



UNIVERSITÀ DEGLI STUDI DI MILANO

FACOLTÀ DI GIURISPRUDENZA

Corso di Laurea Magistrale a Ciclo Unico

THE DIRECTIVE (EU) 2016/943 ON THE PROTECTION OF UNDISCLOSED  
KNOW-HOW AND BUSINESS INFORMATION (TRADE SECRETS) AGAINST  
THEIR UNLAWFUL ACQUISITION, USE AND DISCLOSURE;  
THE POSSIBLE IMPACTS ON THE ITALIAN LEGAL FRAMEWORK AND  
AN ECONOMIC ANALYSIS

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**Anno accademico: 2015-2016**

*“You look at where you're going and where you are  
and it never makes much sense,  
but then you look back at where you've been  
and a pattern seems to emerge.  
And if you project forward from that pattern,  
then sometimes you can come up with something.”*  
— Robert M. Pirsig

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## INTRODUCTION

Taking inspiration from an article written by Jeann C. Fromer and entitled “Trade secrecy in Willy Wonka’s Chocolate Factory” I would like to open the introduction to this dissertation with a passage from Roald Dahl’s famous novel, particularly when Grandpa Joe explains to Charlie how Willy Wonka tried to keep all his procedures secret and the isolation that followed shortly after some of them were stolen by his major competitors:

“All the other chocolate makers, you see, had begun to grow jealous of the wonderful candies that Mr. Wonka was making, and they started sending in spies to steal his secret recipes. The spies took jobs in the Wonka factory, pretending that they were ordinary workers, and while they were there, each one of them found out exactly how a certain special thing was made.”

Following the misappropriation of his trade secrets Mr. Wonka, in fact, decides to fire everyone and start from scratch with new competitive ideas, new, more trustworthy, employees (that could not leave without creating too much suspicion) and turn his factory into a fort investing all his time and money into innovation and protecting his most valuable secrets from the outside world.

Many aspects of trade secrecy are contained within this brief passage.

First and foremost how trade secrets can be an extremely important assets to a company especially if it is an innovative one that is in the beginning stages of its corporate journey and simply cannot withstand the expenses and risks that come with patents, such as the drafting process and trying to make sure that confidential information does not leak to the public while the patent application is still in its acceptance phase and unsure of the outcome.

Secondly it underlines how sometimes trade secrecy might be preferred to other IPRs in particular patents, as it is potentially unlimited and can be more cost efficient.

In fact while providing a much stronger exclusivity right, patents require the inventor (or applicant) to disclose all the information necessary so a technician expert in the field can replicate the product.

The risk at this point is that without regulating trade secrets properly, they could be used as an alternative to patents, rendering the latter a redundant and inefficient protection to the eyes of most operators, ultimately damaging innovation, competition and the market in general.

As an example Mars Inc. and Hershey's come to mind.

In particular these companies that operate in the agri-food sector rely heavily on trade secrets.

Mars for example has no company representative for outsiders to contact, to prevent anyone from learning its manufacturing process, it designs, makes and operates all of its own machinery, the very few people allowed to access its facilities for repairs are blindfolded outside and escorted to where the repairs are to be done.

It relies on secrecy so much that it does not even name or mention the cocoa bean it uses in its Dove bar and there is not even any direct mention of it in the company records.

Hershey, although publicly traded, acts in a similar manner.

When it created its Desert Bar, that could withstand 60°C without melting, it kept its manufacturing process heavily guarded and refused to explain the decades of research necessary to create such a product.

Richard Zimmerman, CEO at the time, explained how anyone can read the ingredients on the packaging but that the list does not reveal a series of other important elements such as how the milk is processed, what type of bean is used or how long the chocolate is mixed.

Moreover none of its employees know the exact portions used for the mix, leaving the information stored in a computer.

All this is proof of the extent corporations that choose to rely on secrecy have to go through so their competitive advantage and business secrets do not become public.

If this were to happen anybody would be allowed to use that same technical knowledge to create an identical product, at probably a lower price not needing to go through the same investments in research and development.

The founder of Mars, Forrest Mars, Sr, himself acquired all his chocolate making knowledge from working in Swiss companies such as Toblerone and Nestlé.

Thirdly, although only hinted, it can give us the general idea that trade secrets lack a central theoretical organisation as they touch a variety of different concerns (employment, innovation and competition are the first to come to mind) and thus a series of different legal doctrines, in particular civil, criminal and labour law.

The purpose of this thesis is to then take on these matters in light of the recent Directive (EU) 2016/943 “on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure” adopted by the European Parliament and the Council of the European Union on 8 June 2016, with particular regard in trying to understand what its impact in Italy could be and if it can clarify some of the foggiest aspects of trade secret protection on a national level.

