward to find the method by which it was developed.”).
27. Id. at 10–11.
28. Id. at 9–10.
29. Id. at 11–12.
32. Id. Protecting a trade secret properly leaves little room for error, which is why secrecy efforts are a crucial part of trade secret protection. Courage, supra note 17.
trade secret protection because the efforts demonstrate that there is something valuable worth protecting.36

Due to their advantageous nature, trade secrets are highly valuable in the business world and deserve proper protection worldwide.37 The most common circumstances that require trade secret protection are business transactions and competitive intelligence.38 Mergers and acquisitions are a type of business transaction that would require the need for trade secret protection as the confidentiality obligations could begin to lack.39 Competitive intelligence can require trade secret protection because companies are constantly and aggressively searching for ways to protect their trade secrets in a highly competitive environment.40 Statistics show that employees and business partners are the biggest risk for exposure of trade secrets.41

Businesses use secrecy to protect the practices they do not want their competition or the public to know, which emphasizes that a trade secret cannot be information that is readily accessible.42 Trade secrets are especially important to small and medium-sized businesses as they may not be able to afford other intellectual property protections, such as patents, for their valuable information.43 Additionally, trade secrets are generally preferred in some business settings over other forms of intellectual property, such as patents, trademarks, or copyright, because there are no time limitations or registration requirements.44

The most complicated aspect of a trade secret is the “reasonable steps” element to maintain secrecy that is required to be fulfilled by the trade secret holder. Reasonable secrecy precautions are not new and are an essential element of obtaining trade secret protection.45 Courts in the

36. Id.
37. Id.
42. Pooley, supra note 3. Secrecy within businesses has been used for thousands of years. China had a trade secret in the way they harvested silk worm thread and an Armenian family produced the best orchestral cymbals for over 400 years by keeping their production methods a secret. Id. Because trade secrets began in small, family-owned businesses, when those businesses grew the need for protection in the legal system became prevalent. Id.
43. Id.
44. Id.
United States do not apply specific standards, but rather determine whether “reasonable efforts” were put forth based on the circumstances of each individual case. Trade secrets are the only intellectual property where it requires the holder to put forth their own efforts to protect the secret. For instance, patent protection does not require the inventor to show that they have put forth “reasonable efforts” to protect their invention. The unusual step of having to show “reasonable efforts” to maintain secrecy in order to be afforded trade secret protection exemplifies how critical this element is. By determining “reasonable efforts” based on the circumstances, it allows for less strain on businesses where there should not even be a requirement to begin with.

B. The Development of the Trade-Related Aspects of Intellectual Property Rights Agreement

The World Trade Organization (“WTO”) is a cooperation forum that sets the legal rules for international commerce that countries have negotiated and agreed to. The agreements made through the WTO are contracts that bind member states to the agreed upon terms. The main purpose of the WTO is to assist in the flow of trade between countries for economic development. Intellectual property, along with goods and services, are covered by WTO agreements. Intellectual property is an important part of trade as it brings about innovation and creativity that enriches the goods and services needed for development between countries and around the globe. One motivating factor for the agreement dealing with intellectual property stemmed from the need for order and predictability among countries in protecting intellectual property rights.

On January 1, 1995, the Trade-Related Aspects of Intellectual Property Rights Agreement (“TRIPS Agreement” or “the Agreement”) went into effect and is the leading multilateral agreement dealing with intellectual property. The TRIPS Agreement sets the minimum standard of protection for intellectual property that is to be provided by all Members of the WTO. The protection provided to each form of intellectual property, including patent, trademark, copyright, and trade secrets, is set

46. Id. at 372.
47. Id. at 373.
48. Id. at 373–74.
50. Id.
51. Id.
52. Id.
53. Id.
54. Id.
56. Id. (There are currently 164 Members of the WTO, which includes the European Union).
out as defining the subject matter, the rights conferred, and the exceptions to those rights, as well as the duration of protection.57 The Agreement was created with respect to the two main international agreements of the World Intellectual Property Organization (“WIPO”), the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works.58 The TRIPS Agreement seeks to expand upon these two WIPO agreements and add more adequate standards of protection to all areas of intellectual property, including trade secrets.59 It does so by adding enforceable obligations for Members where the other conventions were silent or inadequate.60 The TRIPS Agreement even goes so far as to provide for national and most-favored-nation treatment to ensure that difficulties in maintaining and acquiring intellectual property rights do not overcome the benefits of the agreement.61 The Agreement also gives Members the ability to provide for “more extensive protection” within their own legal system and practice.62

