



Aleksandra Iugunian

**The Legal Concept and Application of Trade Secret Protection  
in the European Union**

Dissertation to obtain a Master's Degree in Law, in  
the specialty of Law and Technology

Supervisor:

Professor Dr. Giulia Priora, Assistant Professor at the NOVA School of Law

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**Anti-plagiarism Statement**

I hereby declare that the work I present is my own work and that all my citations are correctly acknowledged. I am aware that the use of unacknowledged extraneous materials and sources constitutes a serious ethical and disciplinary offence.

Aleksandra Iugunian

**Declaration**

It is stated that, the body of the present Dissertation, consisting of the Introduction, four Chapters, and Conclusion, occupies a total of **199 933** characters including spaces.

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## **ABSTRACT**

In the world of market economy and competitive environment, all companies try to stand out from the crowd by protecting their innovations and every possibly profitable bit of information. Trade secrets are distinctive from other forms of intellectual property protection, as they combine traditional intellectual property law features with unique characteristics. Since the implementation of the Trade Secrets Directive, the discussion about the legal regime of trade secrets has been risen. This makes trade secrets a valuable instrument for the protection of economically beneficial assets. However, being a useful resource for business, trade secrets can have serious downsides as well. Indeed, in a century of digitalization where the vast majority of data are located online, comprehensive control of information is limited. In this light, the level of usefulness of the regime can change according to the entity, sphere of business, and subject of secrecy itself. Therefore, this study investigates trade secrets from two different perspectives: business perception and public policy perception. The research observes how trade secrets can be used by different companies and which pros and cons trade secrets can entail for business in general. Moreover, this work investigates the correlation of trade secrets with public policy. Secrecy is a regime which influences the development and behavior of a company with competitors and employees; therefore, there could be different perspectives on how different entities and legal persons interact with it. This study explains the role and place of trade secrets as a part of Intellectual Property law and apart from it. Thus, secrecy is explained from different angles and mirrors the applicability of the regime to modern businesses. Being a broad type of quasi-intellectual property protection trade secrets can be potentially valuable for all types of companies. The broadness of formulations in the Trade Secrets Directive provide companies with a relatively extensive freedom in terms of protection and requirements. Therefore, the following question arises – is the trade secrets protection balanced enough to be practical for businesses and reliable for public policy and publicity in general?

## **RESUMO**

No mundo da economia de mercado e do ambiente competitivo todas as empresas tentam destacar-se da multidão de concorrentes, protegendo as suas inovações e todas as informações eventualmente rentáveis. Os segredos comerciais distinguem-se de outras formas de proteção da propriedade intelectual, uma vez que combinam as características tradicionais do direito da propriedade intelectual com características únicas. Desde a aplicação da Diretiva relativa aos segredos comerciais, aumentou o debate sobre o regime jurídico dos segredos comerciais. Isso faz do segredo comercial um instrumento valioso para a proteção de ativos economicamente benéficos. No entanto, sendo um recurso útil para as empresas, os segredos comerciais também podem ter desvantagens. Com efeito, num século de digitalização em que a grande maioria dos dados se encontra *online*, o controlo global da informação é limitado. Nesta perspetiva, o nível de utilidade do regime pode mudar de acordo com a entidade, a esfera empresarial e o próprio objeto do segredo. Portanto, este estudo investiga segredos comerciais sob duas perspetivas diferentes: perceção de negócios e perceção de políticas públicas. A investigação observa como os segredos comerciais podem ser utilizados pelas empresas diferentes e quais os prós e contras que os segredos comerciais podem implicar para as empresas em geral. Além disso, este trabalho investiga a correlação dos segredos comerciais com as políticas públicas. O sigilo é um regime que influencia o desenvolvimento e o comportamento de uma empresa com concorrentes e empregados; por conseguinte, poderá haver perspetivas diferentes sobre a forma como as diferentes entidades e pessoas coletivas interagem com o sigilo. Este estudo explica o papel e o lugar dos segredos comerciais como parte do direito da propriedade intelectual e para além dele. Assim, o segredo é explicado sob diferentes ângulos e reflete a aplicabilidade do regime às empresas modernas. Sendo um tipo amplo de proteção de propriedade quase intelectual, os segredos comerciais podem ser potencialmente valiosos para todos os tipos de empresas. A amplitude das formulações da Diretiva relativa aos segredos comerciais confere às empresas uma liberdade em termos de proteção e requisitos. Por conseguinte, coloca-se a seguinte questão - a proteção dos segredos comerciais é suficientemente equilibrada para ser prática para as empresas e fiável para a política pública e a publicidade em geral?

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## **INTRODUCTION**

The development of new technologies and innovations increases the speed of human lives rapidly. The world is being accelerated, and it impacts all the spheres of human life. The United Nations (UN) proposed 17 goals of sustainable development which aim to create peace and prosperity and balance social, economic, and environmental sustainability.<sup>1</sup>

Economic growth is among the global goals, and it can significantly drive human prosperity by creating working places and promoting entrepreneurship, creativity, and innovations. The European Union (EU) acknowledges the importance of economic development and supports Small and Medium Enterprises (SMEs), which represent about 99% of all companies in the EU.<sup>2</sup> However, Multinational Corporations (MNCs) are also crucial as they contribute to the production of goods and services and creating the working places around the Union.

Living in the era of the market economy, every company tries to stand out from the crowd of competitors creating innovations and intellectual properties. In order to protect ideas and their embodiments companies use intellectual property rights like copyrights, patents, and trademarks. However, some types of information cannot fulfil the requirements to be protected by the traditional means of intellectual property. In addition, there are some cases when it can be not valuable to use them. Therefore, trade secrets can be an optimal alternative to the protection types mentioned above.

The topic of this research is the legal concept and application of trade secret protection in the EU. The major research lies in the territory of the EU; however, there are some examples of foreign jurisdictions which aim at showing the differences or sharing the best practices. The investigation covers various branches of law including contract law, intellectual property law, and competition law.

The topic is important nowadays since technological progress is speeding up and new technologies and innovations appear more frequently than before. Trade secrets can potentially gain popularity and attract attention among modern companies. The topic is relevant for many years already, as the modern definition of trade secrets existed in

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<sup>1</sup> UNDP, 'Sustainable Development Goals' (*Sustainable Development Goals*, 2022) <https://www.undp.org/sustainable-development-goals> accessed 13 January 2023.

<sup>2</sup> European Commission, 'Internal Market, Industry, Entrepreneurship and SMEs: SME Definition' (*single-market-economy.ec.europa.eu*) [https://single-market-economy.ec.europa.eu/smes/sme-definition\\_en](https://single-market-economy.ec.europa.eu/smes/sme-definition_en) accessed 13 May 2023.

international law since the TRIPS Agreement signed in 1994.<sup>3</sup> However, in the EU the topic has been evoking the discussion in the last decades. This not only demonstrated the recent codification and unification of the trade secrets rules within the Union, but also revealed the number of publications and statistical data on the topic. Therefore, the research is valid and relevant nowadays.

The focus of the thesis is trade secrets law and its correlation with intellectual property rights. Being an instrument to protect the intellectual property of the company and legal persons, trade secrets are often observed in the paradigm of intellectual property laws. It is completely conditioned by the nature of the protected information and the application of trade secrets by the companies. In practice, trade secrets stand in the line of options to protect the information along with the traditional intellectual property rights. Consequently, they are often observed as an alternative to Intellectual Property Rights (IPRs).

Although the work is concentrated solely on the EU trade secrets and intellectual property law, the international treaties and approaches are taken into consideration and analyzed in the thesis. It is essential to evaluate different approaches and points of view to understand the topic in depth. In addition, the relation of the EU trade secrets law and the US and international laws is inevitable. Trade Secrets is a relatively novel institution within the Union; therefore, it is essential to evaluate the experience and academia of other jurisdictions. In addition, this thesis does not set the goal to evaluate national legislations of the EU member states; nevertheless, the background of various countries is highlighted especially in light of the legal background of the Trade Secrets Directive.

Methodology of this thesis refers to qualitative empirical and analytical research on the topic under analysis. The academic papers along with the relevant legislation are evaluated. For the visibility of the research, the recent cases and examples are described. Finally, the conclusions are based on the data and resources analyzed in the main body of research.

Novelty and uniqueness of research is related to the different layers of this work. The first Chapter analyses theoretical approaches to trade secrets, their perception in the EU, and the legal codification. In turn, the second and third Chapters are dedicated to the application of trade secrets in the EU and to the analysis of practical impact of trade secrets to different companies and economy in general. Therefore, the research covers trade secrets from the

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<sup>3</sup> TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights [1994] 1869 U.N.T.S. 299, 33 I.L.M. 1197 art. 39 (TRIPs Agreement).

different perspectives – theoretical and practical. The work aims to draw the conclusions on the following questions:

- Are trade secrets intellectual property rights?
- What are the benefits and downsides of trade secrets for companies and public policy?
- How balanced is the mechanism of trade secrecy in the EU?

This dissertation has the following structure. Firstly, the perception and regulation of Trade Secrets is observed (Chapter 1). Different perspectives on trade secrets are discussed. As such, the WIPO considers trade secrets as an intellectual property right on confidential information.<sup>4</sup> In contrast, the EU approach seems to be different according to the formulations of the Trade Secrets Directive. Thus, the Directive subdivides intellectual property rights and trade secrets since the first recital of the preamble mentioning the “use of intellectual property rights, such as patents, design rights or copyright, is one such means. Another means of appropriating the results of innovation is to protect access to, and exploit, knowledge that is valuable to the entity and not widely known”.<sup>5</sup> Therefore, it is crucial for the purposes of this research to observe how trade secrets are approached by the different entities and to cover an overseas perspective as well. Moreover, the most relevant legislation on the topic is discussed as such the Trade Secrets Directive, the TRIPS Agreement, the Paris Convention. In addition, the Trade Secrets Directive and its background is analyzed in detail to understand the positions of the EU legislator and to evaluate the mechanism of secrecy in general.

Afterwards, trade secrets are observed from the business perspective, meaning that the benefits and downsides of the trade secrets for the companies are observed (Chapter 2). The main criteria for the analysis are a) Time and territory; b) Costs; c) Flexibility; d) Competitive advantage; and e) Internal investments. Then, the comparison of trade secrets and traditional intellectual property rights are addressed. It is essential in order to highlight the most valuable types of protection for the MNCs and SMEs.

After mentioning the perspectives to the companies which trade secrets provide, the correlation of the trade secrets concept and public policy is observed (Chapter 3). The goal

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<sup>4</sup> Dr Nina Belbl, ‘Introduction to the Trade Secret System: Overview and International Framework’ (*wipo.int*, 5 April 2022) [https://www.wipo.int/edocs/mdocs/mdocs/en/wipo\\_reg\\_ip\\_ge\\_22/wipo\\_reg\\_ip\\_ge\\_22\\_t1.pdf](https://www.wipo.int/edocs/mdocs/mdocs/en/wipo_reg_ip_ge_22/wipo_reg_ip_ge_22_t1.pdf) accessed 15 January 2023.

<sup>5</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 [2016] *OJ L 157/I*, recital 2. (Trade Secrets Directive).

is to address how trade secrets impact the public spheres of human life including labor force and social development. Additionally, the potential limitations of trade secrets for transparency and sustainability purposes are highlighted. Preserving confidentiality on particular types of information, trade secrets do not facilitate the public interests of data and knowledge exchange and accessibility. Nevertheless, European policymakers balanced the potential disbalance of publicity and privacy by introducing the deterrent mechanisms such as whistleblowing and other public nature related exceptions mentioned in the Trade Secrets Directive. In addition, social function of trade secrets includes some internal balancing mechanisms which mitigate the impact of trades secrets on public institutes.

Finally, the conclusions on how the institution of trade secrets balanced in the EU nowadays is drawn (Chapter 4). Summarizing and evaluating the threads of the previous Chapters of the dissertation, the general overview on the institution of trade secrets in the EU is provided, highlighting the potential future applicability of trade secrets in the EU Digital Single Market.

## **CHAPTER I. THE REGULATION AND CONCEPT OF TRADE SECRETS**

### **1. What are trade secrets?**

Trade secrets are often viewed as a unique legal instrument for businesses and legal persons which allows to increase their competitiveness and stand out from the crowd of market players. Therefore, trade secrets “are viewed as increasingly important to economic and enterprise growth” not only for big companies but potentially also among small and medium enterprises and startups.<sup>6</sup> The increased attention paid to trade secrets is caused, among other reasons, by the quick pace of digitalization.

Trade secrets can be convenient for a large number of companies from different industrial sectors and with different goals. This flexibility is one of the reasons why trade secrets continue to gain an outstanding popularity during the recent years. However, the precise numbers and statistics of trade secrets are hard to access as companies are authorized to conceal the fact that they set up a regime inside the firm or that they have a certain piece of information which is secretly protected. Therefore, the knowledge about grown-up popularity is mainly based on surveys about the awareness of trade secrets as legal protection. Thus, according to the investigation conducted in 2016, various unrelated and unconnected companies “rate trade secrets as “very important” than all other types of IP protection”.<sup>7</sup> Therefore, the outstanding market interest and uniqueness of the trade secret mechanism prove the necessity of the research and investigations in this sphere.

Nevertheless, the instrument of secrecy and the data about trade secrets’ is limited and underinvestigated yet. The definition of trade secrets is based on the requirements of this regime and cannot be detached from them. Thus, according to the EU Trade Secrets Directive (Trade Secrets Directive) a legally protectable “trade secret” can be any piece of information, which is “secret, meaning unknown by those generally dealing with that specific type of information, have commercial value because of its secrecy, and which have been subject to reasonable steps to keep it secret by the person lawfully in control of the information”.<sup>8</sup>

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<sup>6</sup> Intellectual Property Office of Singapore, ‘Study on the Protection and Management of Trade Secrets in Singapore’ (*ipos.gov.sg*, September 2021) p.1 <https://www.ipos.gov.sg/docs/default-source/resources-library/trade-secrets/trade-secrets-public-report-2sept2021.pdf> accessed 13 February 2023.

<sup>7</sup> Katherine Linton, ‘The Importance of Trade Secrets: New Directions in International Trade Policy Making and Empirical Research’ (2016) *Journal of International Commerce and Economics* September 2016 p.2 [https://www.usitc.gov/publications/332/journals/katherine\\_linton\\_importance\\_of\\_trade\\_secrets\\_0.pdf](https://www.usitc.gov/publications/332/journals/katherine_linton_importance_of_trade_secrets_0.pdf) accessed 13 February 2023.

<sup>8</sup> Trade Secrets Directive, art.2.

This formulation allows almost all sorts of information to be potentially qualified as trade secrets. Trade secrets can be especially very useful in an emerging era of Artificial Intelligence (AI). Thus, AI components such as “algorithms, machine learning methods, training datasets, AI-generated outputs, software codes, neural networks” can be protected by secrecy in case they meet the requirements mentioned above.<sup>9</sup> These very broad borders of the definition provided by the EU Trade Secrets Directive save a gap for the companies to determine the type of secret information they want to secure by themselves. This can be considered as both an advantage and disadvantage of the legal protection of trade secrets.

On the one hand, the fact that companies can so freely decide what to elect and protect as trade secrets may help them thriving. According to the recent investigations, the firm entry rate has a negative trend, the start-ups average lifespan decreases, and it is harder for a company to remain successful (on the example of S&P 500 Index) than it was before.<sup>10</sup> For example, the US firm formation rate decreased by about 7% from 1970-s to 2015. It means that the number of new companies on the market decreased dramatically. In addition, the lifespan of the average companies decreased, and as the consequence “this change can be attributed to increased competition and technological innovation”.<sup>11</sup> Thus, to survive and succeed the company has to use state-of-the-art technologies and invent new strategies to stand out of the crowd of the market players. Once the company created a new business strategy that helps it to be more attractive for the clients, it tries to preserve the uniqueness of their idea and exploit it as much as possible. Thus, for example, Coca-Cola formula protected by trade secret is preserved for more than 100 years and the company gains recognition and popularity because of that. The trade secret creates a matter of mystery which attracts new customers and highlights the company from the competitors. Secrecy may be a valuable source of legal protection for almost all types of information which can be beneficial for the company. Therefore, it might be the case that firms are motivated to investigate and invent more when they are aware that their ideas can stay within the company. When this is the case, from the *macroeconomics* perspective, it increases the quality of the market, as this boosts the competition. Consequently, it improves the purchasing power of the consumers, providing more choices and options of products and

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<sup>9</sup> Hawraa Hammoud, ‘Trade Secrets and Artificial Intelligence: Opportunities & Challenges’ (*papers.ssrn.com*, 29 December 2020) p.2 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3759349](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3759349)> accessed 15 February 2023.

<sup>10</sup> Cem Dilmegani, ‘How Does Increased Competition among Firms Affect Markets?’ (*research.aimultiple.com*, 14 May 2020) <<https://research.aimultiple.com/increased-competition/>> accessed 15 February 2023.

<sup>11</sup> *Ibid.*

services for them, and stimulates the companies to grow and develop innovative solutions in order to exceed on the highly competitive market. Thus, the broadness of the definition allows to secure all types of beneficial information and motivates companies to compete and develop.

On the other hand, the breadth of the definition evokes concerning questions in terms of public policy. The main idea of trade secrets is to enable companies to keep certain information unrevealed and to gain competitiveness because of it. However, the information is hidden and “we won’t be able to verify that [...] the protection by the secret is not used to hide information on activities that affect the public interest”.<sup>12</sup> The definition potentially leaves a gap for a company to avoid reputational and legal risks by secreting information which is critical in terms of legal compliance and public policy. In order to avoid misappropriation of trade secrets, the instrument of whistleblowing was created. It will be described in the third and fourth chapters of the thesis as a restrictive measure of the latitude of secrecy.

Therefore, the broadness of the definition remains controversial, as it can potentially provoke deviant behavior from the companies which do not try to increase the competitiveness, while trying to act illegally or unfairly. However, secrecy is a legal instrument created for businesses specifically. This instrument should be considered a flexible and useful tool for companies to sustain their competitive advantage and preserve their commercially valuable information. The potential reason for vagueness of the definition is the idea of the EU legislator to allow the companies build their reputation and competitive advantage on their own. In case the definition was narrowed down by the legislator, the main advantage of secrecy – its flexibility – would disappear.

In legal literature and discussions, the terms “trade secret”, “secrecy”, “know-how” and “confidential information” are often mistakenly considered synonyms. However, while the words are highly interconnected, they have different meanings. EU Trade secrets can protect “valuable information on technology or on any other aspect of your business”.<sup>13</sup> It is a regime which is set inside the company to protect the information. Know-how is the

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<sup>12</sup> Rodolphe Baron and Martin Pigeon, ‘Adapting the EU Directive on Trade Secrets “Protection” into National Law a Transposition Guide for Legislators and Civil Society Organisations Adapting the EU Directive on Trade Secrets “Protection” into National Law’ (2017) p.11 [https://corporateeurope.org/sites/default/files/attachments/trade\\_secrets\\_protection\\_directive\\_a\\_transposition\\_briefing.pdf](https://corporateeurope.org/sites/default/files/attachments/trade_secrets_protection_directive_a_transposition_briefing.pdf) accessed 15 February 2023.

<sup>13</sup> Your Europe, ‘Trade Secrets in the EU: What Is Protected?’ (*Your Europe*, 2022) <[https://europa.eu/youreurope/business/running-business/intellectual-property/trade-secrets/index\\_en.htm](https://europa.eu/youreurope/business/running-business/intellectual-property/trade-secrets/index_en.htm)> accessed 16 February 2023.

information, more or less confidential within a company, which generally includes “practical knowledge on how to accomplish something, as opposed to 'know-what' (facts), 'know-why' (science), or 'know-who' (communication)”.<sup>14</sup>

Confidential information is a broad concept and not any piece of confidential information is automatically considered trade secrets.<sup>15</sup> Trade secrets can only be protected when some particular requirements are fulfilled: the information must be secret, have commercial value, and be duly protected.<sup>16</sup> The last step which should be done by the companies is to create the conditions which can allow to keep the information secret. For example, the information should be marked as confidential, the sufficient document turnover can be established, only the particular workers should have access to the information protected, and the particular attention should be paid to the IT environment.

### **1.1 The perceptions of Trade Secrets: an Intellectual Property right?**

The perception of trade secrets is not univocal. From the practical point of view, secrecy can be considered differently by various types of companies depending on type, size, and area of market. However, the attitude towards trade secrets is not the same in the legal and business management literature. It is mainly connected to the development of the institute and implementation of the Trade Secrets Directive.

The main concerns are connected with the legal status of trade secrets. Being an institute for protection of information, secrecy seems to be a unique quasi-intellectual property form of protection serving business purposes, such as preserving the competitive advantage of the company. However, some scholars consider trade secrets as intellectual property rights.<sup>17</sup> The goal of this research is to investigate the similarities and differences of intellectual property rights and trade secrets and to assume how the latter will develop in the future.

The idea to include trade secrets into intellectual property family is based on the differentiation made in the TRIPS Agreement in 1994, one of the main international legislations in the Intellectual Property area. The Agreement on Trade-Related Aspects of

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<sup>14</sup> Donal O’Connell, ‘Employee Know-How ’101’ ([www.linkedin.com](http://www.linkedin.com), 18 November 2020) <<https://www.linkedin.com/pulse/know-how-101-donal-o-connell/>> accessed 17 May 2023.

