



European IPR Helpdesk

Fact Sheet

Trade secrets: An efficient tool for competitiveness

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Introduction

The process of research and creation leads to development of significant information that might often not fall within the scope of the protection provided by traditional Intellectual Property Rights (IPRs) such as patents or copyright. In addition, some businesses might not find it appropriate for their information to be protected through IPRs. Nevertheless, that information is valuable for business innovation and competitiveness. Therefore, it is important to keep valuable information “confidential”.

Broadly speaking, the information that is kept confidential in order to preserve competitive gains is referred to as “**trade secrets**”. Business and academia sometimes use other names, such as “proprietary know-how” or “proprietary technology”, to refer to trade secret information.

Some of the most well-known trade secrets include Coca-Cola’s Coke recipe, KFC chicken coating recipe, the Google algorithm, or the New York Times Bestseller List. Companies which were founded as start-ups, such as Google, owe their success largely to trade secrets that allowed them to capitalise their knowledge and attract consumers to their products.

The present fact sheet illustrates the importance of trade secrets for businesses and provides insight into trade secret protection, which could prove beneficial in particular to Small and Medium-sized Enterprises (SMEs).

1. What is a trade secret?

A trade secret is confidential information in the context of business, commerce or trade. In order for a given piece of information to classify as a trade secret, it has to meet all of the following requirements:



- It is a secret in the sense that it is not known or readily accessible to a wide circle of persons
- It has commercial value because it is secret
- It has been subject to reasonable steps, by the person lawfully in control of the information, to keep it secret¹

Trade secrets are a valuable resource to many companies whose assets may, for instance, not be patentable but have a great commercial value and therefore need to be protected. Trade secrets come in various forms, for example software algorithms, R&D information, recipes, methods, formulas, etc.

From the SME standpoint, the most highly-valued types of trade secrets are, for example:

- business methods
- market analyses
- business relationships
- pricing information
- cost information
- purchasing information
- personnel information
- office techniques
- customer or supplier lists and related data
- financial information and business planning
- R&D data
- process know-how and technology
- computer programs
- computer databases
- formulae and recipes

¹ Art 2(1) of the 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*. The full text of the Directive is available [here](#). The above-mentioned definition is also included in Art. 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), available [here](#).

- ingredients
- manufacturing techniques
- manufacturing methods
- product technology
- marketing data and planning.

Trade secrets can be of the same value to businesses as patents and other forms of IPRs. They can be used as a tool for business competitiveness and research innovation management. Trade secrets also help achieve competitiveness on the market and foster innovation, often being the core of a company's operations. Therefore, any breach or disclosure of a trade secret might result in significant economic loss for the company in question.

2. How are trade secrets protected in the EU?

2.1. The Trade Secrets EU Directive

Until 2016 there were no harmonised laws related to the protection of trade secrets at the European Union (EU) level. As a solution to uneven trade secret protection within the EU, 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* (the Directive) was adopted.

The Directive aims to patch different national rules that are often outdated, opaque or have important gaps. It harmonises national laws concerning trade secrets by:

- ensuring an equivalent level of protection of trade secrets throughout the Union
- introducing a uniform definition of the term "trade secret"
- providing common measures against the unlawful acquisition, use, and disclosure of trade secrets.

The Directive introduces a common set of legal principles, procedures, and protection measures with the aim of creating a pan-European regime, being an incentive for companies to invest in research and innovation in Europe with confidence. Moreover, the Directive covers the issue of infringing goods, by establishing the unlawful character of the production, offering, placing on the market, importing, exporting or storing any goods whose design, quality, manufacturing process or marketing significantly benefits from unlawful acquisition, disclosure or use of trade secrets.

At the same time, the Directive contains several exceptions to the protection of trade secrets, e.g. to the advantage of those who reveal misconducts, wrongdoing, or illegal activity if a disclosure of a trade secret serves the public interest.

The Directive will help to make trade secret protection rules within the EU more even and interoperable, reducing unnecessary costs and barriers to cross-border innovation activities and know-how transfer.



Did you know?

The Directive (EU) 2016/943 came into force on 5 July 2016. Member States have now until 9 June 2018 to incorporate its provisions into national laws.

2.2. Requirements for protection

Unlike patents, a trade secret does not need to be novel. Besides, its protection does not require registration, contrary to trade marks or patents. In consequence, trade secrets may be legally protected for an **unlimited period of time** and free of charge. For these reasons, the protection of valuable business information by means of trade secrets may appear to be particularly attractive for SMEs.