With respect to trade secrets, Section 7, Article 39, paragraph 2 of the TRIPS Agreement lays out the definition of “undisclosed information,” or trade secrets.63 Information is protected if the following criteria are met:

a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components,

b) generally known among or readily accessible to person within the circles that normally deal with the kind of information in question;

c) it has commercial value because it is secret;

d) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.64

The most that the TRIPS Agreement mentions about “reasonable steps” is that it requires that the person in control of the valuable information must be able to prevent it from being disclosed to, used by, or acquired by others without consent.65 Disclosed to, used by, and acquired by refer to dishonest commercial practices that include breach of confidence, breach of contract,

57. Id.
59. Id.
60. Overview: the TRIPS Agreement, supra note 55. The TRIPS Agreement also provides that disputes over the agreement between WTO Members are subject to the WTO’s dispute settlement procedures. Id.
61. Id. The obligations apply to all of the WTO Members but developing countries had a longer time to phase in the obligations. Id.
62. Id.
64. Id.
65. Overview: the TRIPS Agreement, supra note 55.
and the acquisition of the information by third parties. Essentially, the Agreement attempts to set a formal definition for all WTO Members to use as a basis for their own trade secret laws in an effort to unify Members on the topic of intellectual property protection.

The TRIPS Agreement is crucial to the 21st century marketplace as it focuses on the protection of intellectual property on a global scale. The Agreement rewards and promotes innovation by instituting legal protections of intellectual property, namely creativity and new knowledge. It further recognizes the different situations of WTO Members regarding their administrative capabilities, technological base, and relative economic status. There is also flexibility for WTO Members to interpret the TRIPS Agreement in various ways when formulating their own legislation for intellectual property protection, as well as providing an avenue for dispute resolution. The TRIPS Agreement benefits the creators and users of such intellectual property globally by providing adequate protection that encourages innovation and international trade.

II. THE ENACTMENT OF THE EUROPEAN UNION TRADE SECRET DIRECTIVE

A. The Need for and Development of the European Union Trade Secret Directive

The idea of protecting trade secrets within the European Union from unlawful use, acquisition, and disclosure began in November of 2013 with an initial proposal of a directive. In May of 2014, the second proposal for trade secret protection was discussed by the Council of the European Union, and one main focus was “the need for a minimum harmonization, allowing Member States to apply stricter measures (Article 1).” The 2016 Directive reflects these policy judgments: Paragraph 5 of the Directive acknowledges that the TRIPS Agreement is binding on Member States and Paragraph 6 recognizes that not all Member States have a national

66. Id.
68. Id.
69. Id.
71. WTO and the TRIPS Agreement, supra note 70.
72. Id.
73. Proposal, supra note 11, at 1.
74. Id. at 6 (Article 1 of the Directive discusses “subject matter and scope” and in relevant part, states “1. This Directive lays down rules on the protection against the unlawful acquisition, use, and disclosure of trade secrets”).
definition of a trade secret. Additionally, legislation regarding the protection of trade secrets is not co-extensive or readily accessible among Member States.

Moreover, in 2008, *Pilkington Group v. Commission* demonstrated that there was a lack of recognition of trade secrets within the European Union. In the 2008 decision, the Commission found that Pilkington Group Ltd. ("Pilkington") committed infringement of Article 81 within the European Economic Area. Pilkington requested confidential treatment of the 2008 decision, but in 2010, the Commission published a full-text non-confidential version. In 2011, the Commission informed Pilkington that it intended to publish an even more complete non-confidential version of the 2008 decision and rejected previous requests for confidential treatment of information contained in the decision.

Pilkington had the opportunity to bring the case to the Hearing Officer in the instance that it disagreed with the Commission’s decision. Pilkington brought the case to the Hearing Officer and requested confidential treatment of the 2008 decision because of the confidential and valuable nature of the information contained in categories I and II of the case. (Category I of the information consisted of “customer names, product names or descriptions of products, as well as any other information which might identify individual customers” and category II consisted of “the number of parts supplied by the applicant, the share of the business of a particular car manufacturer, pricing calculations or price changes, etc.”). Pilkington argued that there needed to be continued confidential treatment of the information in categories I and II because they constituted business secrets.

