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Table of abbreviations:

Abbreviation	Meaning
ADR	Alternative Dispute Resolution
CEE	Central and Eastern Europe
CJEU	Court of Justice of the European Union
EU	European Union
EPC	European Patent Convention
EPO	European Patent Office
IP	Intellectual property
MS	Member State
NDA	Non-disclosure agreement
SEE	South East Europe
SPC	Supplementary Protection Certificates
TFEU	Treaty on the Functioning of the European Union
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UPC	Unitary Patent and Unified Patent Court
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

INTRODUCTION

1. Relevance of the Master Thesis

The importance of trade secret protection to businesses and the internal market cannot be overstated. In particular, getting a clear understanding of how secret data protection methods work would provide companies with effective strategies for the safe conduction of their business activities and thus support the internal market's economic growth and development. This master thesis aims to analyze the specific ways for businesses to benefit from trade secret applications.

The central research issue thereto is to investigate the key factors that have an impact on the decision of businesses to rely on trade secrets rather than other forms of intellectual property protection within the internal market. Consequently, different measures that can be taken, an overview of the well-known examples, and a prediction of the emerging trends are going to be covered to achieve the defined goals.

According to the results provided by the survey conducted in the United States and other developed countries, large and small firms in different industry sectors believe that trade secrets are “very important” in comparison to all other types of IP protection¹. The vast majority of participants in the survey referred to the number of trade secrets' advantages in support of their opinion. Firstly, the scope of trade secret protection is quite broad as almost any piece of information carrying commercial value may be subject to it. Secondly, the flexibility of trade secrets lets the undertakings make less effort and establish modifications to the trade secrets by incorporating them directly into the existing systems of protection. Finally, there is no need to go through the whole process of government review and approval as firms make decisions on their own.

The main goal of possessing trade secrets by the undertakings is to ensure their competitive advantage on the market. Therefore, the philosophy of trade secret law is to protect, maintain, and promote ethical practices and fair dealing, which promotes creativity². Depending on the size of the company it can either depend on trade secrets solely (small ones) or be also able to finance

¹ Katherine Linton, 'The Importance of Trade Secrets: New Directions in International Trade Policy Making and Empirical Research' [2016] United States International Trade Commission Journal of International Commerce and Economics, 2.

² *ED NOWOGROSKI INS, INC v Rucker* (1999) Vol. 42 : No. 2, Article 3. (Saunders, Kurt M (2006) 'The Law and Ethics of Trade Secrets: A Case Study,' California Western Law), 210.

some other intellectual property rights such as patents (large companies). However, what remains common for different types of enterprises is the need in providing their confidential business information with reliable safeguarding mechanisms and thus prevent the latter from being unlawfully disclosed to third parties.

2. Objective & scope of the Master Thesis

The main objective of this master thesis is to highlight the major motives that influence businesses to establish trade secret protection to preserve the confidentiality of their important information assets. Furthermore, the research aims to provide respective insights regarding the effective strategies and policies that can be implemented by companies and contribute to their welfare. Therefore, the topic is going to be investigated from the various aspects.

Firstly, an analysis of the legal framework regulating trade secret protection will be conducted. This step is of practical importance for the understanding not only of specific rules for the undertakings to incorporate into their statutory documentation while possessing the confidential business information but also to discover the established legal mechanisms for the prevention and protection of trade secrets from potential breaches and to evaluate the existing liability measures. The legal framework examination would thus constitute a basis for further research.

Secondly, it is important to outline the specific nature and functions trade secrets perform. This would be particularly done by analyzing the interplay between trade secrets and other intellectual property rights (in particular, patents, trademarks, copyrights, and industrial designs). In addition, the potential zones of trade secrets' integration with some of the IP rights would be discussed, so that businesses can guarantee the highest level of protection for their key information assets.

Thirdly, the trade secrets in action are going to be investigated. This chapter would cover different types of protection measures businesses can apply to safeguard their commercial secrets and specific ways to seek remedies in case trade secret infringement occurs. Furthermore, the concept of unfair competition as one of the most widespread challenges in the business world would be considered along with the measures that can be taken for its prevention and elimination.

Fourthly, reference to the most famous examples of trade secret protection by worldwide known brands would provide insight into how all the previously mentioned theory works in practice. The

assessment of the advantages and disadvantages of specific measures used by these businesses to safeguard their secret data will be performed as well.

Fifthly, the emerging trends in the field of trade secret protection to be taken into account by businesses when working on the respective policies for safeguarding their confidential business information would be mentioned.

Finally, upon the completion of the outlined research plan it would be possible to sum everything up and make conclusions regarding the central issue of the thesis – what the actual contributions made by trade secrets are, that make them so attractive to businesses and the internal market.

3. Methods of research

Taking into consideration the legal character of the thesis key methods to be used to conduct the research would consist of the qualitative and doctrinal research methods, literature review, and comparative analysis.

The qualitative research method would be predominantly based on the tool of data observation to observe the process of trade secrets protection and the behavior of the parties involved. In addition, it would include the international research tool that would be used to consider supranational law, in particular the law of the European Union, regulating the internal market.

The doctrinal research method or also called ‘black-letter’ research by clarifying the law is based on primary and secondary sources of law and thus, being ‘library-based’, focuses on reading and analyzing these sources³. Following that, different statutory materials, subordinate legal materials, and case laws as well as textbooks, and legal articles are going to be referred to fully investigate this topic, combine different approaches and end up answering the initial question of the thesis.

A comprehensive literature review would be emphasized mostly on the legal literature, academic articles, textbooks, and journals about trade secrets, intellectual property law, unfair competition, and other related topics. Therefore, a literature review would provide a theoretical basis for

³ Mike McConville, Wing Hong Chui (eds.), *Research Methods for Law* (Edinburgh University Press, 2007) ISBN 9780748633586, 4, 47.

research and allow a deeper understanding of legal principles and concepts related to the contribution of trade secrets to business and the internal market.

The comparative analysis would be referred to explore the legal framework and certain trade secret protection measures within the European Union. This analysis constitutes the research and comparison of trade secret laws and regulations of various EU member states, as well as harmonized directives and guidelines issued by the European Union. The main goal thereto is to identify the common features, differences, and best practices in trade secret protection and to assess the effectiveness of suggested legal measures.

Chapter I. TRADE SECRETS REGULATION

Although it is generally about the company deciding on a particular way to protect its trade secrets, there are some important guidelines established by the authorities that should be observed. Therefore, legal regulation of trade secrets is a tool of crucial importance as it provides potential parties to IP-connected relations with clear knowledge of what they are going to deal with and thus facilitates the satisfaction of their legitimate interests. Following that, such regulation is carried out through the process of certain legal remedies application to ensure its effectiveness. Finally, legal regulation guarantees the implementation of legal norms.

To provide more certainty regarding the question of which exact legal provisions are responsible for the protection of information covered by trade secrets it is necessary to outline the legislation sources concerning the raised issue. Firstly, TRIPS Agreement was the first legal document to set the minimum standards that should be taken into attention by the national governments to regulate the protection of undisclosed information as one of the forms of intellectual property. Secondly, the key source in the whole legal regulation system for trade secrets is the Directive on the Protection of Trade Secrets. Thirdly, referring to the doctrinal observation of the trade secret related issue is essential to get an understanding of the basics of confidential business information protection.

1. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

To begin with, TRIPS Agreement was the first international agreement to establish express protection of trade secrets⁴. The main idea behind this act was based on the concept that protection established to prevent unfair competition should, therefore, include protection for undisclosed information⁵. Such an approach thus represents the reference to the protection against unfair competition that was then regulated by the Paris Convention for the Protection of Industrial Property.

The first and major approach to the definition of trade secrets was established by TRIPS by setting three major requirements characterizing them. These requirements include secrecy, commercial

⁴ 'Approaches to the Protection of Trade Secrets' [2015] Enquiries into intellectual property's economic impact, OECD, 130. <<https://www.oecd.org/sti/ieconomy/KBC2-IP.Final.pdf>> accessed 13 May 2023.

⁵ *ibid.*

value, and reasonable steps to maintain secrecy⁶. However, there is no exhaustive list of the categories that fall within the subject matter covered by trade secrets. Trade secrets typically fall into one of two broad categories: technical information (e.g. technical plans and formulas) and confidential business information (e.g. customer lists and marketing strategies)⁷.

The character of confidential business information protection is not absolute. Therefore, Maskus notes that trade secrets “are not protected against learning by fair means, such as independent creation, reverse engineering or reading public documents”⁸. Consequently, the information that is subject to trade secret protection does not entitle its holders to the perpetual exclusive right to it. If the situation occurs that a third party has got access to the secret information assets legally and in good faith, such data can be thought to run out in the regular course of the competition and the protection would then be lost.

The TRIPS Agreement obliges the WTO members to put in place national systems to protect trade secrets against acts of unfair competition⁹. As countries prefer different ways to comply with such obligations there are divergences in the means set to provide protection. This is particularly because TRIPS, article 39 respectively, has no regulated universal regime for this purpose that could be directly followed by the national authorities.

TRIPS Agreement has also been subject to criticism regarding its poor policy since it's coming into force. Daniele Archibugi and Andrea Filippetti have argued that the significant role of TRIPS, and intellectual property in general, in the process of giving rise to and diffusion of knowledge and innovation has been overrated by its supporters¹⁰. The criticism prevalently refers to the fact that most IP owners in developed countries benefit from such protection while developing states only transfer money thereto. However, as for the trade secrets particularly it is the lack of uniformity of legal protection provided by TRIPS across the member states that thus leads to inconsistency and creates challenges for international business operations.

⁶ *TRIPS Agreement* [1994], 1869 UNTS 299 (WTO), art. 39.2.

⁷ David S. Almeling et. al., ‘A Statistical Analysis of Trade Secret Litigation in State Courts’ [2010]. Vol. 46:1 *Gonzaga Law Review*. Descriptive survey of US law, 60.

⁸ Keith E. Maskus, ‘Intellectual Property Rights in the Global Economy’ [2000], 32 *Case W. Res. J. Int'l L.* 471.

⁹ Sharon K. Sandeen, ‘The limits of trade secret law: Article 39 of the TRIPS Agreement and the Uniform Trade Secrets Act on which it is based’ [2011], R.C. Dreyfuss and K.J. Strandburg (eds.). *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research*, Edward Elgar, Cheltenham, UK.

¹⁰ Daniele Archibugi, Aurélie Filippetti, ‘The globalization of intellectual property rights: Four learned lessons and four thesis’ (PDF) [2010]. *Journal of Global Policy*, 1(2), 137–149.

2. Directive (EU) 2016/943 on the Protection of Trade Secrets

The Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) was adopted by the European Council on the 27th of May 2016. The main emphasis of this legal act is to provide harmonization in the approaches towards the definition of trade secrets following the internationally binding standards as well as define the relevant forms of misappropriation¹¹. Furthermore, this is the major legal act regulating the use of trade secrets to safeguard crucial business data.

Having analyzed the history of the Trade Secrets Directive adoption, it is necessary to refer to several key factors influencing the initiation of such a process. Firstly, the economic factor is based on the idea that trade secrets invest in innovation fostering, competitiveness development, and economic growth in the market. Secondly, a gap in the uniform regulation factor was caused by the diversity of approaches for establishing trade secret protection in legislation among different EU member states, which consequently led to problems for businesses operating across borders. Thirdly, there are factors affected by contemporary challenges such as globalization and digitalization because the existing legal frameworks could not address this problem to the necessary extent.

Moreover, there is a notable case *Pilkington Group v. Commission* which is known to address the problem of lack of the recognition and protection of trade secrets within the European Union. According to the facts of this case, the Commission had improperly disclosed Pilkington's confidential business information during an antitrust investigation. The European Court of First Instance observed that from the beginning the Commission should have recognized Pilkington's rights to protect its professional secrets¹². Finally, this case demonstrated the EU's need for stronger and broader trade secret protection.

Taking all of the above-mentioned into consideration, the European Council followed an agreement reached with the European Parliament on 15 December 2015¹³ and an amendment by the Parliament on 14 March 2016 and thus adopted the Directive on Trade Secrets Protection.

¹¹ 'Trade Secrets' (Internal Market, Industry, Entrepreneurship and SMEs) <https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/trade-secrets_en> accessed 14 May 2023.

¹² *Pilkington Group Ltd v European Commission*. Order of the President of the General Court, T-462/12 R (11 Mar. 2013) at. 2.