<sup>15</sup> Aleksandra Iugunian, ‘Privacy vs. publicity: Balancing the legal protection of trade secrets and whistleblowing’ (*WhatNext.law*, 31 July 2023) <https://whatnext.law/en/2023/07/31/privacy-vs-publicity-balancing-the-legal-protection-of-trade-secrets-and-whistleblowing-2/> accessed 16 May 2023.

<sup>16</sup> Trade Secrets Directive, art.2.

<sup>17</sup> Mark A Lemley, ‘The Surprising Virtues of Treating Trade Secrets as IP Rights’ (*papers.ssrn.com*, 1 June 2008) < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1155167](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1155167)> accessed 12 May 2023.

Intellectual Property Rights define that the term intellectual property refers to 7 categories mentioned in the piece of legislation<sup>18</sup>. Copyright and Related Rights, Trademarks, Geographical Indications, Industrial Designs, Patents, Layout-Designs (Topographies) of Integrated Circuits and, most importantly for the purpose of this thesis, the Protection of Undisclosed Information is considered Intellectual property right in this legislation. Further supporting this idea, the World Intellectual Property Organization (WIPO) published an informational article about trade secrets mentioning that “intellectual property (IP) rights on confidential information [...] may be sold or licensed”<sup>19</sup>. James Pooley, one of the attorneys most highly specialized in trade secrets, wrote a book that was published within an Intellectual Property Series of books<sup>20</sup>. So, it can be noticed that trade secrets are often considered as intellectual property rights.

However, since the discussions about the EU harmonization of trade secrets laws started, there were massive debates if trade secret is a part of the intellectual property family. The European Commission mentions that trade secret is a form of protection of a “valuable piece of information” and pays attention to the idea that “trade secrets are not a form of exclusive intellectual property right”.<sup>21</sup> Moreover, this idea is mirrored in the text of the directive. Thus, the first recital of the directive describes the ways how the businesses can “appropriate the results of their innovation-related activities”.<sup>22</sup> The directive highlights two ways to protect the companies. The first option is by use of intellectual property rights. Another way is to protect access to valuable knowledge by trade secrets. Therefore, from the first sentences of the Directive the legislator makes it clear that the approach of the EU is to draw a line between intellectual property rights and trade secrets.

Moreover, the Directive highlights the fact that it “should not affect the application of any other relevant law in other areas, including intellectual property rights”.<sup>23</sup> It does not say “including *other* intellectual property rights”, as it would have if trade secrets were to be considered a type of IP protection. Thus, the current EU approach seems to differ from the international one immensely. And it shows that the trade secret law is dynamic and developing. While the international approach was accepted almost 30 years ago, the

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<sup>18</sup> TRIPs Agreement, art.1.

<sup>19</sup> WIPO, ‘Trade Secrets’ (*Wipo.int*, 2019) <<https://www.wipo.int/tradesecrets/en/>> accessed 12 October 2022.

<sup>20</sup> James Pooley, ‘Trade Secrets’ (*James Pooley*) <<https://pooley.com/books/trade-secrets/>> accessed 13 October 2022.

<sup>21</sup> European Commission, ‘Internal Market, Industry, Entrepreneurship and SMEs -Trade Secrets’ (*single-market-economy.ec.europa.eu*) <[https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/trade-secrets\\_en](https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/trade-secrets_en)> accessed 12 October 2022.

<sup>22</sup> Trade Secrets Directive, recital 1.

<sup>23</sup> Trade Secrets Directive, recital 39.

European one was proposed only 7 years ago and evolves constantly. The approach to trade secrets as a unique institute could be motivated by the significant differences between the classic applications of intellectual property rights and trade secrets. The idea of this chapter is to observe how trade secrets could be considered falling outside of the scope of IP rights. There are several differences between trade secrets and particular intellectual property rights which allow to consider trade secrets as non-intellectual property.

Firstly, there is the difference in the legal status. The EU Trade Secrets Directive determines trade secrets as “pieces of information” or valuable knowledge. Intellectual property rights are rights of the creators/inventors, which allow them to “exclude other parties from the use a particular intangible asset”.<sup>24</sup> Therefore, there is a major difference in legal status of the terms. While trade secret represents the confidential object itself, intellectual property rights are entitlements of the authors/owners.

Secondly, there is the difference in the exclusivity of protection. Intellectual property rights enable the owner with a specific exclusive right to behave on his/her own in relation to the created object. The right of the intellectual property owner is an exclusive right that means that the owner is the only one to have the right to use the intellectual property in any legal way and to exclude the third parties from usage of this intellectual property. Thus, the owner can use and defend the creation they made. Intellectual property rights are usually owned and benefit the natural person behind an innovative idea. Secrecy, in turn, is a legal protection typically owned by a company, which disregards who the physical person behind an idea is. No matter who the author of the information is, while it is created within the company, the trade secret regime should be established. While secrecy can be considered as a right given by the State to the companies not to reveal commercially valuable information, it is not an exclusive right unlike intellectual property rights. So, the company gets the right to secure information and to protect the corporation retrospectively. It means that in case the information is disclosed, the company can recover damages or when a dishonest behavior takes place, the trade secrets owner is entitled to prohibit the use or further disclosure in a court.<sup>25</sup> It differs secrecy from intellectual property rights which provide the “monopoly” of

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<sup>24</sup> Dietmar Harhoff, ‘Intellectual Property Rights in Europe – Where Do We Stand and Where Should We Go?’ (January 2006) p.7 <[https://www.researchgate.net/publication/240696278\\_Intellectual\\_Property\\_Rights\\_in\\_Europe\\_Where\\_do\\_We\\_Stand\\_and\\_Where\\_Should\\_We\\_Go](https://www.researchgate.net/publication/240696278_Intellectual_Property_Rights_in_Europe_Where_do_We_Stand_and_Where_Should_We_Go)> accessed 13 October 2022.

<sup>25</sup> Your Europe, ‘Trade Secrets in the EU: What Is Protected?’ (*Your Europe*, 2022) <[https://europa.eu/youreurope/business/running-business/intellectual-property/trade-secrets/index\\_en.htm](https://europa.eu/youreurope/business/running-business/intellectual-property/trade-secrets/index_en.htm)> accessed 5 July 2023.

rights on the specific works. Therefore, while both secrecy and intellectual property rights can be considered ‘rights’, the scope of protection granted differs dramatically.

Thirdly, in contrast to patents, trademarks, and industrial designs, there is the difference in the acquisition of legal protection. While the copyright protection appears since the moment of creation of a creative work, other intellectual property rights have a prior registration procedure to achieve in order to acquire protection. In contrast to trademarks, patents and industrial designs, trade secrets are closer to the copyright in sense of procedures. Getting rid of bureaucratic red tape, trade secrets can be issued and granted by businesses wherever they can set up an adequate secrecy regime, without having the State evaluating if the information protected by trade secret is “worth” of that legal protection. Thus, unlike some of the beforementioned types of intellectual property, trade secrets are considered as such since certain steps for protection were made within the company without the state procedures.

Fourthly, the nature of trade secrets is unique compared with other IP rights. The necessity of publicity and disclosure makes IP rights recognizable and motivate inventors to new creations and inventions building on each other’s knowledge. However, it is important to mention that works protected by copyright can also remain unpublished and this does not influence the protection provided. Thus, this difference is mainly concentrated on the trademarks, patents, and industrial designs, which have to be used and revealed to a public in order to claim legal protection on them. Patents need to be filed in with a public authority and can be searched in databases, and any competitor or third party can find a claim for protection or a specific protected object. Trademarks are also registered in publicly accessible databases and have a requirement to be in use, so there is no opportunity not to disclose the object of protection.

Fifthly, the subject matter protected by the law differs. Intellectual property rights have strict requirements of protection of the specific object, while trade secrets are broad and almost everything can be protected. For example, to be protected by copyright the work must be “an expression of ideas in a literary, dramatic, musical or artistic work”<sup>26</sup> it also must be original and be expressed in a tangible form. So, not everything can be adjusted to copyright protection, as it has to be a creative and original work. To obtain a patent the

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<sup>26</sup> Queensland Government, ‘What Are the Requirements for Material to Be Copyright?’ ([www.business.qld.gov.au](http://www.business.qld.gov.au), 13 June 2016) <<https://www.business.qld.gov.au/running-business/protecting-business/ip/ip-kit/browse-ip-topics/copyright-works/requirements>> accessed 5 June 2023.

innovation must be new, useful, and non-obvious.<sup>27</sup> Companies often choose between trade secrets and patents, and it is much easier to get trade secrets protection instead of trying to fulfill all the requirements to patent.

Finally, there is the difference in the scope of protection. The lack of procedural formalities allows to use the secrecy potentially infinitely, meaning both in an unlimited form (protecting the entire know-how of a company) and for an unlimited time, while all the other IP rights have a limited scope and duration. While trademarks can also have an endless protection, the company has to extend the protection by the way of providing certain conditions. The companies with trade secrets do not need to do anything to prolong the protection, as the protection is endless, provided that no information is being revealed. Therefore, trade secrets are the only one way to get an unlimited protection without any interactions with the state entities.

Therefore, there are specific differences between trade secrets and other intellectual property rights. It allows to think that the trade secret protection is a unique institute unrelated to IP family.

Some authors also consider trade secrets as “curious anomalies in intellectual property law”.<sup>28</sup> Moreover, it is a controversial form of protection, as the debates around the legal status of it are still ongoing. Some authors claim about the “parasitic” traits of trade secrets and absence of trade secrets law as such.<sup>29</sup> The main idea behind is the opinion that trade secret misappropriation is not connected with the specific rules and regulations in trade secrets act or special document, but mainly interconnected with already known classical laws such as contract law. The misappropriation is also not unique, as it is not a breach of specific trade secret laws, but a breach of contract.

Despite the differences highlighted until now, and while the EU legislator started the path of protecting trade secrets with an ad hoc legislation, there is also a consolidated idea among scholars’ and legal literature about trade secrets as an IP right. The thought is supported by the idea that the subjects managing and benefiting from both IP and TS types of legal protection are often the same, namely companies. In a global sense, trade secrets as well as other intellectual property rights protect the result of the creative work. However, not any work can be protected, as well as not every information can be secured by trade

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<sup>27</sup> Convention on the Grant of European Patents [1973] art.52. (European Patent Convention).

<sup>28</sup> Michael Risch, ‘Why Do We Have Trade Secrets?’ (2007) Intellectual Property L. Rev p.3 <<https://core.ac.uk/download/pdf/148687136.pdf>> accessed 5 July 2023.

<sup>29</sup> Ibid., p.3; Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification* (Calif. L. Rev 241, 245 1998).

secrets. Being a flexible instrument trade secrets indeed cover almost all types of information. However, there are specific limits of protection. Thus, Lateef Mtima mentioning the idea of exclusions in Intellectual Property pays attention to the “idea/discrete application rule” in trade secret protection. Intellectual property law as a type of protection for creators should not “extend legal protection to mere ideas – at least not “ideas” in the ordinary sense of the word”.<sup>30</sup> The term “idea” can mean a lot of different things, but courts and legislator usually assume it “referring to specific facts or knowledge, [...] prospective plans or intentions”.<sup>31</sup> Lateef Mtima claims that the majority of the pure abstract ideas cannot be protected by trade secrets, as they do not accomplish a requirement of potential utility. The reason is that the conceptual idea lacks discrete steps and components, thus provision of the basic concept does not include the particular methodology. Therefore, the specific requirement to information protected is a potential utility. Thus, while the data are potentially applicable and beneficial for the company, it can be protected, but the abstract thoughts and concepts without the particular utility are outside the trade secrets protection.

Thus, trade secrets being considered a part of intellectual property law should also undergo the idea of exclusion. According to the broad definition of TRIPS Agreement, “the protection must apply to information that is secret, that has commercial value because it is secret and that has been subject to reasonable steps to keep it secret”<sup>32</sup>. Moreover, there is a concept of economic value which supports and strengthens the notion that random thoughts and ideas cannot be protected. In the TRIPS Agreement definition this is mirrored in “information that has commercial value because it is secret”. In the UTSA it is defined as “independent economic value”. Lateef Mtima highlights that the idea as a concept “provides invaluable entrepreneurial inspiration”<sup>33</sup>, while the idea as a protectable information mirrors the concrete application. Although it may seem that in theory the idea/expression dichotomy in IP law cannot be applied to trade secrets, as “trade secrecy protects the intangible ‘ideas’ itself”.<sup>34</sup> Nevertheless, the idea may imply the particular “processed” information rather than abstract ideas. Lateef Mtima claims that the US courts do not consider trade secrets as abstract ideas.<sup>35</sup> The EU approach seems to be similar, as the application of safeguards is

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<sup>30</sup> Lateef Mtima, ‘The Idea Exclusions in Intellectual Property Law’ (2019) *Intell. Prop. LJ*, 28 p.344 <[https://tiplj.org/wp-content/uploads/Volumes/v28/Mtima\\_Final.pdf](https://tiplj.org/wp-content/uploads/Volumes/v28/Mtima_Final.pdf)> accessed 5 April 2023.

<sup>31</sup> Ibid 358.

<sup>32</sup> World Trade Organization, ‘WTO | Intellectual Property - Overview of TRIPS Agreement’ (*Wto.org*, 2019) <[https://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/intel2_e.htm)> accessed 6 April 2023.

<sup>33</sup> Mtima (n 30) 362.

<sup>34</sup> Charlotte Chan, ‘Trade Secrets Property Rights or Relational Obligations?’ p.10 <[https://warwick.ac.uk/fac/soc/law/aboutus/wulj/article\\_8.pdf](https://warwick.ac.uk/fac/soc/law/aboutus/wulj/article_8.pdf)> accessed 5 April 2023.

<sup>35</sup> Mtima (n 30) 357.

only possible when the trade secrets holder can prove that a trade secret exists.<sup>36</sup> The broad definitions of the TRIPS agreement and the Trade Secrets Directive do not specify the information enough and does not exclude pure thoughts and ideas. Nevertheless, it has specific requirements for protection. Thus, although it is not directly mentioned by the legislator, the “processed” information may be implied in the formulations.

## **1.2 The overseas perspective: Trade secrets in the US**

The first mentioning of the concept of trade secrets in the US was in in case *Vickery v. Welch* in 1837. So, the idea of protection undisclosed information within the company is not new. However, the main act which harmonizes the rules and regulations about trade secrets was proposed only in 1985 - Uniform Trade Secrets Act (UTSA) and remains one of the main pieces of legislation about trade secrets in the US.<sup>37</sup> This piece of legislation long time remained the only one document about trade secrets law, however, the Defend Trade Secrets Act was issued in 2016. Moreover, the Economic Espionage Act is another piece of legislation which sets up punishments for trade secrets thefts in case of the relation to foreign agents or interest and determine economic espionage and theft of trade secrets.

The US definition does not substantially differ from the EU ones. The definition provided by the UTSA define trade secrets as ”information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy”.<sup>38</sup> Thus, the US courts interpret these requirements which must be fulfilled to achieve the trade secrets protection.

The perception of trade secrets in the US mainly leans towards intellectual property law. Although the Defend Trade Secrets Act mentions directly that the Act “shall not be construed to be a law pertaining to intellectual property for purposes of any other Act of Congress”.<sup>39</sup> This position is mainly directed to Section 230 “which immunizes websites from liability for third party content”.<sup>40</sup> However, it seems that this position can potentially

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<sup>36</sup> Trade Secrets Directive, art.11.

<sup>37</sup> Mtima (n 30) 357.

<sup>38</sup>Legal Information Institute, ‘Trade Secret’ (*LII / Legal Information Institute*) <[https://www.law.cornell.edu/wex/trade\\_secret](https://www.law.cornell.edu/wex/trade_secret)> accessed 6 April 2023.

<sup>39</sup> Defend Trade Secrets Act [2016], Pub. L. No. 114-153, 130 Stat. 376 sec.2(g).

<sup>40</sup> Eric Goldman, ‘The Defend Trade Secrets Act Isn’t an “Intellectual Property” Law’, (2016) 33 *Santa Clara High Technology Law Journal* 4 p.542

affect other sections and entail misleading in the interpretations of the law. Nevertheless, the most recent approach, which is common in legal literature and in the Congress's comments, includes trade secrets as parts of intellectual property rights.<sup>41</sup> Moreover, the Senate Report on the Act includes trade secrets in intellectual property forms contradicting to the Act itself.<sup>42</sup> This misleading information about the legal status of trade secrets in the US poses a lot of concerning questions among legal scholars. Thus, Eric Goldman thinks that the position in the Act should be narrowed down and cover only the certain section and not the whole act.<sup>43</sup> It shows the positions about the real legal role of trade secrets, as it seems that legal researchers prefer to determine trade secrets as parts of intellectual property law.<sup>44</sup>

All in all, the perception of trade secrets in terms of legal status and legal role is uncertain. While the international and the US legislative approaches lean towards the trade secrets as a part of intellectual property family, the recent European approach considers trade secrets as a unique institute apart from IP rights.

### **1.3 The theory and purposes behind trade secrets**

To evaluate the perception of trade secrets in the legal community it is also very important to access the trade secrets from the theoretical perspective. There are mainly two big theories which are highlighted in this work: the conceptual debates and economic theory.<sup>45</sup>

Addressing the concepts, there are active debates about the legal justification of trade secrets in law. The scholars argue if trade secrets can be attributed to “relational obligations, property rights, fairness and equity, or unfair competition law tort or delict”.<sup>46</sup> There is also an idea about the “trade secrecy nihilism” which refers to the fact that trade secret law

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<<https://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1621&context=chtlj>> accessed 5 April 2023 .

<sup>41</sup> Ibid.

<sup>42</sup> Ibid 543.

<sup>43</sup> Ibid 551.

<sup>44</sup> Christopher T Zirpoli, ‘An Introduction to Trade Secrets Law in the United States’ (*Congress.Gov*, 27 January 2023) <https://crsreports.congress.gov/product/pdf/IF/IF12315> ; R Mark Halligan, ‘Protecting U.S. Trade Secret Assets in the 21st Century’ ([www.americanbar.org](http://www.americanbar.org)) <[https://www.americanbar.org/groups/intellectual\\_property\\_law/publications/landslide/2013-14/september-october-2013/protecting-us-trade-secret-assets-the-21st-century/](https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2013-14/september-october-2013/protecting-us-trade-secret-assets-the-21st-century/)> accessed 7 April 2023.

<sup>45</sup> Schultz M and Lippoldt D, ‘Approaches to Protection of Undisclosed Information (Trade Secrets): Background Paper’ (2014) *OECD Trade Policy Papers*, No. 162, OECD Publishing, Paris, [https://www.oecd-ilibrary.org/trade/approaches-to-protection-of-undisclosed-information-trade-secrets\\_5jz9z43w0jnw-en](https://www.oecd-ilibrary.org/trade/approaches-to-protection-of-undisclosed-information-trade-secrets_5jz9z43w0jnw-en) accessed 5 April 2023.

<sup>46</sup> Ibid 10.

includes different concepts into it and cannot be considered as a part of any certain theory, as represents the set of norms for the protection of valuable business information.

The debates about the trade secrets theory exist in many jurisdictions. Thus, the US Supreme Court cited John Locke and Blackstone claiming that the approach to trade secrets as property is understandable in sense that extends on the products of individual's labor and invention.<sup>47</sup> Moreover, trade secrets have property traits, as they are alienable in different ways. Thus, WIPO considers trade secrets as "rights on confidential information which may be sold or licensed".<sup>48</sup> In contrast, there is also a position of Bone that trade secrets are not property as they "do not provide exclusive rights against the world".<sup>49</sup>

Mark F. Schultz and Douglas C. Lippoldt highlight the importance of understanding the conceptual basis of trade secrets. If EU countries do not consider trade secrets as intellectual property, the EU Enforcement Directive is not fully applicable to them.<sup>50</sup> While this legislative act could be very important in the context of procedures and remedies, the EU rules for trade secrets set up a *lex specialis* in relation to the Enforcement Directive, as it is noted in the recital 39 of the EU Trade Secrets Directive.

Therefore, the conceptual analysis of trade secrets is highly important to understand the nature of trade secrets and to use the instrument appropriately. While the debates on this topic continue in the legal literature, the EU legislator seems to have its own position on these approaches. Even though it is not stated directly, the beforementioned recitals of the Trade Secrets Directive allows to assume that the EU legislator does not consider trade secrets as intellectual property rights.

Referring to the economic impact of trade secrets, the European Commission highlights the economically valuable components of trade secrets such as "valuable information acquired through a costly investment in innovation, unknown to others, and held in secret by a firm that expends resources to prevent its disclosure".<sup>51</sup> According to a row of economic investigations, the straight dependance between the encourage of innovations and their diffusion and economic growth and development.<sup>52</sup> Therefore, it is highly important to

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<sup>47</sup> Ibid.

<sup>48</sup> WIPO, 'Trade Secrets' (n 19).

<sup>49</sup> Schultz M and Lippoldt D (n 45) 10.

<sup>50</sup> Ibid.

<sup>51</sup> Baker & McKenzie, 'Study on Trade Secrets and Confidential Business Information in the Internal Market' (April 2013) p.85

<<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiw-Nel2Kv7AhXQgP0HHSOZA5QQFnoECBIQAQ&url=https%3A%2F%2Fec.europa.eu%2Fdocsroom%2Fdocuments%2F14838%2Fattachments%2F1%2Ftranslations%2Fen%2Frenditions%2Fpdf&usg=AOvVaw0vDFrwME0CYBBLZUTw3gN8>> accessed 5 January 2023.