Pilkington also applied for interim measures to suspend the decision of the General Court to protect the information in categories I and II. The Hearing Officer had the duty to consider weighing the parties’ interests and urgency of the interim measures requested. It found that Pilkington’s interests of keeping the information confidential outweighed the Commission’s interests in publishing a complete non-confidential version of the 2008 decision. The Hearing Officer acknowledged that if the Commission were to release categories I and II of the information,

76. Id.
77. See Order of the President of the General Court, T-462/12 R (11 Mar. 2013) at 2.
78. Id.
79. Id.
80. Id.
81. Id.
82. Id.
83. Id.
84. Id.
85. Id. at 3–5.
86. Id. at 6.
87. Id. at 8.
Pilkington’s fundamental right to protection of its professional secrets under Article 339 TFEU, Article 8 of the Convention, and Article 7 of the Charter would be violated. From the beginning, the Commission should have recognized Pilkington’s rights to protecting its business secrets, but instead chose to ignore those rights, thus, forcing Pilkington to incur unwarranted costs to bring the issue before the Hearing Officer. This instance of disregard for trade secrets further exemplified the European Union’s need for stronger, more widespread trade secret protection. Each Member State needed minimum trade secret laws put in place to ensure that a business’ trade secret would not be overlooked or disregarded simply due to the lack of trade secret laws.

Furthermore, the European Union has a strong reliance on innovation and the value of goods it produces to maintain its competitiveness in the global economy. Paragraph 8 of the Directive accordingly explains the need for harmonization of trade secret protection among Member States. In sum, it states that trade secret protection was not uniform throughout the European Union, which affected the internal market and deterred businesses from engaging in “innovation-related cross-border economic activity.” Paragraph 8 also discussed how “research cooperation or production cooperation with partners, outsourcing or investment in other Member States” was becoming less attractive due to lack of trade secret protection and was causing a Union-wide “innovation-related” insufficiency. This could be explained by the five factors that motivate businesses to expand internationally, which include diversification, access to talent, foreign investment opportunities, new markets, and competitive advantage. Due to the European Union’s internal market suffering from a lack of cross-border trade and innovation-related activities, the need for the Directive was stronger than ever.

Directives are typically used to help with free movement, free trade, and competition rules within and across the European Union. The Trade Secret Directive was created to assist in the smooth functioning of free movement and free trade. However, despite the Directive’s aim to create harmonization of trade secret protection among Member States, it does not

88. Id. at 9. The Commission was ordered not to publish a fuller, non-confidential version of the 2008 decision in relation to categories I and II. Id. at 15.
89. Free Trade is a source of economic growth, THE EUROPEAN UNION EXPLAINED 8 (2016), https://publications.europa.eu/en/publication-detail/-/publication/9a2c5c3e-0d03-11e6-ba9a-01aa75ed71a1
90. Directive 2016/943, supra note 6, at 3.
91. Id. (This Note will not discuss the detailed effects on the European Union’s internal market).
92. Id.
96. Directive 2016/943, supra note 6, at 3.
standardize the protection. Once a directive has been approved by Parliament and Council, Member States must adopt the directive in order for it to take effect at a national level. Member States must transpose the directive by the deadline set forth from the date of adoption. If a Member State fails to do so, the Commission can initiate infringement proceedings against that country. As aforementioned, the drafting of the Directive included a focus on the need for minimum harmonization. When a directive calls for minimum harmonization, it means that minimum standards must be met but that Member States have “the right to set higher standards than those set in the directive.” Essentially, Member States can incorporate stricter measures for any of the articles in the Directive as long as the measures do not go against other provisions of the Directive.

After the initial proposal, discussions began and one of the six meetings established that Member States wanted the definition of trade secret, in what would become the Directive, to mimic the definition set out in Article 39, paragraph 2 of the TRIPS Agreement. Paragraph 8 of the final Directive does discuss how important it is to have a uniform definition for a trade secret. The paragraph further touches on points (1)(a) and (1)(b) of the trade secret definition above. But critically, the Directive does not address the “reasonable steps” in (1)(c). Failure to address the importance of “reasonable steps” and the limitations on what Member States can include in their own trade secret definition as “reasonable steps” is a glaring problem because it negates the purpose of harmonized trade secret protection when businesses are unaware of specific steps they must take within each country.

B. The Implementation of the Directive in Member States

On June 8, 2016, the European Parliament and the Council enacted the Directive “on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and

99. Id.
100. Id.
102. EU Directives, supra note 98. This is very similar to the freedom the TRIPS Agreement gives WTO Members. Overview, the TRIPS Agreement, supra note 55.
104. Proposal, supra note 11, at 3; See Section I.B, supra note 64.
106. Id.
“Reasonable Steps” To Get Back On Track

Disclosure.” Article 19 of the Directive set a June 9, 2018 deadline for Member States to enact the Directive within their own legislation. As of October 31, 2018, a majority of Member States had enacted legislation that implemented the Directive, and it has proven that while some countries only needed to make minor adjustments, other countries had to substantially change their laws regarding trade secrets. (There are a few Member States that are still working on implementing the Directive while three countries have yet to put out any information regarding implementation). Some highlights follow.