¹³ 'Trade Secrets Protection: Council Adopts New Directive' [2016], press release 244/16 <<https://www.consilium.europa.eu/en/press/press-releases/2016/05/27/trade-secrets-new-directive/pdf>> accessed 14 May 2023.

Among the present-day attainments of the Directive should be mentioned the following. First and foremost, it sets a common definition for trade secrets. This regulation established the possibility of taking certain measures in case the fact of wrongful acquisition, use, or disclosure of information covered by trade secret protection would take place. Moreover, it also takes into account the significance of striking a fair balance between trade secret protection and fundamental rights like freedom of information and expression. Finally, it ensures the enforcement of trade secret protection by imposing on EU member states an obligation to provide effective remedies for safeguarding secret data.

Although this legal act sets uniform rules for all the countries being subject to it, the implications differ among the latter. For example, in Germany, there is The German Law on the Protection of Trade Secrets (*Gesetz zum Schutz von Geschäftsgeheimnissen*)¹⁴, which reforms the previously existing right to secrecy that used to be regulated by the para. 17-19 of the Act Against Unfair Competition. However, the first bill of the Federal Ministry of Justice consisted of some controversial provisions such as the entitlement of companies with the right to decide what constitutes trade secrets on their own, and misleading definitions of the exceptions for journalists and whistleblowers. For instance, the Directive foresees that a whistleblower is justified provided that its publication was done to protect the general public interest¹⁵. The German Act, on the contrary, expressed the idea that those who give scandals to the press must act rather with the intention than the purpose of serving the public interest and, therefore, have to justify themselves accordingly. It was then subject to immediate criticism, in particular, the left politician Niema Movassat described it as follows: "This is the attitude test that is fortunately alien to modern criminal law"¹⁶. Consequently, all the disputable aspects were corrected and brought into line with the rules set out in the Directive during the legislative process later on.

Another example worth attention to is the French approach to adopting the rules for trade secret protection. What is special about it is that the originally existing French legal norms regulating data secrecy were amended to comply with the new regime established by the Directive. In addition, these norms were incorporated into the French Commercial Code¹⁷. The peculiarities of

¹⁴ *Gesetz zum Schutz von Geschäftsgeheimnissen (GeschGehG) (Trade Secrets Act)* 2019, BGBl. I [Germany] 466.

¹⁵ *Directive (EU) 2016/943 on the protection of trade secrets* [2016], OJ L 157, 1–18, art. 5(b).

¹⁶ Sabine Kinkartz, '1:0 Für Whistleblower: DW: 12.04.2019' (DW.COM, 12 April 2019) <<https://www.dw.com/cda/de/10-f%C3%BCr-whistleblower/a-48265294>> accessed 19 May 2023.

¹⁷ *Code de commerce (French Commercial Code)* (English version) <<https://wipolex-res.wipo.int/edocs/lexdocs/laws/en/fr/fr199en.pdf>> accessed 19 May 2023.

the contents include, firstly, having tort law as the basis for protection that would thus result in civil law liability in case of infringement. Secondly, the French legal approach provides the specification concerning the assessment of the “commercial value” of the information stating that it only needs to be “potential”. Thirdly, some specifications are also introduced to the preventive and corrective measures and remedies for infringement provided by the Directive. Following that, French law specifies that in the process of damages assessment, it is important for judges to pay attention to the negative economic consequences suffered by the injured party. These consequences consist of lost profits and opportunities, the moral prejudice the trade secret holder faced, and any unfair profits obtained by the infringer.

One of the most confusing moments regarding the application of the Directive by Member States was about the interpretation of “reasonable steps” that have to be taken to maintain the secrecy. For instance, in December 2016 in Civil Judgement No. 441/2016, the Spanish courts concluded that the confidential information was not a trade secret while considering the disclosure of trade secrets¹⁸. The court came up with this judgment after noting that the TRIPS Agreement had given rise to “secrecy” and that the procedures used in this case were insufficient to keep the information secret. The court correctly observed that precautions used to prevent disclosure should be both internal and external, as well as “adequate and reasonable.” In particular, external measures should stop outsiders and third parties from accessing the information, while internal measures also include limiting employee access¹⁹.

The District Court of Utrecht in the Netherlands ruled that the wording used to describe the confidential information—which forbade its future distribution—was insufficient to qualify as a protective measure²⁰. As it follows from the analysis, although the Dutch courts now evaluate “reasonable steps” in light of the Directive, it is essential to legislate stricter protective measures rather than make choices on a case-by-case basis.

To sum up, the Directive on the Protection of Trade Secrets has become an important tool aimed at the safeguarding of business data. Being a “generally applicable, technology-neutral regime of

¹⁸ EU Trade Secrets Directive: What Are “Reasonable Steps”?, Winston & Strawn LLP (Feb. 7, 2019), <<https://www.winston.com/en/thought-leadership/eu-trade-secrets-directive-what-are-reasonable-steps.html>> accessed 24 June 2023.

¹⁹ Fox, ‘Tripping over the EU Trade Secret Directive: “reasonable steps” to get back on track’ [2019]. *The Journal of Intellectual Property*, 19(1), 68.

²⁰ Ruud van der Velden & Jost Duijm, “Getting the most out of the new trade secret protection act” [Mar. 8, 2019]. <<https://www.lexology.com/library/detail.aspx?g=15ec2396-8229-4636-b4c3-857caf1ef9ec>> accessed 24 June 2023.

protection”²¹ it finally provided EU Member States with a uniform regulation pattern to be implemented by them and, therefore, set common policy with slight differences among the countries. Although for some of the countries “the reasonable steps” element or trade secret definition in general were new since the adoption of the Directive, it is necessary that they either have already put effort to develop these provisions or plan to do so in the future to prevent an issue if courts become overwhelmed with deciding the latter on a case-by-case approach.

3. Doctrinal approaches toward trade secret protection

Doctrine plays a fundamental role in law formation as it produces general principles, theories, and rules that are then followed in the legislative processes to adopt certain legal acts. The volume of literature regarding trade secrets is not as big as that of the other IP rights. However, the existing doctrinal sources can be mainly divided into two groups. The first one is legally based, and it includes trade secret law theories while the other one is economically based and provides, therefore, economic evaluations of the trade secret law effects²².

Being one of the representatives of the legal doctrine Claey's pays attention to the existence of the so-called “trade secrecy nihilism” since trade secret law lacks any unified theory and conceptual ideas, but it rather constitutes the collection of approaches and norms related to the protection of business information²³. However, it is quite controversial whether it would be justified to establish a uniform doctrine and oblige all jurisdictions to comply with it. The main issue hereby is that different jurisdictions have specific central ideas that they rely upon and which make them distinctive. Therefore, establishing a standard set of rules for all the states would thus eliminate the existence of different policies and create some kind of dominance provided by the minority that would destroy the idea of democracy and democratic society.

The economic literature pays attention to three main incentives that trade secret law provides. To begin with, the incentive to invent and invest in the development of valuable business information²⁴. However, this idea was criticized by some scholars. Following that, M. Risch believes that trade secrets can only safeguard the information that companies are already entitled

²¹ Josef Drexler, ‘Data access and control in the era of connected devices’ [2018]. Study on behalf of BEUC, 91.

²² ‘Approaches to the Protection of Trade Secrets’ [2015] Enquiries into intellectual property’s economic impact, OECD, 133. <<https://www.oecd.org/sti/ieconomy/KBC2-IP.Final.pdf>> accessed 19 May 2023.

²³ Eric R. Claey's, ‘Private Law Theory and Corrective Justice in Trade Secrecy’ (2011) 4 Journal of Tort Law Article 2.

²⁴ ‘Approaches to the Protection of Trade Secrets’ [2015] Enquiries into intellectual property’s economic impact, OECD, 133. <<https://www.oecd.org/sti/ieconomy/KBC2-IP.Final.pdf>> accessed 19 May 2023.

to and do keep secret²⁵. So the companies do not perform any activities to come up with new ways of keeping the information undisclosed. Consequently, the marginal effect that trade secrets have on investment in the fields of research and development is not considerable.

Another incentive refers to the relief provided for businesses connected with the need to invest in some costly measures that need to be taken to prevent breaches of security²⁶. D.D. Friedman and some other representatives of the economic doctrine insist on the idea that the availability of such tools as trade secret protection rather discourages the use of less efficient alternative ways of protection (e.g. taking only family members for positions in a company or rewarding them with wage bonus to encourage employees to refuse to move to another company) and inefficient activity conducted by competitors to get access to the undisclosed information (e.g. through bribery or espionage)²⁷.

The last economic incentive to mention is the encouragement of trade secrets' dissemination²⁸, which even sounds ambiguous. This idea was subject to active disputes among scholars. Therefore, Lemley argued that the main idea behind trade secret protection is that it should be known by people to whom it is safe to entrust information. To support this argument the author refers to the employees who are likely to depart that they could benefit from the obtained knowledge either on their own or through sharing it with the future employers.

To sum up, doctrinal regulation of trade secret protection reveals more practical aspects of the process while making conclusions regarding the effectiveness of legal tools as well as considering real-life business activities in this field. Eventually, combining both theory and practice trade secret doctrine along with the legislation could be a really useful source to rely on when setting the company's policy regarding its trade secrets.

²⁵ Marcel Risch, "Trade secret law and information development incentives" [2011], R.C. Dreyfuss and K.J. Strandburg (eds.), *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research*, Edward Elgar, Cheltenham, UK.

²⁶ 'Approaches to the Protection of Trade Secrets' [2015] Enquiries into intellectual property's economic impact, OECD, 135. <<https://www.oecd.org/sti/ieconomy/KBC2-IP.Final.pdf>> accessed 19 May 2023.

²⁷ David Friedman, William Landes and Richard Posner, 'Some Economics of Trade Secret Law' (1991) 5 *Journal of Economic Perspectives*, 61

²⁸ 'Approaches to the Protection of Trade Secrets' [2015] Enquiries into intellectual property's economic impact, OECD, 135. <<https://www.oecd.org/sti/ieconomy/KBC2-IP.Final.pdf>> accessed 19 May 2023.

Chapter conclusions

Investigation of the legal framework and doctrine provides the basis for further understanding of trade secrets' nature and analysis of the contribution they make to business and the internal market from a legal perspective.

Having analyzed the most important sources to be guided by while developing the trade secret protection policy certain conclusions should be made to proceed with the further investigation of the topic. First, the legislation ensures the awareness of rights and obligations that trade secret holders bear as well as of legal remedies to refer to in case of misappropriation. The legal doctrine facilitates the interpretation and application of the legal provisions in practice. Finally, combining these two categories to assess the effectiveness of specific measures that can be used to safeguard confidential business information would result in getting a preliminary idea of the potential risks and outcomes connected with these measures.

Chapter II. INTERPLAY BETWEEN TRADE SECRETS AND OTHER IP RIGHTS

The main emphasis of this chapter is put on the comparative analysis of trade secrets and such intellectual property rights as patents, trademarks, and copyrights to outline the possible zones of interplay between them. In addition, upon the completion of this investigation, the determination of the trade secret's specific nature and functions could be done.

First and foremost, it is important to highlight trade secrets' main peculiarities. As for the standard definition TRIPS agreement, followed then by the Directive on Trade Secret Protection, sets certain requirements for the piece of information to be defined as a trade secret. Following that, the "undisclosed information" should be a secret, have commercial value, and be subject to some reasonable steps to keep it secret²⁹.

There are six main factors suggested to obtain a more precise understanding regarding what information should be to qualify for trade secrets. Therefore, these factors include (1) the level of the secret information awareness outside the business, (2) the level of its awareness by employees and other parties involved in the business; (3) the extent to which these measures are taken by businesses to safeguard the secret information; (4) the value of the confidential information to business and its competitors on the market; (5) scope of the efforts and financial expenditures made in developing this information; (6) level of difficulty for third parties to acquire or duplicate such information³⁰.

However, there is no exhaustive list of the particular means for the protection of trade secrets as member countries have to provide separate trade secret statutes, incorporate trade secret protection provisions in their unfair competition or contract laws, and/or rely on the common law on their own³¹. The same approach is stated in the EU Directive on the Protection of Trade Secrets³².

The scope of application of the previously mentioned approach to the definition of certain intellectual material as a trade secret is quite broad. Therefore, it may include confidential business

²⁹ *TRIPS Agreement* [1994], 1869 UNTS 299 (WTO), arts. 39.1 and 39.2.