In fact trade secret protection in Italy has arguably had a troubled history: initially left to uncertain rules of unfair competition and an irregular case law on its definition and protection, it then finds a moment of national uniformity when Legislative Decree 10 February 2005 n. 30 introduced the Industrial Property Code (*infra* “IPC”) and in particular articles 98 and 99 which finally provided a codified definition and protection for confidential information.

Nonetheless article 99 brought along its own problems due to the unclear way it was written seemingly claiming that trade secrecy was to be treated along the same lines as other IPRs and, on a side-note, seemed to claim the illegitimacy of reverse engineering *tout court*.



Of course such a possibility was absurd and potentially dangerous for innovation and competition, and with Legislative Decree 10 August 2010 n. 131 the IPC was reformed in particular changing article 99 introducing the words “in an unauthorised manner” and specifying that independent discovery remains a valid way of acquiring information.

Another aspect that was left up to case law and not directly codified, or found unanimous application in Italy, dealt with the employer-employee relationship, in particular trying to understand what happens when it ends and what skills acquired during employment belong to the workers’ personal professional kit.

Similarly another unclear matter left up to the discretion of the Judge or the parties themselves is a procedural issue.

More specifically what happens to confidential information acquired during civil procedures, interim measures and its guarantees after the case is closed.

To try and comprehend all this the thesis is structured in four main sections.

The first section seeks to provide a historical background to trade secret protection, beginning with the rule provided by article 39 TRIPs Agreement and then focusing on the definition of trade secrets to finally move onto the Italian national legal framework for confidential information from article 6 of Royal Decree 1939/1127 up to articles 98 and 99 of the Industrial Property Code passing through the approach offered by unfair competition in article 2598, n.3 Civil Code.

The second and third section focus solely on the Directive itself and the possible outcomes the rules it sets forth could have on the market and on competition.

The last and final section analyses those articles that within the Italian Industrial Property Code may be more affected by the European Directive starting with the definition of trade secret and its unlawful acquisition, to then focus on labour regulation, and in particular civil procedural matters, paying close attention to maintaining secrecy not only as the procedure unfolds but also after its conclusion.

## **SECTION I**

### **BACKGROUND TO TRADE SECRETS**

SUMMARY: 1. International protection of undisclosed information: article 39 TRIPs - 1.1. Introduction - 1.2. Historical background and its inclusion in the WTO - 1.3. (*Follows*) The Drafting process - 1.4. Requirements and compliance with article 39 TRIPs - 2. “Trade Secrets”; the genesis of Intellectual Property - 2.1. Trade Secrets as a form of Intellectual Property - 2.1.1. Scope and History of Trade Secret Law - 2.1.2. Shared aspects between Trade Secrets and other IPRs - 2.1.3. Developing a Trade Secret doctrine - 2.2. Should Trade Secrets be a form of IPR? - 3. Framing the regulation of “Trade Secrets” in Italy - 3.1. Article 6-bis R.D. 1127/1939 - 3.2. Unfair competition; Article 2598 Civil Code - 3.2.1. Article 2598 n. 3 Civil Code - 3.3. Articles 98 and 99 of the Italian Industrial Property Code. - 3.3.1. Information protected under article 98 I.P.C. - 3.3.2. Protection Requirements - 3.3.3. Unauthorised behaviour according to article 99 I.P.C. - 3.4. Article 623 Criminal Code - 3.5. A practical case.

## **CHAPTER 1**

### **International protection of undisclosed information: article 39 TRIPs**

#### **1.1. Introduction**

The protection of information, knowledge and in general “Trade Secrets” has been a fragmented and to some extent chaotic subject.

This in part has been due to the very personal approach each State has taken to this matter when compared with the dilemma of how much protection should undisclosed information have, if any at all.

The most important attempt, until now, to create a uniformed protection plan for the unlawful appropriation of trade secrets has been offered by article 39 of the WTO<sup>1</sup> TRIPs<sup>2</sup> Agreement, an essential instrument for the globalisation of intellectual property laws that provides a strong protection for IP rights.

This article is the only one that constitutes section VII of the agreement, entitled “Protection Of Undisclosed Information”.

According to article 39 paragraph 2 member states shall provide protection of “undisclosed information” against forms of unauthorised use “in a manner contrary to honest commercial practice”<sup>3</sup>.

The concept of “honest commercial practice” is to be intended as any form of breach of contract, breach of confidence and unfair competition.<sup>4</sup>

Not all forms of information receive protection under the scope of section VII of the TRIPs Agreement.

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<sup>1</sup> World Trade Organisation. The WTO was established on the 1 January 1995 in Geneva, Switzerland. It was created by the Uruguay Round negotiations (1986-94) and as of 30 November 2015 is comprised of 162 member countries. Its main functions include: administering WTO trade agreements, providing a forum for trade negotiations, handling trade disputes, monitoring national trade policies, providing technical assistance and training for developing countries and cooperating with other international organisations.