In April of 2018, Germany published an official draft for the “German Act on the Protection of Trade Secrets” that would establish a separate act, rather than amend the current trade secret protection laws. Germany merged the first two requirements of the three-prong test for the definition of a trade secret set forth in the Directive. As for the third requirement, “reasonable steps,” Germany’s draft noted that it will switch the courts’ enforcement from a subjective view, involving the will of the trade secret holder, to an objective view that analyzes the reasonable steps taken to keep the information secret. The intent to keep information secret will no longer be sufficient and the trade secret holder will need to prove that objectively reasonable steps were taken.

The French Parliament also enacted an entirely new law regarding trade secrets that transposed the Directive. In France, each company is free to determine which protective measures are suitable to its organization and which are relevant based on its circumstances to satisfy the “reasonable steps” requirement. In Spain, the Trade Secrets Act implements and adopts the Directive’s full definition of a trade secret but does not make...
any specific changes to the “reasonable steps” element. Similarly, Austria’s most essential change in its trade secret law is adopting the definition of a trade secret, as it did not previously have a formal definition, therefore leaving the country to adjust to a trade secret definition and wrestle with what constitutes “reasonable steps.” Hungary and Denmark also fall in line with having a new definition of what a trade secret is, including the “reasonable steps” requirement, leading to a new adjustment for both countries.

Notably, in December of 2016, the Spanish courts, while considering the disclosure of trade secrets, deemed the confidential information in Civil Judgement No 441/2016 not secret. The court came to this conclusion by noting that “secrecy” had developed from the TRIPS Agreement and that the measures taken in this circumstance were not sufficient enough to make the information secret. The court duly noted that steps taken to avoid disclosure should be external as well as internal and “adequate and reasonable.” Specifically, the external steps should prevent access to the information from third parties and outsiders while the internal steps include limiting employee access.

Additionally, in October of 2016, during a case that dealt with a security breach, the Austrian Supreme Court concluded that the efforts taken by the trade secret holder were sufficient enough to deem the information “secret.” The efforts of the trade secret holder included a logging system that only let a few identified individuals have access to the information. Despite the breach, the court determined that its interpretation of the third element of the new trade secret definition – the “reasonable steps” element – was indicative of what the Directive set out to accomplish.

121. Id.
122. Id.
123. Id.
124. Id.
125. Id.
126. Id.
Further, in the Netherlands, there was a decision in the District Court of Utrecht that determined that wording placed on the secret information that prohibited further distribution of the information was insufficient to qualify as a protective measure. However, the Netherlands courts will now assess “reasonable steps” in light of the Directive, but they could end up veering toward requiring stricter protective measures rather than deciding on a case by case basis. Also, in the United Kingdom, the “reasonable steps” element, although somewhat similar to the existing law of confidence, is new and has been implemented into the law providing a new aspect for the United Kingdom courts to take on.

Although Member States have implemented the Directive’s trade secret definition and not added any specific requirements for “reasonable steps” yet, it is entirely possible that they may do so in the future. For most Member States, the “reasonable steps” element is new, even the trade secret definition is new to some, which could cause an issue if courts become overwhelmed with deciding “reasonable steps” on a case-by-case approach. Even if Member States are unlikely to change their trade secret laws to include specific requirements for “reasonable steps,” it is essential that trade secret protection does not vary among Member States for the sake of businesses and the European Union’s internal market.

**COMPARISON OF APPROACHES TO ANALYZING THE “REASONABLE STEPS” ELEMENT**

To fully understand the issue with the Directive’s lack of instruction regarding the “reasonable steps” element, it is important to put the Directive in a broader context. This part of the Note will first dissect trade secret laws in the United States, China, and Canada, all of which do not have specific efforts required to satisfy the “reasonable steps” requirement, but rather decide if the efforts put forth by the trade secret holder are “reasonable” based on the circumstances. The trade secret laws in Japan and Russia will be discussed in contrast because both countries have strict requirements about what a business must do in order to satisfy the “reasonable steps” element and gain trade secret protection. Exploring and identifying the differences in trade secret laws in countries outside of the European Union helps to highlight the potential effects on businesses if Member States do or do not require strict efforts for “reasonable steps.”