<sup>52</sup> Ibid.

support innovations and allow companies to protect their investigations and beneficial information. Otherwise, it will not be profitable for companies to invest into the innovations if no appropriate protection is allowed. It is crucial with regards to trade secrets, while secrecy being a flexible and adjustable type of protection allows companies to use trade secrets to protect information about innovations in process. Patents require the certain set of elements for the invention be protected. Thus, discoveries, scientific theories and mathematical methods, aesthetic creations, schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers, presentations of information are not considered ‘inventions’ and, consequently, excluded from patentability.<sup>53</sup> Thus, unfinished investigation in progress cannot be protected by patents, since it can barely be considered as an invention which meets all the patent requirements. Nevertheless, they can be very costly and precious for different companies. Therefore, companies can protect the research and information as trade secret and continue to invest in future innovations.

From the economic point of view capturing the rewards to innovation and the tools for these returns are important, while the opposite could arise “underinvestment in innovative activity”.<sup>54</sup> It is especially significant if the “information” which was received during the invention process is determined as “indivisible”; therefore, the usage of this information by people other than the initial researcher is not restricted and they can enjoy the results of the work of other researchers.<sup>55</sup> It makes the process of investigation useless for the company, as they invest money, while the result can be divided among the competitors. The European Commission highlights the fact that “information will remain of commercial value only if other firms are prevented from using the information obtained (i.e., only if the owner is able to keep the information secret or otherwise assert rights that prevent others from using the information for their own benefit)”.<sup>56</sup> In contrast, if this type of protection is not allowed companies can lose the interest to innovations and, consequently, it will affect the economy as a whole. The economists mentioned in the report of the European Commission approved that “firms have an incentive to invest in innovation only if they reasonably expect to receive an appropriate return”.<sup>57</sup>

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<sup>53</sup> European Patent Convention, art.52.

<sup>54</sup> Baker & McKenzie (n 51) 86.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

The European Commission cites Lemley, who claims that the exclusive right on the possessor of trade secrets can potentially “prospect of deriving supracompetitive profits from the innovation”.<sup>58</sup> Thus, the main purpose and goal of trade secrets is to enable the company with the opportunity to protect the information by trade secrets and prevent the competitors from using the output of the company’s research. Nevertheless, it does not seem that the company gets an exclusive right on the information. The fact that the company cannot resist to the competitors who found out the same or similar idea by their own research or by the way of reverse engineering makes the right on trade secrets, at least de facto, non-exclusive. However, even this type of protection can motivate the companies to innovate and create, as they always have a chance to close the output for a competitor. Even though the information can be freely found out by the competitors, they do not use the results of the company’s work, while invest money into their own investigations.

However, there are also the opponents of the incentive-to-invest theory in relation to trade secrets. They argue that trade secrets as such do not incentivize to invest implying that secrecy does not create a “new ability to keep information secret”.<sup>59</sup> Therefore, companies are already motivated to invest in research and a marginal effect from secrecy is small. Some of them also think that the position about the economic impact of trade secret is overestimated, while the costs of secrecy are underestimated. While there are no immediate costs like filing fees, administrative fees or registration, there is no limit in investments into maintenance of secrecy, meaning IT protective measures, employees’ trainings and other security procedures. This will be observed in the second chapter of the thesis talking about the trade secrets as a tool for companies. Some critical voices towards trade secrets consider trade secrets influence on the innovations relatively small, as they do not think that secrecy can be referred to as an incentive.

Therefore, it can be noticed that the theory of economic impact of trade secrets has its followers and opponents. Some researchers and economists claim that trade secrets are useful and important mechanisms to increase the competitiveness and economic developments. In contrast, other scholars think that the role of trade secrets in terms of innovations’ incentive is exaggerated.

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<sup>58</sup> Lemley (n 17) 329-330 cited by Baker & McKenzie (n 51).

<sup>59</sup> Schultz M and Lippoldt D (n 45) 11.

## **2. The legal landscape of trade secrets in the EU and outside.**

The perception of trade secrets differs not only across the scholarship but also during the time. The aim of this subchapter is to show the current and former legislation about trade secrets in the EU and to analyze how the conception of secrecy changed during the time.

### **2.1. Trade Secrets in the International Treaties**

The first mention of trade secrets in the international legislation was made in the TRIPS Agreement, which came into force in 1995. It is a major piece of legislation about Intellectual Property rights. The act mentions undisclosed information including trade secrets and test data. In the overview of the TRIPS Agreement<sup>60</sup> it is said that in accordance with the act, undisclosed information is not considered as a form of property, however, the owner is enabled with the possibility to protect trade secrets and prevent them from being acquired or used without consent. To be duly protected trade secrets need to be secret, have commercial value because it is secret and that has been subject to reasonable steps to keep them secret. However, the concept of being “secret” does not mean being secret in the strictest sense of the word but refers to being unpublic and unknown for an unlimited number of people.<sup>61</sup>

The definition is almost the same along all the pieces of legislation and defines trade secrets very broadly. What is very important about the concept of trade secrets especially in the TRIPS Agreement as a main international legislative act, is a legal status of secrecy. Trade secrets “does not provide an exclusive right to use of the information, so long as a second party obtains the information fairly or it enters the public domain by fair means”.<sup>62</sup> It means that trade secret is not an exclusive right, but the opportunity to use and protect. In case another company found out the same information they can use it in their work.

Nevertheless, the concept of secrecy implies being hidden. However, the owner can claim damages from the offender in cases of trade secret leak and disclosure, the loss of secrecy cannot be reimbursed. Once the trade secrets are gone, the information is invalid in terms of protection. The concept of undisclosed information in the TRIPS Agreement is interconnected with the concept of being protected in accordance with unfair competition and privacy. Trade secrets are often considered subjects of court proceedings when the case is connected to the Non-Disclosure agreements between the company and workers and unfair

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<sup>60</sup> World Trade Organization (n 32).

<sup>61</sup> Schultz M and Lippoldt D (n 45) 7.

<sup>62</sup> Ibid 8.

competition, when the company found out the secret by the way of reverse engineering or the parallel investigations.

Another piece of legislation which represents a road towards the harmonization of Industrial property is Paris Convention for the Protection of Industrial Property adopted in 1883. What is important here is the fact that the article 1 of the act lists the objects of industrial property and name all the classical types of intellectual property law, however, does not mention trade secrets as a kind of them. Thus, the industrial property includes “patents, utility models, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition”.<sup>63</sup>

Therefore, the approach of the Paris convention excludes trade secrets from the text of the act. However, the TRIPS agreement refers to the Paris convention in the article 39 talking about undisclosed information. According to the article “in the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3”.<sup>64</sup> Thus, protection of undisclosed information is inevitably connected with the unfair competition and in fact make up the instrument against unfair competition. Thus, Paris Convention being an initial piece of legislation in the industrial property sphere continues and expands in the TRIPS agreement mentioning undisclosed information as a new category. These formulations represent the development of the trade secrets law. Being slightly mentioned in the Paris Convention as an example of protection against unfair competition the term “trade secret” did not exist as such. Nevertheless, the international IP legislator was concerned about the undisclosed information and mirror the rules and requirements in the TRIPS Agreement. The Paris Convention transmits the regulation of unfair competition to the national level saying that “the countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition”<sup>65</sup>, then the TRIPS Agreement sets up certain requirements of protection mentioning the main elements of trade secrets. Nevertheless, regulations towards the protection of undisclosed information are expected to come from the national legislators. It seems like the TRIPS Agreement mirrors the

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<sup>63</sup> Paris Convention for the Protection of Industrial Property [1979] 21 U.S.T. 1583; 828 U.N.T.S. 305 art.1 (Paris Convention).

<sup>64</sup> TRIPs Agreement, art.39.

<sup>65</sup> Paris Convention, art.10 bis.

requirements to the undisclosed information, but also transmits the protection to the Members implemented the TRIPS Agreement into their legislations.

Thus, the Paris Convention does not mention the concept of trade secrets and does not include it into the industrial property rights. It does not seem that the legislator does it intentionally to show that the concept of trade secrets protection does not correspond to intellectual property law. On the contrary it shows that trade secrets were not developed enough to be divided into another separate concept. Paris Convention might imply it talking about the “effective protection against unfair competition”.<sup>66</sup> Thus, by 1979 trade secret protection was not separated and potentially was counted as a valid instrument against unfair competition. Then, the concept appears in the TRIPS Agreement talking about the trade secrets as about “undisclosed information”. By 1994 the concept of trade secrets protection appeared in the international legislation and the valid requirements were set. Thus, the TRIPS Agreement is the first act mentioning the steps how the protected undisclosed information can be determined. It is important to mention that the TRIPS Agreement includes the protection of undisclosed information into intellectual property law as a natural development of the concept of protection against unfair competition. The Paris Convention includes the repression of unfair competition into the list of industrial property; therefore, the subsequent inclusion of the undisclosed information into intellectual property rights is a rational development.

The initial concept of trade secrets protection was originated in the beforementioned legislation; however, the first mentioning of the term “trade secrets” was made in the EU Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure appeared in 2016. Probably, by 2016 the concept of trade secrets was mature enough to divide it into a specific branch of law and creating new terminology “undisclosed know-how and business information (trade secrets)”. However, it was long way of development and formation of trade secrets as a separate institute.

## **2.2 The legal landscape before the EU Trade Secrets Directive**

Historically, trade secrets were regulated by national laws. Potentially it is connected with the fact that secrecy just appeared as a new concept of unfair competition. However, there is also an idea that it could be connected with the different approaches which

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<sup>66</sup> Paris Convention, art.10 bis.

historically appeared on certain territories, and it could be hard to harmonize them.<sup>67</sup> Thus, fragmented conception and protection of trade secrets in the EU created inconveniences in their usage. Consequently, companies had different levels of protection depending on their location.

The first step to harmonization was made in 2011 when the Commission adopted an Intellectual Property Rights' (IPR) strategy and mentioned trade secrets as a “competing at the edge of the law” practice.<sup>68</sup> The Commission mentioned that the level of protection differs from State to State. Although the Commission includes trade secrets in the IPR strategy, they are not identified as intellectual property rights as such. In contrast, they are mentioned in context of “complementary protection of intangible assets” as a concept laying in between industrial property protection and other areas of law.<sup>69</sup> Consequently, it can be highlighted that the EU legislator did not mention secrecy as IPR but rather as “complementary protection”.

Mainly there were several approaches to regulation, while the most common were “trade secret as a part of intellectual property law” or “trade secret as a part of unfair competition law.

The first concept was mirrored in the Italian legislation, as the Italian IP code considered trade secrets IP right.<sup>70</sup> Some countries such as “Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Lithuania, Poland, Portugal, Slovakia, Slovenia, Spain, and Sweden” had specific civil law provisions regulating trade secrets.<sup>71</sup> In contrast, other countries such as Austria and Belgium relied on competition law without any additional provisions in regard to trade secrets. Some countries preferred legislation *ad hoc* and others tended to rely “on general principles of tort law to offer a remedy”.<sup>72</sup> Nevertheless, a significant number of countries had no specific civil law regulations and rules towards trade

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<sup>67</sup> Paul L. C. Torremans, ‘The Road towards the Harmonisation of Trade Secrets Law in the European Union’ (2015) *Revista La Propiedad Inmaterial* p.27 <<https://revistas.uexternado.edu.co/index.php/propin/article/view/4346/4930>> accessed 5 December 2022.

<sup>68</sup> European Commission, ‘A Single Market for Intellectual Property Rights Boosting Creativity and Innovation to Provide Economic Growth, High Quality Jobs and First Class Products and Services in Europe’ (*eur-lex.europa.eu*, 24 May 2011) p.15 <<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0287:FIN:en:PDF>>; Jens Schovsbo, Timo Minssen and Riis T, *The Harmonization and Protection of Trade Secrets in the EU: An Appraisal of the EU Directive* (Edward Elgar Publishing 2020) p.8 accessed 5 December 2022.

<sup>69</sup> European Commission, A Single Market for Intellectual Property Rights Boosting Creativity and Innovation to Provide Economic Growth, High Quality Jobs and First Class Products and Services in Europe (n 68).

<sup>70</sup> Torremans (n 67) 28.

<sup>71</sup> European Commission, A Single Market for Intellectual Property Rights Boosting Creativity and Innovation to Provide Economic Growth, High Quality Jobs and First Class Products and Services in Europe (n 68) 15.

<sup>72</sup> Torremans (n 67) 28.

secrets' protection such as Cyprus, United Kingdom, Ireland, Finland, and Luxembourg.<sup>73</sup> Moreover, other means of protection such as general rules of contract law, cause of prohibition of unfair competition, labor law, and criminal law could partially regulate secrecy as well.<sup>74</sup>

Thus, the understanding of the concept of trade secrets was not unified within the EU, which made it hard to access the ways of development and modification.

Moreover, the states considering and protecting trade secrets as intellectual property rights could apply the European IPR Enforcement Directive.<sup>75</sup> Nevertheless, not every country could use the act in relation to trade secrets, therefore, it created an imbalance of protection within the Member States.

Therefore, the EU legislator understood the necessity of creating a specific regulation for the whole Union. The main precondition was an unharmonized regulation when it came to the use, definition, and legal remedies against infringers of trade secrets.

Thus, a famous attempt to define and harmonize trade secrets regulations across the EU Member States has been successfully carried out by the EU Trade Secrets Directive of 2016. Under its conceptualization, trade secrets qualify as a complementary protection to intellectual property rights that is specifically designed to protect pieces of information, which are factually secret, have commercial value, and have been subject to reasonable steps to protect their secrecy.<sup>76</sup>

There were several reasons why the EU required harmonization. First of all, the development of the concept is not possible within another concept. Trade secret being a multi-disciplinary instrument located in-between intellectual property laws and competition laws, requires certain regulations and legal status explanation. Once trade secrets are not only a theory or a theoretical concept, but a real instrument for businesses to support and protect their competitive advantages, the certain explanations are required for a convenient use of the instrument. While the rules about trade secrets are dispersed in different laws like national legislation, TRIPS Agreement, Paris Convention it makes the concept uncertain. While the institute of trade secrets grew and developed and the particular interest among the

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<sup>73</sup> European Commission, A Single Market for Intellectual Property Rights Boosting Creativity and Innovation to Provide Economic Growth, High Quality Jobs and First Class Products and Services in Europe (n 68) 15

<sup>74</sup> Ibid.

<sup>75</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] *OJ L 195/16*.

<sup>76</sup> Trade Secrets Directive, art.2.

industry was demonstrated, the necessity of the unified regulation was obvious. The Directive is a step for a valid development of the concept.

As it was mentioned the concept of trade secrets originated from the area of unfair competition and still inevitably connected with it. Thus, the idea of competitive market, equal fair conditions for the market players and economic freedom was transmitted into the trade secrets law. Therefore, the idea of trade secrets is allocated around companies and instruments to create competitive market, and secured information. However, the concept of trade secrets as a part of intellectual property is a very common idea as well. Therefore, it would be correct to assume that the concept of trade secrets and secrecy is an independent instrument which includes the traits of intellectual property law and competition law.

### **3. The EU Trade Secrets Directive**

The establishment of the rules regulating trade secrets in the EU in the EU Trade Secrets Directive was a breakthrough for the whole European community. The idea of harmonization which was necessary for the sustainable development of the trade secrets institute has been relevant for many years already but was governed in 2016 only. The intention to issue an act was proposed in 2013 and the discussions lasted for 3 years. Before and after the Directive was adopted there were many opinions from both legal and business points of view, some of them are highlighted in the last part of this Chapter.

Being a highly anticipated step to implement the necessary base of rules about trade secrets, there are several major premises and rationales for the unified act about trade secrets.

First of all, the disunity and fragmentation of the trade secrets within different countries of the EU motivated the legislator “to standardize the national laws in EU countries against the unlawful acquisition, disclosure and use of trade secrets”.<sup>77</sup> It was already mentioned before that the countries had different approaches, which were based on intellectual property law, contract law, competition law and other laws. The main idea was to unify the approaches and create a base for the trade secrets law in the EU. Therefore, the Directive aims to enhance the legal certainty to the EU trade secrets law.

The directive was implemented in all Member States of the EU, and it sets up the base of rules which can be supplemented by national laws. One of the biggest breakthroughs of the directive is the implementation of the trade secrets’ definition, which was unified within the EU for the first time. It is mentioned in the preamble of the directive that “not all

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<sup>77</sup> European Commission, Internal Market, Industry, Entrepreneurship and SMEs – Trade Secrets (n 21).

Member States have adopted national definitions of a trade secret or the unlawful acquisition, use or disclosure of a trade secret, therefore knowledge on the scope of protection is not readily accessible and that scope differs across the Member States”.<sup>78</sup> Moreover, there was no consistency in civil law remedies to protect the trade secrets’ holders. Considering the lack of unified rules which could influence the quality of protection, the legislator created the directive.

Secondly, another reason to harmonize the legislation within the EU was “to limit European companies’ increasing exposure to the misappropriation of trade secrets”.<sup>79</sup> Among others, the legislator highlights “theft, unauthorised copying, economic espionage or the breach of confidentiality requirements, whether from within or from outside of the Union”.<sup>80</sup> One of the causes of the increased interest to trade secrets is the pace of technological development. When the company investigate a certain innovation or scheme, they need to secure it since the beginning of the research not to give a hint for the competitors. Living in a fast-changing world with the market economy all countries try to be innovative to impress the consumers. Secrecy allows to secure almost every piece of beneficial information.

Finally, the Directive sets a goal to let the companies innovate and invest in research. The goal includes the attraction of larger investments in innovations and internal cooperation between businesses conducting collaborative research.<sup>81</sup> The main idea is to create convenient environment for research and investments. The European Commission highlighted crucial importance of the harmonized system for businesses, as they can “build trusted networks for collaborative research or [...] enter into know-how transfer agreements” which can only be done by repairing the fragmented system of trade secret laws”.<sup>82</sup> This position seems relevant, as it could be problematic for companies to build multinational businesses with differing legislation from country to country. Thus, the Directive can potentially increase the level of cross-border collaborations between companies that would

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<sup>78</sup> Trade Secrets Directive, p.6.

<sup>79</sup> Shreya Desai, ‘Shhh! It’s a secret: a comparison of the united states defend trade secrets act and European Union Trade Secrets Directive’ (2017) *Ga. J. Int’l & Comp. L.* p.491 <<https://digitalcommons.law.uga.edu/cgi/viewcontent.cgi?article=2421&context=gjicl>> accessed 5 December 2022.

<sup>80</sup> Trade Secrets Directive, recital 4.

<sup>81</sup> Tanya Aplin, ‘A Critical Evaluation of the Proposed EU Trade Secrets Directive’ (*papers.ssrn.com*, 18 July 2014) p.4 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2467946](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2467946)> accessed 7 December 2022..

<sup>82</sup> Desai, (n 80) 490; European Commission, ‘Frequently Asked Questions: Protection Against the Unlawful Acquisition of Undisclosed Know-how Business Information (Trade Secrets)’ <[https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/trade-secrets/faq-protection-against-unlawful-acquisition-undisclosed-know-how-and-business-information-trade\\_en](https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/trade-secrets/faq-protection-against-unlawful-acquisition-undisclosed-know-how-and-business-information-trade_en)> accessed 7 December 2022.

increase the level of competition and economic development as a whole. Moreover, cross-border innovative activities can increase employment growth and provide more working places and job offers within the EU. In addition, the turnover of the qualified labor force and intellectual force within the Union can raise the level and quality of the workforce.

It seems that the European Commission is mainly focused on the business perspective, as the rationale tries to support companies, their development, and expansion. The reason can be in the nature of trade secrets. Secrecy is a mechanism against unfair competition; therefore, it represents, among others, the interests of the companies to maintain a competitive and fair market for all market players and consumers.

The Directive consists of 21 articles and 4 chapters: Subject matter and scope; Acquisition, use and disclosure of trade secrets; Measures, procedures and remedies; Sanctions, reporting and final provisions. So, the scope of the Directive is broad and covers all theoretical and procedural aspects of trade secrets.

What is also highly important is the fact that the Directive unifies the requirements to trade secrets, constitutes which act can be considered unlawful acquisition, use and disclosure, and determines sanctions on the Union level. Moreover, the art.5 sets up particular exceptions on when the disclosures are possible within the EU. All the rules and regulations can be complemented on the national level. As such, the legislator did not specify one of the requirements to trade secrets - "reasonable steps". It can relate to the fact that the "assessment is always performed on a case-by-case basis as the same measures cannot fit all situations".<sup>83</sup> So, some countries base the evaluation providing a proportionality assessment. Germany follows the need-to-know principle, while Poland, for example, obliges trade secrets' holder to "act with due diligence to keep it secret".<sup>84</sup>

Moreover, the sanctions unified on the EU level can be supplemented by the national rules. While the criminal sanctions for the data leakages are not implemented at EU Level, the civil remedies are regulated in the Directive in articles 10-11.<sup>85</sup> The possible remedies can be summarized as "stopping the unlawful use and further disclosure of misappropriated trade secrets; the removal from the market of goods that have been manufactured on the basis of a trade secret that has been illegally acquired; the right to compensation for the

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<sup>83</sup> Edoardo Barbera, 'Five Years On: Implementation of the Trade Secrets Directive - Harmonisation of Substantive Concepts and Definitions' ([www.twobirds.com](http://www.twobirds.com), 30 May 2023) <[https://www.twobirds.com/en/insights/2023/global/five-years-on-implementation-of-the-trade-secrets-directive#\\_prclt=67fPi4ok](https://www.twobirds.com/en/insights/2023/global/five-years-on-implementation-of-the-trade-secrets-directive#_prclt=67fPi4ok)> accessed 13 July 2023.

