

Ten key questions concerning the new Trade Secrets Act

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Issues such as the relationship of the new statute with the Unfair Competition Act, the concept of secret, acts of infringement, assignment and licensing agreements or court actions to defend secrets are examined.

Parliament has just passed the Trade Secrets Act 1/2019 of 20 February, published in the Official Journal of Spain no. 45 of 21 February 2019, and thereby incorporated into Spanish law 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.

Ten key questions about this new and relevant piece of legislation are answered below:

1. How does the new statute relate to the regulation of secrets contained in the Unfair Competition Act?

Until now, trade secrets were regulated in Article 13 of the Unfair Competition Act, which classed as acts of unfair competition certain conduct that infringed trade secrets. Now, this regulation

is replaced by that contained in the new statute, so that the aforementioned Article 13 simply refers to the Trade Secrets Act, providing that “the infringement of trade secrets is considered unfair, such being governed by the provisions of the trade secrets legislation”.

We are therefore faced with a corporate and commercial statute devoted to regulating not a specific arrangement, but a single and specific act of unfair competition. The phenomenon of decodification (i.e., deconsolidation) of corporate and commercial legislation that has been taking place since the 20th century thus reaches extraordinary heights, contradicting the work of corporate and commercial codification currently underway. It is highly doubtful whether the objective stated in the explanatory notes of transposing the directive avoiding a morass of rules and “for the sake of simplification” has been achieved. It would have been more appropriate to incorporate the directive by amending the Unfair Competition Act.

2. What exactly does the new statute protect?

The subject matter of protection is trade secrets, in relation to which certain conceptual and terminological considerations must be addressed:

- (a) Conceptually, a trade secret is defined in Art. 1(1) of the statute following the definition of the directive which, in turn, incorporates the elements provided in Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) for undisclosed information to enjoy protection. A trade secret is thus understood to mean “any information or know-how, including that which is technological, scientific, industrial, commercial, organisational or financial, which meets the following conditions: (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) has actual or potential commercial value because it is secret; and (c) has been subject to reasonable steps by the holder to keep it secret”. Therefore, a domestic piece of legislation enshrines the definition which, in application of the TRIPS Agreement, had already been followed by the Spanish courts of law, and according to which and as stated in the explanatory notes to the statute, “neither information of little importance, nor the experience and skills acquired by workers during the normal course of their professional career, nor information which is generally known or easily accessible in the circles in which the type of information in question is normally used” is a trade secret.
- (b) Terminologically speaking, I think it is a wise thing that the statute refers to “*secretos empresariales*” and not, as the directive does, to “*secretos comerciales*”. Strictly speaking, the adjective “*comerciales*” does not cover industrial secrets. That is why it is more appropriate to refer to “*secretos empresariales*”, a term which covers both commercial and industrial secrets and which is comparable to the term *know-how*.

3. Who can avail himself of the protection granted by the statute?

The statutory protection of secrets is granted to the holder thereof (Art. 1(2)), understood as “any natural or legal person lawfully controlling the same”. And the possibility of the secret being held *undivided* by several persons is expressly provided for (Art. 5). In these cases of co-holding, the resulting common property shall be governed, first and foremost, by what has been agreed between the parties. In the event that there is no agreement on the matter, the statute lays down a series of default rules, so that each of the co-holders may work a secret by himself/herself provided prior notice has been given to the other co-holders, carry out the necessary acts to keep it secret and bring civil and criminal actions to defend a secret.

4. Which acts relating to a secret may be prohibited in respect of third parties and which may not?

4.1. The holder of a secret may prohibit unlawful acts of acquisition and use or disclosure of a secret.

- (a) *Unlawful acquisition* shall take place whenever carried out without the holder’s consent by unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files containing the trade secret or from which the trade secret can be deduced, or by any other conduct which, under the circumstances, is considered contrary to honest commercial practices. The acquisition shall also be considered unlawful whenever a person, at the time of the acquisition, knew or ought, under the circumstances, to have known that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully. Consequently, if the third party receives information and does not know, nor has any way of knowing, that such is unlawfully obtained or exploited because it infringes the duty to maintain secrecy, said party cannot be held to the sensitive nature of the information.

