



COMMENTS FOR THE CONSULTATION ON THE COMMISSION REPORT ON THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS*

30 March 2011

I. Overview – General Comments

The Trade Secrets & Innovation Coalition (“TSIC”) welcomes the Commission’s initiative to revisit Directive 2004/48/EC on the enforcement of intellectual property rights (“the Directive”).¹ The TSIC is a coalition of companies formed to highlight the importance of trade secrets in the context of innovation and the ever increasing damage that trade secret theft imposes on European industry. A number of leaders of European industry have experienced the stealing of their technological secrets by fraud, bribery and physical and electronic theft, followed by the shameless exploitation of that stealing on an industrial scale. The coalition currently includes Alstom, CEFIC, DuPont de Nemours, Michelin, Nestlé, Procter & Gamble and Solvay. The coalition’s objective is to raise awareness on the significance of trade secrets and know-how for European industry and to promote adoption of measures for effective protection against their theft. The TSIC is represented by the law firm White & Case LLP.

As the Commission acknowledges, “*effective means of enforcing intellectual property rights are essential for the promotion of innovation and creativity.*” TSIC members share this view. Proper protection of IPRs will be essential in the context of implementing the “Innovation Union” strategy, as outlined in the Communication on the Europe 2020 Flagship Initiative.² The Report from the Commission³ concludes that the infringement of intellectual property rights (“IPRs”) has reached a significant level and that they cause widespread

* These comments are offered by the Trade Secrets & Innovation Coalition in response to the Commission’s invitation to comment. These comments are designed to assist the Commission in its ongoing work in this area and should be used for no other purpose, either by the Commission or by third parties.

¹ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property Rights, OJ L 195/16, of 02.06.2004.

² Communication from the Commission to the EP, Council, EESC and CoR - Europe 2020 Flagship Initiative - Innovation Union, Brussels, 6.10.2010, COM(2010) 546 final.

³ Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property Rights (the “Report”), SEC(2010) 1589 final, 22.12.2010.

economic harm. The Commission notes that *“a significant number of products infringing intellectual property rights now pose a real threat to consumer health and safety”*. The Coalition members agree with this opinion and urge the Commission to provide better means to prosecute such infringements of IPRs by means of a more stringent and effective legislation.

The Commission correctly identified infringements of IPRs taking place outside of the EU as a major source of concern. The TSIC submits that infringements committed outside the EU constitute an increasing problem for European industry. The TSIC encourages the European institutions to continue their efforts to ensure that violations of IPRs are not tolerated just because they occur beyond the EU borders. The inclusion of chapters on IPRs in bilateral trade agreements with third countries is a good way to pursue this objective. In this context, the TSIC believes that European institutions should ensure that the EU industry has effective means to prevent the importation of infringing goods into the EU. Amendments to the Customs Regulation⁴ are necessary to achieve this goal, as the Coalition members have previously pointed out.⁵

The Report notes that certain provisions of the Directive have given rise to different interpretations and differences in enforcement in different Member States. The TSIC submits that these differences in the application of the Directive create significant problems for its members and European industry in general. The Commission should ensure that the provisions of the Directive are clarified to assure a more uniform application of the Directive. This point is further developed in the more specific comments relating to trade secrets protection below.

The TSIC further encourages the Commission to analyse in more detail the compensatory and dissuasive effects of damages awarded for IPRs infringement. At present, the damages awarded for violations of IPRs are rather low compared to damages awarded for other private rights violations. As the Report states, so far only a few Member States have reported an increase in the damages awarded as a result of implementing the Directive. The Commission should therefore revise the Directive in order to ensure that damages awarded for infringements of IPRs serve as a means to remedy and deter persistent IPRs violations.

Finally, the TSIC welcomes the Commission’s initiative to adapt the Directive to the reality of the modern Digital Society. Thus, the Directive should be amended to ensure adequate protection against infringements of IPRs committed through the Internet.

II. Protection of trade secrets

Apart from these general comments, the TSIC limits its submission to the scope of the Directive, since it does not have any specific comments regarding the functioning of the

⁴ Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, OJ L 196, 2.8.2003, p.7-14.

⁵ The TSIC submitted in particular that *“the range of IPRs covered by the Regulation should be broadened”* and that *“Article 2(1) of the Regulation could be amended to include an additional definition under “goods infringing an intellectual property right” towards which customs action may be taken”*. See TSIC Response to the Commission’s consultation paper relating to the review of EU legislation on customs enforcement of IPR.

Directive as such. However, Coalition members may also submit their own separate comments regarding the Directive.