<sup>84</sup> Ibid.

<sup>85</sup> Trade Secrets Directive, art.10-11.

damages caused by the unlawful use or disclosure of the misappropriated trade secret”<sup>86</sup>. The requirements to trade secrets mentioned in the Directive allow to protect the information which is secret and not generally known among the persons who normally can deal with this information. It means that the person or a company of the competitor which normally deals with the same type of information and same type of economic activity should not be aware of the certain information in question. Nevertheless, in case of even an occasional disclosure or a deliberate theft the information loses the status of trade secrets and consequently, is not protectable anymore. Therefore, in case of occurred unlawful disclosure of information, no monetary damage can repair the fact that such information no longer can be qualified as a trade secret.<sup>87</sup> Therefore, the national acts can complement the EU rules and enhance the consequences for trade secrets misappropriates. For example, some Member States criminalized particular trade secrets’ protection violations.<sup>88</sup> Consequently, the Directive harmonizes obligatory rules for all the Member States; however, the Member States may enhance the rules by national acts.

### **3.1 Overview of the EU Trade Secrets Directive provisions**

For the purpose of the research, it is useful to observe the main provisions of the Directive.

In the preamble of the Directive the European Commission hints at the fact that that trade secrets are detached from the intellectual property and other legal families. Although the Preamble does not usually set up legal obligations, it is very important for interpretation and explanation of the further text of the Directive.<sup>89</sup> Thus, the Preamble explains the concept of trade secrets not identifying them as intellectual property rights, while not providing any exclusive rights. Moreover, the rationales for implementation of the Directive are mentioned (some of them were explained above).

The unique character is highlighted in the recital 2, where it is said that “protecting such a wide range of know-how and business information, whether as a complement or as an alternative to intellectual property rights”.<sup>90</sup> The Directive mentions that trade secrets can play a complementary or alternative role towards intellectual property rights and intentionally

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<sup>86</sup> European Commission, Internal Market, Industry, Entrepreneurship and SMEs – Trade Secrets (n 21).

<sup>87</sup> Aleksandra Iugunian, ‘The Role and Impact of Trade Secrets in Today’s and Tomorrow’s EU Single Market’, (epip.eu, 2022) <<https://www.epip.eu/epip2022>> accessed 5 April 2023.

<sup>88</sup> Barbera (n 83).

<sup>89</sup> Schovsbo, Minssen and Riis (n 68).

<sup>90</sup> Trade Secrets Directive, recital 2.

does not equal them. Moreover, the crucial proposition is contained in the recital 16, where the fact that the Directive does not create an exclusive right on know-how or undisclosed information is mentioned. The cause is the public nature of trade secrets. The information itself cannot be restricted completely. The concept of trade secrets leaves a gap for independent discoveries and reverse engineering, that cultivates the interest of innovation and competition.<sup>91</sup>

Furthermore, the Directive does not correlate trade secrets with the competition law only, while develops it as a separate institute. The text of the Directive includes the note that the goal of the Directive is not to change or harmonize the law on unfair competition<sup>92</sup>. It means that the legislator does not put trade secrets inside the competition law fully, while create a detached act and detached sphere of law - trade secrets law, which is inevitable connected with the unfair competition rules, but not fully swallowed by it.

In addition, the Directive mentions that it “should not affect the application of any other relevant law in other areas, including intellectual property rights and the law of contract”.<sup>93</sup> Thus, the legislator repeats the division between the trade secrets law and the intellectual property law and highlights that the laws are applicable when relevant. Nevertheless, the legislator preserves the *lex specialis* role of the Directive in case of overlapping of the Enforcement Directive.<sup>94</sup>

Therefore, the legislator dismisses two main concepts created by different European countries, as he does not determine trade secrets as intellectual property rights and does not enable the owners with the exclusive rights, while he also refuses the idea about trade secrets as an instrument of competition law. However, the correlation between unfair competition and trade secrets is highlighted, but the formulation shows that the legislator does not seem to equate these institutes.

The first article of the Directive defines the principle of the minimum harmonization meaning that the Member States are free to provide “more far-reaching protection”.<sup>95</sup> Nevertheless, there are limitations required by the Directive, which means that the states are supposed to integrate their rules in compliance with the specific rules of Directive.

The second article of the Directive mentions the harmonized requirement to trade secrets such as secrecy, commercial value, and necessity to undergo reasonable steps for

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<sup>91</sup> Trade Secrets Directive, recital 16.

<sup>92</sup> Trade Secrets Directive, recital 17.

<sup>93</sup> Trade Secrets Directive, recital 39.

<sup>94</sup> Trade Secrets Directive, recital 39.

<sup>95</sup> Schovsbo, Minssen and Riis (n 68).

secure purposes. The Directive mentions that as the definition was not unified within the EU, the awareness of scope of protection is not clear.<sup>96</sup> This article is fundamental for the purposes of the Directive, as it unifies all the concepts to trade secrets in the EU. Jens Schovsbo highlights the “unfair competition law style” of the trade secrets’ holder definition in the usage of the words “holder” and “control on trade secret”.<sup>97</sup> This terminology differs significantly from the one towards the intellectual property rights. It is related to the scope of legal rights granted to the trade secrets’ holder in contrast to the owners of the intellectual property rights.

The second chapter determines the cases of lawful and unlawful acquisition and sets up the opportunity for independent discovery and creation.<sup>98</sup> Jens Schovsbo also highlights the unfair competition law nature of the Chapter. He mentions that the intellectual property approach considers everything is lawful “unless it has been made unlawful”.<sup>99</sup> In contrast, the Trade Secrets Directive mentions both the lawful and unlawful acquisitions and use and disclosure of trade secrets. Article 3 is also important because it allows independent individuals to get access and use trade secrets. In contrast to intellectual property rights where the owner obtains full exclusive rights on the object, trade secrets only can grant limited scope of instruments and rights. Therefore, people can independently obtain information protected by secrecy and be completely covered by law. As such lawful acquisition includes “independent discovery or creation; 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; exercise of the right of workers or workers’ representatives to information and consultation in accordance with Union law and national laws and practices; any other practice which, under the circumstances, is in conformity with honest commercial practices”.<sup>100</sup> Article 4 lists the examples of unlawful acquisition which can potentially entail legal sanctions.

Moreover, art.5 highlights the exceptions which allow to disclose information for specific mitigated purposes. This will be observed later in this work, as this provision is highly important for the balancing of trade secrets in the EU. The exceptions allow to reveal trade secrets in favor of public interest. The Directive highlights the right to freedom of

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<sup>96</sup> Trade Secrets Directive, para 6.

<sup>97</sup> Schovsbo, Minssen and Riis (n 68) 8.

<sup>98</sup> Trade Secrets Directive, art 3.

<sup>99</sup> Schovsbo, Minssen and Riis (n 68).

<sup>100</sup> Trade Secrets Directive, art.3.

expression, whistleblowing, workers' legitimate exercise, and the legitimate Union or national law interest. The exceptions are a breakthrough in the EU as they make trade secrets' protection proportionate balancing privacy and publicity.

The third chapter lists the measures, procedures, and remedies available to the trade secrets' holder in case of unlawful acquisition or disclosure. This part of the Directive is essential since it highlights the mechanism of protection. Jens Schovsbo highlights that these provisions are especially important since the rules of the Enforcement Directive do not apply automatically to trade secrets.<sup>101</sup> Thus, the Directive mentions that all the measures, procedures, and remedies should be "fair and equitable; not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays; and be effective and dissuasive".<sup>102</sup> In addition, the Directive highlights that all the measures have to be proportionate and there has to be a 6-year limitation period for the claims. This Chapter highlights the proportionality of the measures for both parties. Art.9 mentions preservation of confidentiality of trade secrets in the course of legal proceedings. This provision balances privacy and publicity – the legitimate interest of the trade secrets' holder on privacy and a fair trial and openness of the court procedure.<sup>103</sup>

The following provisions highlight the rules about damages, measures, and conditions on how they can be applied by competent judicial authorities of the Member states. The final provisions explain the technical rules on how the Directive must be used.

The Directive harmonized the rules about trade secrets, gathered the definitions and measures in case of unlawful acquisition of the trade secrets. The Directive sets up the civil measures only and do not set the goal to change all the trade-secrets related regulations and rules. The Directive is the main act and the base of the trade secrets law. However, all the related legislative acts are also applicable in the part that they do not contradict with the rules of the Directive.

After the Directive was finally published there were many comments on it in the legal literature and industry. The opinions on the Directive are not unified. However, the regulation was highly anticipated and needed.

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<sup>101</sup>Schovsbo, Minssen and Riis (n 68).

<sup>102</sup> Trade Secrets Directive, art.6.

<sup>103</sup> Schovsbo, Minssen and Riis (n 68) 19.

### **3.2. Doctrinal views on the EU Trade Secrets Directive**

All the researchers focus on different aspects of the Directive and found out important provisions of it. Thus, Thomas Hoeren, professor of law, pays attention to the requirements of the “reasonable steps” in the article 2 “it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret”.<sup>104</sup> Being one of the requirements to the trade secret it is highly important to be specified and clear. However, the legislator does not provide the explanation of the term. The author mentions that the reasonable steps might require the legitimate standard of protection.<sup>105</sup> As long as the concept of the reasonable steps is a key moment to consider information as trade secrets, the certain reasonable steps should be specified by the Commission. While it is clear that it should be an internal secured way to protect the information, however, it is not transparent what is the minimum level of responsibilities of the company and which steps cannot be called “reasonable”. It can be assumed that the reasonable steps can vary from the size of the company and industry, but they should be categorized.

Another group of researchers conducted a survey on the topic of trade secrets in the data economy. They also highlighted the necessity of clarification of the “reasonable steps” requirement.<sup>106</sup> As such they are questioning whether the assessment of the reasonable steps has to be objective in accordance with the “usual protective measures that are adopted in the sector” or subjective in accordance with “the circumstances of the business involved”.<sup>107</sup> They also evaluate the “commercial value” requirement and recommend the legislator to make a clarification in the recitals that “individual data, raw (or unprocessed) data will not be protected”.<sup>108</sup> It is important in order to determine trade secrets in the data economy. The researchers highlight that the clarifications should be done in recitals or soft laws, while there is no need to change the definition of trade secrets indicated in the Trade Secrets Directive.

Moreover, Thomas Hoeren raises the question about the trade secrets’ legal status. He reflects if the trade secret can be recognized as a subjective right close to an IP right.

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<sup>104</sup> Trade Secrets Directive, art. 2.

<sup>105</sup> Thomas Hoeren, ‘The New EU Directive on the Protection of Trade Secrets and Its Implementation’ (2020) *Legal Tech and the New Sharing Economy* 241 p.212 <[https://www.itm.nrw/wp-content/uploads/214\\_10.1007\\_978-981-15-1350-3.pdf](https://www.itm.nrw/wp-content/uploads/214_10.1007_978-981-15-1350-3.pdf)> accessed 5 December 2022.

<sup>106</sup> Aplin Tanya, Alfred Radauer, Martin A. Bader, and Nicola Searle, ‘The Role of EU Trade Secrets Law in the Data Economy: An Empirical Analysis’ (2023) *IIC-International Review of Intellectual Property and Competition Law* < <https://link.springer.com/article/10.1007/s40319-023-01325-8> > accessed 12 December 2022.

<sup>107</sup> *Ibid* 19.

<sup>108</sup> *Ibid* 29.

However, he mentions that the secrecy itself follows the idea to give an opportunity to protect the company in case of unfair access, while does not enable the company and does not give a right of exploitation.<sup>109</sup> Nevertheless, the author assumes that the Directive define trade secrets as minor intellectual property rights. The reason is the recital 2 of the preamble, where it is said that the trade secrets is a “supplement or an alternative” to IP rights, while the recital 3 mentions that trade secrets protect intellectual creation. Besides, the optional sanctions are the same as for the traditional intellectual property rights – “triple damage calculation”.<sup>110</sup> The article 2 shows that the holder of trade secrets is defined as “natural or legal person who exercises legal control over the trade secret”.<sup>111</sup> However, it seems that the legislator considers trade secrets as a detached institute rather than the minor IP right. And overall, the author thinks that the Directive will change the law and harmonize the rules within the Union. Therefore, companies need to implement the certain measures and set up steps for protection. Consequently, there will be added a new culture of secrecy.

Davide Arcidiacono, legal professor, thinks that the Directive is a perfect representation of the last final version of the revision. However, he also points out the vague formulations in the second article, where the requirements are counted. This article harmonizes and puts together the requirements of trade secrets, therefore, the broad formulations can be inefficient. The author thinks that the first requirement of being secret if broad in sense of people normally dealing with the questionable information – “generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question”.<sup>112</sup> As long as the Directive does not specify the formulation, the author suggest the CJEU to establish an explanation.<sup>113</sup> Moreover, there is also a question about the “readily accessible information”. First, it is not clear what does it mean in general. Moreover, an easily accessible information cannot be protected by secrecy according to the article. Consequently, the author sets a relevant question “whether only confidential information that requires considerable effort to be reversely analyzed is protectable”. The legislator does not explain, but it seems that the reasonable steps provided by the company should prevent it from disclosure, but the term “readily accessible information” remains uncertain.

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<sup>109</sup> Hoeren (n 105) 213.

<sup>110</sup> Ibid.

<sup>111</sup> Ibid.

<sup>112</sup> Trade Secrets Directive, art.2.

<sup>113</sup> Davide Arcidiacono, ‘The Trade Secrets Directive in the International Legal Framework’ (2016) 1 *European Papers - A Journal on Law and Integration* 1073 <<https://www.europeanpapers.eu/en/europeanforum/trade-secrets-directive-international-legal-framework>> accessed 5 December 2023.

All in all, the researchers and investigators admit the necessity of harmonization and importance of the act. However, all of them can find the formulations and provisions which are too broad or unapplicable. Nevertheless, during the 7 years period of the Directive in use it was not changed. It means that it works well in practice even with these formulations; however, the minor comments from the legal scholars and people from industry are highly appreciable, as they move forward the development of the trade secrets law. Therefore, some provisions of the act remain unclear and require the game-changing explanations to use the trade secrets regime sufficiently.

Finally, it is important to mention that the Directive made the regulations towards trade secrets more harmonized within the EU. Initially, different approaches of the member states on the legal status of trade secrets were created. However, the anticipated act sets up the general positions and regulations on the trade secrets within the EU. Thus, the formulations of the act can allow to understand that the legislator does not seem to consider trade secrets as part of intellectual property rights or part of unfair competition law despite the common approaches and positions. Thus, the act opens a new level of the trade secrets law development, creating a new approach to this institute.

## **CHAPTER II. TRADE SECRETS FOR BUSINESSES - MULTINATIONAL CORPORATIONS (MNCs) AND SMALL AND MEDIUM ENTERPRISES (SMEs)**

According to the recent statistic of the European Commission, small and medium-sized enterprises (SMEs) represent 99% of all businesses in the EU.<sup>114</sup> The role of multinational corporations (MNC) in the EU is crucial as well. According to the recent statistic of the Eurostat, although MNCs represent only 0.1% of all enterprises in the EU, they provide almost 50% of the whole gross value added in the EU.<sup>115</sup> Therefore, SMEs and MNCs should be both evaluated to find out the benefits and downsides of secrecy to different types of companies.

According to the European Commission, SMEs are defined by their staff headcount and turnover or balance sheet total.<sup>116</sup> Thus, a small enterprise is a company with a staff headcount of less than 50 and with turnover less or equal to 10 million euros / balance sheet total less or equal to 10 million euros. In contrast, a medium-sized enterprise includes a staff headcount of less than 250 and a turnover less or equal to 50 million euros / balance sheet total less or equal to 43 million euros. A MNC is a company bigger than the beforementioned indications. In addition, MNCs have the specific of “producing goods or delivering services in more than one country”.<sup>117</sup> All companies, regardless of size and type, set the goal to be profitable. To reach the goal they have to be competitive and have advantages over their rivals. Trade secrets are business instruments to protect information within the corporation.

### **1. Trade secrets: business perception**

Being an option to protect company’s most critical assets and investments, trade secrets have certain features, which can be decisive for different companies. There are five particularities of trade secrets protection which are highlighted in this research.

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<sup>114</sup> European Commission, Internal Market, Industry, Entrepreneurship and SMEs: SME Definition (n 2).

<sup>115</sup> Eurostat, ‘Key Figures: Business - Enterprise Characteristics by Size Class’ (*ec.europa.eu*) <<https://ec.europa.eu/eurostat/cache/digpub/keyfigures/>> accessed 5 May 2023.

<sup>116</sup> European Commission, Internal Market, Industry, Entrepreneurship and SMEs: SME Definition (n 2).

<sup>117</sup> Eurostat Statistics Explained, ‘Glossary: Multinational Enterprise (MNE)’ (*ec.europa.eu*, 4 April 2019) <[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Multinational\\_enterprise\\_\(MNE\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Multinational_enterprise_(MNE))> accessed 17 May 2023.

## **1.1 Time and territory**

First of all, according to the EU legislation trade secret is almost any piece of information which meets 3 basic requirements: (1) being secret, (2) being commercially valuable, and (3) reasonable steps to keep this information secret have to be conducted.<sup>118</sup> When these requirements are provided, the information can be legally “locked” within the company and acquire the status of a trade secret. The protection comes into force immediately without any registrations or approvals.

So, the time required to set up secrecy is only connected to the requirements mentioned above and does not depend on any bureaucratic processes. It makes the process time-saving and easy. This quick pace of trade secrets’ acquisition allows to maintain a lead-time advantage. It is especially useful for SMEs, which can gain the market and reputation before big corporations start providing the same good or service. Nevertheless, big corporations can benefit from this consequence of trade secrets protection as well, because they allow capturing market share and strengthen brand recognition. In order to prove it, the example of Google can be observed. The potential success of the Google search engine is connected to their secrecy on the search algorithms.<sup>119</sup> Thus, flexibility of secrecy allowed them to occupy leading positions on the market and maintain it keeping the algorithms in secret. The first-mover advantage can be profitable for SMEs as well as for MNCs, as it enhances the leadership in the market. “Being the first” for both types of companies means strengthening customer loyalty and gaining reputation.

Aside from the fact that secrecy can be set up within a short period of time, the protection can potentially last permanently. While the requirements of secrecy, economic value and reasonable steps are completed, the protection continues to be in force. The protection lasts until the moment when information is disclosed. However, it is important to mention that protection means the opportunity to have closed information within the company and a legal right to sue the person who illegally obtained the preserved information. The protection does not endow the trade secrets owner with any exclusive rights on the information secured. Thereby, the secrecy regime provides the owner with the legal right to defend against the encroachment attempt on the regime *ex-post* but does not give any rights on the information itself. It means that the protection lasts potentially infinitely, while the

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<sup>118</sup> Trade Secrets Directive, art.2.

<sup>119</sup> David S Levine and Ted M Sichelman, ‘Why Do Startups Use Trade Secrets?’ (*papers.ssrn.com*, 22 April 2018) p.757 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3166834](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3166834)> accessed 5 September 2022.

given right to sue infringers can be used only after the protection, de facto, has failed and, thus, is terminated.

Even though the protection seems to be fragile, as does not include any state involvement, (e.g., registration) there are many historical examples when trade secrets last centuries and remains covert until nowadays. For example, Bénédictine, a French liqueur whose recipe remains protected since 1863<sup>120</sup>, or the Coca-Cola recipe, which is secret for more than 130 years already.<sup>121</sup> In case the recipes are not disclosed in the future, the secrecy regimes will last forever.

Moreover, the scope of trade secrets covers the whole world. However, it makes the protection even more unstable as there are more chances that the information will be revealed or reverse engineered. While the general international provisions about trade secrets are mentioned in the TRIPs Agreement and Paris Convention, the remedies granted to the trade secrets holder are not unified on the international level and depend on the jurisdiction.<sup>122</sup>

## **1.2 Costs**

Secondly, no instant investments or payments are needed to obtain trade secrets. The fact that no specific procedures of the state approval and no certain fees are required make trade secrets acquisition cheap and accessible for all companies. In contrast to patents, which involve major costs of filing fee and patent attorneys, trade secrets seem to be a worthy and low-costly alternative.<sup>123</sup>

However, even though there seems to be no filing cost to obtain trade secret protection, this is just an illusion. Any company which aims at obtaining trade secret protection has to set up reasonable steps to keep the information secret. The implementation of reasonable steps is crucial: otherwise, the legal redress and compensation of losses cannot be requested by the company even in case of unauthorized disclosure or use of the

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<sup>120</sup> Robert Klein, 'The 500-Year-Old Trade Secret: A Short History of Ancient Alcohol' (*Klein Trial Lawyers*, 2 November 2015) <<https://www.kleinlitigation.com/the-500-year-old-trade-secret-a-short-history-of-ancient-alcohol/>> accessed 11 January 2023.

<sup>121</sup> Coca-Cola, 'Is the Coca-Cola Formula Kept Secret Because the Company Has Something to Hide? | Frequently Asked Questions | Coca-Cola GB' (*www.coca-cola.co.uk*) <<https://www.coca-cola.co.uk/our-business/faqs/is-the-coca-cola-formula-kept-secret-because-the-company-has-something-to-hide>> accessed 11 January 2023.