<sup>2</sup> Trade Related Aspects of Intellectual Property Rights. The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organisation, signed in Marrakesh, Morocco on 15 April 1994. The agreement introduced intellectual property law into the international trading system for the first time and remains the most comprehensive international agreement on intellectual property to date.

<sup>3</sup> Article 39 par. 2 “Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret”.

<sup>4</sup> Footnote 10 to paragraph 2 of Article 39 “For the purpose of this provision, “a manner contrary to honest commercial practices” shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.”

In accordance to article 39 paragraph 2 the information must also not be generally known or readily accessible, it must have some value in lieu of its secrecy and finally the person wanting to keep said information from others (*infra* the “owner”) must have taken reasonable steps to actively keep it secret.<sup>5</sup>

These are essentially the limitations listed in letters a), b) and c) of paragraph 2.<sup>6</sup>

Regarding the unlawful behaviour held by third parties, article 39 provides limits to specific conducts (*i.e.* disclosure, acquisition and use of acquired information) that construe illicit commercial practices, thus specifying the general provision contained in article 10 *bis* — “Unfair Competition” — of the “Paris Convention for the Protection of Industrial Property”<sup>7</sup>, which clearly states that any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition<sup>8</sup>, and which is expressly referred to in paragraph 1 of article 39.

Section VII of the provision was implemented in Italy by article 14 of the Legislative Decree n. 198, 19 March 1996 “*Legge Invenzioni*” — (“Law on Inventions”)<sup>9</sup> — which introduced article 6-*bis* in the Royal Decree n. 1127, 29 June 1939, which is

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<sup>5</sup> This general formula for trade secret laws has been adopted by well over 100 of the 159 members of the World Trade Organization.

<sup>6</sup> Letters to article 39 paragraph 2; “[...] so long as such information is: (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

<sup>7</sup> The Convention was one of the first intellectual property treaties and was signed in Paris, France, on 20 March 1883. Its provisions are grouped into three main categories: national treatment, priority right and common rules.

<sup>8</sup> Article 10 *bis* - Unfair Competition - “(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

(3) The following in particular shall be prohibited: (i) all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor; (ii) false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor; (iii) indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.”

<sup>9</sup> The Decree was repealed by the Legislative Decree N. 30, 10 February 2005, which contains the current Industrial Property Code.

the text that contained all the rules regarding patents for industrial inventions<sup>10</sup> — now replaced by the Industrial Property Code.<sup>11</sup>

In order to give a frame of reference the article introduced an explicit rule for the protection of trade secrets in Italian private law, and extended the blanket of secrecy over former employees of a company.

Herein lies the protection, allowing the prevention of its disclosure, acquisition or use.

The ongoing debate around trade secrets for the Italian legislator is if to consider said secrets as a property, in accordance to civil law, and treat their safeguard as such, or if to follow the more traditional route and base the grounds for protection from unlawful acquisition on the rules of unfair competition.

We need to keep in mind that if we were to consider the aforementioned article of the TRIPs Agreement as a mere specification of the provisions already contained in article 2598 n. 3 of the Italian Civil Code, then a modification of this article would have sufficed rather than introducing a specific disposition in the patent law delimited by the words “without prejudice to the provisions on unfair competition” — *“fatte salve le disposizioni in materia di concorrenza sleale”*.<sup>12</sup>

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<sup>10</sup> “Testo delle Disposizioni Legislative in Materia di Brevetti per Invenzioni Industriali”

<sup>11</sup> The Industrial Property Code or “*Codice della Proprietà Industriale - (CPI)*” was introduced in Italy through the legislative decree n. 30, 10 February, 2005, and finally brought together in a single text many of the fragmented rules and regulations regarding IPRs.

<sup>12</sup> *La Tutela del Know-how, Diritto Industriale, del lavoro, penale e responsabilità civile*, BONA MARCO, CAMUSSO ALBERTO, OLIVE UMBERTO, VERCELLI ALBERTO (a cura di), Giuffrè Editore, 2012, p. 7.

## 1.2. Historical background and its inclusion in the WTO

Now that the subject matter has been framed let's take a step back and try to understand how article 39 of the TRIPS Agreement came into being and why it was included in an annex to the WTO Agreement.<sup>13</sup>

The main selling point of the WTO Agreement is the opportunity to allow member countries to pursue action against infringing countries that they claim to be “not compliant” with the terms included in the Agreement.