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128. Id.
A. The United States’ Federal Trade Secret Protection and Analysis on a Case by Case Basis

The year 2016 was also significant for trade secret law in the United States. For in that year, the Defend Trade Secrets Act (“DTSA”) went into effect in the United States.\textsuperscript{130} The DTSA is modeled after the Uniform Trade Secrets Act (“UTSA”) and allows for federal action for misappropriation of trade secrets.\textsuperscript{131} Under the UTSA, adopted in 48 states and Washington D.C., §1(4) defines a trade secret as “information . . . that: (1) derives independent economic value . . ., and (2) is the subject of efforts that are reasonable under the circumstances.”\textsuperscript{132} Although, in the United States, the trade secret holder must be diligent in protecting their secret, courts vary on drawing the line for what is “reasonable” when determining if that aspect of the definition has been met.\textsuperscript{133} The DTSA has followed the UTSA in that it has not added specific requirements and has kept the fluid approach of analyzing “reasonable steps” based on the circumstances.\textsuperscript{134}

In the U.S., businesses are not required to perform specific efforts to satisfy the “reasonable efforts” element of trade secret protection.\textsuperscript{135} U.S. courts will examine the specific facts of the case, the type and size of the business, and the nature of the trade secret at issue to determine if the efforts and precautions taken were “reasonable” under the circumstances.\textsuperscript{136} Several factors have been assessed in determining whether reasonable efforts have been made.\textsuperscript{137} For example, the courts have looked at physical security, whether copies of the secret have been marked as confidential or have restricted access, and the agreements made and signed by employees and third parties.\textsuperscript{138} The U.S. takes a holistic, circumstantial approach to determining what constitutes “reasonable steps” in each case.

For instance, in Rockwell Graphic Systems Inc. v. DEV Industries, Inc., the plaintiff, who manufactured printing presses and their replacement parts, sued two former employees for the misappropriation of a trade secret when they became employees for a competitor, the defendant.\textsuperscript{139} The plaintiff asserted that the employees violated their confidentiality agreements and employment contracts by taking “piece part” drawings

\begin{itemize}
\item \textsuperscript{130} Jeanne M. Gills, What’s Reasonable? – Protecting and Enforcing Trade Secrets In The Digital Age, Foley & Lardner LLP (2016) at 1.
\item \textsuperscript{131} Id.; Kevin J. Burns, A Key Difference Between the DTSA and the UTSA: “Continued Misappropriation” Continues to be a Viable Claim (Apr. 3, 2017), https://www.lexology.com/library/detail.aspx?g=9b141e2-4366-498b-8f6d-51b6b801cc3e.
\item \textsuperscript{132} Menell, supra note 19, at 47–48; Burns, supra note 131.
\item \textsuperscript{133} Menell, supra note 19, at 49.
\item \textsuperscript{134} Gills, supra note 130, at 7.
\item \textsuperscript{135} Id. at 6.
\item \textsuperscript{136} Id.
\item \textsuperscript{137} Id.
\item \textsuperscript{138} Id.
\item \textsuperscript{139} See Rockwell Graphic Sys. Inc. v. DEV Indus., Inc., 925 F.2d 174 (7th Cir. 1991).
\end{itemize}
from Rockwell and using them while employed by the competitor.\footnote{140} Rockwell had implemented security precautions such as keeping the drawings in a vault, restricting physical access to the vault and the building where the vault was kept, and requires employees to sign agreements not to disclose the information to anyone else.\footnote{141} Rockwell even had its vendors sign confidentiality agreements and return the drawings when the manufacturing of the parts was complete.\footnote{142} The court held that “reasonable” precautions are based on a balancing of benefits and costs to the plaintiff that will vary from case to case.\footnote{143} Presumably, the U.S., with its notable experience with trade secret protection, decided to remain deciding “reasonable steps” based on the circumstances because it seems to be the fairest way to access the trickiest part of a business having a trade secret and wanting to protect it.

\section*{B. Canada’s Traditional Trade Secret Protection for “Reasonable Steps”}

Although Canada does not have a formal definition of a trade secret, it interprets secrecy measures in a similar manner as the U.S.\footnote{144} In Canada, trade secrets are protected by tort, where there is a duty of confidence, or by contract.\footnote{145} Thus, Canada focuses on the quality of confidence a person puts forth in keeping the secret from being known, which includes measures in place that ensure the information is kept secret.\footnote{146} An employer does not need to have the trade secret in writing, but simply must protect it and control access to it.\footnote{147} Canada does not require a person to protect information against undetectable, unanticipated, and unpreventable methods of discovery.\footnote{148} Further, Canada considers the circumstances in each particular case to determine if a person or business sufficiently protected the trade secret.\footnote{149} Specifically, Canada focuses on whether employees adequately demonstrated good faith and fidelity to their employers, during and after employment, in maintaining the confidentiality of trade secrets they learned.\footnote{150}