³⁰ Myres McDougal, Charles Runyon and American Institute, 'Restatement of the Law of Torts, Volume IV, Division 10, Chapter 41' (1940) 49 *The Yale Law Journal*, 6.

³¹ Michael Schultz and D. Lippoldt, 'Approaches to Protection of Undisclosed Information (Trade Secrets): Background Paper' [2014] OECD Trade Policy Papers, 7-8.

³² *Directive (EU) 2016/943 on the protection of trade secrets* [2016], OJ L 157, 1–18, art. 2.1.

information, such as a firm's customer lists, price lists, or marketing strategies; know-how, such as facts about manufacturing methods or processes for achieving the expected results; and technical information, such as blueprints, algorithms, and chemical formulae³³. Trade secret protection may be of crucial importance, for example, when the work over certain material has just started, and thus it carries a potential commercial value that is not enough to obtain a patent but is already worth keeping confidential.

1. Trade secrets and patents

An international agreement known as the European Patent Convention (EPC) established the legal framework for patent protection in Europe. The EPC also established the European Patent Office (EPO), which is an autonomous organization that enables inventors to obtain patent protection through a centralized application investigation process. In addition, there is also an EU-specific legal framework in the field of patent protection. It includes, for example, regulations concerning supplementary protection certificates (SPCs), which extend the protection of patents for certain pharmaceutical and plant protection products, and the EU Patent Regulation, also known as the Unitary Patent Regulation. The latter establishes the legal framework for the Unitary Patent and Unified Patent Court (UPC) system, which intends to create a single patent that would cover several EU member states as well as a single court to settle patent disputes. The Unitary Patent and UPC are known to have entered into force on 1 June 2023.

Trade secrets and patents have a completely different scope of protection. To characterize the interplay between them it is necessary to determine both their differences and similarities. Firstly, the subject matter covered by trade secrets is broader than one covered by patents. This is, in particular, because according to TRIPS regulation patents shall be available for any inventions in all fields of technology, provided that they are new, involve an inventive step, and are capable of industrial application³⁴. Therefore, to obtain patent protection it is essential to prove the novelty. Secondly, there is a difference in the length of protection provided by these two IP instruments. Trade secret protection generally lasts as long as the confidential information is kept secret while patent protection is usually limited to a period of twenty years³⁵. Thirdly, it is necessary to submit a formal application and go through the process of examination by the patent office to get patent

³³ Michael Schultz and D. Lippoldt, 'Approaches to Protection of Undisclosed Information (Trade Secrets): Background Paper' [2014] OECD Trade Policy Papers, 8, 12-13.

³⁴ *European Patent Convention*, 5 October 1973, [1977] OJ EPO 002, art. 52.

³⁵ *ibid*, art. 63.

protection, unlike trade secrets. Fourthly, there is also a distinction concerning the ways of protection. Therefore, trade secrets protect only against “misappropriation” while patents confer upon their holders the rights to prevent others from making, using, or distributing the subject under protection. Fifthly, it usually takes some time (two-three years) before the patent protection comes into effect whereas in the case of trade secrets, it depends only on the time that companies need to complete all the internal procedures regarding its regulation.

In case of trade secret or patent infringement, different consequences may take place. On the one hand, if secret information is disclosed as a result of a breach of a duty of confidence, depending on the scope of the data revealed the protection may be completely lost forever. Even though an undertaking may bring the case before the court, it is usually a challenge to prove the damages. Courts may issue injunctions with the purpose of damage limitation attempts³⁶. On the other hand, there are certain peculiarities regarding the solution of the disputes in patent infringement cases. Following that, there is a rule that the first-inventor-to-file a successful application would be eventually granted the right to legally prevent others from making, exploiting, or distributing the invention during the life period of the patent. This exclusive right generally safeguards the infringer’s innocent intent or fair commercial practices making the latter irrelevant to the process of infringement determination³⁷.

In conclusion, the interplay between these two IP rights can be in a case when trade secrets precede the registration of patents or act as a substitute for the latter. In the first example, it is about safeguarding the knowledge that would be eventually used for the creation of future invention. However, there is a restriction concerned with the requirement of keeping this information non-disclosed because there would be no possibility to get patent protection once it becomes publicly accessible.

As for the second example these are common cases when patent fees are too expensive or such protection is not available at all. Maskus³⁸ and Friedman³⁹ mention that such substitutability is possible in cases where: 1) an invention is not subject to patent protection, and there is a value in keeping the information secret (for instance, a customer list), 2) the company would rather avoid

³⁶ John R. Thomas, ‘The Role of Trade Secrets in Innovation Policy’ [2014], Congressional Research Service, 6.

³⁷ Christopher A. Cotropia & Mark A. Lemley, ‘Copying in Patent Law’ [2009], 87 N.C. L. Rev, 1421-66.

³⁸ Keith E. Maskus, ‘Intellectual Property Rights in the Global Economy’ [2000], Institute for International Economics.

³⁹ David Friedman, William Landes and Richard Posner, ‘Some Economics of Trade Secret Law’ (1991) 5 Journal of Economic Perspectives, 61-72.

the public disclosure of its invention which is required by a patent, and also 3) the company would like to avoid the additional spending necessary to obtain patent protection.

2. Trade secrets and trademarks

The EU Trademark Regulation (Regulation (EU) 2017/1001) is the main EU legal act that governs trademark protection. Within the European Union, this legislation controls how trademarks are registered, protected, and enforced. Furthermore, it establishes the important principle of a unitary character of an EU trademark. Therefore, the latter shall have equal effect throughout the Union⁴⁰.

The first step to designating the potential zones of the interplay between trade secrets and trademark protection is about determining their key specifications. As in the case of patents, the subject matter of protection is different particularly because they refer to different levels of business activities.

To begin with, the distinctiveness can be traced by analyzing the very nature of these IP rights. Therefore, while trade secrets' main mission is to protect information having commercial value, trademarks are generally used to provide legal protection for a certain word, name, symbol, or device that is connected to a commercial good. In other words, trademarks protect brands while trade secrets safeguard the secret knowledge which is a key factor to produce the goods or provide services under the brand's name. In addition, the purpose of trademarks functioning is to present the data they bear to third parties and thus make them introduced to the products or services that stay behind it as well as prevent unauthorized use of the brand's name to make use of its reputation on the market.

Furthermore, another distinctive feature is that trademarks are subject to the process of formal registration provided by authorities, which is compulsory so that no conflict arises in case there is the same one already registered. As for the term of the trademark protection, it shall be registered for a period of 10 years from the date of filing of the application with a possibility to be renewable indefinitely⁴¹.

Eventually, the interplay between trade secrets and trademarks is possible and can be beneficial for businesses. While trademarks protect the name under which certain products are distributed

⁴⁰ *Regulation (EU) 2017/1001 on the European Union trade mark* [2017] OJ L 154, 1-99, art. 1.2.

⁴¹ *ibid*, art. 52.

and/or services are provided, trade secrets bear the key information used for the production of such goods and/or provision of the services (for instance, marketing strategies, customer lists) and thus it would result in creating a competitive advantage for the company on the market. Following that, trade secrets represent the key factors that make brands unique and recognizable as well as contribute to their overall value promoting the brand name.

3. Trade secrets and copyrights

The Directive on Copyright in the Digital Single Market (Directive (EU) 2019/790) regulates copyright protection within the internal market, taking into account, in particular, digital and cross-border uses of protected content⁴². The directive seeks to ensure effective protection of copyrighted works and improve the overall functioning of the digital market.

Copyrights' key function is to guarantee exclusive authors' rights to their artworks. Therefore, copyright protection is connected with the subject matter having its material embodiment (for example, songs, paintings, poems). On the contrary, the main idea of trade secret protection is to safeguard its contents rather than the form it is put to. To conclude if there is any interplay between the IP rights at issue it is important to refer to certain peculiarities they possess.

The main task of copyright protection is to secure the way a certain idea is expressed rather than the idea itself⁴³. Following that, it is not about preventing other parties from producing a good with the same or similar purpose, but about safeguarding the author's original rights to the result of his or her intellectual activity. Therefore, the most widespread fields covered by copyright protection generally include works of literature, art, music, and other intellectual products.

Unlike the very private nature of trade secrets, copyrights tend to be publicly demonstrated. In addition, it is about the author being entitled to the exclusive right to make use of his/her work, its public performance or display, and profit from the latter.

In addition, there are also some rules set for the definition of the validity period. According to the Berne Convention, the term of copyright protection granted by this Convention shall be the life of

⁴² *Directive (EU) 2019/790 on copyright and related rights in the Digital Single Market* and amending Directives 96/9/EC and 2001/29/EC [2019] OJ L 130, 92–125, art. 1.1.

⁴³ *TRIPS Agreement* [1994], 1869 UNTS 299 (WTO), art. 9.2.

the author and fifty years after his death⁴⁴. However, it can vary depending on the different policies of the country of origin.

Another feature to be discussed is the route of these rights for the protection obtainment. Although copyrights as well as trade secrets require no formal registration procedures there are still some dissimilarities. Copyright protection is established automatically from the moment certain work is created while trade secrets do require that certain efforts should be made. For example, the steps towards safe storage of the information should be done and/or non-disclosure agreements concluded.

In conclusion, despite the very different nature of the copyrights and trade secrets, there is still an interplay to be mentioned. For example, in case of the software production, there is a place for the combination of these two IP rights. While trade secrets are capable of covering the secret code or formulae used to produce it copyrights may protect the interface and design elements.

4. Trade secrets and industrial designs

The Community Designs Regulation (Regulation (EU) No. 6/2002) provides legal provisions regulating industrial design protection within EU member states. It simplifies the registration procedure, grants holders of design uniform rights, and makes it easier to enforce design rights across the European Union.

Trade secrets and industrial design have considerably different scopes of protection they provide as well as types of subject matters falling within such protection. To define particular ways of the interplay between the following rights it is necessary to consider their main dissimilarities.

To begin with, industrial design guarantees protection for the representation of the product, therefore, it protects the outward appearance of the whole or part of a product resulting from the features of, in particular, the lines, contours, colors, shape, texture and/or materials of the product itself and/or its ornamentation⁴⁵. The Regulation sets key requirements that designs should be new or original⁴⁶ so that it is not due to technical and/or functional considerations to obtain protection.

⁴⁴ *Berne Convention for the Protection of Literary and Artistic Works* (adopted 14 July 1967, entered into force 29 January 1970) 828 UNTS 221, art. 7.1.

⁴⁵ *Council Regulation (EC) No 6/2002 on Community designs* (2001), OJ L 3, 1-21, art. 3(a).

⁴⁶ *ibid*, arts. 4.1, 4.2.

The industrial design protection has a specific period set by the regulations and so upon registration, it shall amount to a period of five years from the date of the filing of the application. The right holder may have the term of protection renewed for one or more periods of five years each, up to a total term of 25 years from the date of filing⁴⁷. It is worth noting that in case the protection period is not renewed it would then become publicly accessible for its use and exploitation. In addition, the routes for getting industrial design protection can be through a registration system, a system of non-registration, and copyright⁴⁸.

To sum up, the possible zones of the interplay between trade secrets and industrial designs can be observed when, for example, businesses keep confidential the design information (e.g. plans, reports, surveys), but once the design becomes public it is protected to prevent other enterprises from replicating its appearance.

Chapter conclusions

Through analysis of the ways trade secrets interplay with other intellectual property rights such as patents, trademarks, copyrights, and industrial designs it is possible to clarify the nature and specific functions of trade secrets. In particular, it could be done due to the understanding which exactly role is performed by trade secrets in the protection of certain subject matter when it is combined, for example, with patents or trademarks.

The nature of trade secrets is very private as it is prevalently about putting efforts to keep the information of commercial value in secret through applying different measures (setting company policies in this respect, concluding non-disclosure agreements, dealing with data protection issues, and IT security).

Among the major functions of trade secrets should be mentioned, firstly, secrecy as trade secrets cover information that is not eligible for patent protection but needs to be kept private to prevent unauthorized use. Secondly, the provision of a competitive edge as it allows businesses to keep such important information as certain business strategies, pricing plans, and manufacturing algorithms non-disclosed and thus benefit their uniqueness on the market. Thirdly, long-term

⁴⁷ *ibid*, art. 12.

⁴⁸ European Intellectual Property Helpdesk, 13.

< <https://intellectual-property-helpdesk.ec.europa.eu/system/files/2021-01/european-ipr-helpdesk-your-guide-to-ip-in-europe.pdf> > accessed 30 May 2023.

protection as it depends on the moment certain knowledge is disclosed to the public that the trade secret protection would then be lost. Fourthly, flexibility as there is no need to file a formal application and go through the whole process of registration in the competent authority bodies.