However, in order for such information to be classified as a trade secret, it must meet the requirement of having a status of a "secret".



For information to be protected as a trade secret, it must meet the following requirements:

- It must be a secret
- It must have commercial value
- It must have been subject to measures aimed at keeping it secret

The confidential status of information is crucial for the applicability of the trade secret protection regime. It is therefore particularly important for businesses to take appropriate measures to keep information secret in order to qualify for protection. Protection of trade secrets from competitors starts at SME level by setting up special procedures for handling such secrets, including technological measures. In addition, contractual measures can effectively help to protect secret information, allowing it not to expire.



Helpful tools to keep information secret

- Non-disclosure agreements (NDAs)
- Non-disclosure and non-compete clauses integrated in any agreement or memorandum of understanding
- Employee activity monitoring
- Document marking
- Employee training
- Non-solicitation clauses and agreements

2.2.1. Non-disclosure clauses and agreements

As it is necessary to show that protective steps have been taken in order for a given piece of information to be considered a trade secret, businesses should consider entering into non-disclosure agreements (also called “confidentiality agreements”) or including non-disclosure clauses in agreements with business partners as well as with employees.²

NDAs help to decrease the risk of disclosure of confidential information by establishing contractual obligations, whose breach may be sanctioned by financial penalties contractually agreed upon by the parties or/and involve judicial actions. Since business information may represent a dominant factor in making prospective partners decide whether to start a new business relationship, signing an NDA could prove useful before disclosure of any valuable business information at the negotiation stage³.

2.2.2. Non-compete clauses and agreements

Non-compete clauses and agreements are particularly useful when it comes to regulating relationships with employees or with business partners, who can usually acquire significant know-how by accessing confidential documents related to a company. It is important to safeguard that information in order to prevent the consequences that may also stem from a departure of an employee from a company or termination of a business relationship. In that case, non-compete clauses or agreements can be of help as they specify the period of time during which a former employee or a business partner is not allowed to work for a competitor or reveal certain information. Non-compete rules may be either included in the employment or partnership contracts or in a separate agreement between the parties.

² For further information about NDAs, see the European IPR Helpdesk fact sheet “Non-Disclosure Agreement: a business tool”, available [here](#). The European IPR Helpdesk has also prepared NDA templates to assist you in case you are drafting your own contract, available [here](#). In case you require first-line tailored assistance, you can also contact our [Helpline](#).

³ For a better overview of the issues that should be discussed in IP negotiations, see the European IPR Helpdesk fact sheet “How to deal with IP-related issues in transnational negotiations”, available [here](#).

2.2.3. Non-solicitation clauses and agreements

Non-solicitation agreements are contracts in which an employee agrees not to solicit a company's clients or customers, for his or her own benefit or for the benefit of a competitor, after leaving a company. It is also possible to include such a clause in an employment contract instead of entering into a separate non-solicitation agreement. It is particularly useful to use such agreements and clauses in services where the customer pool is limited, for example, in specialised sales.

Non-solicitation agreements may be also entered into between competitors in order to explicitly agree not to solicit current employees of one or both parties.

2.2.4. Other tools for protection

There are other viable practices to be undertaken in order to protect trade secrets such as employee activity monitoring, employee training or document marking. They are important additional actions to be implemented next to the contractual measures.⁴

Employee activity monitoring is a technical measure to ensure compliance of present employees with confidentiality rules.

Document marking may be crucial for employees to properly treat the documentation, avoid incurring liability, and mainly to make sure that the information is handled in a confidential manner.

Documents can be marked, among others, as:

- Confidential
- Third party confidential
- Make no copies
- Distribution limited to
- Covered by NDA

Lastly, employee training is one of the factors that should not be omitted. Employees should be informed about the company's trade secret policy and the handling of confidential information. They should know how to act outside of the company, i.e. in public spaces, with regards to trade secrets while accessing the company's e-mail and data using a public internet network, for example, and also during any commercial relationship (trade shows, exhibitions or commercial negotiations).

Another useful measure is to remind departing employees of their obligations related to NDAs and non-compete agreements.

⁴ For further information about auxiliary protection measures, please see European IPR Helpdesk fact sheet "How to manage confidential business information" available [here](#).

2.2.5. Technical protection measures

For trade secrets to be protected, they should first be properly identified. This means that companies should carefully audit their corporate assets to identify the trade secrets which they have. Subsequently, it should be determined who can have access to them.

In the event of a potential legal dispute, it is also useful to have a proof of ownership of the trade secret in question.