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\footnote{140} Id. at 176.  
\footnote{141} Id. at 177.  
\footnote{142} Id.  
\footnote{143} Id. at 179.  
\footnote{144} The Protection of Trade Secrets in Canada (Sept. 11, 2018), https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr03987.html.  
\footnote{146} The Protection of Trade Secrets in Canada, supra note 144.  
\footnote{148} The Protection of Trade Secrets in Canada, supra note 144.  
\footnote{149} Id.  
\footnote{150} Ripley, supra note 147.
\end{flushleft}
C. China’s Anti-Unfair Competition Law Allows for Flexible Consideration

In China, the Anti-Unfair Competition Law covers trade secret protection and consists of a two-part analysis that: (1) analyzes whether there is a trade secret that deserves legal protection, and (2) if so, whether the acquisition, use, or disclosure is prohibited and constitutes misappropriation. The Anti-Unfair Competition Law defines a trade secret and requires the trade secret owner to have taken measures to maintain confidentiality, which is parallel to the trade secret owner having to undertake reasonable steps to maintain secrecy. To clarify the way Chinese courts should deal with unfair competition cases, China issued the Judicial Interpretation of Supreme People’s Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition (“the Interpretation”).

The Interpretation states that if a trade secret owner takes reasonable steps to maintain the confidential nature of the trade secret to prevent disclosure under the circumstances, then the steps shall be held as “reasonable confidentiality measures.” The Interpretation goes on to explain that to determine whether the steps were reasonable, factors such as the desire for confidentiality by the owner and difficulty for others to obtain the secret, should be considered along with various other factors. There is a non-exhaustive list included in the Interpretation to help courts and businesses understand what constitutes sufficient confidentiality measures. Consequently, in China, there is no general rule stating what measures are deemed reasonable. Whether the steps taken by the trade secret owner are “reasonable” depends on the circumstances of each case, including the nature of the information and the conduct of all parties involved.

153. Id. at 357–58.
154. Id. at 359.
155. Id.
156. Id. The non-exhaustive list includes measures such as limiting access to the information, locking the information away, placing passwords and codes on the information, executing confidentiality agreements, and adopting any other proper measures to maintain the confidentiality of the information. Id.
157. Id.
158. Id. at 359–60.
D. Japanese Courts Have Set Strict Requirements for Companies to Satisfy “Reasonable Steps”

Japan takes a completely different approach to determining what constitutes “reasonable steps.” In 1991, Japan’s Unfair Competition Prevention Law (“UCPL”) adopted trade secret provisions, partly due to pressure from the United States to bring Japanese trade secret law to match European and United States trade secret law. The UCPL, or Unfair Competition Prevention Act (“UCPA”), defines a trade secret as “technical or business information useful for business activities . . . that is kept secret and that is not publicly known.”

An explanatory note was submitted by the Ministry of International Trade and Industry with the 1990 Trade Secret Amendments to explain the “degree of secrecy required to maintain confidential information as a trade secret.” The note stressed that the intention of maintaining secrecy was not sufficient for satisfying the reasonable efforts requirement. A trade secret holder would need “an objective secrecy administration” which means that there needs to be a specific design and implementation of procedural safeguards to protect the trade secret. For example, a trade secret holder can disclose the secret to an employee but there must be an implied or express obligation of secrecy.

Additionally, the Japanese courts have held that “a company must ‘implement physical and electronic access restrictions’ for information to be deemed ‘kept secret’” and to be protected under trade secret law. The Japanese courts have also held that “trade secret holders must limit the number of people with access to the information, give clear notice that the subject matter is secret, and implement physical and electronic access restrictions.” Japan’s requirements imply that any company seeking trade secret protection will be faced with more expensive and extensive efforts to ensure they are satisfying such requirements. For example, the stricter requirements in Japan would make it difficult for a U.S. business to prove its efforts were reasonable and be afforded protection the same way it would be in the United States.

160. Fusei kyōsō bōshi-hō [Unfair Competition Prevention Act], Law No. 54 of 2015, article 2(6) (Japan).
161. Svetz, supra note 159, at 428.
162. Id.
163. Id.
164. Id.
167. Svetz, supra note 159, at 429.
168. Id. at 445.
E. Russia Requires a “Regime” for Businesses

Russia has become a significant market for foreign investors, which has led to the rise of intellectual property protection for such investors. An Intellectual Property Court was established in Russia in July of 2013 to provide stabilization and development for intellectual property court practice and the legal environment surrounding intellectual property law. The court handles disputes over intellectual property rights including their validity and establishment while also serving as an appellate court for intellectual property infringement cases.