<sup>122</sup> WIPO, 'Frequently Asked Questions: Trade Secrets' (*www.wipo.int*) <[https://www.wipo.int/tradesecrets/en/tradesecrets\\_faqs.html](https://www.wipo.int/tradesecrets/en/tradesecrets_faqs.html)> accessed 17 May 2023.

<sup>123</sup> Levine and Sichelman (n 119) 762.

information.<sup>124</sup> The “reasonable steps” to keep some information secret inside the company may be costly. The most effective measures include corporate policies, computer security systems, risk assessments, qualitative due diligence, training of the employees, and deep monitoring and measurements. In addition, corporate documentation and reports should be confidential, and all potential employees should sign Non-Disclosure Agreements along with the employment contracts. In order to implement all the protective mechanisms, a lot of investments should be allocated. Therefore, all the companies, regardless of their size, can implement secrecy, but not all companies can maintain a sufficient level of protection due to the costs attached to it. Therefore, for example, in the UK large firms use trade secrets more often than small ones: 59% versus 28%, respectively.<sup>125</sup> It is also connected with the vulnerability of SMEs and their exposure to cyber-attacks.<sup>126</sup>

However, even though the list of the beforementioned trade secrets’ protective measures is extensive, the prices for these reasonable steps and preventive measures are not set up by law. It means that the company decides on the amount of investment in this asset. The quality of the measures is the responsibility of the company no matter how much was spent. That is why the reasonable steps do not have a certain price in contrast to the patent issuing fees. Nevertheless, David S. Levine and Ted Sichelman mention that trade secrets costs are generally less than patent-related expenses.<sup>127</sup> Therefore, small and medium enterprises may not have sufficient funds to obtain a patent but may have a possibility to issue secrecy inside the firm. Thus, although the affordability of trade secrets is controversial, it can be potentially cheaper than the patent-related expenses.

### **1.3 Flexibility**

Thirdly, trade secrets are flexible in terms of the type of information protected. According to the Trade Secrets Directive, there are no specific conditions for the information in question. Therefore, the subject matter is broad and includes almost any type of information from “business confidential information such as customer lists, source code for

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<sup>124</sup> Allen Dixon, ‘Leading Practices to Protect Trade Secrets’ (*Kluwer Patent Blog*, 2016) <<http://patentblog.kluweriplaw.com/2016/11/01/leading-practices-to-protect-trade-secrets/>> accessed 11 January 2023.

<sup>125</sup> Dr Nicola Searle, ‘The Economic and Innovation Impacts of Trade Secrets’ (*GOV.UK*, 19 April 2021) <<https://www.gov.uk/government/publications/economic-and-innovation-impacts-of-trade-secrets/the-economic-and-innovation-impacts-of-trade-secrets>> accessed 17 January 2023.

<sup>126</sup> *Ibid.*

<sup>127</sup> Levine and Sichelman (n 119) 762.

software to chemical production processes”.<sup>128</sup> That is why secrecy can be called a flexible type of protection, as it covers almost all types of information.

Moreover, trade secrets provide the possibility to protect information, which cannot be protected by other means of intellectual property law. For instance, according to the European Patent Convention, schemes, rules, and methods for performing mental acts, playing games, or doing business, and programs for computers and presentations of information are, among others, excluded from patentability.<sup>129</sup> Nevertheless, specific schemes, strategies and internal market investigations may be highly valuable for companies to be active market players.

Also, the adaptability of trade secrets allows to protect “negative trade secrets”. This concept represents “the critical knowledge of what doesn’t work”.<sup>130</sup> Therefore, any information, schemes, investigations, recipes, or business strategies which were found out by the company and considered unsuccessful or misleading, can make up negative trade secrets. This information can be held inside the company to invent the most appropriate version of strategy and to avoid repetitive mistakes and unnecessary costs. This information moves the company forward, leaving competitors behind without valuable knowledge. The disclosure of this information instead would equal the starting opportunities of the market players.

Some researchers doubt the necessity for protection of negative trade secrets alongside the original ones. The main reason is the different nature of trade secrets and negative trade secrets. Amir H. Khoury claims that trade secrets are considered legitimate tools for competition, as they benefit society by creating a trustworthy environment within the corporation.<sup>131</sup> In contrast, being a “recipe for stagnation”, negative trade secrets should not be hidden, as the information can be vital for the economy in general and “its lack of disclosure would squander resources”.<sup>132</sup> The author surpasses the greater social benefit to the private corporate interests and suggests considering potential negative trade secrets as public goods and leaving them in the public domain.

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<sup>128</sup> Dr Nicola Searle, *The Economic and Innovation Impacts of Trade Secrets* (n 125).

<sup>129</sup> European Patent Convention, art.52.

<sup>130</sup> Timothy M. Kolman, ‘Negative Trade Secrets — What Doesn’t Work Actually Has Value’ (*The Legal Intelligencer*, 27 March 2019) <<https://www.law.com/thelegalintelligencer/2019/03/27/negative-trade-secrets-what-doesnt-work-actually-has-value/>> accessed 11 January 2023.

<sup>131</sup> Amir H Khoury, ‘The Case against the Protection of Negative Trade Secrets: Sisyphus’ Entrepreneurship’ (2013) 54(3) IDEA — The Intellectual Property Law Review 431 p.449 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2964707](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2964707)> accessed 12 January 2023.

<sup>132</sup> *Ibid* 450.

Nevertheless, negative trade secrets can be observed from another perspective. Except of the social role of trade secrets to drive the progress of the market and society, their role as a company's competitive advantage should not be underestimated. Thus, negative trade secrets straighten the positions of the company protecting its negative experience and knowledge on how to avoid future mistakes. Thus, the "costly 'failed' research" "points the way forward" that can be same valuable for the companies as the positive result.<sup>133</sup> James Pooley claims that negative trade secrets are complex assets for disputes since they can be confused with the knowledge and skills of the employees.<sup>134</sup> Consequently, this information is even more vulnerable to being disclosed as it is not connected to the final result but initiated with R&D. Nevertheless, the "trial-and-error method" can be an "extremely valuable breakthrough" for companies.<sup>135</sup>

Therefore, although revealing negative trade secrets can be beneficial for society in general, preserving them inside the company can have an exceptional effect on the company's development.

Besides the fact that trade secrets can be considered substitutes for patents in certain cases, they can also have a complementary function. Thus, trade secrets can be combined with patents when the major benefit of the work is not only the final result but the process as well. This complementary approach can be useful, especially for pharma and IT companies, whose specific innovations are so unique that every piece of information about development and engineering is highly valuable. In this case, there is an opportunity to patent the innovation itself and to use secrecy for breaking-down each particular step of the manufacturing process.<sup>136</sup> It can also be highly important for small companies for which the quality of innovation may not be worth a time-consuming and expensive patent protection in the end. So, trade secrets can allow to apply instant protection and give a chance to be the pioneer in the market. After that, when the proper evaluation will be done and the innovation will prove the necessity for the costly protection, the patent may be registered. In the same way, trade secrets can also be used in a pre-patent stage. Secrecy would be highly valuable

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<sup>133</sup> Bruce Berman, 'Failure – the Most Underrated IP Asset' (*iam-media*, February 2019) [https://www.brodyberman.com/wp-content/uploads/2016/08/IAM93\\_intangible-investor\\_v3.pdf](https://www.brodyberman.com/wp-content/uploads/2016/08/IAM93_intangible-investor_v3.pdf) accessed 15 January 2023.

<sup>134</sup> James Pooley, 'When Failure Becomes an Asset' (*IPWatchdog*, 14 December 2017) <https://ipwatchdog.com/2017/12/14/failure-becomes-asset/id=91063/> accessed 18 June 2023.

<sup>135</sup> *Ibid.*

<sup>136</sup> Emilie-Pauline Gallié and Diègo Legros, 'French Firms' Strategies for Protecting Their Intellectual Property' (2012) 41 *Research Policy* 780 <[https://econpapers.repec.org/article/eeerespol/v\\_3a41\\_3ay\\_3a2012\\_3ai\\_3a4\\_3ap\\_3a780-794.htm](https://econpapers.repec.org/article/eeerespol/v_3a41_3ay_3a2012_3ai_3a4_3ap_3a780-794.htm)> accessed 11 May 2023.

on the research and development stage when a leak of information to the competitor would mean loss of money and time. After the R&D stage is over and the result is a patentable innovation, the patent application can be filled. To apply for a patent, the innovation has to be fully investigated and explained in an application. It can take years to reach a clear explanation or industrial applicability. Therefore, secrecy can cover and save the potential innovation during the process of research before it is ready to be patented. This approach can be convenient for big corporations, which invest a lot of money into the research; therefore, the additional role of trade secrets allows securing costly research in process. While the pre-patent role of trade secrets is also valuable for SMEs, as they should be very confident in their intention to file a costly patent, trade secrets give time to check whether the information works for the company in question and gives a sufficient competitive advantage to spend money on such a resistant patent protection.

#### **1.4 Competitive advantage**

Trade secrets can be considered valuable assets for businesses. To begin with, they can be transferred or licensed.<sup>137</sup> It can be useful both for small and large companies. Small firms and startups can make a breakthrough in the market and secure it to hold the market share, develop the company, and gain popularity among customers. However, they can license trade secrets for huge corporations and get profitable revenue. This option is valuable, as small companies and startups do not always possess profit, which can help them to withhold the market even though their ideas are unique. So, they do not receive the benefits out of their secured information that they potentially could get in case they invest more money in the company development and PR. So, they can conclude licensing agreements with big corporations and get revenue exceeding their average income. As an alternative, trade secrets can be valuably transferred in case the company does not want to use the protected information anymore. It is valuable for large corporations as well as they can acquire small companies with their trade secrets, buy the trade secret or buy a license. When the idea seems to be profitable and the company already has a big market share and stable reputation, purchased or licensed trade secrets can increase its income significantly.

However, due to the “information disclosure paradox”, the licensing of trade secrets is tricky as opposed to, for example, the usual licensing of patents. It means that the trade secrets holder has to reveal the information in order to conduct the license or sell the

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<sup>137</sup> WIPO, ‘Frequently Asked Questions: Trade Secrets’ (n 122).

information but because of the specifics of trade secrets, the information disclosed can be technically expropriated by another party without any legal consequences, because the information was revealed by the trade secrets holder individually and voluntarily.<sup>138</sup> Nevertheless, trade secret licensing can be profitable, and all risks can be mitigated by the way of information disclosure in seriatim.<sup>139</sup> It means that the information revealed should be conducted after precise negotiation and signing of the confidentiality agreement. As a result, another party has the responsibility to keep the information secret and the licensing agreement is viable.

However, trade secrets can be valuable for the internal management of the company, they influence the market as well. Being a competitive advantage of the company, trade secrets can help attract new customers. Besides of the lead-time advantage, which allows to set up certain positions before the competitors entered the market, trade secrets can gain reputation and fame for the company. For example, the particular recipe or other innovation is known only by several people creates buzz around the company<sup>140</sup>. Such hype can greatly influence the initial sales and interest towards the company. Furthermore, trade secrets do not necessarily have to serve the protective goal, while the marketing goal can roll the company for years. For example, the well-known trade secrets of Coca-Cola and McDonald's can evoke "the sense of nostalgia that can drive the business".<sup>141</sup> Thus, the story of the product's origin which counts decades can have a big market value and boost sales significantly. Furthermore, while some big corporations insist that their recipes protected by secrecy are sacred, some of them might have changed over the years. For example, the brand Twinkies which has been producing snack cakes since 1930 claims that they are close to the original recipe, while the actual box of the snack includes 25 ingredients and a shelf-life of 45 days – 3 weeks longer than it was before.<sup>142</sup> It means that some trade secret serves a marketing function along with the actual protective role. It means that the idea of the old-

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<sup>138</sup> Levine and Sichelman (n 119) 769.

<sup>139</sup> Ibid.

<sup>140</sup> Patrick Soon and Rebecca Bellow, 'Top 4 Advantages of Trade Secret Protection | WHGC, P.L.C. | Orange County, California' ([www.whglawfirm.com](http://www.whglawfirm.com), 18 September 2014) <<https://www.whglawfirm.com/top-4-advantages-of-trade-secret-protection/>> accessed 11 April 2023.

<sup>141</sup> William F Crittenden, Victoria L Crittenden and Allison Pierpont, 'Trade Secrets: Managerial Guidance for Competitive Advantage' (2015) 58 Business Horizons 607 p.2 <https://fardapaper.ir/mohavaha/uploads/2019/01/Fardapaper-Trade-secrets-Managerial-guidance-for-competitive-advantage.pdf>; Candice Choi, 'Is Coke's 127-Year-Old Recipe the Same? Not Quite' ([apnews.com](http://apnews.com), 26 August 2013) <<https://apnews.com/article/0fb44a8236d6417e8685396b553f9c82>> accessed 11 January 2023.

<sup>142</sup> Choi (n 141).

fashioned recipe might attract customers, while the information protected can be changed during the years.

Therefore, trade secrets can serve both the strategic protective mission and the marketing mission. Strategical purpose means that the potentially valuable information is hidden from the competitor and can be used by the company individually, whilst the marketing role creates “an aura of mystique”<sup>143</sup> around the corporation. The main possible consequences for the company are the strengthening of the brand power (i.e., the establishment of a certain perception and attitude towards the company), gaining of customer loyalty (i.e. the consistent choice of the particular company by the customer), creating a product differentiation (i.e., the distinctive characteristics of the good or service which highlight it from others), and finally building market shares (i.e., gaining the market positions).<sup>144</sup> Therefore, trade secrets can be used both as valuable types of legal protection and as beneficial marketing strategies.

It can be useful for SMEs which are new in the market and need an impetus to gain the popularity. Beyond that, MNCs can also benefit from preserving loyal clients for years.

### **1.5 Internal investments**

Finally, trade secrets are inevitably connected with the trustful environment inside the company. When the requirement for secrecy plays a decisive role in protection, trade secrets’ owners might try to strengthen the protection around the secret inside the company. Even though IT protective measures are very important to secure information from external attacks, the internal security is very important as well. People, who work with trade secrets on a daily basis or who are aware of the information protected, may have an opportunity to disclose the information accidentally or intentionally. Although the company can bring the employee to justice, the trade secret will be lost forever.

That is why trade secrets represent a strong incentive towards internal investments that aim at strengthening the trust and wellbeing within the company. Once employees are contractually bound to keep the company’s secrets, employers might try to retain such know-how also by way of providing comfortable working conditions and cultivating a trust culture within the work environment.

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<sup>143</sup> Soon and Bellow (n 140).

<sup>144</sup> Crittenden, Crittenden and Pierpont (141) 5-6.

Moreover, trade secrets encourage investments in R&D.<sup>145</sup> While the trade secrets holder is sure that their initial ideas are secured, they can invest in the information's development and improvement.

Therefore, trade secrets have many benefits and advantages for businesses. They are flexible, relatively affordable in contrast to patents, provide a broad territorial scope of protection, increase the competitiveness of the company, and motivate internal investments into the labor force and development of the company. However, trade secrets' protection is a useful instrument for companies overall, they need to be compared with other intellectual property rights to understand the real weak and strong spots of protection.

## **2. Trade secrets compared with other intellectual property rights.**

Intellectual property (IP) rights allow to secure protection of creations and innovations of the company or individuals. All IP branches have specifics and particularities, which make them more suitable or less so in different cases.

Trade secrets are valuable instruments for companies and their inevitable benefits were highlighted above. Nevertheless, they are not universal for every company and should be compared with other intellectual property rights in order to create the most efficient protection for a specific object.

Although trade secrets are flexible and can protect almost all types of information, they should have commercial value for the company. Therefore, these are not just any pieces of information protected but a specific knowledge which generates competitive advantage. Traditionally intellectual property is subdivided in industrial property and copyrights.<sup>146</sup> While copyright protects artistic and literary works of the author and value moral rights of the creator, industrial property focuses on the inventions and industrial or commercial creative works in order to provide a company with "a key economic and strategic tool for any economic player".<sup>147</sup> Thus, following the same goals, industrial property rights and trade secrets can be compared by companies trying to choose the best option of protection.

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<sup>145</sup> Dr Nicola Searle, *The Economic and Innovation Impacts of Trade Secrets* (n 125).

<sup>146</sup> European Parliament, 'Intellectual, Industrial and Commercial Property' ([www.europarl.europa.eu](http://www.europarl.europa.eu)) <https://www.europarl.europa.eu/factsheets/en/sheet/36/intellectual-industrial-and-commercial-property#:~:text=Intellectual%20property%20includes%20all%20exclusive> accessed 11 January 2023..

<sup>147</sup>Fidealis, 'Intellectual Property: What Is Industrial Property?' (*Fidealis*) <<https://www.fidealis.com/en/intellectual-property/industrial-property/#:~:text=Industrial%20property%20is%20one%20of>> accessed 25 June 2023.

Trademarks protect symbols which distinguish a company from its competitors and help consumers to identify goods and services.<sup>148</sup> Thus, words, logos, numbers, colors, sounds, etc. can be registered as trademarks in order to identify the commercial origin of a product or service.<sup>149</sup> Although there are a lot of variations of forms and categories of trademarks, the scope of protection is very narrow. The only protected subject is the sign or symbol of the good or service. It cannot be fully compared to trade secrets as the initial objects of protection vary. In contrast, patents and trade secrets both can protect innovations – the difference is how and what the most appropriate approach is for the company.

There are several things which can be evaluated before choosing the type of protection when trade secrets can be less attractive for companies in comparison to patents.

The first thing is the limited level of protection of trade secrets in contrast to patents. Even though trade secrets' protection lasts potentially infinitely in contrast to 20 years of patent protection, the rights provided to the trade secret's holder are much weaker than the patent's holder ones.

Thus, the patent holder obtains exclusive rights on the invention for 20 years receiving monopoly on the innovation in question.<sup>150</sup> It means that the owner of the right can use the creation as he wants and “exclude other parties from the use a particular intangible asset”.<sup>151</sup> In contrast, trade secrets, being not an intellectual property right, do not provide owners with exclusive rights. However, the trade secrets protection allows to secure information and use remedies *post-factum*, whilst the protection of other intellectual property rights starts even before the misappropriation happened and covers not only the remedies.

The strength of protection is an inevitable advantage of patents against trade secrets. While patent holders get a full right on the innovation, trade secrets' holders are allowed to protect themselves from an unlawful acquisition. It is a risk which all trade secrets' holders take protecting their secret information inside the company.

Moreover, company with trade secret protection must “remain vigilant about protecting its trade secret”.<sup>152</sup> In contrast to patents, trade secrets do not require instant

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<sup>148</sup> EUIPO, ‘Trade Mark Definition’ <https://euipo.europa.eu/ohimportal/en/trade-mark-definition> accessed 11 May 2023.

<sup>149</sup> European Commission, ‘Your Guide to IP in Europe the European IP Helpdesk Your Guide to IP in Europe’ (*European IP Helpdesk*) <<https://intellectual-property-helpdesk.ec.europa.eu/system/files/2021-01/european-ipr-helpdesk-your-guide-to-ip-in-europe.pdf>> accessed 12 June 2023.

<sup>150</sup> European Patent Convention, art. 63.

<sup>151</sup> Harhoff (24) 7.

<sup>152</sup> Morningside, ‘Trade Secrets vs Patents: Which Is Right for You?’ (*Morningside*, 18 February 2021) <<https://www.morningtrans.com/trade-secrets-vs-patents-which-is-right-for-you/>> accessed 16 July 2023.

expenses on filing the registration and the related fees; however, trade secrets require a certain level of expenses during the whole period of its protection.

Thus, patent protection is expensive and sometimes cannot be afforded by SMEs. David S. Levine and Ted Sichelman demonstrate the high costs of patent litigation and fees to obtain protection in the US.<sup>153</sup> However, the filling fees in Europe are expensive as well. The process of patent protection acquisition is complex and multi-step with every stage paid separately for. For instance, according to the European Patent Office Schedule of Fees, filing fee starts at 130 EUR, fee for European search is 1.390 EUR, examination fee is 1.750 EUR and fee for grant and printing is 990 EUR.<sup>154</sup> Moreover, these prices cover only the European territory, while the international patent costs even more. Besides these costs, the costs for the patent attorney and further renewal costs should be added. Nevertheless, there is always a risk of being rejected. The moment of obtaining a patent costs a lot, while the maintenance does not require any investments.

In contrast, the situation with trade secrets is the opposite. Thus, trade secrets are protected while they are secret and reasonable steps to protection are made. It creates the conditions of constant protection of secrecy. In addition, patenting information by trade secrets always leaves a room for this information being disclosed. Thus, cyber-attacks, reverse engineering, leaks by staff are among the possible threats to the trade secrets protection. Keeping information secret creates circumstances when even unintentional disclosure can terminate the protection forever. Therefore, maintenance of trade secrets requires complex internal protection which inevitably implies high costs and expenses.

The mystery around the company with trade secrets along with common knowledge about trade secrets inside the company can potentially attract cyber-attacks by hackers motivated by financial gain.<sup>155</sup> Therefore, complex cyber-protection should be implemented inside the company.

First, security policies must include strong access control to trade secrets.<sup>156</sup> It means that only the information necessary for work purposes should be available to employees. It

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<sup>153</sup> Levine and Sichelman (n 119) 762.

<sup>154</sup> European Patent Office, 'Welcome to the EPO Online Services' ([my.epoline.org](http://my.epoline.org)) <<https://my.epoline.org/epoline-portal/classic/epoline.Scheduleoffees?language=en>> accessed 11 January 2023.