In conclusion, the central role of trade secrets among other IP rights discussed is the protection of the confidentiality of business information to provide businesses with a competitive advantage through safeguarding their specific knowledge and skills regarding the goods they produce and/or services provide. However, getting to know the possible zones of interaction between trade secrets and other IP rights can be especially beneficial for companies when making strategic choices to protect their confidential information assets.

Chapter III. TRADE SECRETS IN ACTION

This chapter is devoted to the analysis of how trade secrets can be protected by businesses and what benefits different ways of safeguarding can have. Moreover, the assessment of existing gaps in this field and potential risks connected to them is also going to be covered.

To begin with, it is worth noting that the active use of trade secret protection is an effective tool not only for the conduction of business activities by individual companies but also to foster innovation, safeguard the competition, and drive economic growth. As long as businesses are involved in the constant process of creating different information sources to strengthen their positions in the relevant markets, the consumers would thus enjoy a wide range of choices as well as benefit from the pricing policies and other attractive offers made by the vendors. Therefore, trade secrets entitle businesses to differentiate themselves and secure their position as industry leaders. Taking all the above-mentioned into account the pre-conclusion comes that it is of crucial importance to understand the mechanisms of trade secrets functioning to make the most out of such hidden assets.

1. Trade secret protection measures

The first step towards trade secrets protection is to succeed with its proper identification. Following that, the circle of proxies should be outlined to whom the secret information would be entrusted then. In addition, it would be also useful to clearly determine to whom belongs the complete ownership over a trade secret in case a potential legal dispute could arise.

There is a variety of measures that could be taken in order to get trade secret protection. Among the major of them should be mentioned technical protection measures, contractual arrangements for trade secret protection, employee training and monitoring, litigation, and enforcement. All of them are aimed at the protection of secrecy and competitive advantage that results from the proper protection strategies application.

1.1. Technical protection measures

Technical protection measures include physical and electronic confidential business information storage⁴⁹. The first category is about organizing physical storage locations to which access would be possible only upon prior authorization. Therefore, examples of the latter are archives, safes, or other appropriate locked rooms. Eventually, the information stored there should be available only to personnel representatives that need to know it to perform their business obligations. The other category, electronic storage, foresees the technologically-based protection of undisclosed information. Furthermore, two compulsory security measures should be executed: the use of passwords and automated control by security personnel⁵⁰. In addition, it is necessary also to ensure the usage of the updated operating systems, antivirus services, and backup stored information so that undesirable consequences of losing the information could be prevented.

The disputable question regarding the electronic safeguarding of trade secrets can arise when business arrangement comes into play. The parties to the arrangement should negotiate then on the right to monitor the protection of such secret data. Moreover, it is important for the owner of a trade secret not just to leave the details of protection up to the third party, but to assess the value of undisclosed information to them and the scope of protection they can provide⁵¹. Afterward, the owner would be capable of deciding what part of such data would be better to keep not disclosed but rather private while other pieces of information can be shared to conclude the agreement.

1.2. Contractual arrangements for trade secrets protection

Contractual arrangements constitute another key mechanism for businesses to protect their commercial secrets. The main purpose of such a mechanism is to reinforce and enhance the ability of companies to control and mitigate the possible risks of unauthorized disclosure of trade secrets or their misuse. Therefore, contractual arrangements are meant to establish the list of legally binding obligations for parties to the agreement while also defining the scope of their rights, responsibilities put upon them, and, finally, expectations regarding the process of handling, access, and disclosure of trade secrets.

⁴⁹ 'Trade Secrets: Managing Confidential Business Information' (European Intellectual Property Helpdesk, April 2021) <<https://www.ipoi.gov.ie/en/commercialise-your-ip/using-ip-to-grow-your-business/what-is-intellectual-property/-/trade-secrets-managing-confidential-business-information.pdf>> accessed 1 June 2023, 7-8.

⁵⁰ *ibid*, p. 9.

⁵¹ *Carboline Co. v. Lebeck* [1997] 990 F. Supp. 762, 767–68 (E.D. Mo.).

Among the particular contractual arrangements for trade secret protection should be considered non-disclosure agreements (NDAs), non-compete agreements and non-solicitation agreements, and respective confidentiality clauses.

1.2.1. Non-disclosure clauses and agreements

Non-disclosure agreements (NDAs) are contractual instruments generally used to define the parties' legally binding confidentiality obligations regarding the exchange of information covered by trade secrets. Therefore, NDAs are designed to impose certain restrictions on the disclosure, use, and dissemination aspects. Finally, NDAs provide a framework to ensure that information remains undisclosed and secure. Parties can decide either on entering the NDA or including the non-disclosure clause in their agreement.

NDAs facilitate to decrease risks of confidential information being disclosed to the public through the establishment of contractual obligations as a breach of the latter would thus result in sanctions agreed upon while negotiating the agreement as well as involve judicial actions⁵². Following that, the stage of signing the NDA before the disclosing of commercial information is considered to be the best practice as it would ensure the accountability of the receiving party, enable legal remedies, preserve its trade secret status, and serve as the demonstration of due diligence.

Some NDAs are mutual and cover both parties in their roles of “disclosing party” and “receiving party”. Some of the other NDAs are unilateral and they are a disclosing party's form of agreement that requires the other party to protect the disclosing party's confidential information based on the assumption that no protection will apply to the other party's information⁵³. However, unilateral NDAs are subject to criticism among legal experts due to the fact that during most business discussions, there is a need for both parties to disclose information and that is when mutual NDAs form represents a fairer approach.

⁵² ‘Trade Secrets: Managing Confidential Business Information’ (European Intellectual Property Helpdesk, April 2021) <<https://www.ipoi.gov.ie/en/commercialise-your-ip/using-ip-to-grow-your-business/what-is-intellectual-property/-trade-secrets-managing-confidential-business-information.pdf>> accessed 3 June 2023, 7-8.

⁵³ Gene K. Landy and Amy J. Mastrobattista, ‘Trade Secrets and Non-Disclosure Agreements’ [2008] The IT Digital Legal Companion, 150-151.

1.2.2. Non-compete clauses and agreements

Non-compete agreements are contractual instruments used to legally restrict parties to it either engaging in competitive activities or being employed and working for competitors. Therefore, these clauses are generally introduced into the contracts to guarantee that recipients of protected information do not exploit it to gain an unfair advantage.

Non-compete clauses and agreements are usually used to prevent the consequences of disclosing trade secrets that may stem from the departure of an employee from the company or the termination of a business relationship between partners⁵⁴. Parties can decide on a certain period during which a former employee or business partner would be obliged not to work for a competitor or reveal the information obtained under it.

Finally, non-compete clauses can be included in partnership or employment contracts or a separate agreement between the parties⁵⁵. By implementing well-structured non-compete clauses and agreements businesses can thus strengthen their efforts to safeguard trade secrets and maintain a competitive advantage.

1.2.3. Non-solicitation clauses and agreements

Non-solicitation agreements are contractual instruments designed to prevent parties to it from soliciting key employees, customers, suppliers, or business partners away from a company. Therefore, clauses restricting such activities strengthen trade secret protection tactics and secure important assets from potential danger. The use of such contracts or clauses can be especially useful when negotiating regarding specialized sales where the customer pool is limited⁵⁶.

Non-solicitation clauses can be included in an employment contract instead of entering into a separate non-solicitation agreement. However, such agreements can also be signed by the competitors so that they can settle on the explicit decision not to solicit current employees of one or both parties⁵⁷.

⁵⁴ 'Trade Secrets: Managing Confidential Business Information' (European Intellectual Property Helpdesk, April 2021) <<https://www.ipoi.gov.ie/en/commercialise-your-ip/using-ip-to-grow-your-business/what-is-intellectual-property/-trade-secrets-managing-confidential-business-information.pdf>> accessed 3 June 2023, 7-8.

⁵⁵ *ibid.*

⁵⁶ *ibid.*, p. 9.

⁵⁷ *ibid.*

Eventually, by using non-solicitation provisions as strategic tools businesses can thus reduce the risks of unauthorized solicitation, ensure the safety of their trade secrets and strengthen their position in the market.

1.3. Employee training and monitoring

In terms of trade secret protection measures, employees are key figures as they may both serve as protectors and potential infringers of valuable commercial information integrity. Consequently, since businesses have no choice but to entrust their trade secrets to the personnel so that the latter could take upon themselves the responsibility of safeguarding confidentiality, there is a great need in implementing the respective employee training and monitoring programs. Following that, these programs should be aimed at the improvement of trade secret security and reduction of insider threats, increasing awareness, diligence, and vigilance.

Except for raising awareness among the employees about the ways of handling trade secrets, there is another purpose as well. That is why personnel should also have a clear understanding of how they should act outside the company (e.g. during commercial negotiations or in public spaces)⁵⁸. Eventually, such training should have two directions – internal and external maintenance of confidential information.

Monitoring employees' activities is another necessary practice. Among the certain steps to be taken under this kind of trade secrets protection measure can be mentioned information security audits, and interviews with the employees leaving the company⁵⁹. In the first case, the main issue is to ensure the compliance of activities performed by the current business personnel with the company's policy in respect of confidential information security. Moreover, social media, becoming one of the most powerful tools for networking nowadays, should be subject to such audits as well. This is particularly because sometimes the use of different social media sources or platforms may result in even unintentionally providing access to confidential information.

There was a survey carried out by one of the largest websites and social networking applications where people can post their skills and background information. The results showed what a simple presence of people looking for new opportunities can create. A simple survey of the website

⁵⁸ *ibid*, p.10.

⁵⁹ *ibid*.

showed that almost 737 000 employees combined from nine very large anonymous companies have made their information available. Thus, they may also be making information about their employer available⁶⁰.

Another useful step in light of the employee training measures is to address the security concerns regarding trade secret protection in the early stages of the new employees' hiring process. Since it is quite a widespread practice that companies are frequently in search of new workers, it is necessary to develop separate rules to examine the potential candidates for the positions in the company. For example, a structured interview may include security-related topics,⁶¹ so that the conclusions could be in the early stage if the interviewed person's competencies and skills correspond to the certain job position and whether there is a need to arrange specific training.

One more common thing nowadays is to conduct background checks for employees who are expected to work with sensitive or classified information⁶². Therefore, employers may try to gain information regarding a candidate's education, work history, financial history, medical history, and criminal record.

In conclusion, employee training and monitoring measures provided by businesses for the protection of their trade secrets constitute a key tool because it is about employees carrying valuable information and being responsible for its safeguarding. Moreover, such steps are also an investment in the establishment of the companies' responsibility and accountability culture. However, in this context, there must be a combination of these two elements so that undesirable outcomes can be prevented effectively in the very early stages.

1.4. Litigation and enforcement

Such measures as litigation and enforcement are generally referred to when no other ways of trade secret protection work anymore and, consequently, the misappropriation situation occurs. Therefore, businesses would take legal action to defend their rights and seek remedies for the harm caused to them. However, the main issue thereto arises out of the fact that rights related to

⁶⁰ Michael Erbschloe, 'Walling Out the Insiders' [2017]. 1st ed., vol. 1, Routledge, 105-106.

⁶¹ *ibid*, 259-260.

⁶² *ibid*, 261-264.

confidential information shall be enforced very carefully so that not too much of the information is eventually disclosed⁶³.

The legal framework for litigation and enforcement is made up of EU regulations, national rules established by the EU member states, and case law. Following that, the Directive on Trade Secret Protection takes the central position among all other sources as it provides the harmonized legal regime and sets up common standards and remedies regarding trade secret dispute resolution. Chapter III of the Directive regulates measures, procedures, and remedies against unlawful actions connected to trade secrets. For example, Article 12 entitles the trade secret holders to seek remedies and other corrective measures to prevent the unlawful use or disclosure of confidential information. Article 14 foresees the right to claim damages equivalent to the actual harm caused by unlawful acquisition, use, or disclosure of the trade secret⁶⁴. Based on the Directive EU member states are allowed some discretion when transposing the provisions regarding trade secret protection into their legal systems while the final forms of the latter may differ from country to country (e.g. laws and regulations). For example, in Germany, there is a separate Gesetz zum Schutz von Geschäftsgeheimnissen (Trade Secrets Act), which provides legal remedies for trade secret misappropriation.