The TSIC submits that the Directive should contain a minimum list of IPRs covered by the Directive and that trade secrets and know-how should be included in this list. The TSIC believes that the current lack of clarity as to whether trade secrets are covered by the Directive seriously hampers the functioning of the internal market. This problem is analysed in more detail below.

i) Trade secrets as part of IPRs

Trade secrets are undeniably part of IPRs. The confirmation of this at the EU level can be found in the *Microsoft* judgement, where the General Court ruled that “*trade secrets ... must be treated as equivalent to intellectual property rights*”.⁶

The same approach has been confirmed in Article 1(1)(g) of Regulation 772/2004⁷ which states that “*intellectual property rights’ includes industrial property rights, know-how, copyright and neighbouring rights*”. In other words, trade secrets (know-how) and patents are equivalently considered IPRs.

Hence, trade secrets are recognised in the EU as fully being part of IPRs and, as such, should not be treated differently from industrial property rights. To be sure, the TSIC fully recognizes the fact that trade secrets are different from other forms of intellectual property. In particular, the TSIC is not advocating that trade secrets should enjoy the same scope of exclusive (“monopoly”) rights as other IPRs. Rather, the Coalition members are concerned about inadequate and inconsistent mechanisms to tackle the theft and misuse of trade secrets in the European Union and call for the appropriate changes in the EU legislation to address this problem.

ii) The scope of the Directive

Currently, Article 1 of the Directive reads as follows:

“This Directive concerns the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights. For the purposes of this Directive, the term ‘intellectual property rights’ includes industrial property rights”.

It is currently unclear whether the Directive applies exclusively to industrial property rights or whether it applies to all IPRs more generally.

Recital 13 of the Directive comes to mitigate this uncertainty, as it clarifies that “*it is necessary to define the scope of this Directive as widely as possible in order to encompass all the intellectual property rights covered by Community provisions in this field and/or by the national law of the Member State concerned*”. Furthermore, the Commission Staff Working Document⁸ states that “*the Directive covers all infringements of intellectual property rights*

⁶ Case T-201/04, *Microsoft Corp. v Commission*, judgment of 17 September 2007, ECR II-3601, paragraph 289.

⁷ Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty (now Article 101(3) TFEU) to categories of technology transfer agreements, OJ L 123, 27.04.2004, p.11-17.

⁸ Commission Staff Working Document on the analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property Rights in the Member States, accompanying document to the Report from the Commission to the Council, the European parliament and the European Social Committee on the application of Directive 2004/48/EC of the European

without containing any definition of intellectual property rights. The scope is not limited to those rights harmonised at EU level, but also covers rights protected as intellectual property rights by national law”.

Therefore, although it seems that trade secrets are indeed implicitly covered by the Directive to the extent that they constitute IPRs, this remains slightly ambiguous as there is no mention to trade secrets either in the recitals or in the Directive itself, contrary to other IPRs such as copyrights.

iii) The problem with the current Directive

The Staff Working Paper identifies problems resulting from the uncertainty relating to the scope of the current Directive: *“some uncertainties have arisen as to whether **domain names, trade (business) secrets**, including know-how, are covered by the Directive, and whether the Directive is applicable to other acts of **unfair competition** (for example parasitic copying). The status and the form of protection of trade (business) secrets, including know-how, and the treatment of acts of unfair competition and of domain names is very different among Member States. It seems to derive from the wording of the Directive that in cases where they are protected as an intellectual property right at national level, they should be understood as being covered by the scope of the Directive.”* The uncertainty as to whether some types of IPRs, such as trade secrets, are covered by the Directive leads to *“disparities between the Member States’ systems for enforcing intellectual property rights undermine the proper functioning of the internal market and weaken the enforcement of the substantive law on such rights. This leads to barriers to cross-border activities, loss of confidence in the internal market and lower investment in innovation and creation.”* For that reason, the Staff Working Paper recommends providing *“some clarification”* on the scope of rights covered by the Directive.

The TSIC shares the view expressed in the Staff Working Paper that the lack of guidance on the scope of the Directive undermines its key objective, namely ensuring the adequacy of remedies against infringements of IPRs to promote innovation, creativity and to improve competitiveness in the EU.⁹

iv) The proposed solution to the problem

The Commission has been aware of the problems that result from leaving the definition of IPRs open. At the request of Member States, the Commission published a minimum list of IPRs that it considers to be covered by the Directive.¹⁰ However, after the publication of this list, uncertainties persisted as to whether some rights protected under national law are or not covered by the Directive. This was indeed the case for trade secrets, which are protected in all Member States,¹¹ but which were not included in the minimum list of the Commission.