<sup>155</sup> Ettredge, Michael, Feng Guo, and Yijun Li, 'Trade Secrets and Cyber Security Breaches' (2018) 37 Journal of Accounting and Public Policy 564 ([papers.ssrn.com](http://papers.ssrn.com), 8 June 2008) [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3018553](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3018553) accessed 18 January 2023.

<sup>156</sup> '5 Cybersecurity Tips to Protect Your Intellectual Property | the InfoSec Blog - Carbide' ([carbidesecure.com](http://carbidesecure.com), 14 September 2020) <<https://carbidesecure.com/resources/protecting-your-intellectual-property/>> accessed 11 May 2023.

sets up strong subordination and decreases the risk of information spread around the company and to the outside.

Second, software monitoring should be installed on work equipment. Thus, internal network traffic monitoring along with the tracking of file transfers and printing behavior can be implemented. Some extra measures of “surveillance can make employees feel anxiety”; however, communication and valid explanation of the protective steps to the team can balance it.<sup>157</sup> Moreover, computer security systems should be implemented, among which there are encoded storage mechanisms, anti-virus software, and multi-factor authentication for communication tools. In the post-pandemic era when companies have already adjusted their work to hybrid or remote modes, Zero Trust Network Access (ZTNA) is a way to cyber-protection of internal resources. It is an IT security application which allows to secure access and work remotely with company’s data in a safer manner.<sup>158</sup>

Finally, an internal communication and employee’s cyber-awareness on cybersecurity and safety should be provided. Managers and employees should be informed about the importance of IT safety and know what exactly they should do in case they have reasonable grounds to suspect fraud.

Along with cyber-threats, physical leaks are possible as well. Thus, physical security measures can help to provide safety on the working place.<sup>159</sup> Moreover, staff turnover can potentially influence information leaks. As far as the human element is involved, it is potentially impossible to solve this risk. However, it can be mitigated by the restrictive contracts and agreements the workers sign before the start of work. NDAs and restrictive covenants can potentially decrease the risk but not fully get rid of it. Knowing about the responsibilities, the workers can become more conscious and attentive to the decisions they make or the work they do. It is also highly important to be aware of the work satisfaction level of employees as the internal environment of the company can be crucial for employee’s turnover. Non-disclosure agreements must clarify the parties of the agreement, the definition of confidentiality and the scope of obligations, the exclusions from the confidentiality, and

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<sup>157</sup> Ibid.

<sup>158</sup>VMware, ‘What Is Zero Trust Network Access (ZTNA)?’ (VMware, 9 April 2022) <<https://www.vmware.com/topics/glossary/content/zero-trust-network-access-ztna.html>> accessed 11 March 2023.

<sup>159</sup> Joseph Chukwube, ‘How to Protect Your Intellectual Property and Trade Secrets from Cyber Theft’ (*Infosecurity Magazine*, 14 April 2023) <<https://www.infosecurity-magazine.com/next-gen-infosec/protect-ip-trade-secrets-cyber/>> accessed 11 March 2023.

the terms of agreement.<sup>160</sup> Being the only legal document explaining confidentiality obligations to the employees, the NDA has to be solid and comprehensive in order to cover all the aspects of secrecy.

While cyberthreats and employees' data leaks can be mitigated by the usage of contracts and extra IT protection, these measures do not provide guarantees of information not being disclosed. Also, reverse engineering is another way of how even duly protected information can be disclosed. In addition, the possibility of the independent discovery will remain. According to the Trade Secrets Directive, independent discovery should be possible and reverse engineering should be a lawful means of acquiring information.<sup>161</sup> It means that information can be discovered by another company in parallel and even patented by it (in case it is patentable in nature). Therefore, simple technical inventions are not recommended to be protected by trade secrets since the risk of reverse engineering is high.<sup>162</sup>

Thus, the maintenance of trade secrets requires big financial investments, and it can be arguable if trade secrets protection can cost less than the patents one at the end.

Therefore, being a highly efficient instrument for maintaining competitive advantage of a company, trade secrets have downsides in the strength of protection and level of internal preparations to keep information secret. Thus, trade secrets are not universal for all the companies, and sometimes it is more efficient and useful to file patents for innovations.

While trade secrets and patents have their strengths and weaknesses, they can be combined in order to obtain good level of protection. Thus, Google's search algorithms are protected by both types of protection. The algorithm "PageRank" is used by Google to rank web pages. The algorithm was patented in 1999 and gained success for the company making it one of the most well-known search engines in the world. Although the algorithm itself is patented, its particularities and modifications are protected by trade secrets.<sup>163</sup> And although the main idea of the algorithm is revealed to the public, particular and highly important details of the algorithm are covered by secrecy. While the algorithms constantly change and undergo multiple improvements, the algorithms probably differ a lot in comparison to what was initially patented. That is why the algorithm may be partially revealed but still remain

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<sup>160</sup> Richard Harroch, 'The Key Elements of Non-Disclosure Agreements' (*Forbes*, 10 March 2016) <<https://www.forbes.com/sites/allbusiness/2016/03/10/the-key-elements-of-non-disclosure-agreements/>> accessed 11 March 2023.

<sup>161</sup> Trade Secrets Directive, recital 16.

<sup>162</sup> 'Patents or Trade Secrets? Deciding How Best to Protect Your Invention Part I: Can the Invention Be Kept Secret?' (*www.nutter.com*, 10 October 2017) <<https://www.nutter.com/ip-law-bulletin/patents-or-trade-secrets-deciding-how-best>> accessed 26 June 2023.

<sup>163</sup> Takagawa D, 'Trade Secrets 101' (*Oyen Wiggs*, 8 May 2017) <<https://patentable.com/trade-secrets-101/>> accessed 26 June 2023.

successful. Moreover, the patent protection of the algorithm expired in 2019, and currently the algorithm is in a public domain. However, the secret particularities of the algorithm protected by trade secrets remain unrevealed.

As such, trade secrets are useful assets for companies; however, they have their downsides and weaknesses in comparison to other intellectual property rights. Different types of intellectual property and quasi-IP rights can be utilized in the same company's IP portfolio. So, in case none of the IP rights is ideal for various assets, the combination of different IP rights can serve the company more efficiently.

To understand the downsides of trade secrets, a real-life example should be demonstrated. The Coca-Cola company is a global business with a world-known brand name in the beverages production industry. The company claims that the recipe of Coca-Cola is a secret formula safeguarded inside the corporation's vault and only available for access for several people.

According to the US and the EU intellectual property laws, food recipe can be potentially protected by various types of intellectual and quasi-intellectual property: trade secrets, patents, copyrights. Being protected by trade secrets, the recipe is kept secret so that competitors cannot gain knowledge about it. It also provides almost perpetuate protection limited only to the fact of disclosure. Trade secrets also exist beyond territorial borders. It means that whilst the recipe is secret all around the world, its protection functions in all the countries; however, once it is disclosed in a certain territory, the whole worldwide protection is terminated. Keeping the formula secret also creates a mystery around the product and company in general, which attracts consumers and can be used for marketing purposes. Thus, the positive sides of trade secrets protection are the time, territory, and marketing.

According to the EU legislation "original literary, scientific and artistic work" can be protected by copyright 70 years after the author's death in the EU and until at least 50 years after the author's death in the countries of the Berne Convention.<sup>164</sup> The general recipe implies product's preparation steps and ingredients which cannot be recognized as "literary work", as they do not have a creative expression. Therefore, it cannot be protected. In contrast, the author's selection of recipes in a cookbook can be protected by copyright. Moreover, copyright protects the original creative work and not the culinary result itself, meaning that it does not restrict anybody from cooking following the recipe from a

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<sup>164</sup> Your Europe, 'Copyright in the EU: How to Get Copyright Protection' (*Your Europe*, 2023) [https://europa.eu/youreurope/business/running-business/intellectual-property/copyright/index\\_en.htm#:~:text=Nobody%20apart%20from%20you%20has](https://europa.eu/youreurope/business/running-business/intellectual-property/copyright/index_en.htm#:~:text=Nobody%20apart%20from%20you%20has) accessed 26 June 2023.

cookbook. It makes it insufficient for the companies to use copyright protection for these goals. Thus, Coca-Cola's formula itself cannot be protected by copyright laws.

Recipes are not excluded from the patent protection but can hardly be protected by it. The patent requirements consist of novelty, industrial applicability, and inventive steps which can be barely fulfilled in the case of recipes.<sup>165</sup> There are certain examples of the recipe's protection; however, they all fulfill an inventive step. There was a patent granted "for a fish and chip batter which was found to be inventive because it reduces oil uptake during the frying process".<sup>166</sup> Thus, the patent was given for the industrial innovation and not just for the culinary art. Therefore, Coca-Cola cannot obtain the patent on the recipe whilst it meets all the requirements.

The general benefits for Coca-Cola of choosing trade secrets could be the following. First, the time of trade secrets protection is unlimited in contrast to patents. The company is originally based in the US and, according to the Patent Act of 1836, the protection could be granted for 17 years.<sup>167</sup> Moreover, trade secrets maintain the competitive advantage of the company. Patent would be granted in case Coca-Cola reveal the formula to the public. In contrast, trade secret creates the mystery around the company, and nobody can know the formula unless it is revealed by the company or leaked.

All in all, the protection of recipes is not common for intellectual property law; therefore, it can barely be granted to the recipes' holders. In case of Coca-Cola, the secret formula of the beverage can be beneficial for marketing purposes, while copyright and patent are not applicable and not efficient for the company in this sense.

While secrecy is the most valuable type of Coca-Cola secret formula protection, there are weaknesses of protection which can be very vulnerable. Thus, trade secrets protection is practically ineffective in case of data leakages. It is connected not only to cyber-attacks and cyber leaks but also to the confidentiality violations by employees. While there are several steps which can help to mitigate the risk of trade secrets' leakages, they are still not protective enough. It means that the company can only demand recovery of financial damages and costs. Nevertheless, as sensitive data is no longer confidential, the information can no longer qualify as a trade secret.

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<sup>165</sup> European Patent Convention, art. 52.

<sup>166</sup> Kathryn Sayer, Rowena Tolley, 'Spice up Your Life: Intellectual Property for the Recipe Revolution - Kilburn & Strode' ([www.kilburnstrode.com](http://www.kilburnstrode.com)) <[https://www.kilburnstrode.com/knowledge/technology/ip-for-the-recipe-revolution#\\_ftn15](https://www.kilburnstrode.com/knowledge/technology/ip-for-the-recipe-revolution#_ftn15)> accessed 22 June 2023.

<sup>167</sup> Priya Singh and Arshad Pasha, 'Patent V/S Trade Secret: Detailed Study on Coca-Cola Brand' (*Aequitas Victoria*, 24 September 2022) <<https://www.aequivic.in/post/patent-vs-trade-secret-detailed-study-on-coca-cola-brand>> accessed 22 June 2023.

Thus, being aware of the trade secrets risks, it is still the most appropriate option for the Coca-Cola recipe. Taking into consideration the risks of disclosure, the company straightens the preventive measures which allows to protect the secret formula for more than 100 years.

Nevertheless, trade secrets can be controversial for different products. Thus, Apple uses and combines various IP and quasi-IP rights to protect different assets. It is especially useful for technologies and algorithms. Software technologies of the company are patented, the IOS source code is copyrighted, while the Siri voice assistant combines trade secrets and patents. As such the company made several patents on the intelligent automated assistant but information on “how Siri processes voice requests and conjures up an answer” is protected by secrecy.<sup>168</sup>

All in all, trade secrets can be both beneficial and controversial for different companies and products. Therefore, companies should evaluate their needs and goals in order to choose the best protection type in each case.

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<sup>168</sup> Haje Kamps, ‘Trade Secrets Are a Valuable Asset — Guard Them or Die’ (*The Bolt Blog*, 16 October 2018) <https://blog.bolt.io/trade-secrets/> accessed 23 June 2023.

## **CHAPTER III. TRADE SECRETS AND THEIR CORRELATION WITH THE PUBLIC INTEREST**

Although the application and usage of trade secrets by companies and private entities can have some advantages and disadvantages, the consequences for the EU market and the public interest can be ambiguous. These can be classified into two main categories: the rights of employees and of society at large.

### **1. Trade secrets and the interest of employees**

#### **1.1 Rigid contractual strategies**

The rights of employees may be highly impacted by the trade secrets regime settled inside the company. The main difficulty is connected to the strict employment policy and contractual strategies. The asymmetry between the rights of employees and employers is connected to the existence of the restrictive covenants in employment agreements which constrain employees' work and freedom of mobility<sup>169</sup>. It was already mentioned that the companies use non-disclosure agreements and non-compete clauses to secure their trade secrets and internal organization; however, it was observed from the companies' point of view, while this Chapter aims to evaluate it from the position of the employee.

First, the stage of the signing of a work contract may be tricky for the employees. The employers trying to sign the contract on the most valuable conditions may follow 'take-it-or-leave' and 'agreement-now-terms-later' models.<sup>170</sup> These models put the employees in the almost unnegotiable position making them accept notoriously weak terms of contract. Moreover, the language of the contracts not always allows to "understand the subtleties of a confidentiality contract" for an average employee.<sup>171</sup>

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<sup>169</sup> Darshana Sumanadasa, 'The Impact of Trade Secrets Law on Employees and Society: In Search of a Balanced Theoretical and Legal Approach with Special Reference to Australia and Sri Lanka'(2019) p. 202 <<https://eprints.qut.edu.au/128074/>> accessed 26 June 2023.

<sup>170</sup> Orly Lobel, 'Enforceability TBD: From Status To Contract In Intellectual Property Law' (2016) 96 Boston University Law Review 869 (*papers.ssrn.com*, 2 July 2016) [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2788857](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2788857); Rachel S Arnow-Richman, 'Cubewrap Contracts: The Rise of Delayed Term, Standard Form Employment Agreements' (Arizona Law Review 2007) cited by Sumanadasa, (n 169) 202.

<sup>171</sup> Charles Tait Graves, *Trade secrecy and common law confidentiality: the problem of multiple regimes The Law and Theory of Trade Secrecy-A Handbook of Contemporary Research* (Edward Elgar Publishing Limited 2011) cited by Sumanadasa, (n 169) 202.

## **1.2 Limitations in creativity and employment mobility**

The employment mobility can be restricted by the non-competition clauses which influence both the individual workers and the qualified labor force in the EU. The clause limits the employees to work for a “direct competitors of the employer for a limited term after leaving a company”.<sup>172</sup> While creative ideas of the individuals are restricted, the knowledge and experience flows are limited, the economic development and innovative transformation of the EU can be negatively impacted and slowed down. A stronger protection of trade secrets could be beneficial for already existing technologies, “yet reduces future innovation”<sup>173</sup> and creates high entry barriers to innovators. Trade secrecy, as an instrument focused on the sole development of one company, potentially affects in a negative way the market competition and economy in general.<sup>174</sup>

## **1.3 Lower incentive towards individual professional development**

The non-compete clauses influence not only the economic development of the Union but the individual growth and evolution of the employees. The labor movement represents the right of the employee to choose and build the career path acquiring new knowledge and experience. The choice also allows the employees “develop, sharpen and further enhance their employment capabilities, skills and professional connections by changing jobs”.<sup>175</sup> As a result, the qualified labor force is more competent and experienced. Although this restriction has not to go further than it is reasonably necessary for protection of the employers, this restriction limits the knowledge flows and capacity building of employees.<sup>176</sup> The clause is a rational legal precaution of the employer which gives the guarantees that the trade secrets and innovations will not be transmitted to the next working places of the employee. Even though this contractual constraint is fully legal and widely spread within the EU, the effect it creates on the labor market evokes many concerning questions all over the world. Thus, the US Federal Trade Commission proposed to ban non-compete clauses<sup>177</sup>. Nevertheless, the human resources specialists claim that the ban can potentially ruin

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<sup>172</sup>Non-Compete Agreements Protecting Trade Secrets’ (*Justia*, 25 April 2018) <<https://www.justia.com/intellectual-property/trade-secrets/noncompete-agreements/>> accessed 27 June 2023.

<sup>173</sup> Dr Nicola Searle, *The Economic and Innovation Impacts of Trade Secrets* (n 125).

<sup>174</sup>Aleksandra Iugunian, ‘Trade Secrets: Now and in the Future’ (*WhatNext.law*, 2022) <<https://whatnext.law/en/2022/05/11/trade-secrets-now-and-in-the-future/>> accessed 25 June 2023.

<sup>175</sup> Sumanadasa, (n 169) 205.

<sup>176</sup> Aleksandra Iugunian, ‘Trade Secrets: Now and in the Future – WhatNext.Law’ (n 174).

<sup>177</sup> John Corrigan, ‘Non-Compete Clause Ban Will Have “Disastrous Effect” on Small Business’ (*www.hcamag.com*, 6 March 2023) <<https://www.hcamag.com/us/specialization/employment-law/non-compete-clause-ban-will-have-disastrous-effect-on-small-business/438418>> accessed 26 June 2023 .

numerous small businesses, where the staff of employees is so small that losing one of the employees creates the risk poaching the company's existing customers.<sup>178</sup> From the one hand, the clause slowing down the pace of the labor mobility and the employees' development reducing the innovation and market competition. On the other hand, the clause provides the minimum level of guarantees for the small and medium companies, that the former employees will not disclose the trade secrets which make up the competitive advantage of the company moving it forward. Moreover, the clause can be an option for the companies with a high staff turnover to be legally secured.

The non-disclosure agreement can also be a limitation of the right to the development and even the right to information.<sup>179</sup> From the one hand, this restriction positively influences the preserving of the trade secret regime itself as everybody is contractually obliged to keep information secret. From the other hand, it may potentially limit the knowledge diffusion, consequently, lowering the level of professionalism of employees. Whilst the non-disclosure agreement is an inevitable part of the trade secrets' protection, the regime is slowing down the pace of professional development of individuals and economy in general.

The beforementioned contractual strategies do not only exist in the companies with trade secrecy regimes in force. Nevertheless, being one of the most obvious and common "reasonable steps" to protect trade secrets, such contractual constraints are highly anticipated in the normal contracts with employers dealing with trade secrets.

#### **1.4 Fragile borders between businesses' secrets and employee's knowledge**

The employees are highly influenced by the secrecy on the level of creating the border between trade secrets of the corporation and the innovations and experience gained by themselves. The border between the employee's general skills and the trade secrets of the company seems to be easily challengeable. The reason is that during the work relationships, employees may have access to a broad range of information including the trade secrets of the company. Nevertheless, they also gain experience, knowledge, and professional skills. There are no unified criteria in the EU about the borderline between the employees' knowledge and the companies' ones.

Therefore, it is mainly the court decisions which construct these interpretative boundaries. According to the EU legislation, the positions of national laws are not unified as well as far as they are not violating the art.101 of the Treaty on the Functioning of the

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<sup>178</sup> Ibid.

<sup>179</sup> Sumanadasa, (n 169) 249.

European Union (TFEU).<sup>180</sup> Despite the fact that the challenge to explain the borders of trade secrets inside and outside the company seems to be crucial, there are no unified court positions inside the EU in this regard. For example, the Supreme Court of Poland decided that “knowledge, experience and skills acquired by an employee during his employment do not enjoy the statutory protection for the benefit of the enterprise”<sup>181</sup>. Nevertheless, the law allows for setting up the non-compete agreements which were mentioned before, restricting the employee from working for a competitor for a certain period of time. It means that the employee is limited in using not only trade secrets but also the information and knowledge gained during the professional life for a certain time after the end of the employment contract.

The German approach can be divided into two parts in accordance with the legal entity – the general supreme civil court (BGH) and specialized labor court (BAG). The BGH follows the theory of inseparability which is similar to the Supreme Court of Poland approach. It means impossibility to distinguish trade secrets from the general skills of the employees. As a result, the court “considers the use by a former employee of all the knowledge and information he obtained in an honest way during their employment as allowable, without making an exception for trade secrets of the former employer”<sup>182</sup>. However, it does not mean that there are no restrictions for the employee and no guarantees for the employer. The limits are represented by the circumstances on how the information was gained and how it is going to be used. The borderline is the unfair commercial behavior or not honest way of obtaining information.

In contrast, the BAG bases the decisions on the theory of separability. While the BGH considers the end of trade secrets protection simultaneously with the termination of the employment relationship, the BAG decides that certain duties remain binding for the former employees.<sup>183</sup> Moreover, the BAG thinks that the duty of confidentiality of the trade secrets does not depend on any contract or agreement, as they are given a special legal protection and the former employees are obliged to secure them. However, the BAG also differentiates the approach based on the type of trade secrets. In case the secured information is a technical secret it is “reserved for the former employer without exceptions”, while other general

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<sup>180</sup> Consolidated version of the Treaty on the Functioning of the European Union [2012] *OJ C 326/47* art.101.

<sup>181</sup> ‘Knowledge, Experience and Skills Acquired by the Employee vs Trade Secret’ (*Portal for Competition Law*, 26 June 2019) <https://uclp.eu/knowledge-experience-and-skills-acquired-by-the-employee-vs-trade-secret/> accessed 26 July 2023.

<sup>182</sup> Kolasa M, *Trade Secrets and Employee Mobility: In Search of an Equilibrium* (Cambridge University Press 2018) p. 94.

