

# Client Alert

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## New European Union Rules Provide for the Prohibition of Imports Violating Trade Secrets

On 15 June 2016, new rules for the protection of trade secrets and confidential information<sup>1</sup> in the European Union EU were published. The *Trade Secrets Directive* provides measures against the unlawful acquisition, use, and disclosure of trade secrets, including the ability to seek the prohibition of importation, sale, and use of infringing products, and to obtain compensation. It provides relief similar to that afforded under Section 337 of the Tariff Act of 1930 – a U.S. statute that prohibits the importation, sale for importation, or sale after importation into the United States of articles manufactured using a misappropriated trade secret. The *Trade Secrets Directive* also parallels the recently enacted federal Defend Trade Secrets Act in the United States.

The principal aim of the Directive is to provide an effective legal framework in all 28 EU Member States for the protection of trade secrets. The European Commission noted, in the explanatory memorandum, that businesses, irrespective of size, value trade secrets as much as patents and other forms of intellectual property rights.<sup>2</sup> Know-how and business information that are undisclosed and intended to remain confidential are of significant value to businesses' competitiveness and profitability.<sup>3</sup> Based on a 2012 impact assessment, the European Commission found that:

- 40% of EU companies would refrain from sharing trade secrets with other parties because of fear of losing the confidentiality of the information through misuse or release without their authorization; and
- the European chemical industry, which strongly relies on process innovation secured by trade secrets, estimates that misappropriation of a trade secret could often entail a turnover reduction of up to 30%.<sup>4</sup>

Not all EU Member States, however, have legislation addressing the misappropriation of trade secrets. Countries that do not have legislation include

<sup>1</sup> Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, OJ L157, 15.6.2016, p. 1 ("*Trade Secrets Directive*").

<sup>2</sup> European Commission, Legislative Proposal, 28.11.2013, COM(2013) 813 final, p. 5.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

Belgium, France, Ireland, Luxembourg, the Netherlands, and the United Kingdom. Moreover, the legislation among those Member States that do have rules can vary widely, resulting in patchwork protection for trade secrets across the European Union.

Under the new *Trade Secrets Directive*, the definition of a “trade secret” covers know-how, business information, and technological information that has actual or potential commercial value when there is a legitimate interest in keeping the information confidential and a legitimate expectation that such confidentiality will be preserved.<sup>5</sup> Information is not afforded protection if it is trivial, gained by employees during the course of employment, or generally known or readily accessible to persons normally dealing with the kind of information in question. A person can be found to unlawfully acquire, use, or disclose a trade secret when she, for instance, (i) acquired the trade secret unlawfully; (ii) breached a confidentiality agreement or other duty not to disclose the trade secret; or (iii) breached a contractual or other duty to limit the use of the trade secret.<sup>6</sup> The *Trade Secrets Directive* however sets clear exceptions for the defense of whistleblowers.<sup>7</sup>

Important remedies available to a trade secret holder under the *Trade Secrets Directive* include (i) the prohibition of the importation, export, or storage of infringing goods and (ii) the seizure and prohibition on sale or marketing of subject goods.<sup>8</sup> In addition to these injunctive and corrective measures, an injured trade secrets holder can also obtain compensation “appropriate to the actual prejudice suffered” as a result of the misappropriation.<sup>9</sup>

The *Trade Secrets Directive* also imposes some procedural requirements, including a six-year maximum limitation period for the filing of substantive claims and actions for the application of measures, procedure, and remedies.<sup>10</sup>

EU Member States have until 9 June 2018 to bring into force the laws, regulations, and administrative provisions necessary to comply with the *Trade Secrets Directive*. The new rules will be enforced by the competent judicial authorities in each Member State, and not centrally by the EU institutions. Infringement or misappropriation proceedings will therefore have to be commenced by companies holding trade secrets in the relevant Member State.

## **Similar relief already available in the U.S. – a powerful tool for industry against imports into the U.S.**

The *Trade Secrets Directive* provides relief similar to that of Section 337 of the U.S. Tariff Act of 1930. Section 337 prohibits the importation, sale for importation, or sale after importation of articles that were manufactured using a misappropriated trade secret provided that the domestic industry has been injured. The U.S. International Trade Commission (ITC) and the U.S. Court of Appeals for the Federal Circuit regularly adjudicate trade secret disputes under Section 337. For example, the Federal Circuit affirmed an ITC decision granting an exclusion order of 10 years against imports of cast steel railway wheels based on trade secret theft in 2011 in *TianRui Group Co., Ltd. v. U.S. Int’l Trade Comm’n*. More recently, in *Certain Steel Products*, Inv. No. 337-TA-933, the ITC issued a 16-year exclusion order against steel products imported into the United States by Indian company Viraj Profiles Ltd. The ITC also instituted an investigation on *Certain Carbon and Alloy Steel Products*, Inv. No. 337-TA-1002, based on allegations by U.S. Steel that a large Chinese steel producer – Baosteel – imported steel into the United States that had been manufactured using trade secrets stolen from U.S. Steel by cyber theft.

<sup>5</sup> Article 2(1) of the *Trade Secrets Directive*.

<sup>6</sup> *Id.* at Article 4.

<sup>7</sup> *Id.* at Article 5.

<sup>8</sup> *Id.* at Article 12.

<sup>9</sup> *Id.* at Article 14.

<sup>10</sup> *Id.* at Article 8.

## Conclusions

The new EU rules on the protection of trade secrets will ensure protection of trade secrets throughout the EU by providing companies operating in the EU with powerful tools to seek redress against competitors and other persons unlawfully acquiring, using or disclosing their trade secrets and confidential business data. Based on the experience of the Section 337 instrument, legislation adopted in the EU Member States to transpose the *Trade Secrets Directive* should be an effective tool for industries aggrieved by trade secret theft to ensure a level playing field with international competition.

The *Trade Secrets Directive* will lead all EU Member States to adopt instruments to enable industries operating in the EU to address matters of unfair trade. Other such instruments, which are administered at the EU-level, are the anti-dumping, anti-subsidy and safeguard rules through which dumped, subsidized or otherwise low-priced and rapidly increasing imports are, most commonly, offset by the imposition of additional import duties or quotas.

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