Parliament and the Council of 29 April 2004 on the enforcement of intellectual property Rights, COM (2010) 779 final, 22.12.2010.

⁹ See recital 1 of the Directive.

¹⁰ Statement by the Commission concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights (2005/295/EC), OJ L94, 13.04.2005, p.37.

¹¹ However, it must be noted that this protection varies widely from one Member State to the other, and also that the means by which protection is obtained are very different, rendering the task of companies of ensuring the enforcement of their trade secrets extremely cumbersome. This would be alleviated if the revised Directive included a minimum list which would include trade secrets, as Member States would follow the list when implementing the Directive at national level, leading to a harmonisation of their laws on this point.

The Report specifically recognises the problems stemming from the theft of trade secrets and suggests that a minimum list of the IPRs covered by the Directive could be included in the Directive.¹²

As explained above, the uncertainty relating to the scope of the Directive is a major source of concern for the industry. It is also clear that the list contained in the Commission's Statement concerning Article 2 of the Directive is insufficient to alleviate the problems identified above. The TSIC submits that the scope of IPRs covered by the Directive should be broad and, in any event, that trade secrets should be explicitly covered by the Directive. This could be achieved by amending Article 1 of the Directive to provide as follows:

“This Directive concerns the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights. For the purposes of this Directive, the term «intellectual property rights» includes:

- *all categories of intellectual property that are covered by the Agreement on Trade-Related Aspects of Intellectual Property Rights;*
- *all categories of industrial property that are covered by the Paris Convention for the Protection of Industrial Property. ”*

III. Protection of trade secrets in other legal orders

Recognising that trade secrets are covered by the Directive could be a first step in addressing the problems relating to inadequate protection for trade secrets in the EU. The TSIC members submit that further actions are needed to ensure the appropriate level of trade secrets protection in the EU. The EU's lack of action in this field is in sharp contrast to a growing recognition of trade secrets at an international level, particularly within institutions such as WIPO and the WTO (see Article 39(2) TRIPS which expressly provides for the protection of trade secrets), which have made significant efforts to promote strong protective measures for trade secrets and launched a number of initiatives to educate businesses on this aspect of intellectual property – specifically small and medium size enterprises that rely heavily on innovation.

Other developed economies, such as United States and Japan, provide for effective remedies against trade secrets theft. In the United States, trade secret law has become largely statutory through the model Uniform Trade Secrets Act, which has now been adopted in the great majority of US States. The Economic Espionage Act, adopted in 1996, established a comprehensive and systematic scheme using criminal sanctions to protect trade secrets at the federal level. Once it has been established that a trade secret has been misappropriated, a number of remedies are available including injunctions and damages for the actual loss caused by the misappropriation.

¹² The Report reads as follows: “these forms of commercial misbehaviour seem to be on the rise, too. They often have damaging effects on the rightholders, undermine innovation and bring only short-term benefits to consumers. It could be useful to further assess this negative phenomenon and the need to include, in the Directive, a minimum list of the intellectual property rights covered. Thus, it is clear that as a solution to this very serious problem, the Commission proposes to assess the need to include within the Directive a minimum list of the IPRs that are covered by the Directive. The TSIC fully supports this initiative as having a list would provide more guidance both to Member States and to the industry. It would furthermore eliminate the existing legal uncertainty which is very noxious to the economy as a whole.

Similarly Japan provides protection against infringement of trade secrets under the Unfair Competition Prevention Act. Protection against infringement may also be sought as civil protection under the Civil Code or the Commercial Code. Recent amendments to the legislation have provided stronger criminal protection of commercial secrets by introducing penalties for use or disclosure outside Japan and penalties for retirees and corporations. The TSIC believes that achieving the adequate level of protection for trade secrets in the EU would require extending the scope of the Customs Regulation to cover trade secrets theft and, ultimately, harmonising national trade secrets laws in line with the minimum standards established in the TRIPS Agreement.¹³

IV. Conclusions

The TSIC welcomes the Commission's initiative to revisit the Directive as well as the proposals and suggestions contained in both the Report and the Staff Working Paper. The TSIC urges the Commission formally to recognise that trade secrets fall within the scope of the Directive.

The TSIC and its members are eager to discuss with each European institution this submission and, more generally, the need to strengthen the regime to protect trade secrets. The TSIC may be contacted through the following persons: Ian S. Forrester QC at iforrester@whitecase.com, Katarzyna Czapracka at kczapracka@whitecase.com and Andrea Redondo at aredondo@whitecase.com.

¹³ See Article 39(2) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).