Did you know?

Means of obtaining evidence of trade secret ownership include:

- a notary seal on the document
- public authority certification
- a sealed letter sent by you to your address
- witness statements⁵

The Benelux Office for Intellectual Property offers a service called i-DEPOT, being a means of evidence that issues a date stamp for your idea or creation. It serves as proof that a creation already existed on a certain date. That can be useful in the event of a conflict. The i-DEPOT number can be included, for example, in confidentiality agreements in order to serve as proof of existence of a trade secret in the case of confidentiality breach.

The risk of trade secrets misappropriation comes from a variety of sources, including current and former employees, competitors and suppliers. For example, while in the telecommunications and financial sectors, former employees are of special concern, in the pharmaceutical, publishing, and financial sectors it is the competitors who usually are a company's main worry⁶. In order to secure a company's trade secrets from both external threats and potential thefts from inside the company, the following technical protection measures should be implemented next to the confidentiality agreements and contractual measures mentioned above:

- clean desk policy
- employee badge policy to restrict access to specific areas and rooms
- use of passwords to protect files, folders or computers
- use of tools such as shredders, locks, etc.

⁵ Legislation might differ between countries and it is recommended to consult the laws of a specific country with regard to this matter.

⁶ Study procured by the European Commission on Trade Secrets and Confidential Business Information in the Internal Market, April 2013, available [here](#).



Security Checklist

- Identify trade secrets in the company
- Keep records of the trade secrets
- Define company policy regarding trade secrets
- Communicate the policy to the employees – provide training
- Enter into NDAs/non-solicitation agreements with employees, contractors, external partners, and visitors
- Use technical measures such as passwords, locks, badges and other policies to physically protect your trade secrets

3. Trade secrets and IPRs

Trade secrets provide numerous important benefits. Firstly, trade secret protection is relatively easy to obtain as there is no requirement of registration and no examination process involved, providing an immediate right to the trade secret holder. The lack of registration requirement makes trade secrets a convenient and low-cost means of protection.

Secondly, the secret protection can cover a wide range of information. For example, an invention that is not eligible for patent protection can be claimed as a trade secret.

Trade secrets are a less expensive means to own and manage the results of innovation works than, for example, some intellectual property rights, which may require payment of registration fees and often, additional fees during the life of the IPR in question. For that reason, trade secrets are particularly attractive to SMEs and start-ups, as they do not require significant financial resources to obtain protection.


Trade secret protection is also potentially indefinite as long as the information is kept confidential, whereas patent or design protection are limited to a maximum of 20 and 25 years respectively.

However, the degree of protection provided by trade secrets is not as high as that provided by other intellectual property laws. This is because the protection is dependent on the confidential status of a trade secret. Once a trade secret is revealed to the public, it loses its secret status and therefore the protection.

In addition, IPRs provide their holders exclusive rights over their creations, which is not the case when it comes to trade secrets. Trade secret protection does not prevent competitors from copying and using the same solutions if a trade secret is obtained in a lawful manner, for example as a result of reverse engineering.

Trade secrets are protected solely in cases where the confidential information has been obtained by illegitimate means (e.g. through spying or theft).

Patents and trade secrets represent two of the most common methods in the technology sector to protect intellectual property. Both have advantages and disadvantages. It is useful to know the differences between them in order to choose the appropriate level of protection for your business.

	Pros	Cons
Patents	<ul style="list-style-type: none"> • Exclusive rights • Court actions • Base for loans • Involuntary infringement • Secure protection 	<ul style="list-style-type: none"> • High cost • 20 years limited protection • Disclosure requirement • Length of procedures • Scope of protection
Trade Secrets	<ul style="list-style-type: none"> • No registration costs • Long-term protection • No disclosure requirement • Immediate effect • Broader scope of protection 	<ul style="list-style-type: none"> • Not easily enforceable • Voluntary infringement • Can be reverse-engineered • Non-secure protection • Limited remedies

4. Trade secret misappropriation

In the case of entering into NDAs or including non-compete clauses within a contract, any disclosure of confidential information can amount to a breach of confidentiality or a breach of contract. This happens when a recipient of certain business information has used that information in an unlawful way. Such a breach can lead to court litigation and monetary compensation for the trade secret holder.

The Directive lays down rules on protection against unlawful acquisition, use and disclosure of trade secrets. Namely, it is unlawful to acquire a trade secret by means of unauthorised access, appropriation, or copying of any documents, objects, materials, substances, or electronic files containing trade secrets without the consent of a trade secret holder.