This is obtained through a dispute settlement process, which is comprised of various stages that culminate in an enforceable finding of non-compliance that requires the member country to correct its laws and bring them back in line with what is provided by the WTO Agreement.<sup>14</sup>

At a first glance, on one hand we could rightly claim that this process is of little help to a company whose business is conducted in a country with weak or non-existent trade secret laws, but on the other it at least ensures some legal principles in WTO member countries where trade secrecy is essentially ignored.

However a finding of non-compliance does not return lost profits to the injured party. To have a better understanding of article 39 — and its application — there are a series of general provisions that need to be kept in mind.

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<sup>13</sup> The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994.

<sup>14</sup> *Ibid.*, Dispute Settlements Understanding, Annex 2.

Firstly the “Principle of National Treatment” contained in article 3(1.) of the TRIPs Agreement<sup>15</sup>, which requires that member countries grant nationals of other WTO countries a treatment “[...] no less favourable than that it accords to its own nationals with regard to the protection of intellectual property [...]”.<sup>16</sup>

Essentially this means that a WTO member country cannot have one set of rules to protect the trade secrets of domestic companies and another set for foreign companies.

The next general provision is mentioned in article 4 of the TRIPs Agreement<sup>17</sup> regarding the “Most Favoured Nation” which establishes that any advantage, favour, privilege or immunity, granted by a Member to a national of any other country, must be also extended to the nationals of all other Members (with some exceptions listed in letters a), b), c) and d)<sup>18</sup>).

Member countries are thus prohibited from behaving more favourably with one country rather than another.

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<sup>15</sup> Article 3 TRIPs Agreement - National Treatment - “(1.) Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. In respect of performers, producers of phonograms and broadcasting organisations, this obligation only applies in respect of the rights provided under this Agreement. Any Member availing itself of the possibilities provided in Article 6 of the Berne Convention (1971) or paragraph 1(b) of Article 16 of the Rome Convention shall make a notification as foreseen in those provisions to the Council for TRIPS. (2.) Members may avail themselves of the exceptions permitted under paragraph 1 in relation to judicial and administrative procedures, including the designation of an address for service or the appointment of an agent within the jurisdiction of a Member, only where such exceptions are necessary to secure compliance with laws and regulations which are not inconsistent with the provisions of this Agreement and where such practices are not applied in a manner which would constitute a disguised restriction on trade.”

<sup>16</sup> N.B. the TRIPs Agreement does not require perfect harmonisation of the laws of WTO member countries.

<sup>17</sup> Article 4 - Most-Favoured-Nation Treatment - “With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members. Exempted from this obligation are any advantage, favour, privilege or immunity accorded by a Member: (a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property; (b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorising that the treatment accorded be a function not of national treatment but of the treatment accorded in another country; (c) in respect of the rights of performers, producers of phonograms and broadcasting organisations not provided under this Agreement; (d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members.

<sup>18</sup> *Id.*

Finally, article 8 of the TRIPs Agreement introduces two provisions member countries may rely on to justify any form of restriction of trade secret laws.<sup>19</sup>

Article 8(1.) allows countries to adopt measures necessary to protect public health, nutrition and to protect socio-economic and technological development.

Article 8(2.), on the other hand, grants countries the power to adopt measures to prevent the abuse of IPRs by right holders or resort to practices that unreasonably restrain trade.

It is worth mentioning, at this point, that Article 39 of the TRIPs Agreement has also created some ambiguity regarding the compatibility of Part III of the Agreement - Enforcement of Intellectual Property Rights - with section VII on undisclosed information.

The dispute stems from an argument that arose during the drafting process of the WTO Agreement, whether trade secrets should or could be considered as a form of IP as defined by TRIPs.

### **1.3. (*Follows*) The Drafting Process**

The core of the matter revolves around article 1(2.) of the TRIPs Agreement which claims that the term “Intellectual Property” may refer to all categories included in sections I through VII of Part II of the agreement - Standards Concerning the Availability, Scope and Use of Intellectual Property Rights.<sup>20</sup>

The debate is whether or not article 1(2.) applies to all matters in the indicated section, or if it applies only to matters labelled as IP in each of those sections.

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<sup>19</sup> Article 8 - Principles - “(1.) Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement. (2.) Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.”

<sup>20</sup> Article 1(2.) - Nature and Scope of Obligations - For the purposes of this Agreement, the term “intellectual property” refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II.



Fundamentally the relevant negotiation group (NG11)<sup>21</sup> had to firstly determine if trade secrets could be considered IPRs.<sup>22</sup>

A strong position favourable to a broader definition of IPRs, and subsequently the recognition of trade secrets as IPRs, was held by the US negotiators who advocated how this protection would be essential for free trade and economic development.

The main concern from the opposers of a broad interpretation, instead, was that a greater protection of IPRs would be used as a back-door to restrict free trade.