Further, Russia’s trade secret law covers the protection of confidentiality of information. Trade secret holders must adopt five measures in order to trigger trade secret protection. Items one through three of the requirements include creating a list of information constituting the secret, limiting access to the information by “establishing a procedure for handling that information and for control over compliance with that procedure,” and keeping a record of individuals who have access to the information. Requirements four and five include regulating the use of information by employees through labor contracts and civil law contracts as well as marking the information with a “Commercial secret” stamp that includes the trade secret holder’s information.

Thus, Russian courts have held that “companies must implement a ‘regime’ of trade secrecy, ranging from defining a list of information constituting commercial secrets, and limiting and tracking access to that information to regulating use and affixing a ‘commercial secret’ stamp specifying the holder of that information.” In sum, the trade secrecy regime required by Russian law is “more stringent” than the normal reasonable efforts necessary to maintain secrecy in the United States.

In sum, the United States, Canada, and China do not appear to place a high or unreasonable burden on companies to prove that secrecy of their trade secrets were maintained through “reasonable steps.” Each of the countries use a suggested list of what constitutes “reasonable steps,” but each business’s trade secret misappropriation claim is analyzed on a case-by-case basis to provide adequate and fair trade secret protection to

170. Id.
171. Id.
173. Id.
174. Id.
175. Id.
176. Inside Views, supra note 166.
businesses of different sizes and types. Conversely, Japan and Russia place a burden on each company that is not always fair or adequate because it does not consider the unique circumstances of each case or business.

IV. IDENTIFICATION OF THE ISSUE SURROUNDING THE IMPLEMENTATION OF THE “REASONABLE STEPS” ELEMENT

A. The Effects of Unrestricted Implementation by Member States

While the Directive sets out a three-part definition of a trade secret, which includes the “reasonable steps” requirement, it does not specify what the steps are.178 This means that Member States can interpret and implement their own meaning for what “reasonable steps” should include.179 The Directive gives Member States this power by only laying out a minimum standard for trade secret protection to which each Member State can add stricter measures, including specific efforts that would need to be followed to satisfy the “reasonable steps” element.180

The lack of restrictions or guidelines on the “reasonable steps” that Member States can include within their own version of the Directive is likely to cause issues for businesses that have trade secrets but fail to meet each and every requirement of “reasonable steps” in each Member State.181 For instance, if a Member State mimics Japan or Russia and adds specific “reasonable steps” that a business must take in protecting its trade secret, regardless of the circumstances, then a business could potentially not be afforded protection in that Member State if it misses one step. The threshold for showing “reasonable steps” should be low because that approach seems to work well without being overly onerous,182 and circumstances such as the size of a business, the nature of the trade secret, and the specific facts of the case should be used to determine what is reasonable.183 It would be better policy for Member States to follow what the United States, Canada, and China do when analyzing what constitutes “reasonable steps” as it more fairly and accurately depicts the circumstances that each individual business may have. Implementing this method would also mean fewest alterations for some Member States as they transpose the Directive into their own laws because the exact language in the trade secret definition of the Directive could be used.

179. Id.
182. Id. (quoting Steven Gee QC, a commercial silk and litigation partner at Joseph Hage Aaronson).
183. Gills, supra note 130.
Furthermore, if a business is small in size and cannot afford specific, required protective measures, such as setting up electronic security and creating contracts for every person that comes across the confidential information, then it would not be afforded trade secret protection in a country that requires those specific efforts to be taken. This is important since about 99% of businesses in the European Union are small and medium-sized businesses.\(184\) Likewise, if a business practices in an industry that is already a small area, then specific, required steps to protect the secret may not be necessary.

While some Member States have to make major changes to their trade secret protection laws,\(185\) it is critical that they not implement required “reasonable steps” so as to put stringent and unnecessary burdens on businesses. Rather, the court systems of Member States should be authorized to analyze the protective measures based on the circumstances of each and every case that comes before them. “Reasonable efforts” is not used to imply that a company must make every effort necessary; rather it entails a company performing efforts without creating undue hardship upon itself.\(186\) The strict list of requirements that need to be met in Japan and Russia, for instance, would require a company to make every effort necessary instead of what is reasonable to the company, namely what it can afford and what is sufficient to protect the trade secret.