On the other hand, the acquisition of information constituting a secret shall be considered lawful when obtained by any of the following means: (a) independent discovery or creation; (b) reverse engineering (i.e. observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret); (c) exercise of the right of workers or workers’ representatives to information and consultation in accordance with Union law and national laws and practices; or (d) any other practice which, under the circumstances, is in conformity with honest commercial practices.

- (b) In turn, *unlawful use or disclosure* shall take place whenever carried out, without the consent of the trade secret holder, by a person who is found to have acquired the trade secret unlawfully, to be in breach of a confidentiality agreement or any other duty not to disclose the trade secret or to be in breach of a contractual or any other duty to limit the use of the trade secret.

Among the acts of unlawful use, special reference is made to acts carried out in relation to *infringing goods*, which, despite the name, may be goods or services, “the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed”. It is thus provided that the production, offering or placing on the market of infringing goods, or the importation, export or storage of infringing goods for those purposes, shall also be considered an unlawful use of a trade secret where the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used unlawfully.

- 4.2. With regard to acts relating to secrets that cannot be prevented, it is provided that protective measures may not be applied for where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases expressly deemed lawful acts: (a) for exercising the right to freedom of expression and information; (b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest; (c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise; (d) for compliance with a non-contractual obligation; or (e) for the purpose of protecting a legitimate interest recognised by Union or national law.

Consequently, the protection afforded by law may not be relied on to hinder the application of legislation requiring trade secret holders to disclose information or communicate it to administrative or judicial authorities for the performance of the duties of those authorities or to prevent the application of legislation requiring or allowing EU or Spanish public authorities to disclose information submitted by businesses which those authorities hold pursuant to, and in compliance with, the obligations and prerogatives set out in Union or Spanish law.

5. Is it possible to carry on business of passing on secrets?

The statute expressly provides that trade secrets may be passed on (Art. 4), although the explanatory notes indicate that what may be passed on is the “personal right of a pecuniary nature” granted to the holder. Based on the foregoing, the statute refers to the assignment and granting of licences, laying down some rules that do not respond to the directive.

In general, as rules applicable to both the assignment and the licence, the following is provided:

- (a) anyone who passes on for consideration a trade secret or grants a licence over it shall be liable to the acquirer for any harm caused to the latter if it is subsequently found that the former lacked the title or powers necessary to carry on the business, no agreement to the contrary being possible in cases of bad faith;

- (b) that, in the case of co-holding of the secret, the assignment or licence agreement must be executed by all the co-holders unless the court, for reasons of fairness, specifically authorises one of them. It is also recalled - superfluously - that, where applicable by the nature of the trade secret, EU regulations relating to the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of technology transfer agreements must be observed.

Specifically, in relation to trade secret licences, Article 6 provides that the parties may agree on their objective, subject-matter, geographical and temporal scope of application and default rules are provided in the event nothing is agreed in this respect. Thus, unless otherwise agreed, the licensee shall have the right to perform all acts that make up the use of the trade secret and it shall be presumed that the licence is non-exclusive, the licensor being able to grant other licences or use the trade secret himself (in an exclusive licence the licensor may only use the trade secret if such a right was expressly reserved in the agreement).

It is also stipulated that, unless expressly agreed, the licensee may not assign the contract to third parties or grant sub-licences and that the licensee or sub-licensee shall be obliged to take the necessary measures to prevent trade secret infringements.

6. What legal actions can be brought to defend a trade secret?

The new statute sets out an open catalogue of actions to defend a trade secret - clearly inspired by the list of actions provided for in the legislation regulating intellectual property and unfair competition - which includes declaratory actions for infringement of trade secret, for injunction to restrain or restore, for order to pay damages or to disseminate the judgement and for the provision of civil contempt compensation, appropriate to the circumstances, per day until the judgement is complied with. And this parallelism with intellectual property actions can be seen above all in the regulation of damages, which includes quantification criteria such as those provided for in the Patents Act.

Of particular significance is the possibility of replacing measures to protect a trade secret with monetary compensation, provided that the latter is reasonably satisfactory, the enforcement of the measures would cause disproportionate harm to the defendant and the defendant is a bona fide third party acquirer. Monetary compensation in lieu of restraint shall not exceed the amount that would have had to be paid to the trade secret holder for the granting of a licence-to-use during the period during which its use could have been prohibited.