When NG11 met for the first time in 1987 the Office of the US Trade Representative submitted the following statement:

“Trade secrets should be broadly defined to include undisclosed valuable business, commercial, technical or other proprietary data as well as technical information. Misappropriation, including the unauthorized acquisition, use or disclosure of a trade secret, must be prevented. Trade secrets submitted to governments as a requirement to do business shall not be disclosed except in extreme circumstances involving national emergencies or, in the case of public health and safety, provided that such disclosure does not impair actual or potential markets of the submitter or the value of the submitted trade secrets”.<sup>23</sup>

During the year following this submission three particular issues, regarding trade secrets, emerged; the first one regarded the definition of “misappropriation” and the conditions under which it may be presumed.

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<sup>21</sup> Negotiation Group 11 (NG11) was established on the basis of the Punta del Este Declaration. The role of NG11, within the TRIPs drafting process, was to introduce basic interests. Developed countries (such as United States, EC, Japan and Switzerland) focused on the need for enhanced protection and the consequences of an insufficient protection around the world. Developing countries on the other hand stressed about the risk of monopolisation.

<sup>22</sup> See *Trade Secrecy and International Transactions. Law and Practice*. ELIZABETH A. ROW and SHARON K. SANDEEN, Edward Elgar, 2015. For a detailed account of the drafting history also see 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*, in *The Law and Theory of Trade Secrecy. A handbook of Contemporary Research*, ROCHELLE C. DREYFUSS, KATHERINE J. STRANDBURG (edited by), Edward Elgar, 2011, p. 537.

<sup>23</sup> Suggestion by the United States at the Meeting of March 25, 1987 (MTN. GNG/NG11/W2) (April 3, 1987). See also on the matter *The Law and Theory of Trade Secrecy. A handbook of Contemporary Research*, ROCHELLE C. DREYFUSS, KATHERINE J. STRANDBURG (edited by), Edward Elgar, 2011, p. 540 and following.

The second issue was to determine if “unknowing” or “non-intentional” possessors of trade secret information (*i.e.* “third parties”) should be held liable for misappropriation.

The final concern had to do with the proposed restrictions on the use of trade secrets submitted to governments.

In June 1988 a document known as the “Basic Framework”<sup>24</sup> set forth eight principles relating to IPRs, of which only two reflected principles of U.S. trade secrets; principle 5 “A person who has acquired proprietary information without the consent of the owner shall be effectively deterred from using or disclosing it further when such acquisition was contrary to honest practices in industrial and commercial matters” and principle 7, that details a series of limits for the scope of trade secret protection, specifying that it does not extend to publicly available information or information that can be reverse engineered.<sup>25</sup>

Most notably among these principles some have a broader scope than the one provided by US law and reflect industry concerns that go beyond the desire to protect trade secrets.

For instance, if we look at Principle 2 of the Basic Framework<sup>26</sup> a main concern for industry groups wishing to conduct business in a specific country was that the national government would grant them permission only if they disclosed proprietary information.

A related concern was the fear that in the chance there was a legitimate reason to disclose the information, the government authorities would not be able to sufficiently protect it.<sup>27</sup>

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<sup>24</sup> Basic Framework of GATT Provisions on Intellectual Property, Statement of Views of the European, Japanese and United States Business Communities.

<sup>25</sup> Reverse engineering or back engineering, is the process of extracting knowledge or design information from anything man-made and re-producing it or reproducing anything based on the extracted information.

<sup>26</sup> Principle 2 of the Basic Framework reads: “Disclosure or licensing of information shall not be required of a patent owner by a government in connection with the compulsory or voluntary licensing of a patent.”

<sup>27</sup> Principle 1 of the Basic Framework: “Information required by a government to be disclosed by to any party shall not be used commercially or further disclosed without consent of the owner.”

Principle 6 of the Basic Framework<sup>28</sup> instead took a step further and went beyond a general fear of government treatment of information and proposed the creation of a *sui generis* right of data exclusivity for all data submitted as a condition for registering a product.

In 1989 the issue regarding the nature of trade secret rights as IPRs, was finally confronted.

Many developing countries resisted this line of thought complaining that IPRs should not be directly tied to trade policy.

Among the opponents, India argued that being trade secrets a form of unfair competition they could not construe a form of IPR and therefore India was unwilling to apply property principles to trade secret misappropriation<sup>29</sup>.

The U.S. representative in response claimed that the term “intellectual property” is used in a broad sense to cover a wider range of intangible matters - “the essential fact [is] that trade secrets were designated to protect a form of intellectual endeavour, that either was not eligible for protection under one of the normal forms of protection of intellectual property or would lose its value through the public disclosure required to receive such protection”.<sup>30</sup>

By the end of the discussion fourteen countries followed India’s position and were unwilling to negotiate on trade secrets.<sup>31</sup>

During this period further disagreements emerged; the first involving the definition of trade secrets and its extension to secrets with a commercial value<sup>32</sup> and whether they should be referred to as “trade secrets”, “proprietary information” or “undisclosed information”.