Generally, litigation stages include the initial assessment to identify the information that is subject to trade secret protection, investigation to gather evidence and assess the scope of the confidential information misappropriation, filing the lawsuit, documents discovery, evidence gathering, trial, and post-trial remedies. Nevertheless, different jurisdictions have distinct procedures for this purpose. In Austria, for instance, the protection granted to trade secrets during litigation encompasses a limited number of procedural rules in civil, criminal, and administrative proceedings⁶⁵.

The European Union Intellectual Property Office has made an overview of case law in trade secrets related disputes. Therefore, the overall claimant's and defendant's profiles are a) company v employee/former employee; b) company v company; c) competition authority v company; d) parties bound by specific contractual obligations; e) parties with no existing relationship before the dispute. The parties involved in these disputes span several economic sectors including retail,

⁶³ *Directive (EU) 2016/943 on the protection of trade secrets* [2016], OJ L 157, 1–18, art. 9.1.

⁶⁴ *ibid*, art. 14.1.

⁶⁵ 'The Baseline of Trade Secrets Litigation in the EU Member States' [2018] (European Union Intellectual Property Office). ISBN 978-92-9156-251-0, 234.

pharmaceuticals, transport, construction, design, manufacturing, software, high-tech, food and beverages, banking, tourism, cosmetics, nuclear energy, chemical, electronics, and electrical⁶⁶.

The enforcement mechanisms are used to ensure the performance of the court's decision and thus may be applied through the processes of damages recovery, injunctions implementation, provision of compliance with the legal orders, and other measures as well. However, some specific rules come into play when there is an enforcement of a foreign court's decision or a non-EU court's decision.

In the first case, there is an EU regulation that covers cross-border recognition and enforcement of judgments. Following that, Brussels I Regulation (EU) No 1215/2012⁶⁷ established the presumption of equivalent protection afforded by the MSs judiciary systems. According to the Regulation, a judgment given in an EU MS will be recognized and enforced in any other MS without the need to introduce a formal declaration of enforceability (*exequatur*). Such declaration was envisaged under the previous Regulation (EC) No 44/2001 and then repealed by the new system⁶⁸. But there are still some exceptions, for example, in Portugal or Romania, where national legislations allow the recognition of the final decision only that is thus not subject to any more appeal. Moreover, this Regulation covers also decisions on injunctions and damages, however, it does not always result in benefits for the parties. The EU study on trade secrets and confidential business information in the internal market conducted in 2013 had shown that only 57 companies out of 537 succeeded in the obtainment of an injunction. Furthermore, only 10 companies out of 57 (17.5 %) could get injunction enforcement in other MSs but 16 entities (28 %) were unable to do so in all the MSs that they referred to⁶⁹.

On the contrary, there are some hardships regarding the enforcement of non-EU courts' decisions because of the lack of harmonized legislation for such purposes. International conventions on jurisdiction and recognition and enforcement are the only tools to be applied to such sort of situations. Consequently, it may result in providing unequal access to justice for EU trade secret holders.

⁶⁶ *ibid*, 332.

⁶⁷ *Regulation (EU) No 1215/2012*, [2012], OJ L 351, 1-32.

⁶⁸ *ibid*, 345.

⁶⁹ EC Study on Trade Secrets and Confidential Business Information in the Internal Market. Final Study [2013] Ref. Ares(2016)165284, 7.

To sum up, litigation becomes the essential measure to protect trade secrets by pursuing legal actions when a misappropriation situation occurs. Following that, enforcement guarantees the realization of the trade secret holders' right to appropriate remedies. Nevertheless, the litigation is considered to be a lengthy and costly process for the parties to solve especially in cross-border cases, so it is referred to in very rare cases. Therefore, most businesses prevalently decide in favor of alternative dispute resolution.

1.5. Alternative dispute resolution

Alternative dispute resolution (ADR) is often more favored than litigation due to its less formal, more cost-effective, and time-saving approach. One of the crucial arguments for referring to ADR is that it enables to find solutions aimed at confidentiality protection and preserving business relationships through the collaborative framework. Among the most frequently referred ADR mechanisms for the solution of trade secret disputes are mediation and arbitration.

On the one hand, mediation is a less formal ADR procedure compared to arbitration. It involved the participation of the third party called the mediator whose goal is to facilitate the solution of the dispute between the parties through the promotion of communication and collaboration and guiding the clarification of issues and generation of solutions. However, the mediator is not entitled to produce a decision that would be binding for the parties. Among the advantages of the mediation measure for the solution of trade secret disputes are the following ones: control of the parties over the outcome, confidentiality, speed, and cost-effectiveness.

On the other hand, arbitration being of a quite formal character can involve the participation of one or more arbitrators who would thus be responsible for the adoption of the final binding decision. Another peculiarity of this ADR process is that arbitrators are chosen not only on the ground of neutrality but also expertise in trade secret disputes should be taken into account so that they can make an objective assessment of the provided evidence, apply relevant laws, and provide an impartial decision on the dispute. The level of confidentiality is, however, lesser than in mediation, but the details of trade secret disputes are generally kept private. Finally, the arbitration procedure results in the assignment of the arbitral awards which is a final and enforceable outcome. The New York Convention establishes the framework for recognition and enforcement of the arbitral awards issued in one member state by the courts of another member state.

The WIPO Arbitration and Mediation Center (WIPO Center) is an independent and impartial body of the World Intellectual Property Organization that facilitates the resolution of IP and related disputes through mediation, arbitration, expedited arbitration, and expert determination⁷⁰. There are special sets of rules regulating the mediation and arbitration processes that address the protection of trade secrets as well as other confidential information during the following processes. Article 54 of the WIPO Arbitration Rules establishes a duty of confidentiality for all the participants involved⁷¹. This is a particularly important provision for trade secret disputes as it enables the parties to present the secret information bearing commercial value without the fear of it being publicly disclosed. Finally, the confidentiality of the arbitration process is its another advantage since it not only helps to protect the sensitive nature of trade secrets but also preserves their value and prevents further misuse.

In conclusion, both mediation and arbitration procedures promote flexibility, confidentiality, and efficiency in respect of addressing trade secret disputes. Therefore, the trade secret holders can choose between different ADR options the one that suits their specific needs and the nature of the dispute the best. Unlike litigation, referring to the ADR mechanisms would thus minimize the time, costs, and hardships of formal legal procedures.

2. Challenges in the field of trade secrets protection

Even though the protection of trade secrets is of great importance for businesses to conduct their activities safely, there are still some fraudulent practices of competitors that remain possible because of the existing gaps and challenges in the protection of confidential business information. Therefore, it is critically important to examine the latter and analyze the ways such problems can be addressed, so that companies can still be confident about the secure future of their performance on the market.

Among the defining factors in the litigation and resolution of trade secret disputes, there are breaches of confidentiality or an employee's fiduciary responsibility to protect an employer's proprietary information/IPs⁷². These two types of cases are prevailingly caused either due to negligence or malicious activities of employees. Therefore, some serious efforts should be made

⁷⁰ WIPO Arbitration and Mediation Center (official website) <<https://www.wipo.int/amc/en/center/index.html>> accessed 6 June 2023.

⁷¹ *WIPO Arbitration Rules* [2021], art. 54.

⁷² William M. Fitzpatrick, Samuel A. Dilullo, 'Protecting Trade Secrets: Legal Challenges and Liabilities for Organizations' [2017]. *Competition Forum*, vol. 15, no. 1, 220.

in this direction to protect businesses against the negative consequences. The legal researchers of trade secret protection issues insist on the necessity of the security programs implementation that would reduce the previously mentioned types of trade secret losses. However, these should be complex programs intended for several purposes. First and foremost, the programs should create a business culture of confidentiality. Secondly, they should draft and enforce nondisclosure/non-compete agreements for both employees and value chain partners. Thirdly, the programs should be intended to conduct due diligence investigations of value chain partners that are given access to proprietary information. Fourthly, they should also be set to control proprietary information loss in the post-employment activities of workers through inevitable disclosure litigation⁷³. Eventually, such an approach summarizes all the key measures that may and should be taken by businesses to protect their commercial information.

Other legal challenges occasionally occur when international non-disclosure and non-compete agreements, entered into by businesses to protect their trade secrets, come into play. These challenges arise, in particular, because of variations in the requirements for structuring and enforcing these agreements across jurisdictions⁷⁴. However, parties must negotiate on the governing law of the agreement as well as settle on alternative dispute resolution mechanisms in case the dispute arises. Otherwise, if parties fail to agree on these contractual provisions they would end up with no legal restrictions for sharing confidential business information with competitors and, therefore, no legal protection to obtain compensation for the fact of misappropriation of trade secrets⁷⁵.

It is also a common practice that businesses tend to be more protective against outside threats to their trade secret integrity. Nevertheless, it can be a really common practice that the insiders possessing knowledge regarding the company's policies, procedures, and technology, are then discovered to be involved in malicious activities. In some cases, such individuals may be the ones who configured the businesses' security systems⁷⁶. To confront such practices both human and technological factors should be involved. The researchers allocate the following security recommendations for businesses to consider. Firstly, companies should identify all of their confidential information and trade secrets. Secondly, certain restrictions to the IT services and

⁷³ *ibid.*

⁷⁴ *ibid.*

⁷⁵ William M. Fitzpatrick, 'Strategic management and decision making' [2016] (11.2 ed.). Washington, D.C.: SPMD Associates Press.

⁷⁶ 'Common sense guide to mitigating insider threats' (5th ed.) [2016]. CERT Insider Threat Center, 4. <https://resources.sei.cmu.edu/asset_files/TechnicalReport/2016_005_001_484758.pdf> accessed 9 June 2023.

other archives of such information should be established. Thirdly, access to protected data should be only allowed individually depending on the legitimacy of the aim to know it or to use it. Fourthly, employers should conduct due diligence on all the personnel members having the previously mentioned access to the trade secrets. Fifthly, some sort of access-control system can be implemented to monitor users accessing data on trade secrets. Finally, it may be beneficial to outline specific individual responsibilities in protecting such information from human and technological threats⁷⁷. However, when regulating such important aspects it is important to have a complex of actions implemented simultaneously for the latter to prove its effectiveness.

Placing strict control on the employees' activities can thus create another challenge – restriction of their right to privacy. Therefore, it is important to observe the borderline between the private interests of the personnel and the business's interests. In the case *Bărbulescu v. Romania*⁷⁸ an employer had read the employee's instant messaging communications sent by the latter from his workplace computer without obtaining the prior consent of the employee. The employer argued that it was necessary to check if the employee had used the company's property for personal purposes. Eventually, in its ruling the European Court of Human Rights held Romania responsible for the failure to strike a fair balance between the applicant employee's rights and the rights of his employer and, consequently, to protect the individual's right to privacy. This case law can be related to the situation with the establishment of trade secret protection measures as well. Prior informed consent of the personnel must be obtained to process the necessary information while monitoring activities should be proportionate to safeguard the commercial business information.

2.1. Unfair competition. MAC Dog judgement

The analyzed previously challenges may set the stage for unfair business practices aimed at weakening competitors' position on the market and subsequent obtainment of a dishonest competitive advantage. Consequently, unfair competition comes into play.

The concept of unfair competition refers to the involvement of one business entity into the wrongful actions against the other business to cause economic damages or other harm to the latter. Therefore, misappropriation of trade secrets could constitute an unfair business

⁷⁷ William M. Fitzpatrick, Samuel A. Dilullo, 'Protecting Trade Secrets: Legal Challenges and Liabilities for Organizations' [2017]. *Competition Forum*, vol. 15, no. 1, 222.

⁷⁸ *Bărbulescu v. Romania* [2016] ECHR 61496/08, [2017].

practice as the wrongdoer may steal the company's trade secret to ruin its competitive edge. Among the examples of unfair competition practices related to trade secrets can be mentioned corporate espionage, competitor's employee solicitation, false advertising exploiting or disclosing a competitor's trade secret. Following that, it is not only necessary to establish strong trade secret protection measures but also to ensure that fair competition rules are observed as well.

The legal framework regulating unfair competition issues comprises primary and secondary EU legislative sources. However, the most relevant provisions for the prevention of unfair business behavior regarding illegal trade secret exploitation constitute articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU). In particular, article 101 TFEU prohibits parties from entering into anti-competitive agreements restricting competition within the EU⁷⁹. For the safeguarding of a business's valuable commercial information, this provision prohibits anti-competitive practices that involve unlawful acquisition, use, or disclosure of trade secrets by competitors. Article 102 TFEU establishes the prohibition of abuse of dominant market position that may thus affect trade between EU member states⁸⁰. When applying this specific provision to the trade secret dimension it is necessary to prevent dominant businesses from unlawfully misusing trade secrets to harm, restrict or eliminate competition. Furthermore, the case law developed by the European Commission and the Court of Justice of the European Union (CJEU) interprets and clarifies the legislation in this field.