<sup>183</sup> *Ibid* 108.

information such as information about the clients “may be used by the former employee to support his professional activity but not as an object which is to be traded to third parties”.<sup>184</sup>

Even though the approaches of the courts are different, they are both unified in the most important conditions. As such, the information in use has to be obtained in an honest way and be unrecorded, meaning that the copied information disqualifies its use<sup>185</sup>. Both courts divide technical information and information about the clients providing more freedom about the latter. The borderline is the possibility for the employee to compete with the former employer. As far as the information about the client is not taken from the employer and is not forwarded to the third parties (BAG) the information can be used. In contrast, the technical secrets are less connected to the competition and usually should be protected by the former employees.

Nevertheless, courts, in general, usually do not provide the certain criteria and proceed with the decisions based on the cumulative circumstances of each case. The legal researchers also tried to find the borders between the trade secrets and employees’ skills on the German law example. Thus, Kalbfus offers not to consider information unfair when it is “a part the employee’s knowledge and is used or disclosed for the purpose of exercising professional activity”.<sup>186</sup> The only exceptions are the employees’ inventions and specific confidentiality contracts. Nastelski propose that in general the former employees cannot use the information of the employer. However, they can use it in case the use is necessary for them to “remain professionally active in the same area”.<sup>187</sup> In cases when the information cannot be separated from general skills of an employee, it can only be used without being transferred to third parties.

The borderline remains a high topic outside the EU too. For example, the Australian courts follow the idea of dividing information into three different groups: trade secrets, know-how and trivial information.<sup>188</sup> Then, they apply the “reasonable man” test which distinguish trade secrets by asking “whether ‘the information be regarded as a separate part of the employee’s stock of knowledge which a man of ordinary honesty and intelligence would recognise to be the property of his old employer and not his own to do as he likes with’”.<sup>189</sup>

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<sup>184</sup> Kolasa (n 182) 110.

<sup>185</sup> Ibid 111.

<sup>186</sup> Ibid 114.

<sup>187</sup> Ibid.

<sup>188</sup> Sumanadasa, (n 169) 206.

<sup>189</sup> GD Searle and Co Ltd V Celltech Ltd [1982] FSR 92 cited by Sumanadasa (n 169) 207.

Nevertheless, there are several judicial approaches on how the division should be set up, the lines between trade secrets and employees' knowledge remain complex, blurry, and uncertain for the legislators and courts as well as for the employers and workers.

This division is highly important to evaluate how trade secrets influence the employees' rights by creating additional restrictions for them to operate and develop on the labor market. It seems to be highly important in terms of the economic development of society, not only of companies. Aiming to create a competitive advantage for the companies, trade secrets, on contrast, put the employees on weaker positions restricting their knowledge. Trade secrets impact all stages of the relationships from the signing contracts phase to the former employment relationships. While trade secrets require reasonable steps from the company's side to prevent all the possible leaks and misappropriations, the employer tries to restrict the potential freedom of the employee in order to protect the company. In contrast, while the contractual restrictions can be beneficial for the companies, they limit the employee's mobility and knowledge circulation. As a result, the labor law and global economy is impacted by trade secrets as well. Being a business instrument trade secrets serve the role of the private mechanism of the companies, which however, delves into the public policy and slows down the global innovation and labor forces.

## **2. Trade secrets and the interest of society at large**

### **2.1 Limitations to innovation flows**

Social rights more broadly intended, which include the rights to knowledge and information, can be impacted by secrecy. The general intellectual property's public policy goal is "to promote disclosure of technical information resulting in promoting invention"<sup>190</sup>. In contrast, trade secrets secure the information inside the company prohibiting the public access to the innovation. Therefore, trade secrets create a competitive advantage to the company itself, on the contrary, "blocking a swath of technical knowledge which may be essential for further innovation and may bring negative effects"<sup>191</sup> for the economy in general.

It was already mentioned the disruption of the contractual strategies, which are typically used by the employers with the secrecy regime for the employee mobility and the experience transfer. The knowledge flows are restricted while it is hard for the employees to

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<sup>190</sup> Sumanadasa, (n 169) 227.

<sup>191</sup> Ibid 228.

improve their market value and quality of work operating in a certain company without an easy opportunity to change the working place in the same area of business. However, the issue of limited information flows is connected not only to the labor force. Social policy of the intellectual property is based on the incentive-to-innovate and social contract framing, while the disclosure of the information is fundamental to the flow of knowledge.<sup>192</sup>

In contrast, trade secrets preserve any sort of information inside the company, what makes this type of protection special. Nevertheless, being a valuable type of protection for the companies the closed character of trade secrets impacts knowledge spill overs and innovation flows dramatically. The restriction may have a ‘chilling-effect’ on the inventions, while the knowledge circulation is being an essential part of innovation and development.<sup>193</sup>

## **2.2 Limitations to technology transfers**

Technology transfer is a vital part of development supported and promoted by the TRIPS Agreement.<sup>194</sup> The idea of technology transfer is to exchange knowledge and technology with least-developed countries in order to support their technological development. Nevertheless, trade secrets do not provide any technological transfer because the main goal of secrecy is to protect and disclose the information.

It is especially very representative in the public health sphere. Thus, during the COVID-19 pandemic in the recent years, there was a competition of pharmaceutical companies in investigation and vaccine’s promotion. During the research process, the interim results were protected by secrecy, thus limited “the ability of less developed countries which do not have knowledge of those methods from producing the vaccines for their people”.<sup>195</sup>

The fragile protection of trade secrets can be ruined in case of even the occasional disclosure by the employee. And even though the employer can demand recovery of financial damages and costs, the information is already in a public domain. It seems that it cannot be considered as a technology transfer as far as it was not the initial goal of secrecy.

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<sup>192</sup> Dr Nicola Searle, *The Economic and Innovation Impacts of Trade Secrets* (n 125).

<sup>193</sup> Sumanadasa, (n 169) 228.

<sup>194</sup> TRIPS Agreement, art. 66 (2); Sumanadasa, (n 169) 228.

<sup>195</sup> Levine DS, ‘Covid-19 should spark a reexamination of trade secrets’ stranglehold on information’ (*STAT*, 10 July 2020) <https://www.statnews.com/2020/07/10/covid-19-reexamine-trade-secrets-information-stranglehold/> cited by Steven D Jamar, ‘Trade Secrets from an IP Social Justice Perspective’ (*papers.ssrn.com*, 16 November 2021) <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3964977](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3964977)> accessed 26 June 2023.

Therefore, there is no way that trade secret follows the goal of open technology and information exchange.

### **2.3 Impact on market competition**

Trade secrets can also negatively influence competition. While secrecy set up a hypothetical monopoly on information, the companies owned the knowledge roll the market. It is related to the fact that instead of sharing information with society it is secured from publicity. Usually, large corporations have more resources allocated to the R&D, therefore, they preserve valuable information within the company controlling the market. The absence of information exchange on the market can not only create entry barriers but also slow down the development of the already existing market players.

Legal researchers claims that trade secrets decrease the competitiveness in the market, encourage duplicative effort, and retard cumulative innovation.<sup>196</sup> It is mainly related to the fact that all the companies make their own research since the beginning, as all the information and developments are duly secured by the companies. The lack of knowledge circulation makes the companies duplicate the work instead of modernization and changes of the already existing knowledge of the competitors. The reason to it is that the companies have no access to prior knowledge of the competitors' manufacturing process; therefore, inclined to launch the research from scratch. Large corporations which have big market shares and secured working information may complicate the entry for the new competitors. For example, the R&Ds in such a highly qualified and complex area as biosimilar market are expensive and counts by millions.<sup>197</sup> Therefore, the barrier to entry is already significant and the real perfect competition can hardly be imagined in the foreseeable future. The fact that the research is supposed to be provided individually without the knowledge exchange and impossibility to know the negative trade secrets in the sphere of investigation even strengthen these conditions on the market.

Also, a survey conducted in 2013 revealed that the quarter of the respondents think that "competing trade secrets holders could try to raise market barriers by carrying out abusive/intimidating litigation or similar behaviour".<sup>198</sup>

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<sup>196</sup> Bone (n 29) cited by W Nicholson Price II and Arti K Rai, 'Manufacturing Barriers to Biologics Competition and Innovation' (*papers.ssrn.com*, 14 April 2015) <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2594335](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2594335)>; Dr Nicola Searle, *The Economic and Innovation Impacts of Trade Secrets* (n 125) 23 accessed 26 June 2023.

<sup>197</sup> Price and Rai, (n 196) 1050.

<sup>198</sup> Baker & McKenzie (n 51) 14.

However, their impact on competition is not so explicit. There is also another point of view claiming that secrecy boosts competition, as “when trade secrets exist, it is possible to seek a peaceful competition that is fierce but fair” by the way of avoidance unfair legal disputes.<sup>199</sup> Trade secrets allow to protect internal research, thus, it can motivate companies to increase their R&D processes. As a result, companies, knowing about the protective measures of secrecy, can increase their investigations. Consequently, the competition on the market can increase because of the motivation of businesses to self-develop.

As a result, trade secrets influence two big public institutes – labor force and stable market development. This impacts related spheres such as labor law, contractual law, and competition law.

In theory, secrecy is a specific and unique form of protection for the companies which implies the disclosure of economically valuable information behind the closed doors of the companies in order to gain a competitive advantage and be stable on the market. However, the idea seems to be noble and clear, in practice the model of secrecy can potentially evoke many concerning questions. Transparency and sustainability issues are the ones which created a massive discussion in the legal community during the recent decades.

### **3. Limited use of trade secrets due to transparency and sustainability purposes**

Looking at most recent times, our society is trying to integrate the principle of sustainability into different spheres of our life – economic, social, and environmental. Being concerned about future generations the United Nations (UN) suggested an agenda of the world transformation, which includes the sustainable development as a main requirement and priority.<sup>200</sup> Overall, there are 17 goals of sustainable development; however, there are 2 which are essential for the purposes of this research: decent work and economic growth, and peace, justice and strong institutions are the goals highly crossed with the most doubtful and concerning issue of trade secrets – transparency and overprotection.

Flexibility and potentially infinite protection of trade secrets can cause an issue of overprotection. This idea was discussed in the legal literature in relation to the non-personal

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<sup>199</sup> ‘How Trade Secrets Create Healthy Competition’ (*Hg.org*, 2023) <<https://www.hg.org/legal-articles/how-trade-secrets-create-healthy-competition-43611>> accessed 28 June 2023.

<sup>200</sup> United Nations, ‘Transforming Our World: The 2030 Agenda for Sustainable Development | Department of Economic and Social Affairs’ (*United Nations*, 2015) <<https://sdgs.un.org/2030agenda>> accessed 28 June 2023.

data protection.<sup>201</sup> Overprotection is a threat to the right of accessibility and transparency. According to the definition of trade secrets and their requirements, almost all types of information can be secured. However, it evokes many concerning questions about the limitations of this protection and control of the protected information.

Transparency and openness are the pillars of democracy, progress, and well-functioning market economies.<sup>202</sup> Nevertheless, trade secrets follow the opposite approach allowing for non-disclosure of certain types of information from the sight of consumers, competitors and even government. Therefore, one of the potential issues related to secrecy is transparency and public oversight of corporate activities.<sup>203</sup>

Tommaso Fia considers that “claims to property in information and data come into conflict with what the public needs to know to govern itself”.<sup>204</sup> Huge corporations can potentially cause harm to human rights and ecology protecting big loads of data; therefore, a trade secret can potentially be a dangerous instrument against society and human wellbeing.

While it is not hard to understand overprotection from the theory, it is very important to understand the consequences from real cases. One of the most well-known trade secrets cases demonstrating the problems of overprotection occurred in 2014 in the US. Nevertheless, this work is focused on the EU law, it is necessary to take into consideration vital cases from other jurisdictions to build a complex analysis and observe the topic from different angles. Thus, the *Lyft Inc v. City of Seattle* demonstrates that the question of trade secrets overprotection remains to be tough not only in the EU but in the US as well. The most important question is what the limits and borderlines of the trade secrets protection are. The dispute was between the taxi aggregator Lyft and the city authorities about the limitations of secrecy protection. The taxi service was supposed to deliver quartal reports about the internal data such as total number of rides or zip-codes of pick-up and drop-off spots.<sup>205</sup> However, the company argued that this type of information is protected by trade secrets of the company and cannot be revealed in accordance with the Uniform Trade Secrets Act. Then, the citizen made a request to see the reports in accordance with the Public Records

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<sup>201</sup> Tommaso Fia, ‘Resisting IP Overexpansion: The Case of Trade Secret Protection of Non-Personal Data’ (2022) 53 IIC - International Review of Intellectual Property and Competition Law 917 p.923 <<https://link.springer.com/article/10.1007/s40319-022-01204-8>> accessed 28 July 2023.

<sup>202</sup> Angel Gurría, ‘Openness and Transparency - Pillars for Democracy, Trust and Progress - OCDE’ (2019) <<https://www.oecd.org/fr/etatsunis/opennessandtransparency-pillarsfordemocracystandprogress.htm>> accessed 28 July 2023.

<sup>203</sup> Fia (n 201) 928.

<sup>204</sup> Ibid.

<sup>205</sup> Fia (n 201) 929.

Act. The King County Superior Court issued a permanent injunction on these documents because of the confidentiality and secrecy. However, The Washington Supreme Court granted the access to the documentation saying that “the latter [documents] qualified as “public records” even if they were trade secrets” and the restriction is only applicable in case it is obviously not the matter of public interest.<sup>206</sup>

This case is a clear demonstration of instability of the trade secrets related litigations. The decision was observed in the highest courts and was overturned twice. The reason may have been related to the nature of trade secrets. Not being part of intellectual property rights, trade secrets represent a quasi-protection; therefore, the quasi-regulation can be applied. The case demonstrates the dispute between private and public interests, where the public ones prevail at the end. However, it should be mentioned that in the described case it took a long time to get access to the documentation by public authorities. Tommaso Fia focuses on the long-lasting process and suggests that trade secrets have to include different types of regulations including *ex ante* and *ex post* tools.<sup>207</sup> Indeed, trade secrecy not being a classical type of intellectual property rights, can include traits of different polices. It also shows the consequences of overprotection, that the information potentially important for the public policy and security was not revealed after the initial request. All types of information can be protected by secrecy but not all can stay unrevealed.

Ansgar Ohly claims that trade secrecy is “like a chameleon”.<sup>208</sup> The reason is the adaptability of secrecy. Meaning that trade secret is not laying inside the only one policy of intellectual property law or contractual law, while it may “appear in the colours of unfair competition law, tort law, labour law, or information law” depending on the case and situation.<sup>209</sup>

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<sup>206</sup> Lyft Inc. v. City of Seattle [2018] WA 94026-6 cited by Fia (n 201) 929.

<sup>207</sup> Fia (n 201) 929.

<sup>208</sup> Ansgar Ohly, ‘Jurisdiction and Choice of Law in Trade Secrets Cases: The EU Perspective’ (2021) Research Handbook on Information Law and Governance p.21 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4020416](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4020416)> accessed 28 July 2023.

<sup>209</sup> Ibid.

## **CHAPTER IV. THE LIMITATIONS OF TRADE SECRETS PROTECTION IN THE EU**

Trade secret is a useful instrument for companies which want to secure their competitive advantage on the market. In the previous Chapters the main advantages and disadvantages of trade secrecy for different entities were listed. This Chapter aims to outline the scope of this type of legal protection in the EU.

Analyzing the concept of trade secrets in the EU, the major question arises – how balanced is the institution of Trade Secrecy nowadays?

From the business perspective the main unbalanced trait of trade secrets is the vulnerability of protection in comparison to patents. The right of the trade secrets owner starts *post factum* when the illegal disclosure is already undergone. In contrast to traditional intellectual property rights, the rightsholder of trade secrets does not have the exclusive right on the protected information and can claim the financial losses of the company but cannot bring the protection back in force. In other words, the trade secret protection exists till the information is secret; therefore, it is essential to comply with the legal requirements and enhance the security systems inside the companies as it was described previously. It is not only related to the cybersecurity protection, but also implies regulated restrictive measures for the disclosure of information by employees. Therefore, the trade secrets protection is “fully built on the trust in its staff” and IT safety mechanisms.

The practical risks come also from the side of businesses and mostly relate to the idea of overprotection of trade secrets. As any company can protect any type of information, according to their own discretion, dishonest companies can potentially secure illegal schemes and actions. Being a specific instrument prioritizing secrecy over publicity trade secrets are not approved by the government and not registered prior to be protected. This broad scope of power can be potentially misused and abused. In order to control and balance trade secrets protection different internal and external mechanisms are created.

### **1. Social function**

Knowing about the potential challenge of overprotection and abuse of trade secrets, a balance between private and public should be set. In order to make the instrument valuable and safe for the society there are 2 solutions proposed in the legal literature and by the

European legislation. They are inevitably connected to the research of Tommaso Fia who is integrating the property theories into Intellectual property and quasi-IP legal framework.<sup>210</sup> The author includes trade secrets into the category of quasi-IP and tries to explain how the proprietary legal approaches can restrict the overprotection.

Explaining the possibility of overprotection of trade secrets and IP, Tommaso Fia proposes the restriction of quasi-IP and IP by two theoretical constructions: *numerus clausus* and *social function*. For the purposes of this research, it is essential to understand how the author demonstrates the effect of these restrictive mechanisms on the trade secrets.

Firstly, the author suggests using *numerus clausus* as limitation of overprotection. Initially, the principle takes place in property law and implies that “property rights are confined to a closed inventory of allowable forms”.<sup>211</sup> The principle exists only in relation to property rights; however, the construction can potentially be integrated into the intellectual property and quasi-IP rights as well. Tommaso Fia thinks that the construction can restrict the extension of trade secrets on non-personal data by restricting the list of information which can be covered by secrecy.<sup>212</sup> According to the requirements of trade secrets it seems to be hard to implement, while trade secret is an information which is secret, has commercial value and was a subject to reasonable protective steps.<sup>213</sup> Thus, almost any information can be protected, this makes up uniqueness of secrecy being flexible and useful for a broad scope of companies. However, the *numerus clausus* implies the limitation in scope. Tommaso Fia uses the second recital of the Trade Secrets Directive to prove that the precise list of the information protected by secrecy serving the goal to protect business information saving a competitive advantage of the company already exists – “commercial data such as information on customers and suppliers, business plans, and market research and strategies”.<sup>214</sup> Nevertheless, he claims that non-personal data should be excluded from the secrecy scope by the *numerus clausus*. The reason is that such “syntactic” raw data itself does not serve the initial economically valuable goals and rationales of the legislator unless complex analytical processes are performed.<sup>215</sup>

This limitation can prevent overprotection by narrowing the scope of trade secrets. However, it seems to contradict the existing rules and common practice. Trade secrets are

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<sup>210</sup> Fia (n 201) 930.

<sup>211</sup> Alison Clarke (2020) *Principles of Property Law* (Cambridge University Press 2020) p.242 cited by Fia (n 201) 931.

<sup>212</sup> Fia (n 201) 940.

<sup>213</sup> Trade Secrets Directive, art. 2.

<sup>214</sup> Trade Secrets Directive, recital 2; Fia (n 201) 940.

<sup>215</sup> Fia (n 201) 940.

often used to protect important competitive information which cannot be protected by other means of intellectual property. The decisive role for protection plays the fact of closing information and (potential) commercial or economic value. The main goal of the legislator is to help the companies by preserving their competitive advantages cultivating competition and open market. Therefore, the main advantage of secrecy and the goal of construction is to protect everything which can help to remain competitive.

In contrast, the idea of *numerus clausus* restricts secrecy from overprotection but also changes the main goal and purpose of this type of protection. The *numerus clausus* follows the goal to limit the list of information by specific rationales and objectives. This approach is based on the legislators, as the new types of information protected can be only added by them leaving apart the courts and their decisions. Although, it seems to be a rational step to gain transparency on the market, such limitation can potentially decrease the number of companies which can and need this quasi-IP construction. Therefore, the idea of trade secrets can be diluted.

Another mechanism proposed by Tommaso Fia is a social function. The idea of a social function traditionally connected to the property rights implies that the “property owners have social responsibilities to others that extend beyond the highly individualized, and atomized, conventional account of property rights”.<sup>216</sup> It means that the property owners “owe affirmative obligations to the welfare of others”.<sup>217</sup> Social function as a general legal rule means that individual rights being a part of a broader legal system “must always be put in context with other rights of equal value and with collective interests”.<sup>218</sup>

Transferring this concept to the intellectual property rights, the idea remains the same as it can be possible to consider intellectual property rights as a proprietary protection. Therefore, intellectual property should be observed in the light of general interest.<sup>219</sup> There are different concepts on what can be considered as general interest; however, the one which is unified in the EU by the Charter of Fundamental rights correlates with human rights and freedoms.<sup>220</sup> Even though the EU legislator does not consider trade secrets as part of

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<sup>216</sup> Sheila Foster and Daniel Bonilla, ‘The Social Function of Property: A Comparative Law Perspective’ (*papers.ssrn.com*, 15 November 2011) p.106 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1960022](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1960022)> accessed 28 July 2023.

<sup>217</sup> Foster and Bonilla (n 216i a) 107.

<sup>218</sup> Christophe Geiger, ‘The Social Function of Intellectual Property Rights, or How Ethics Can Influence the Shape and Use of IP Law’ (2013) Max Planck Institute for Intellectual Property & Competition Law Research Paper No. 13-06 p.1 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2228067](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2228067)> accessed 29 July 2023..

<sup>219</sup> *Ibid* 10.

<sup>220</sup> Charter of Fundamental Rights of the European Union [2012] OJ C 326/391 art. 52.

intellectual property rights, there are particular traits which make trade secrets and intellectual property conceptually and normatively similar.