In addition, in order to discourage frivolous actions, it is provided (Art. 16) that the fine for frivolous litigation may reach, without any other limit, one third of the value of litigation, taking into consideration for the purposes of fixing it, among other criteria, the seriousness of the harm caused, the nature and importance of the frivolous conduct, the intentionality and the number of people affected. In addition, judges and courts may order the dissemination of the decision finding the claim filed to be frivolous.

It also provides for the possibility of applying for an interim fact-finding inquiry, as well as pre-trial disclosure and protection of evidence. Interim relief is also regulated, with the provisions of the Patents Act and the Civil Procedure Act being applicable by default.

7. What is the limitation period for actions?

The legal peculiarities at the time of regulating acts of unfair competition that translate into the trade secret infringements also manifest themselves in the limitation period of the civil actions included in the new statute. Indeed, whereas the unfair competition actions under Art. 32 of the Unfair Competition Act are time-barred after a lapse of one year from the moment in which they could have been brought and the person with standing had knowledge of the person who carried out the act of unfair competition, and, in any case, after a lapse of three years from the moment of cessation of the conduct, Art. 11 of the Trade Secrets Act provides that the actions to defend trade secrets are time-barred “after a lapse of three years from the moment in which the person with standing had knowledge of the person who infringed the trade secret”. There is therefore a clear extension of the limitation period compared with other acts of unfair competition.

8. Who has standing to bring civil actions?

Standing to bring civil actions to defend trade secrets lies with their holder and licensees, exclusive or not but provided the licence expressly authorizes them to bring such actions (which must be adequately evidenced when bringing an action). Parallel to what happens in patent matters (Art. 117(3) of the Patents Act), a licensee without standing may require, in a verifiable manner, the trade secret holder to bring the appropriate legal action. If the holder refuses or fails to bring the appropriate action within a time limit of three months, the licensee may bring such action on its own behalf, accompanied by the request made. Prior to the expiry of the aforementioned time limit, the licensee may apply to the court, upon submission of the said request, for urgent interim relief grounded on the avoidance of significant harm.

It also incorporates a provision, equivalent to one present one in the Patents Act (Art. 117(4)), according to which the licensee bringing an action under the provisions of any of its preceding sub-articles must notify, in a verifiable manner, the trade secret holder, who may become a party to or act as an intervenor in the proceedings.

9. Which are the competent courts?

As is the case with unfair competition actions, the subject-matter jurisdiction over civil actions under the Trade Secrets Act lies with the competent Companies Courts. And, from a territorial point of view, jurisdiction is granted to the Companies Court of the defendant’s domicile or, at the claimant’s choice, to the Companies Court of the province where the infringement took place or where its effects occurred.

10. What specific measures are envisaged to protect trade secrets at court?

Bringing actions to defend trade secrets can lead to the paradox of having to disclose them. The new statute therefore introduces a number of specific provisions on the processing of information constituting a secret during court proceedings. Thus, Art. 16 provides that the parties, their counsel or procurators, court staff, witnesses, experts and any other persons who intervene in proceedings concerning a trade secret infringement or who have access to documents in such proceedings by reason of their position or duties may not use or disclose information which may constitute a trade secret and which the judges or courts - sua sponte or at the reasoned request of one of the parties - have declared confidential and of which they have become aware as a result of such intervention or access.

In addition, judges and courts may also, sua sponte or at the reasoned request of one of the parties, take specific measures to preserve the confidentiality of information that may constitute a trade secret and that has been disclosed in proceedings concerning a trade secret infringement or in proceedings of another kind where its consideration is necessary to decide on the merits of the case. Among these measures, the following are expressly mentioned: (a) restrict to a limited number of persons (including at least one natural person from each of the parties and their respective counsel and procurators) access to the secret information and the hearings where information which may constitute in whole or in part a trade secret may be disclosed, as well as access to the recordings or transcripts of such hearings; and (b) make available to any person not included in the limited number of persons a non-confidential version of the court decision that is handed down with passages containing information which may constitute a trade secret having been removed or concealed.