Generally, there are three main elements of unfair competition. Firstly, there should be real economic harm caused to the business which can obtain different forms (for example, reduction of sales, loss of consumers). Secondly, another important aspect to define is the deceptive or otherwise wrongful business conduct that led to the following outcome. Thirdly, the causal link should exist between the two previously mentioned elements.

Eventually, if a situation involving unfair business practices concerning the business's trade secret occurs, the owner of such business would need to seek remedies or compensation. Among the possible ways should be mentioned the following ones. To take action and stop the other party from competing unfairly it is possible to file a lawsuit for injunctive relief. Another necessary step in such circumstances would be for the business's owner to seek monetary damages for the

⁷⁹ TFEU [2012] OJ C 326, 47-390, art. 101.

⁸⁰ *ibid*, art. 102.

suffered financial losses such as lost profits or costs that were incurred to remedy harm. Furthermore, depending on the situation it may also be essential to ask a court to recall the products manufactured in accordance with the stolen trade secrets or take other corrective measures to prevent further harm and thus facilitate the maintenance of fair competition on the market.

One of the notable judgments regarding the relationship between IP and trade secrets versus unfair competition protection was made in the MAC Dog case. The plaintiff was the US parent company of the McDonald's corporation and thus owned numerous trademarks with the elements "Mc," "Mäc," or "Mac". The defendant offered dog food and cat food under the names "MACDog" and "MAC Cat". Following that, the plaintiff claimed that this constituted an unfair impairment of their good reputation since consumers would associate the plaintiff's products with the defendant's pet food and meat products. The court upheld the plaintiff's reasoning and considered such an association to be detrimental to the plaintiff's reputation and to constitute unfair competition⁸¹. Furthermore, this decision accorded priority to the protection of intellectual property rights and the prevention of unfair business practices on the market. In the light of trade secret protection, this case emphasized the importance of interplay among various IP rights to safeguard the business's overall competitive advantage on the market. That is why it is of crucial importance to provide comprehensive trade secrets and other IP rights protection strategies.

Chapter conclusions

Analysis of trade secret protection measures reveals it's another key peculiarity in comparison to other IP rights. Following that, trade secrets are subject to less protection than other IP rights such as patents, copyrights, or trademarks. In particular, there is no formal procedure involving authority bodies and filing applications to obtain protection over confidential business information. This distinction is, in particular, closely related to the nature and purpose of trade secrets. Therefore, while other IP rights prevalingly perform public functions and are used to promote innovation, creativity, and consumer protection, trade secrets, having a very private nature, safeguard the most essential business data necessary to guarantee a competitive advantage to its holder from unauthorized use or disclosure. Finally, this makes reasonable the fact that the level of trade secret protection is lower than that of the other IP rights. However, legal acts regulating trade secrets also protect them against unfair competition and misappropriation.

⁸¹ Richard Dissmann, '4.BGH, Urteil Vom 30.4.1998 (I ZR 268/95), GRUR 1999, 161 – MAC Dog' [2009]. Der Schutz Der Bekannten Marken, 1st ed., Nomos Verlagsgesellschaft mbH & Co. KG, 203.

Although being protected to a certain extent trade secrets remain vulnerable to the infringement of their integrity more or less depending on a case-by-case basis. The previously discussed challenges along with the continuous unfair business practices demonstrate the crucial importance of constantly addressing the gaps in the field of trade secret protection and taking specific measures to eliminate them. Except for the already suggested business-oriented actions in this chapter, there are also some general rules to be observed. First, all existing national and international regulations should remain subject to periodic review and amendments to react to the global changes occurring in the world of business and technology. Moreover, the most efficient way to establish a working IP regulating policy is to foster cooperation between the government and businesses. Succeeding in the completion of the above-mentioned steps would result in organizing a favorable environment for the conduction of business activities, fostering economic growth, and ensuring healthy competition.

Chapter IV. THE MOST FAMOUS TRADE SECRET EXAMPLES

1. The most famous trade secret protection strategies

To see the effectiveness of trade secret protection for businesses and the internal market functioning it is important to refer to the already existing examples of their successful application. There are numerous famous brands' cases demonstrating how trade secrets benefited them in developing their reputation and obtaining the leading places among other companies. This chapter examines some of the most well-known trade secrets that show the significance of safeguarding confidential business information and the positive outcomes it may eventually bring.

The **Coca-Cola** Company's formula for the production of the eponymous soft drinks has been subject to trade secret protection since Asa Candler purchased the rights to the original recipe in 1891 and made some changes to improve the flavor of the beverage⁸². This company has its "secret formula" policy which is thought to be more of the market strategy than the trade secret itself. The central idea of this company is that there are only two employees responsible for bearing the knowledge of the complete formula, but they are not permitted to travel together. Upon the death of one of these employees, the other one is obliged to choose a successor among the company personnel and impart the secret to that individual. Moreover, the identity of the two "chosen" employees should be kept secret as well⁸³. Such a measure seems to be reasonable in terms of reducing the risk of unauthorized disclosure or loss of valuable commercial information. However, some possible disadvantages need to be considered. For instance, if one of the employees unexpectedly becomes unable to perform his work duties the trade secret would then be not protected to its full extent. That is why it is essential to create some kind of contingency plan in case such circumstances appear. Another disputable moment is related to insider threats as one of the employees could intentionally disclose the secret formula. In particular, in 2006 there was a case about the Coca-Cola company worker and accomplices who decided to steal the formula and sell it to Pepsi. Eventually, the fact of such wrongful conduct was notified to the Coke official and, therefore, the wrongdoers were arrested.

The **New York Times** bestseller list is another example of the worldwide known brand's trade secret protection. The key subject to protection, in this case, is the method that the Times uses to

⁸² William Poundstone, 'Big Secrets: the uncensored truth about all sorts of stuff you are never supposed to know' [1983]. William Morrow & Co, 30-31. ISBN 0688022197

⁸³ *ibid*, 28.

compile this list of best-selling books⁸⁴. The main purpose behind this specific measure is to prevent publishers from manipulating sales data to their advantage. Therefore, if there are grounds for the Times to believe that a certain book's data is suspicious and intended to reach the list, the book's entry thereto is then marked with a dagger symbol⁸⁵. This approach to ensuring the confidentiality of key business processes demonstrates positive outcomes such as maintenance by the Times of a competitive edge on the market and keeping the trust of its readers since the audience can be sure that data is reliable and accurate. The only issue that may arise is one concerning transparency because most authors and readers are eager to know what figures or data these rankings are based on.

Listerine brand of antiseptic mouthwash provided trade secret protection for its exact composition formula. However, the most notable thing about this example is rooted in the history of the license transmission of secret formula to Lambert Pharmaceuticals⁸⁶. Upon such transmission, the licensee was obliged to make royalty payments to the inventor's family for a period of over 70 years. Lambert sued because it wanted to stop the payments since the formula was revealed, but the court ruled that although the trade secret was disclosed to the public, the party known to legitimately get access to it could not stop the payments as such provision is not foreseen in the contract⁸⁷. Eventually, in the case of the Listerine brand, a new concept was developed that extended trade secret protection beyond only the maintenance of secrecy.

One of the most prominent trade secrets in the catering industry is known to be **Kentucky Fried Chicken's** original recipe of "11 herbs and spices". Initially, this recipe was kept in the inventor's head, but eventually, the handwritten copy was created and put into a safe. Therefore, the only employees entitled to know this recipe were obliged to sign the non-disclosure agreement. Seeking the improvement for this trade secret protection the company started shipping the spices for chicken being already mixed to restaurants so that the recipe's secrecy is still preserved⁸⁸. The New York Times then called the recipe to be one of the KFC business's most valuable assets⁸⁹. In this case, the measure used for the protection of the recipe is quite reliable in terms of confidentiality

⁸⁴ Edwin Diamond, 'Behind the Times: Inside the New New York Times' [1995]. University of Chicago Press, 364. ISBN 9780679418771.

⁸⁵ Erin Barnett, 'Are Conservative Titles Using Shady Tricks to Get Onto the Bestseller List?' [2018]. Electric Literature.

⁸⁶ Jesse Hicks, 'A Fresh Breath. Thanks to Chemistry. Chemical Heritage Foundation' [2016]. Archived from the original.

⁸⁷ *Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc.* [1959] 178 F. Supp. 655 (S.D.N.Y. 1959).

⁸⁸ William Whitworth, 'Kentucky-Fried' [1970]. The New Yorker.

⁸⁹ Sandra Chartrand, 'Patents; Many companies will forgo patents in an effort to safeguard their trade secrets' [2001]. New York Times.

and risk management. Nevertheless, some issues regarding the processes of quality control or shipping and storage condition may arise as they may affect the appearance and final taste of the product.

To prove that trade secrets may constitute a useful tool for the protection of almost all possible products and/or services on the market the *Lena Blackburn*'s baseball rubbing mud example should be referred to. This brand specializes in the manufacture of specific mud that is used to prepare baseball balls for play. The trade secret protection is established for the particular location where the mud comes from while the company insists that it is based on the public land⁹⁰. Therefore, this confidential business information is secretly passed on to new generations, so that people do not get access to it. This approach provides the trade secret holder with uniqueness, exclusivity, and brand authenticity on the market. The challenges that may come to mind under such circumstances include the necessity to ensure the consistent supply of the substance as well as to prepare a contingency plan in case the undisclosed location is discovered intentionally or by accident by third parties.

2. Notable EU case law on trade secret protection

Apart from the specific strategies that brands use to protect their trade secrets, there is also a respective case law that provides insight into the legal principles and precedents on this issue. As famous brands frequently have to defend their trade secret protection policies before the court, the outcomes of these cases can shape the legal landscape and provide guidelines for future disputes. Consequently, examining case law enables businesses to understand the nuances of trade secret protection, make choices, and develop effective methods to secure their confidential business information.

*Microsoft Corp. v. Commission*⁹¹. The ECJ ruled that Microsoft Corporation must pay a 497 million EUR fine in the *Microsoft Corp. v. Commission* case. The dispute began with a Sun Microsystems complaint that claimed Microsoft was concealing interoperability data required for compatibility with its dominant PC operating system. Microsoft was required by the Commission's ruling to give competitors access to this exclusive interoperability information. Microsoft announced its willingness to charge for access to the material in an application for annulment. The

⁹⁰ John Nordell, 'The dirt on baseball' [2005]. The Christian Science Monitor.

⁹¹ Case T-167/08 *Microsoft Corp. v. Commission* [2007] ECR II-3601.

Commission argued, however, that consumers should only pay for truly new value. The Court of First Instance denied Microsoft's request to suspend the decision's remedies, finding that there was no evidence of serious and irreparable damage. The Court upheld the Commission's conclusions of market abuse and highlighted that rivals should not be punished for publicly accessible or obvious technologies that Microsoft had kept secret to preserve an artificial competitive advantage. This case emphasized how crucial it is to avoid charging rivals for trade secrets that are already known to the public or provide obvious technical solutions, upholding the idea of fair competition and reducing the artificial advantage that comes from keeping some information secret.

Arbeitsgericht Hamburg. In this case, a former employee of a software company had a social media account on XING and spoke with acquaintances, which included those who worked for the company's clients or business partners, about her interest in diving. The former employee, according to the company, was improperly exploiting contacts and social media accounts saved on XING, thus the employer requested an injunction. The court, however, denied the plea, citing the lack of any trade secrets that were stolen or utilized illegally. The court highlighted, using earlier case law, that trade secrets are operational facts that are only known to a small group and are meant to be kept secret for business purposes. However, the interactions in question took place before the defendant's employment or before the contacts became clients or business partners, so they lacked the necessary "framework of business activity" for trade secret protection. This was contrary to the court's conclusion that customer data on platforms like XING can be trade secrets⁹². This case reinforces the necessity that interactions or information that is readily available from public sources may not qualify for trade secret protection and that trade secrets must meet specific criteria to be protected. It underlines the need of proving the unauthorized acquisition or use of trade secrets as well as the requirement of a precise business activity framework for such protection to be effective.