Logically, companies should do whatever is necessary to keep their trade secret a secret and protect it from misappropriation. If companies have the means to implement rigorous protective measures, then they would be implementing good practices and would not have to worry about whether they are meeting the threshold for “reasonable steps.” However, the companies that will suffer from strict, specific efforts for “reasonable steps” are those that cannot afford or are unable to, for various reasons, implement strenuous protective measures.

**B. Suggestions to Avoid Potential Effects Moving Forward**

A directive in the European Union is essentially a legislative act that sets out a goal that all Member States must achieve.\(187\) Therefore, if the goal of the Directive is to harmonize trade secret protection among the Member States, then the European Union should do whatever is necessary and possible to ensure that remains the goal.

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Going forward, the European Union may have the option of amending the Directive to prohibit Member States from enacting stricter requirements regarding the “reasonable steps” element of the Directive’s trade secret definition. An amendment would ensure an even more uniform and harmonized protection of a business’s trade secret as it would make businesses even more comfortable knowing that they will be provided with attainable trade secret protection against misappropriation.

If this approach is time constricted or not feasible, then the European Parliament, European Council, and the European Commission could notify the Member States of the possible consequences that could result from the implementation of specific, required “reasonable steps.” Despite several Member States already having transposed the Directive, they have the ability to change their laws at any time in the future and in turn can alter their trade secret laws to avoid specific efforts that would be required by each business to satisfy the “reasonable steps” element. The reason this becomes a concern is that the court systems may be overwhelmed by the trade secret claims coming through their doors and may have a hard time deciding what efforts are considered “reasonable” in each and every case. This concern will not go away unless the European Union takes action to prevent or discourage Member States from changing or implementing their trade secret laws to include specific, required efforts for “reasonable steps.”

CONCLUSION

Trade secrets are important in the business world, especially with the constant competition and innovation, both of which drive businesses to expand. Along with the expansion of global businesses comes the need and desire for more extensive, uniform trade secret protection around the world. By mirroring and adhering to the trade secret protection initially set out in the TRIPS Agreement, the European Union is on the right track by enacting the directive that would harmonize trade secret protection among the twenty-eight Member States. The Directive will undoubtedly assist in the smooth functioning of the European Union’s single market and will do so by allowing businesses to feel more comfortable maintaining their trade secrets within the European Union knowing there is an avenue for protection.

However, despite businesses being aware that there will be trade secret protection, the issue of whether they would be afforded that protection is still relevant. More specifically, issues could arise as Member States deal with trade secret claims that enter the court systems for the first time under the implementation of the Directive, namely the “reasonable steps” element.

189. Id. at 51–52.
190. Proposal, supra note 11.
steps” element. Member States may be inclined to change their legislation to include specific, required steps in their definition of a trade secret, similar to what Japan and Russia have done. Unfortunately, Member States have the freedom to implement the trade secret definition of the Directive as they see fit. The European Parliament, European Council, and the European Commission did not set forth restrictions in the Directive that would prevent Member States from adding specific, required steps to the “reasonable steps” element of the definition. The lack of restrictions puts businesses at risk of being faced with not being afforded trade secret protection because they missed a specific, required step that a Member State could put in its trade secret definition.

In essence, if Member States implement specific, required steps that businesses must take to obtain trade secret protection, it could weaken the comfort level and incentive for companies to conduct business in certain Member States for fear that there would be no fair avenue of protection. A real concern for small and medium-sized businesses is that it would not be feasible for them to meet all of the specific efforts required of them by some countries. Another concern for small and medium-sized businesses would be having to implement and adopt new measures for every single country they do business in, which would not be fair, practicable, or reasonable. Ultimately, if businesses no longer operate in Member States due to fear and concerns of not being afforded trade secret protection, it would affect the single market that the European Union is striving to maintain and negate the entire purpose of the Directive.

In sum, in order to avoid Member States from freely implementing specific, required steps to satisfy the “reasonable steps” element and potentially putting business on edge, the European Union should actively take steps to prevent Member States from altering the “reasonable steps” element laid out in the Directive’s trade secret definition. Action should be taken, whether it be by the European Parliament, European Council, or European Commission, to ensure that Member States are aware of the negative effects that could result if they were to require businesses to perform specific efforts to satisfy the “reasonable steps” element. This awareness would prevent stress and further ease the concerns about trade secret protection for small and medium sized businesses that practice within the European Union. The ultimate goal of the European Union in maintaining the single market can be achieved by acting now and a chilling effect on the overall innovation process could be avoided.