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<sup>28</sup> Principle 6 of the Basic Framework “Information disclosed to a government as a condition for registration of a product shall be reserved for the exclusive use of the registrant for a reasonable period from the day when government approval based on the information was given. The reasonable period shall be adequate to protect the commercial interests of the registrant.”

<sup>29</sup> Communication from India, MTN.GNG/NG11/W/37. para. 46.

<sup>30</sup> MTN.GNG/NG11/9 (October 13, 1989) para. 11.

<sup>31</sup> Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Pakistan, Peru, Tanzania, Uruguay and Zimbabwe.

<sup>32</sup> Secrets that are not currently used or licensed.

The next issue concerned the meaning of “misappropriation” and the list of “acts contrary to honest commercial practices”.

The third question arose around the proper wording and mechanism to be used for holding third parties liable for misappropriation.

Finally there were discussions around the “readily ascertainable” or “easily accessible” language for drafting the article.

The current and final draft known as the “Dunkel Draft”<sup>33</sup> does not contain everything the US had proposed during negotiations, but boils down to a crucial compromise.

Paragraph 1 in fact states that protection of “undisclosed information” arises under pre-existing principles of unfair competition and most importantly does not recognise said information as a form of IPR.

#### **1.4. Requirements and compliance with article 39 TRIPs**

As noted in the previous paragraphs article 39, although scarce on details<sup>34</sup>, requires all countries participating in the WTO to provide an effective protection of undisclosed information.

More specifically paragraph 2 grants protection to the information that meets a series of prerequisites listed as follows:

- (i) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the

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<sup>33</sup> As Director-General of the GATT during 1980-1993, Mr Dunkel was at the helm of the launch of the Uruguay Round of multilateral trade negotiations in September 1986 and steered the multilateral trading system to the doorstep of what is now known as the World Trade Organization. The “Dunkel Draft” in December 1991 was an historic turning point in the negotiations. Mr Dunkel’s deep understanding of the technical issues combined with his shrewd diplomacy transformed hundreds of thousands of pages of diverse, often conflicting, proposals into a manageable single document of some 500 pages, distilling the essence of the future WTO.

<sup>34</sup>Article 39 TRIPs does not specify the methods by which each member country must provide protection.

circles that normally deal with the kind of information in question

- (ii) has commercial value because it is secret; and
- (iii) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

In particular the language used is almost identical to the one contained in the Uniform Trade Secrets Act<sup>35</sup> (“UTSA”) but nowhere in article 39, a definition of the terminology “generally known”, “readily accessible”, “commercial value” or “reasonable steps” is provided, leaving the task up to the legislatures and courts of each country.

Also missing — unlike in the UTSA — is a clear definition of “*misappropriation*” and “*improper means*”.

However footnote 10 identifies the following acts of dishonest behaviour “breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition”<sup>36</sup>.

This lack of specificity, means that article 39 provides sufficient leeway for WTO member countries to define the parameters of trade secret law.

In this manner WTO member countries can freely define the aforementioned terms, but cannot change the definition of undisclosed information.

Subsequently, with such freedom of definition, each country has the possibility to restrict the “pool” of information that qualifies for protection under article 39 and is

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<sup>35</sup> See definition in commentary to section 757 of Restatement (First) of Torts, section 1(4) of the UTSA provides: ‘Trade secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

<sup>36</sup> See footnote 4 page 6.

then able to decide the appropriate methods of protection against trade secret misappropriation.<sup>37</sup>

We must keep in mind that the implementation of article 39 also strongly depends on the applicable commercial, cultural and social norms that differ between the United States and among EU countries.

What this means is that what is construed as a dishonest commercial practice in one country may not be considered as such in another.

This will remain the current situation so long as the various WTO countries do not agree upon a specific standard of protection for trade secrets.

The TRIPs Agreement is well aware of the different views on issues such as antitrust, competition law, employee mobility and knowledge diffusion as illustrated in articles 7 and 8.

According to article 7 of the TRIPs Agreement the protection of IPRs should be treated as an instrument for the promotion of innovation, technological growth and be viewed as a means to social and economic welfare.<sup>38</sup>

On the other hand article 8 of the Agreement allows member countries to “adopt measures necessary to promote the public interest” and “prevent the abuse of intellectual property rights” (some exceptions are admitted by article 73 of the

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<sup>37</sup> Article 1(1.) - Nature and Scope of Obligations - “Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.”

<sup>38</sup> Article 7 - Objectives - “The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.”