In addition, the Directive allows the Member States to provide for more far-reaching protection measures against the unlawful acquisition, use, or disclosure of trade secrets than that required by the Directive.

4.1. Remedies

The Directive provides trade secret holders with a number of measures to be used against trade secret infringers. In the event of trade secret misappropriation, a trade secret holder is entitled to demand remedies, such as injunctions and corrective measures. The objective is to limit the damage caused by disclosure of a trade secret. Injunctions and corrective measures can be applied by a judge at various stages of court proceedings.

The Directive also provides a number of defences that can be used in court by the alleged infringers (e.g. independent creation) in order to defend themselves.

A trade secret holder may also be entitled to monetary compensation (damages) based on the loss of profit or unjust enrichment.



Remedies provided by the Directive

- Cessation or prohibition of use or disclosure of a trade secret
- Prohibition of production, offering, placing on the market, or use of infringing goods
- Adoption of appropriate corrective measures, such as recall or destruction of the infringing goods
- Seizure of infringing goods

4.1.1. How to deal with trade secret misappropriation accusations?

It might be the case that a company is accused of trade secret misappropriation or theft. It can not only create a financial problem for a company but also it can impact the company's reputation with suppliers and customers, and its goodwill with the public. For that reason, it is important to know how and when to act if such accusations take place.

If allegations of trade secret theft are made, it is crucial to undertake the appropriate steps, such as internal investigation, to try and ensure that the company's employees do not misuse the other company's information. Secure the appropriate documents and meet with the key employees to plan your response.

If the accusing party is right and trade secrets have been misappropriated, you should apply a disciplinary action within the company and seek ways to resolve a dispute in an amicable way, for example, via mediation. In addition, you should remove the unlawful trade secrets from the company or negotiate the possibility of taking up a licence from the other company in order to continue using them.

Whether or not there is truth to the accusations, you should also consider taking care of the potential harm to the company's reputation.



Trade secret defenses

There is no trade secret misappropriation if:

- a trade secret has been an independent creation
- a trade secret was already in the public domain
- the other party did not take proper efforts to keep the information secret.

5. Summary

Companies sometimes overlook trade secrets as assets while they might in fact be more valuable than all of the company's patents, trademarks, and copyrights combined. The proposed EU Trade Secrets Directive will set up a minimum standard for trade secret protection across the EU, introducing more certainty than currently exists. However, in order to protect the trade secrets, companies should treat them as valuable and secret, and ensure to have a proof of having done so.

Useful Resources

For further information, also see:

- The 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.
<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016L0943>
- Fact sheet “Non-Disclosure Agreement: a business tool”
<https://www.iprhelphdesk.eu/sites/default/files/newsdocuments/Fact-Sheet-Non-Disclosure-Agreement.pdf>
- Fact Sheet “How to deal with IP-related issues in transnational negotiations”
<https://www.iprhelphdesk.eu/sites/default/files/newsdocuments/Fact-Sheet-How-to-Deal-with-IP-Issues-in-Transnational-Negotiations.pdf>
- Agreement of Trade-Related Aspects of Intellectual Property Rights
https://www.wto.org/english/docs_e/legal_e/27-trips.pdf
- Study on Trade Secrets and Confidential Business Information in the Internal Market, April 2013
http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf
- WIPO Intellectual Property Handbook: Policy, Law and Use
<http://www.wipo.int/about-ip/en/iprm/>

GET IN TOUCH

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ABOUT THE EUROPEAN IPR HELPDESK

The European IPR Helpdesk aims at raising awareness of Intellectual Property (IP) and Intellectual Property Rights (IPR) by providing information, direct advice and training on IP and IPR matters to current and potential participants of EU funded projects. In addition, the European IPR Helpdesk provides IP support to EU SMEs negotiating or concluding transnational partnership agreements, especially through the Enterprise Europe Network. All services provided are free of charge.

Helpline: The Helpline service answers your IP queries within three working days. Please contact us via registration on our website – www.iprhelppdesk.eu – phone or fax.

Website: On our website you can find extensive information and helpful documents on different aspects of IPR and IP management, especially with regard to specific IP questions in the context of EU funded programmes.

Newsletter and Bulletin: Keep track of the latest news on IP and read expert articles and case studies by subscribing to our email newsletter and Bulletin.

Training: We have designed a training catalogue consisting of nine different modules. If you are interested in planning a session with us, simply send us an email at training@iprhelppdesk.eu.

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