Social function is already reflected in the Trade Secrets Directive. Article 5 of the Directive includes the list of exceptions when information must be disclosed even though it is protected by trade secrets. The exceptions are related to the major human rights such as the right for freedom of expression, the labor rights of the workers to disclose information to their representatives if the disclosure is necessary for the legal exercise, the protection of the legitimate interest of the Union and the protection of the general public interest.<sup>221</sup> All the exceptions restrict the freedom of companies to preserve information in particular cases. The exceptions are *ex post* by nature, as they do not restrict the legal person from protection of the certain types of information, while can be used only when the application for the measures, procedures and remedies of the Trade Secrets Directive is to be used. The first exception aims at creating the freedom of expression and pluralism of media. Although it seems to contradict to the nature of secrecy, the exception makes up a valuable instrument to restrict the freedom of data. It is related to “the work of journalists, in particular with regard to investigation, protecting their sources and the public right to be informed”.<sup>222</sup> Therefore, it does not allow anybody to disclose information while the exception mainly linked to the professional work of journalists. Another exception is to protect the workers who reveal information to the representatives in terms of their legitimate exercise. It creates a safe space for the workers who are inevitably connected with secrecy. The next exception is legitimate interest of Union and national laws. It means that the public interest of territories prevails on the business purposes of the company. And finally, the whistleblowing exception which supports disclosures because of the misconduct, wrongdoing, or illegal activity, to protect the general public interest. It seems that all the exceptions are related to their social function and follow the public interest and human rights. The whistleblowing exception is especially very important because it represents an internal mechanism of protection. The particularities of the mechanism will be observed later.

Moreover, the legislator highlights the social function in the preamble of the Directive by mentioning that “tailoring of measures, procedures and remedies [to protect trade secrets] should not jeopardise or undermine fundamental rights and freedoms or the

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<sup>221</sup> Trade Secrets Directive, art. 5.

<sup>222</sup> European Parliament, ‘Trade Secrets: Freedom of Expression Must Be Protected, Say Legal Affairs MEPs’ ([www.europarl.europa.eu](http://www.europarl.europa.eu), 16 June 2015) <<https://www.europarl.europa.eu/news/en/press-room/20150615IPR66493/trade-secrets-freedom-of-expression-must-be-protected-say-legal-affairs-meps>> accessed 28 June 2023.

public interest”.<sup>223</sup> Afterwards, fundamental rights and freedoms in accordance with the Directive are observed. They include a long list of fundamental rights including “public safety, consumer protection, public health and environmental protection, and [...] mobility of workers”.<sup>224</sup> This mechanism allows to put the public interest and rights above private rights of the companies, which creates a natural balance between secrecy and publicity.

This concept of social function was literally implemented into the trade secrets regulation, although it is not the only influence of this social concept on trade secrets. The bigger influence is connected to the general idea of the European Commission on how the development of trade secrets should be done. As such, the idea of a social function to be pursued shapes the perception of trade secrets in the matter of making them not only convenient for the business but also safe for the public.

The idea of ‘broader interests’ of society as a trade secrets limitation is not unique. Thus, Prof. Steven D. Jamar suggests observing trade secrets from the social justice perspective, while it is already included into the nature of secrecy as an internal mechanism. He claims that the IP social justice in terms of trade secrets will be achieved when there will be “a balance of encouraging the development and exploitation of commercially valuable information and limiting the extent to which such protection is provided is necessary in order to serve the broader interests”.<sup>225</sup>

## **2. Competition law**

Trade secrets law, also in its EU dimension, is highly influenced by other legal sectors, too. Thus, the matters which are not regulated by trade secrets laws directly, can be potentially covered by competition law. Trade secrets’ protection is a specific interdisciplinary regulation which can be considered a quasi-IP right to protect the company and make it competitive. Furthermore, Trade Secrets Directive specifically mentions a non-interference into the competition laws highlighting that the “directive does not aim to reform or harmonise the law on unfair competition in general”.<sup>226</sup> Moreover, the Directive mentions that the trade secrets regulations “should not affect the competition law rules in particular Articles 101 and 102 of the TFEU<sup>227</sup>, meaning that the legislator draws a line between trade

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<sup>223</sup> Trade Secrets Directive, recital 21.

<sup>224</sup> Trade Secrets Directive, recital 21.

<sup>225</sup> Jamar (n 195) 1.

<sup>226</sup> Trade Secrets Directive, recital 17.

<sup>227</sup> Trade Secrets Directive, recital 38.

secrets regulation and competition laws highlighting the necessity of competition laws being applied to secrecy.

The role of competition law in trade secret laws is significant. Trade secrets preserve the goal of encouraging competition and developing exclusive competitive advantages, while competition law aims at preventing and restricting abuse by market players and at creating free competitive market conditions. In principle, the conception of trade secrets does not imply granting a broad scope of rights to the trade secrets holder. Therefore, in theory, it does not influence the market powers directly in contrast to the traditional intellectual property rights.<sup>228</sup> For example, the reverse engineering and parallel innovation are guaranteed by the Trade Secrets Directive as trade secrets do not grant exclusivity on the information or object in question.<sup>229</sup> The idea of secrecy is to protect the competitive advantage of the company; however, the holder can grant licenses on the information they secure. Having said that, antitrust laws of the EU can intervene in case licensing schemes are illegal.

Moreover, while the TRIPS Agreement aims to protect trade secrets referring to unfair competition law, the remedies are applicable only when dishonest or abusive practices take place.<sup>230</sup> It implies “an act by which a competitor “intentionally exploits” another person’s industrial or commercial achievement for their own business purposes”.<sup>231</sup>

The central positions of the EU competition laws are occupied by the Articles 101 and 102 of TFEU, which prohibit anti-competitive agreements and abusive behavior by companies including holding a dominant position on the market.<sup>232</sup> For example, in the well-known case of Microsoft,<sup>233</sup> the article 82 of the EC Treaty (now 102 TFEU) was applied. There was a legal procedure against Microsoft in 2004 related to its abuse of the dominant positions on the market. The claim presented against the company was connected to their refusal to share secret information, which created entry barriers for the competitors.

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<sup>228</sup> Katarzyna Czapracka, ‘Antitrust and Trade Secrets: The U.S. And the EU Approach’ (2008) 24 Santa Clara High Technology Law Journal 207 p.236 <<https://digitalcommons.law.scu.edu/chtj/vol24/iss2/1/>> accessed 28 March 2023.

<sup>229</sup> European Commission (n 21).

<sup>230</sup> Ulla-Maija Mylly, ‘Proportionality of Trade Secret Remedies in European Union – in Comparison with Patent Law Enforcement’ (2022) IIC - International Review of Intellectual Property and Competition Law <<https://link.springer.com/article/10.1007/s40319-022-01244-0#>> accessed 18 July 2023.

<sup>231</sup> Ibid 1449.

<sup>232</sup> European Commission, ‘Antitrust’ ([competition-policy.ec.europa.eu](https://competition-policy.ec.europa.eu)) <[https://competition-policy.ec.europa.eu/antitrust\\_en#:~:text=Article%20101%20prohibits%20anti%2Dcompetitive](https://competition-policy.ec.europa.eu/antitrust_en#:~:text=Article%20101%20prohibits%20anti%2Dcompetitive)> accessed 18 July 2023.

<sup>233</sup> Commission Decision of 24 May 2004 Relating to a Proceeding pursuant to Article 82 of the EC Treaty and Article 54 of the EEA Agreement against Microsoft Corporation (Case COMP/C-3/37.792 — Microsoft) (Notified under Document Number C (2004) 900) (2007/53/EC) [2007] OJ L 32/23.

Microsoft, a major tech company, owned the operating systems and kept information about them secret. However, in order for software providers to operate with the systems like Windows, they were supposed to have this information.<sup>234</sup> Microsoft shared this information with the producer of workgroup operating systems for years and “Windows was established as the de facto standard”.<sup>235</sup> After that Microsoft entered the workgroup market and stopped sharing the information, competitors “were unable to provide their own workgroup server operating systems that could connect to Windows”.<sup>236</sup> As a result, the Commission obliged Microsoft to disclose information and “allow its use for the development of compatible products”.<sup>237</sup> The main reason why the company was obliged to disclose the secrecy is its dominant position and access to the valuable information, which influences competitor’s ability to develop their products and compete on the market.

This case shows that the legal proceedings connected to trade secrets can be observed in the framework of antitrust laws. Trade secrets, as instrument to make a company competitive, are restricted by competition laws in order for the companies not to abuse of the legal protection instruments they own. This case also demonstrates the attitude of the EU towards secrecy and publicity. While the company has the information secured, the publicity prevails when the trade secret creates the barriers on the market and when the information protected is essential for the other companies to create their own products or services. It can be concluded that the secrecy and companies as their owners are not limited until they create obstacles to the public interest and considerations on the free and sustainable market development and competition. As a result, it can be said that trade secrets laws and competition laws are interconnected, while they both aim to create free competition and comfortable conditions for the market players.

### **3. Whistleblowing**

Another instrument is a whistleblowing. In contrast to the external regulation by the laws such as competition laws and trade secrets laws, whistleblowing is an internal

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<sup>234</sup> Peicheng Wu, ‘Essence and Extension: When Does the Use of Trade Secrets Constitute the Abuse of Market Dominance in China and How Should the Current Approach Be Improved?’ (*unsworks.unsw.edu.au*, 2022) p.132 <<https://unsworks.unsw.edu.au/entities/publication/d4a1a443-798f-4bfc-a811-db5f22906301>> accessed 18 July 2023.

<sup>235</sup> Josef Drexler, ‘Refusal to Grant access to Trade Secrets as an Abuse of Market Dominance’ Intellectual Property and Competition Law-New Frontiers (Max Planck Institute for Innovation and Competition, 2011) <https://www.ip.mpg.de/en/publications/details/refusal-to-grant-access-to-trade-secrets-as-an-abuse-of-market-dominance.html> cited by Wu (n 234) 133.

<sup>236</sup> Wu (n 234) 133.

<sup>237</sup> Commission Decision (n 233) 30.

regulation conducted inside the company. While an external regulation is conducted by the public bodies, the government and legislator, such internal mechanism as whistleblowing is conducted by the employees and people aware about the misuses.

Whistleblowing as a protective mechanism allows to reveal information about unlawful activities and abuses conducted by companies. It is a promising instrument which got its harmonization within the EU just recently. The whistleblowing exception is described in the art.5 (b) of the Trade Secrets Directive, while the main rules and provisions about the role and rights of the whistleblowers are set up in the Whistleblowing Directive since 2019.<sup>238</sup> However, whistleblowing provisions already existed in some Member states even before. Thus, for example, the Dutch House for Whistleblowers Act adopted in the Netherlands in 2016 aimed at creating the whistleblowing procedures and ways to report misconducts within enterprises with more than 50 employees.<sup>239</sup> Given that some countries had specific whistleblowing rules implemented and they were not harmonized withing the Union, which stopped the development of the institution.

The Trade Secrets Directive was a big step towards the establishment of whistleblowing at the Union level. The Directive proposed the exception to disclose trade secrets in favor of the general public interest. The legislator does not mention the word whistleblowing in the Art.5. Nevertheless, whistleblowing is implied here, since the recital 20 of the Directive highlights that the whistleblowing activity is not restricted by the act and explains what cases are covered by it.<sup>240</sup> The whistleblowing exception was established for all the member states; therefore, harmonized the rules of whistleblowers in relation to trade secrets. The EU legislator realized the importance of the “safe channel” mechanism and set up the Whistleblowing Directive which started the way of the whistleblowing development in the Union.

The Trade Secrets Directive proposes whistleblowing as an exception to reveal trade secrets in order to protect public interest. Thus, the exception allows to “reveal misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest”.<sup>241</sup> The Whistleblowing Directive provides a full explanation on what whistleblowing is, what types of protection exist, and what steps are

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<sup>238</sup> Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law [2019] OJ L 305/17 (Whistleblowing Directive).

<sup>239</sup>CLINT | Littler, ‘Whistleblower Protection in the Netherlands’ (*clintlittler.com*, 2 June 2021) <<https://clintlittler.com/blog/whistleblower-protection-in-the-netherlands/>> accessed 18 July 2023..

<sup>240</sup> Trade Secrets Directive, recital 20.

<sup>241</sup> Trade Secrets Directive, art 5.

required from the companies to correspond the whistleblowing regulations and rules are. The Whistleblowing Directive also sets up the definition of the whistleblower including the “reporting persons working in the private or public sector who acquired information on breaches in a work-related context”.<sup>242</sup> Potentially, any employee who is aware of the company’s wrongdoings or illegal activities violating or threatening public interests and covered by secrecy, can report it. This regulation can be a crucial instrument for protecting public goals; however, it requires the whole whistleblowing eco-system in order to launch this mechanism properly. Thus, the Whistleblowing Directive obliges the companies to implement internal reporting channels for the whistleblowers. For example, in case the employee realized that the company is securing information contradicting to the public interest, he or she can report, preventing the breach of laws and repairing the supremacy of publicity over privacy.

The US experienced a large number of cases related to whistleblowing during the last decade. Among them, the so-called Facebook papers case<sup>243</sup>, where a former employee revealed the internal documents and confidential information about the company since she realized that the company secured its wrongdoings. Another popular case is connected to Edward Snowden who revealed information about the intelligence-gathering surveillance programs conducted by the NSA and US government.<sup>244</sup>

However, the US is not the only country where whistleblowing cases occur. There are cases all over the world which are not less famous and important to be revealed. For example, the recent so-called Uber files case happened in Europe, which corresponds to the disclosure of the Uber confidential files of the company is a good representation how multinational corporations operating in numerous countries like Uber can be involved into the massive scandal connected to public interest and wrongdoings.<sup>245</sup> Another case happened in Malta in 2017 when the former Pilatus bank employee exposed corruption schemes of the company and Azeri and Maltese leaderships.<sup>246</sup> The case is a valid representation of the fact that whistleblowing cases are common nowadays.

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<sup>242</sup> Whistleblowing Directive, art. 4.

<sup>243</sup> Karen Hao, ‘The Facebook Whistleblower Says Its Algorithms Are Dangerous. Here’s Why’ (*MIT Technology Review*, 5 October 2021) <<https://www.technologyreview.com/2021/10/05/1036519/facebook-whistleblower-frances-haugen-algorithms/>> accessed 19 July 2023.

<sup>244</sup> Nick Younger, ‘The Case of Edward Snowden’ (*National Whistleblower Center*, 19 November 2020) <<https://www.whistleblowers.org/news/the-case-of-edward-snowden/>> accessed 18 August 2023.

<sup>245</sup> Paul Lewis and others, ‘The Uber Whistleblower: I’m Exposing a System That Sold People a Lie’ (*the Guardian*, 11 July 2022) <https://www.theguardian.com/news/2022/jul/11/uber-files-whistleblower-lobbyist-mark-macgann>> accessed 18 June 2023.

<sup>246</sup> Whistleblowerprotection.eu, ‘No Two Whistleblower Stories Are the Same’(WhistleblowerProtection.EU) <<https://whistleblowerprotection.eu/personal-stories/>> accessed 6 June 2023.

The necessity of specific regulation was also evoked by the number of cases and scandals connected to whistleblowers within the EU and outside. The whistleblowing cases often gather the public attention because of their relation to big corporations and organizations. Having financial capacity to create a qualitative security system to hide companies' misbehaviors their real threat can be connected to the employees and people related to the business processes of the companies. Given that trade secrets are secrets till they are disclosed to public, the whistleblowing can potentially ruin all the confidentiality of the company. However, the mechanism does not cover all the disclosures made by the third parties but only the ones where the respondent "acted for the purpose of protecting the general public interest".<sup>247</sup> The reasons for this are listed in the Trade Secrets Directive as such for exercising the right to freedom of expression and information, for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest, for the need of workers or anyone else to disclose secreted information whenever it is necessary for the purposes of exercising their functions or protect a legitimate interest in EU or national law.<sup>248</sup> Whistleblowing balances trade secret protection establishing reasonable boundaries on what can be secured by trade secrets inside the company. As a result, even though the trade secrets criteria are very broad and can potentially cover any type of information, whistleblowing can be used to control overprotection.

All in all, being an effective mechanism for businesses, the broad scope of trade secrets' protection can evoke transparency and overprotection concerns. The legislator tries to balance trade secrets by the most valuable and efficient deterrent schemes creating whistleblowing institution, integrating exceptions in the Trade Secrets Act, setting up public interests and safety as reasons to intervene in the business information protection. In addition, competition law rules can prevent the disproportionality in favor of free competitive market. Researchers and professors also assume that *numerus clausus* and social function mechanisms can control an over-protective nature of trade secrets creating a safe and open environment for public policy and society. Thus, the beforementioned safeguards have been created in order to make trade secrets' protection balanced in the EU.

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<sup>247</sup> Trade Secrets Directive, art. 5.

<sup>248</sup> Trade Secrets Directive, art. 5.

## CONCLUSION

The major goal of this research aims at evaluating the concept and application of trade secrets in the EU. To reach this goal the following questions are analyzed in the body of the research:

a) Are trade secrets intellectual property rights? The investigation revealed that the territorial scope is crucial to answer this question. Despite the approach of the WIPO, which has been existing for decades, saying that the trade secrets are considered as intellectual property rights, the EU policymaker seems to subdivide these conceptions. Even though it is not directly mentioned in the Trade Secrets Directive as the main piece of legislation on the topic in the EU, the formulations make it clear that the intellectual property rights and trade secrets are separated. Being an advanced jurisdiction in sphere of trade secrets, the US considers trade secrets as a form of intellectual property.<sup>249</sup> Therefore, instead of the common approach, the EU chooses its own classification and creates a new way of development of trade secrets withing the Union.

b) What are the benefits and downsides of trade secrets for the companies and public policy? This question has two levels. Firstly, it should be highlighted that trade secrets are valuable instruments to protect particular types of information. The cons provided by trade secrets are: (a) *time and territory*, meaning that the term of protection is unlimited till secrecy exists and there are no territorial restrictions for the trade secret protection; (b) *costs*, meaning that to set up trade secret inside the company no registrational or other organizational fees are required; (c) *flexibility*, meaning that trade secrets have only three broad requirements which have to be fulfilled in order to have trade secrets inside the company, while the requirements are broad almost any type of information can be covered; (d) *competitive advantage*, meaning that the secret nature of information provides the companies with the competitive advantage which is secured from the competitors; thus, protecting financially valuable information from other market players can help to obtain dominant positions on the market; and finally, (e) *internal investments*, meaning that the company having trade secrets will most likely try to invest more in the wellbeing of employees and comfortable microclimate inside the company to discourage the staff from

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<sup>249</sup> Zirpoli (n 44).

disclosing the secrets. On the contrary, there are several downsides of trade secrets which can be crucial for some companies. For example, even though trade secrets do not require any investments in the registration, the “reasonable steps to keep information secret” can be burdensome as well. Maintenance of the reliable IT safety tools, physical security of the buildings, security trainings of employees can potentially cost a lot, and they represent regular investments in contrast to the on-time registration fee payment.

Answering on the second question, trade secrets potentially contradict with public policy and public interests in general. The main concerns are connected to the interests of employees and interest of society at large. Firstly, rigid contractual strategies, limitations of the employment mobility, fragile borders between businesses’ and employees’ knowledge lead to the lower incentives toward individual development of the employees. As the consequence, the general level of labor force decreases. This can negatively influence the economy as a whole. Moreover, trade secrets limit the innovation flows and technology transfers and decrease market competition. Knowledge circulation is the key to progress and development; therefore, while the information is duly secured inside the company, the pace of development decreases, respectively. Nevertheless, there are limitations which mitigate the negative influence of trade secrets on public interest and balance publicity and privacy.

c) How balanced is the mechanism of trade secrecy in the EU? Although trade secrets are instruments to protect particular information inside the company, the EU policymaker aims to set up a balance between enterprises and society. Even though the trade secret institution is relatively new in the EU, as the harmonization and codification in the EU was set only in 2016, the provisions laid down in the article highlight the importance of public interests. In addition, there are other restrictive mechanisms which make trade secrecy balanced within the EU. Thus, the rules of competition law in Articles 101 and 102 of TFEU, which aims to prevent abuse on the market and create fair and balanced market environment, are applicable to trade secrets as well. It restricts the exploitations of trade secrets and preserves social public interests and goals. Additionally, the exceptions mentioned in the Trade Secrets Directive, in particular the whistleblowing exception, highlight the importance and supremacy of publicity above privacy. Thus, the mechanism of whistleblowing allows to regulate potential abuse from the inside of the company, which makes the mechanism efficient and convenient for the reporters. Finally, the social function as a natural boundary for trade secrets restrains them as well. The conceptual similarity of trade secrets and intellectual property rights allows to transmit this concept on trade secrets. Observing trade secrets in light of public interest makes them more suitable for the society in general.

Thus, answering the question on how trade secrets are balanced in the EU, the above-mentioned limitations should be mentioned. Regardless the fact that the institution of trade secrets received its codification and own rules recently, the current legislation seems to be balanced and efficient for the future development.

The potential of trade secrets protection is dramatic because of their high level of flexibility and because requirements for protection are easy to comply with. Even though the protection of trade secrets can be vulnerable in terms of simplicity of disclosure and significant reliance on and trust in the workers and people related to the information under protection, many companies prefer trade secrets because of the benefits they provide. Even though the Trade Secrets Directive is recent, and some provisions can be too broad and vague, it should be considered as a base for the trade secret institution in the EU. The following modifications and explanations can be performed by the case law and soft law.

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