Agreement<sup>39</sup> that hinge on the concept of “essential security concerns” may they be national or international matters)<sup>40</sup>.

Finally when confronted with the matter of the methods of compliance with article 39 used by member countries, these can vary widely.<sup>41</sup>

Differences occur between common law and civil law countries, the latter having a stronger tendency to employ specific statutes for the protection of trade secrets, with some exceptions where the preferred method is to resort to already existing statutes that govern unfair competition.

On the contrary common law countries<sup>42</sup> mention, as proof of compliance, general principles on unfair competition and duties of confidence as developed by the courts.

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<sup>39</sup> Article 73 - Security Exceptions - “ Nothing in this Agreement shall be construed: (a) to require a Member to furnish any information the disclosure of which it considers contrary to its essential security interests; or (b) to prevent a Member from taking any action which it considers necessary for the protection of its essential security interests; (i) relating to fissionable materials or the materials from which they are derived; (ii) relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment; (iii) taken in time of war or other emergency in international relations; or (c) to prevent a Member from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.”

<sup>40</sup> Article 8 - Principles - “(1.) Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement. (2.) Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.”

<sup>41</sup> European Commission, Study on Trade Secrets and Confidential Business Information in the Internal Market (2013), pp. 117–48, available at [http://ec.europa.eu/internal\\_market/iprenforcement/docs/trade-secrets/130711\\_final-study\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf) (providing a survey of the EU business enterprise sector).

<sup>42</sup> Most notably India.

## CHAPTER 2

### **“Trade Secrets”: the genesis of intellectual property**

Trade secrecy, as we have had occasion to briefly see, is a subject that comes with its fair share of controversy and doubts.

Nonetheless it is undeniable how all innovations, projects and even works of art are born from an initial idea, that the inventor had to solve a technical problem, or the artists got from an event that occurred in his life.

Since their inception then all these projects, that once approved will be governed by the rules set forth for IPRs, are just a mere collection of knowledge that remains subject to the risk of a lack of protection so long as they continue existing just as information.

Until all bureaucratic procedures and requirements are met it is then important to reassure the creator or inventor with a minimum standard of safety for his work in its early stages so long as he meets certain prerequisites.

Where researchers agree on what the law covers, what its effects are and that, generally, misappropriation of information is to be treated negatively and should be punished by the law, there is a strong disagreement on the purpose of trade secret law as is.

What is troublesome for scholars is the nature and qualification of the law itself; where does trade secret law come from? And, most importantly, where do they fit within the legal doctrine? Are they a form of IPR, are they part of contract, tort, property or criminal law?

Some have gone so far as to claim that this level of incoherence is proof itself that there is no need to have trade secret law as a separate doctrine<sup>43</sup>, the logic behind it being that whatever purpose trade secret law may serve, the same can be achieved by the common law jurisprudence behind it.<sup>44</sup>

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<sup>43</sup> ROBERT G. BONE, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 243 (1998).

<sup>44</sup> *Id.*



The purpose of this chapter is to try and collect the answers that have been given to these troublesome questions and see if in fact trade secrets can be treated as an IPR.

In addition to a general overview more attention will be given regarding the opinion in Italy over the qualification of trade secrets.

We will begin by addressing trade secrets as IPRs.

## **2.1. Trade Secrets as a form of Intellectual Property**

The main reason for a business to want the inclusion of trade secrets in the realm of intellectual property is quite simple.

It is well known that granting protection to an invention not only encourages its creation, but allows its creator to profit from it as well.

This is usually obtained by granting a patent which can be costly and is limited in time, but from a protection point of view grants the beholder a strong legal ground.

Trade secrets, on the other hand, would offer something more enticing; they are much quicker to obtain since no government approval is necessary and, most notably, they extend their protection to all types of innovations and processes that otherwise would not be patentable.

A strong argument on behalf of trade secrets as a form of IPR<sup>45</sup> is offered by Professor Mark A. Lemley.<sup>46</sup>

In his paper while claiming that it may seem odd for the law to encourage secrets — or to encourage only those inventions that are kept secret — he argues that “paradoxically, trade secret law actually encourages disclosure, not secrecy”.

Potentially this means that trade secret law could be an alternative to contractual restrictions that companies would otherwise be forced to impose to prevent competitors from obtaining their information.

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<sup>45</sup> For further information see MARK A. LEMLEY, *The surprising virtues of treating trade secrets as IP rights*, in ROCHELLE C. DREYFUSS - KATHERINE J. STRANDBURG, *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research*, Edward Elgar, 2011.

<sup>46</sup> Mark A. Lemley is the William H. Neukom Professor of Law at Stanford Law School. He teaches intellectual property, computer and Internet law, patent law and antitrust.

Secrecy would then serve a “channelling function”.