In a recent decision by the Court of First Instance in Munich, a patent infringement case between Qualcomm and Apple raised issues of trade secret protection in enforcement situations⁹³. The court had to decide whether Qorvo's integrated circuits, which were used in a few different iPhone models, violated Qualcomm's patent. The court supported the patent infringement allegation despite its inability to fully understand the inner workings of Qorvo's computer chip because Apple was unable to adequately oppose Qualcomm's claims based on engineering. Apple's fear of

⁹² Dr. Udo Bux, "Trade Secrets: In-depth analysis requested by JURY Committee" [2014], 15. < [https://www.europarl.europa.eu/RegData/etudes/note/join/2014/493055/IPOL-JURI_NT\(2014\)493055_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/note/join/2014/493055/IPOL-JURI_NT(2014)493055_EN.pdf) > accessed 24 June 2023.

⁹³ Landgericht (County Court) Munich I, Decision of 20.12.2018 – re 7 O 10495/7.

violating Qorvo's trade secret was the reason for withholding circuit blueprints. This case demonstrates how the Directive on Trade Secrets does not provide comprehensive protection as intended, instead concentrating on situations involving the theft of trade secrets.

Chapter conclusions

Having analyzed the examples of famous brands' trade secret protection it is evident that this tool plays a crucial role in the process of contributing to their competitive edge and safeguarding the confidential business information assets. Although all kinds of measures taken by businesses are different, the common thing about them is the purpose that is put behind them. Therefore, all of these approaches aim at the reducing risks of trade secret misappropriation. For a company's trade secret policies to succeed it is important to reach a balance between the need for confidentiality and reasonable transparency as well as practicality. Eventually, all the suggested by businesses measures require regular evaluation and adaptation to the emerging challenges if necessary.

Furthermore, the examined case law addresses challenges in the field of trade secret protection and provides important insights. Firstly, it is essential to disclose interoperability data while protecting intellectual property rights. Secondly, the criteria established to define the information as a trade secret should be considered and distinguished from publicly accessible facts. Thirdly, there are hardships of trade secret protection in enforcement situations involving the interplay with other intellectual property rights that need further investigation and more legal certainty. Eventually, this case law emphasizes the need for a well-balanced strategy that protects trade secrets while fostering competition, creativity, and easy access to necessary information.

Chapter V. EMERGING TRENDS IN TRADE SECRET PROTECTION

As the world changes rapidly and innovations are made almost every day, especially under the influence of the digital age, the law is subjected to the respective transformation. Following that, trade secret law is constantly developing through the processes of adapting to the new realities, overcoming the appearing challenges and thus establishing the rules, principles, and concepts facilitating businesses in preserving their competitive edge. Consequently, to stay up to date it is important to discover the most recent developments related to the protection of commercial confidential information.

As the trade secrets legal framework is constantly evolving, it is of crucial importance to be aware of the current trends and technologies. Therefore, this chapter is devoted to the analysis of the significant recent trends in the field of trade secret regulation and protection: harmonization of trade secrets, cybersecurity and digital protection, whistleblower protection, international cooperation, and employee mobility.

1. Harmonization of trade secrets

The harmonization of trade secrets is expressed through the implementation of the EU Trade Secrets Directive. The directive creates a uniform legal framework for the definition, protection, and enforcement of trade secrets throughout the EU member states. Therefore, it requires that member states adopt its provisions into their national legislation to harmonize their legal frameworks with the common standards set thereto. Furthermore, the Directive foresees that Member States may, in compliance with the provisions of the TFEU, provide for more far-reaching protection against the unlawful acquisition, use, or disclosure of trade secrets than that required by this Directive⁹⁴.

The EU seeks to resolve legal inconsistencies and ambiguities that previously existed across member states by standardizing trade secret protection legislation. This entitles businesses operating across multiple jurisdictions to have a more uniform and predictable legal environment for trade secret protection. Additionally, it makes it easier for EU member states to cooperate and enforce laws across borders when it comes to trade secret misappropriation.

⁹⁴ Directive (EU) 2016/943 on the protection of trade secrets [2016], OJ L 157, 1–18, art. 1.2.

2. Cybersecurity and digital protection

Nowadays the scientific and technological progress's influence on the way businesses operate, store information and even interact is of a great extent. As a result, such transformation has brought both – great opportunities for the company's growth and development and new challenges for trade secret protection as well. The latter, in particular, is because most businesses tend to favor digital measures for safeguarding their confidential commercial data, and thus risks for the misappropriation or unauthorized access increase proportionately. Therefore, it is important to analyze the existing level of interplay between trade secrets protection and the digital environment and outline measures that are required to ensure effective protection.

Digital tools have contributed greatly to all the processes related to the management of valuable commercial information. It is especially beneficial because the variety of different platforms enables businesses to efficiently organize, store and thus make use of their trade secret assets. For example, research data, marketing strategies, customer databases, or manufacturing processes can be created and maintained digitally, this is the major interplay in that context. However, all these beneficial features of such interconnection also bring a lot of potential threats such as illegal access to trade secrets or data breaches. Moreover, it is not necessarily that such wrongdoings are committed by the hackers as the company's employees or business partners can pose risks to the business as well.

To battle the risks of unauthorized access to confidential data obtainment certain digital era-specific measures should be taken. Therefore, such cybersecurity measures may include, first and foremost, the decision not to digitize the trade secret at all⁹⁵. For example, Coca-Cola company⁹⁶ prefers rather physical ways of safeguarding their secret formula. However, the modifications of the previously mentioned approach could constitute a reliable basis for digital data protection as well. Among such modifications may be considered, for instance, segmenting the information into several parts or giving code names for specific figures therein. Secondly, it is important to control access to the safeguarded information. Thirdly, computer protection and file security should be ensured, in particular, through regular computer system updates and the installment of intrusion detection systems. Fourthly, for all of these measures to work and bring the desired outcomes to business's security it is important to organize the respective employee training on cybersecurity

⁹⁵ Victoria A. Cundiff, 'Reasonable Measures to Protect Trade Secrets in a Digital Environment' [1955]. Idea (Concord, N.H.), vol. 49, no. 3, 2009, 366.

⁹⁶ *Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co.* [1983], 107 F.R.D. 288, 289, 294 (D. Del. 1985).

rules. Furthermore, such training should be arranged regularly in light of the new emerging technical issues and solutions⁹⁷. All of these measures together would facilitate making the best use of digital trade secret management.

In conclusion, the interplay between trade secrets and the digital environment is complex and ambiguous. While digital technologies contribute greatly to the development and maintenance of trade secrets, they also create for businesses additional responsibilities in respect of the implementation of stronger cybersecurity measures and compliance with data protection laws to safeguard valuable trade secret assets from ever-changing online dangers.

3. Whistleblower protection

Whistleblowers are known as individuals who have access to information regarding wrongdoing, for example, trade secret misappropriation or other illegal activities' performance within the company and prefer to disclose it in the public interest⁹⁸. Their actions can have significant legal and reputational consequences influencing both the organizations involved and the individuals being responsible. Therefore, it is essential to guarantee whistleblower protection to promote transparency, accountability, and public interest.

The EU Trade Secrets Directive acknowledges the significance of protecting whistleblowers. Following that, the Directive encourages member states to make sure that those who share trade secrets in the context of disclosing misconduct or illegal activity are protected from revenge. For instance, article 5 of the Directive states that if the acquisition, use, or disclosure of trade secrets is made to exercise the right to freedom of expression and information, the disclosure complies with the requirements of applicable national laws and regulations⁹⁹. Following that, the analysis of further provision provides that all the previously mentioned actions performed to reveal misconduct, wrongdoing, or illegal activities are lawful if the whistleblower was acting in the public interest¹⁰⁰. Although the Directive does not explicitly provide a list of particular measures to protect whistleblowers, it still indirectly supports the safety of respective business players.

⁹⁷ Victoria A. Cundiff, 'Reasonable Measures to Protect Trade Secrets in a Digital Environment' [1955]. Idea (Concord, N.H.), vol. 49, no. 3, 2009, 373.

⁹⁸ 'Whistleblowing in Europe: Legal Protections for Whistleblowers in the EU' [2013] Human Rights Documents.

⁹⁹ *Directive (EU) 2016/943 on the protection of trade secrets* [2016], OJ L 157, 1–18, art. 5(a).

¹⁰⁰ *ibid*, art. 5(b).

Moreover, the process of the regulation of whistleblowers' legal status has evolved into the adoption of a specific Directive (EU) on the protection of persons who report breaches of Union law. The Directive is expected to come into force in most of the CEE/SEE countries in 2023. Therefore, private sector corporations with between 50 and 249 employees are obliged to implement the Directive until December 17, 2023, while companies with 250 or more employees had to complete this duty before the law came into effect. Eventually, the main purpose of this directive is to enhance the enforcement of Union law and policies in specific areas by laying down common minimum standards providing for a high level of protection for persons reporting breaches of Union law¹⁰¹.

The Commission in light of the whistleblowers' protection emphasizes that it would thus "help to discipline companies and protect societal interests, which have the potential to enhance trust in the market and therefore attract potential investors and business partners"¹⁰². However, it is essential to strike a fair balance between the protection of trade secrets and whistleblower's rights to prevent the situation of establishing blanket immunity to the latter from the disclosure of commercial business information without good justification. For these purposes, the whistleblowers are obliged to act responsibly and report misconduct while maintaining trade secret confidentiality as much as possible.

4. International cooperation

An important development in the EU's efforts to protect trade secrets is international cooperation. The EU actively works to encourage coordination and cooperation with other jurisdictions as it recognizes the global character of trade secret misappropriation. With important foreign partners, the EU conducts discussions and information-sharing projects to create international rules and standards for trade secret protection. This includes contributing to the creation of international standards and regulations for the enforcement of trade secrets in multilateral forums like the World Intellectual Property Organization (WIPO). The EU wants to improve cross-border enforcement tools, simplify legal processes, and promote information and evidence sharing in trade secret cases through international cooperation. Eventually, the main goal is to provide a coherent and efficient global environment that protects trade secrets, encourages innovation, and supports fair competition in the global marketplace through the promotion of international cooperation.

¹⁰¹ Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law [2019], OJ L 305, 17-56, art. 1.

¹⁰² Communication on further measures to enhance transparency and the fight against tax evasion and avoidance [2016]. EU Commission, 9-10.

5. Employee mobility

The European Union's growing trade secret protection system includes employee mobility as a key component. The EU has acknowledged the need to find a balance between protecting trade secrets and ensuring employees' rights and freedom of movement as businesses face more and more difficulties relating to the potential misappropriation of trade secrets by departing employees. This development underlines the growing significance of putting restrictive covenants and non-disclosure agreements (NDAs) in place to reduce the risks brought on by employee mobility while encouraging innovation and fair competition.

The directive on the Protection of Trade Secrets mentions that “nothing in this Directive shall be understood to offer any ground for restricting the mobility of employees”¹⁰³. Therefore, this provision acknowledges that the ability of employees to use the skills and information they gain throughout the normal course of their employment should not be constrained. This clause highlights that trade secret protection methods should not unreasonably restrict employees' ability to advance in their careers or look for work at other companies. In the context of employee mobility, it emphasizes the significance of establishing a fair balance between trade secret protection and the legal interests of employees, encouraging innovation and competition while preserving trade secrets.

Furthermore, the Directive includes catch-all provisions which allow for the acquisition, use, and disclosure of trade secrets if “permitted by... national law”. In particular, if the trade secret was obtained through “any other practice which, under the circumstances, conforms with honest commercial practices” or was disclosed by “workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with [European] Union or national law”¹⁰⁴.

In conclusion, employee mobility in trade secret protection is a new trend that represents the need for a balanced strategy that protects trade secrets while honoring employees' freedom and rights to explore professional prospects. It necessitates putting policies in place that fairly balance trade secret security with promoting innovation, rivalry, and employee career advancement.

¹⁰³ *Directive (EU) 2016/943 on the protection of trade secrets* [2016], OJ L 157, 1–18, art. 1.3.

¹⁰⁴ Patel, Jan Philipp Pade, Victoria Cundiff, & Benjamin Newman, “The Global Harmonization of Trade Secret Law: The Convergence of Protections for Trade Secret Information in the United States and European Union” [2016]. *Defense Counsel Journal*, 83(4), 472–486. <https://doi.org/10.12690/0895-0016-83.4.472>

Chapter conclusions

To sum up, it is important to mention that trade secret law is witnessing the emergence of new significant trends and challenges under the influence of the harmonization and digitalization processes, growing attention to the whistleblowers' protection, international cooperation, and employee mobility. To effectively address these trends and challenges, businesses and legal professionals should keep up to date about the evolving legal landscape and take proactive steps to protect their trade secrets.

