

# Bird & Bird & Trade Secrets

## *Implementation of the Trade Secrets Directive – Some comments from the Netherlands*

This is the 5th in a series of articles written by members of our International Trade Secrets Group, highlighting points of note regarding the protection of Trade Secrets in various jurisdictions.

This article discusses the protection of trade secrets in the Netherlands, highlighting some of the specifics of Dutch trade secrets protection and the new situation under the Trade Secrets Directive ("the Directive"). Being a civil law country, the basis for the law in the Netherlands is in statutory law. However, tort law was mainly developed in case law and the same will most probably apply to trade secrets protection as a species of tort law. Statutory law does provide a general basis, but many central concepts of the Directive are in such general wording that they will need to be developed further by the courts, although eventually the Court of Justice of the European Union will of course have the last say on the interpretation of the Directive.

The Dutch legislator has implemented the Directive by copying it almost literally into the Dutch Trade Secrets Act (*Wet bescherming bedrijfsgeheimen*), which entered into force on 23 October 2018. The definitions, the exceptions and the provisions on unlawful acquisition, use and disclosure are all the same as in the Directive.

### **Trade secrets protection prior to the Directive**

Trade secrets were quite an underdeveloped territory in the Netherlands prior to the implementation of the Directive. This is remarkable, because the modern development of Dutch tort law started with a Supreme Court judgment on trade secrets in 1919, *Lindenbaum v Cohen*. Book printer Cohen bribed an employee of his competitor Lindenbaum to provide him with confidential commercial information. This was not in violation of any specific statutory law at the time, but the Supreme Court held that it was nevertheless a violation of a duty of care that has to be observed in society in relation to other persons and their goods.

In the 90 years to follow the concept of trade secrets was never properly defined in Dutch law. Then in 2012 the District Court Den Bosch held in *JMK Heating* that in a trade secrets case the concept of tort as defined in *Lindenbaum v Cohen* needs to be applied and interpreted in line with the protection of trade secrets in article 39 TRIPs Agreement. This also means that Dutch tort law as it existed prior to the implementation of the Directive can be applied to infringing acts committed prior to that implementation in a way that is consistent with the provisions of the Directive, which since indeed has been confirmed in case law.

The District Court Middle of the Netherlands applied the "reasonable steps" test in a judgment of August 2018, just prior to the implementation of the Directive, in a case in which the plaintiff had adopted a careful policy to protect its trade secrets, but didn't apply that policy in practice. For instance, technical drawings were marked confidential, but were shared with third parties without actually imposing non-disclosure obligations. The

court held that therefore in practice insufficient steps were taken and protection was thus lost.

The protection of trade secrets under the Directive thus in retrospect can be viewed as a smooth transition from previous case law to a more precise definition in statutory law.

### **Dutch specifics of trade secret enforcement**

The implementation of the Directive has introduced the concept of confidentiality clubs in the Netherlands (meaning that access to the documents in the court file that contain trade secrets and to the hearing is limited by the court and those having access are under a court order not to disclose any such information). There had been some examples of voluntary confidentiality clubs in patent litigation, but this was certainly not widespread. The Directive and its implementation provide the option to even limit access to just one representative of a party (next to the lawyers and patent attorneys), to be identified by the court. The members of the club are ordered to keep the information to which they are granted access confidential towards anyone outside the club. In this way the court can for instance grant access to the General Counsel, but deny access to research & development staff. In such case, there will also be a redacted version of the judgment. However, the Directive only provides this for actions for the enforcement of trade secrets, but confidential information can play a role in a broad scope of actions, obviously also outside intellectual property. Fortunately, the Dutch legislator could be convinced that such measures should also be available under general civil procedural law and the option of having a confidentiality club is now available in any proceedings which involve confidential information.

An important feature of the Enforcement Directive is not available under the Trade Secrets Directive: the seizure of evidence or *saisie*, as it is called in France and Belgium (and *descrizione* in Italy). The EU Member States could not reach agreement on this, as they also could not agree on the more basic issue of protecting trade secrets as intellectual property rights. Fortunately, the Dutch Supreme Court had already ruled in 2013 in *Molenbeek v Begeer* that a seizure of evidence is available in any tort action. It may be granted to seize documents and electronic files. Preferably the seized information is copied and only the copies remain under seizure, normally in custody of the bailiff who executed the seizure. The applicant needs to describe the information that needs to be seized in as much detail as possible to prevent fishing expeditions. He also needs to specify the legal relationship that gives a right to the seizure. This may for instance be an alleged trade secrets infringement. In addition he needs to specify what his interest in the seizure is. This needs to include substantiation that the seizure is necessary because otherwise there is a serious chance that evidence will get lost, as well as substantiation that the necessary evidence cannot be collected in another, less invasive way. Finally, the protection of trade secrets that may be in the seized information needs to be guaranteed.

In practice this means that the applicant doesn't immediately get access to the seized materials. Instead he will have to start an action for disclosure, which allows the court to evaluate whether disclosure is warranted. This can be done in preliminary injunction proceedings. When granting the leave for seizure of evidence, the court will also set a deadline for starting the disclosure action and for starting the full proceedings on the merits for the alleged infringement.

The Supreme Court has since ruled (in Sept 2018) in *Organik v Dow Chemical* that the applicant doesn't necessarily have to disclose his trade secrets in court in the disclosure action. He can also convince the judge that the seized materials are relevant evidence by other means, such as attempts of the defendant to destroy the evidence. However, there are some indications that this may shift since now confidentiality clubs are available. Anyway, the applicant will have to convince the court, already in the disclosure action, that he does have trade secrets that deserve protection. All of this is still very much case law under development, but it is an interesting option that is not available everywhere in the EU.

The Enforcement Directive provides that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this. There is no similar provision in the Trade Secrets Directive, but again the Dutch legislator could be convinced to include such a provision in the Code of Civil Procedure. However, it is for the discretion of the court to apply it or just grant a nominal amount of legal costs. The purpose is to allow the court to take into account how far the trade secret infringement was committed in bad faith.

### **Trade secrets are not an object of property**

Trade secrets are covered by article 39 TRIPs Agreement, whereas article 1 section 2 TRIPs Agreement clearly provides that "*the term "intellectual property" refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II*", which includes article 39. Nevertheless, the European Union has chosen for political reasons not to determine that trade secrets are intellectual property rights. The European Commission specifically confirmed this in the last negotiations on the Hague Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters and as a consequence trade secrets are not covered by the exception for intellectual property rights in article 2(m) of the Convention.

The Dutch government has followed this approach. According to the explanatory note on the Dutch Trade Secrets Act, trade secrets are not intellectual property rights, not *sui generis* rights and not absolute rights. Dutch law only recognizes property rights which

have been identified as such by statutory law. Therefore, trade secrets are not property rights. The trade secret law rather offers extended protection against unfair competition. The protection of trade secrets is effected by maintaining their confidentiality and providing consent for use under strict contractual obligations. An important consequence of this is that trade secrets cannot be transferred in the same way as property rights. Therefore, a transfer needs to be structured as granting unlimited consent to use the trade secret to the "buyer", whereas the "seller" undertakes not to use or disclose it anymore. For tax purposes this may be accompanied by a transfer of the economic interest in the trade secret, since the tax concept of intellectual property is different from the civil law concept.

### **Conclusion**

The Trade Secrets Directive and its implementation in the Trade Secrets Act provided more certainty and clarity on the protection of trade secrets in the Netherlands. The Dutch legislation and case law also provides for some extra tools that were not included in the Directive. At the same time, new issues will arise and further development in case law remains necessary.

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