Eventually, by adjusting to the novelties brought by the harmonization issues initiated by the Directive adoption, impacts of the digital era, recognizing the role of whistleblowers, facilitating international cooperation and employee mobility issues along with the further upcoming trends, trade secret protection can be developed to effectively meet the demands of the modern business environment. By implementing robust measures, fostering collaboration, and striking the right balance of protection and transparency, organizations can protect confidential business information and stimulate innovation in this rapidly changing world. As a result of these efforts both business and the internal market would witness the great contributions brought by trade secrets.

CONCLUSIONS

Having conducted a thorough research regarding the ways trade secrets contribute to business and the internal market certain conclusions can be done.

To begin with, trade secrets while protecting valuable commercial information serve as a cornerstone of business success and the internal market's constant evolution. This is, in particular, because trade secrets facilitate companies in the maintenance of competitive advantage, investment attraction, and innovation driving by safeguarding their know-hows, customer databases, manufacturing process, and other unique trade secret related data. Eventually, the performance of previously mentioned functions increases productivity levels and, consequently, economic growth.

There was a trade secret related survey of 537 businesses in Europe conducted in 2013. Among participants in this survey, 75% classified trade secrets to be “strategically important to their company's growth, competitiveness, and innovative performance”. The respective trust towards trade secret protection was expressed by representatives of businesses of different sizes including small and medium size enterprises. The main reason provided by business representatives (52%) for preferring trade secrets to other forms of intellectual property protection was to avoid public disclosure of valuable information¹⁰⁵.

Therefore, many businesses favor trade secret protection within the internal market rather than referring to any other forms of intellectual property protection due to numerous reasons. Among the main factors that were investigated in this master thesis known to influence this choice should be mentioned the following ones: competitive advantage over the rivals, cost-effectiveness and absence of bureaucratic procedures, indefinite protection period, broad scope of protection, control over the information, flexibility in the adapting of the protection strategies, option for immediate protection before obtaining other IP protections and reversibility.

The internal market establishing the core principles of the free movement of goods, services, and capital, therefore, serves as a favorable environment to make the most out of the use of trade secrets by businesses. In addition, the harmonized legal framework of the European Union, the EU Trade Secrets Directive in particular, guarantees the consistent approach to trade secret protection

¹⁰⁵ Commission Staff Working Document Impact Assessment, SWD/2013/0471 final. < <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52013SC0471> > accessed 15 June 2023.

established across member states. This is particularly beneficial for the development of cross-border trade, investment encouragement, and fair competition promotion among the businesses' operations within the internal market.

Nevertheless, there are some challenges and emerging trends that require attention and effort. The novelties brought by the digital era and the increase in the level of cyber threats to the integrity of trade secrets require the application of strong security measures. While establishing whistleblower protection, which is necessary for uncovering cases of corporate misconduct, a fair balance should be observed to safeguard the confidentiality of valuable commercial information. Such trends as harmonization, international cooperation, and employee mobility still require some effective mechanisms for their successful realization.

To get the most out of the trade secret contribution businesses, legislators and legal practitioners should remain adaptable to the challenging situations and proactive to overcome the latter. Moreover, it is essential to refer to technological advancements and international cooperation to strengthen trade secret protection and facilitate equal rights and opportunities for businesses.

Finally, trade secrets create solid grounds for business success within the internal market. Following that, businesses should realize the trade secrets' value, implement effective protection measures, and be ready to address emerging challenges to contribute to innovation, competitiveness, and economic growth. The internal market would thus constitute a beneficial business environment and ensure the prosperity of the area it embraces.

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ANNEXES

ABSTRACT

Trade secret protection is becoming a common business practice all around the world to safeguard the company's valuable commercial information. Therefore, the major objective of this master thesis research is to highlight the key factors that influence businesses to rely on trade secrets rather than other forms of intellectual property protection within the internal market. The investigation is thus based on the comprehensive analysis of their nature and existing examples of successful applications.

The investigation began with the examination of the trade secrets legal framework. The most important legal act thereto is the EU Directive on the Protection of Trade Secrets as it is known to harmonize the respective laws for confidential business data protection across the European Union and thus facilitate cross-border trade and cooperation, which contributes greatly to the functioning of the internal market. Moreover, major doctrinal approaches were considered to get insight into the theoretical and practical dimensions of trade secret protection.

Furthermore, the interplay between trade secrets and other intellectual rights was explored. In particular, patents, trademarks, copyrights, and industrial designs were taken into account to analyze the possible ways of their interaction with trade secrets. The purpose put behind such investigation was to emphasize the benefits that the complementary nature of trade secrets can bring to businesses if they succeed to develop strategies based on the integration of several methods used to protect their secret data.

The analysis of trade secret protection measures was conducted to discover the specific ways for safeguarding confidential business information and to determine the challenges that may arise in this respect. It is important to note that in most cases, businesses face problems with their data protection due to the lack of proper security measures.

The unfair competition is one of the most damaging phenomena for effective trade secret protection posing risks for both businesses and the internal market. Consequently, the course of action that companies can take to seek remedies and battle this problem was suggested. It is crucial

to make an effort to eliminate unfair business practices to ensure the integrity of trade secret protection.

Reference to the successful examples of valuable commercial information protection by worldwide known brands was made to provide evidence of the benefits trade secrets' application has. In particular, the examples of *Coca-Cola* and *Listerine*'s secret formula, the *New York Times*' secret method for bestsellers list composition, *Kentucky Fried Chicken*'s secret recipe, and *Lena Blackburn*'s secret location for the obtainment of baseball rubbing mud components were discussed. In addition, an analysis of the advantages and disadvantages of these trade secret protection measures was conducted. Moreover, some of the EU trade secret protection cases were investigated to provide an understanding of possible challenges and highlight the directions for further improvements.

Finally, the emerging trends in trade secret protection were considered to get insight into present-day challenges that businesses face when safeguarding their secret business data. The trade secret harmonization, the increasing influence of digitalization, need for the whistleblower protection, and some issues related to international cooperation and employee mobility were mentioned. Businesses need to adapt to these trends and develop respective strategies to deal with the latter.

By the end of the research, the conclusions based on its results were made to summarize actual contributions trade secrets make to business and the internal market and specific reasons that make companies favor this type of information protection. The main considerations thereto are that, first and foremost, trade secrets facilitate companies in safeguarding their trade secret protected key assets such as manufacturing techniques, know-hows, formulas, or other confidential data that makes them unique and competitive. Then, it contributes greatly to the economic growth of the internal market, in particular, through the maintenance of the competition, attracting investments and innovation.

ZUSAMMENFASSUNG

Der Schutz von Geschäftsgeheimnissen wird weltweit zu einer gängigen Geschäftspraxis, um die wertvollen Geschäftsinformationen des Unternehmens zu schützen. Daher besteht das Hauptziel dieser Masterarbeit darin, die Schlüsselfaktoren hervorzuheben, die Unternehmen dazu veranlassen, sich im Binnenmarkt auf Geschäftsgeheimnisse statt auf andere Formen des Schutzes

geistigen Eigentums zu verlassen. Die Untersuchung basiert daher auf der umfassenden Analyse ihrer Natur und vorhandenen Beispielen erfolgreicher Anwendung.

Die Untersuchung begann mit der Untersuchung des rechtlichen Rahmens von Geschäftsgeheimnissen. Der wichtigste Rechtsakt hierzu ist die EU-Richtlinie zum Schutz von Geschäftsgeheimnissen, da sie bekanntermaßen die jeweiligen Gesetze zum Schutz vertraulicher Geschäftsdaten in der gesamten Europäischen Union harmonisiert und so den grenzüberschreitenden Handel und die Zusammenarbeit erleichtert, was wesentlich zum Funktionieren beiträgt des Binnenmarktes. Darüber hinaus wurden wichtige wissenschaftliche Ansätze berücksichtigt, um Einblick in die theoretischen und praktischen Dimensionen des Schutzes von Geschäftsgeheimnissen zu gewinnen.

Darüber hinaus wurde das Zusammenspiel von Geschäftsgeheimnissen und anderen geistigen Rechten untersucht. Insbesondere wurden Patente, Marken, Urheberrechte und Industriedesigns berücksichtigt, um mögliche Wechselwirkungen mit Geschäftsgeheimnissen zu analysieren. Der Zweck dieser Untersuchung bestand darin, die Vorteile hervorzuheben, die die Komplementarität von Geschäftsgeheimnissen für Unternehmen mit sich bringen kann, wenn es ihnen gelingt, Strategien zu entwickeln, die auf der Integration mehrerer Methoden zum Schutz ihrer geheimen Daten basieren.

Die Analyse der Maßnahmen zum Schutz von Geschäftsgeheimnissen wurde durchgeführt, um die spezifischen Möglichkeiten zum Schutz vertraulicher Geschäftsinformationen zu ermitteln und die Herausforderungen zu ermitteln, die sich in dieser Hinsicht ergeben können. Es ist wichtig zu beachten, dass Unternehmen in den meisten Fällen aufgrund fehlender angemessener Sicherheitsmaßnahmen mit Problemen beim Datenschutz konfrontiert sind.

Der unlautere Wettbewerb ist eines der schädlichsten Phänomene für einen wirksamen Schutz von Geschäftsgeheimnissen und birgt Risiken sowohl für Unternehmen als auch für den Binnenmarkt. Folglich wurde die Vorgehensweise vorgeschlagen, die Unternehmen ergreifen können, um Abhilfe zu schaffen und dieses Problem zu bekämpfen. Es ist von entscheidender Bedeutung, Anstrengungen zu unternehmen, um unlautere Geschäftspraktiken zu beseitigen, um die Integrität des Schutzes von Geschäftsgeheimnissen sicherzustellen.

Es wurde auf die erfolgreichen Beispiele für den Schutz wertvoller kommerzieller Informationen durch weltweit bekannte Marken verwiesen, um die Vorteile der Anwendung von

Geschäftsgeheimnissen zu belegen. Insbesondere wurden die Beispiele der geheimen Formel von Coca-Cola und Listerine, der geheimen Methode der New York Times für die Zusammensetzung der Bestsellerlisten, des geheimen Rezepts von Kentucky Fried Chicken und des geheimen Standorts von Lena Blackburn für die Gewinnung von Baseball-Reibschlamm-Komponenten besprochen. Darüber hinaus wurde eine Analyse der Vor- und Nachteile dieser Maßnahmen zum Schutz von Geschäftsgeheimnissen durchgeführt. Darüber hinaus wurden einige Fälle von EU-Geschäftsgeheimnissen untersucht, um ein Verständnis für potenzielle Herausforderungen zu gewinnen und Hinweise für weitere Verbesserungen zu geben.

Schließlich wurden aufkommende Trends beim Schutz von Geschäftsgeheimnissen berücksichtigt, um einen Einblick in die aktuellen Herausforderungen zu geben, mit denen Unternehmen beim Schutz ihrer Geschäftsgeheimnisse konfrontiert sind. Erwähnt wurden die Harmonisierung von Geschäftsgeheimnissen, der zunehmende Einfluss der Digitalisierung, die Notwendigkeit des Whistleblower-Schutzes sowie einige Fragen im Zusammenhang mit der internationalen Zusammenarbeit und der Mitarbeitermobilität. Unternehmen müssen sich auf diese Trends einstellen und entsprechende Strategien entwickeln, um damit umzugehen.

Am Ende der Untersuchung wurden auf der Grundlage der Ergebnisse Schlussfolgerungen gezogen, um den tatsächlichen Beitrag von Geschäftsgeheimnissen für die Wirtschaft und den Binnenmarkt sowie spezifische Gründe zusammenzufassen, die Unternehmen dazu veranlassen, diese Art des Informationsschutzes zu bevorzugen. Die wichtigsten Überlegungen dabei sind, dass Geschäftsgeheimnisse Unternehmen in erster Linie dabei helfen, ihre durch Geschäftsgeheimnisse geschützten Schlüsselgüter wie Herstellungstechniken, Know-how, Formeln oder andere vertrauliche Daten zu schützen, die sie einzigartig und wettbewerbsfähig machen. Darüber hinaus trägt es erheblich zum Wirtschaftswachstum des Binnenmarkts bei, insbesondere durch die Aufrechterhaltung des Wettbewerbs, die Anziehung von Investitionen und Innovationen.