Only a certain type of developer would have the resources to physically invest in secrecy when confronted in situations that lack a specific legal protection.

On the other hand when products are inherently self-disclosing any attempt to keep their information secret would be a waste of time and resources, and trade secret law would lack a purpose.<sup>47</sup>

If we were to consider trade secret law as an instrument of prevention of disclosure of information in general, independently of its secrecy, the result would be less diffusion of valuable information.

At this point the secrecy requirement would serve a “gatekeeper function”: on one hand, it would ensure that the law require the disclosure of information that would “otherwise be kept secret”, and, on the other, would encourage inventors of self-disclosing information to patent their ideas.<sup>48</sup>

This last aspect would only work if the invention kept secret would be eligible for patenting in the first place.

If this were not the case then trade secrets would go back to being an alternative to patents, something that should be avoided.

The theory expressed herewithin only works if a series of conditions are met: trade secrets must be considered a form of IPR and require secrecy as an element for its protection.

An IP theory of trade secrets would then encourage pre-emption of unjust enrichment; this would mean that the theory would be in part negative by providing boundaries of the cause of action.

For common law courts this would require them to do something not so typical in this type of judicial system; focus on what the law is protecting, how and why.

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<sup>47</sup> The only option developers of self-disclosing inventions have is to turn to patent law.

<sup>48</sup> See MARK A. LEMLEY, *The surprising virtues of treating trade secrets as IP rights*, in ROCHELLE C. DREYFUSS - KATHERINE J. STRANDBURG, *op. cit.*, p. 110.

Concentrating trade secrets into one single theory — rather than in many — would “advance[s] the goals of innovation and promote[s] responsible business without limiting the vigorous competition on which a market economy is based.”

Last but not least, treating trade secrets as IPRs secures their place within the instruments of legal protection for inventions.

Before we go into greater depth on the matter, it is worth keeping in mind that what is viewed as a major advantage in the eyes of the inventor, within patent law, is its function of disclosure.

Disclosure, or enablement, as it is known in some common law countries, is an essential element to obtaining a valid patent.

Moreover, and not of less importance, it allows the market to remain competitive.

Its goal is to obtain a monopoly for a given period of time in exchange for revealing to the public how to reproduce the invention.

This preference for the patent system is confirmed also by the law that tries to steer the inventor to prefer patent law over trade secret law when confronted with both options.

This means that according to the promoters of unified trade secret theory, for a certain type of inventions, a more useful disclosure of information would arguably be obtained at a lesser cost from trade secrets rather than from patent law.

A few arguments presented by this theory do have some solid grounds, however if the intention is to justify trade secrets as a motor for competition and innovation this should be achieved in a way that does not try to turn trade secrets into the poor-man's patents.

By theorising the same protection offered to patents and justifying them with the same goals, this theory essentially makes patents and trade secrets comparable.

Ultimately trade secrets should not be built up to be an alternative but rather an instrument that accompanies and strengthens other forms of protection.

### 2.1.1. Scope and History of Trade Secret Law

In the field of intellectual property rights, trade secret law is a new entry when compared to its older siblings such as patent law, copyright law and trademark law.<sup>49</sup>

Although we currently have treaties that require most countries to adopt a minimal standard of protection against misappropriation, trade secrets law is better established within common law countries where it evolved from a series of torts<sup>50</sup> and legal rules that mainly dealt with employment relationship.

Most importantly we need to try and understand the purpose of trade secret law.

There are three essential elements that comprise a trade secret claim; it must deal with an eligible form of knowledge or information that is not generally known in the industry, so long as it is viable to add economic value.

This last requirement is important as it impedes anyone from claiming IP protection for commonly known information.

The second element is that the plaintiff in a trade secret procedure has taken the necessary precautions to prevent the disclosure.

Regarding this last matter courts have often been unclear on what may be construed as a reasonable precaution, the common ground is that anyone who releases information freely cannot subsequently claim that competitors acquired it wrongfully.

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<sup>49</sup> Trade secret law can date all the way back to Roman times, arguably protected by the *actio servi corrupti* (“action for making a slave worse” or an “action for corrupting a servant”). See A. ARTHUR SCHILLER, *An American Experience in Roman Law: Writings from publications in the United States*, Vandenhoeck u. Ruprecht, 1971. And an article called *Trade Secrets and the Roman Law: The Actio Servi Corrupti*, in the Columbia Law Review, 1929. However an opposer of this theory was a Professor for the University of Georgia Law School, ALAN WATSON, *Trade Secrets and Roman Law: The Myth Exploded that the actio servi corrupti*, Tulane European and Civil Law Forum, Vol. 11 (1996), pp. 19-29.

<sup>50</sup> Such torts as breach of confidence, breach of confidential information, related to trespass or unauthorised access, common law misappropriation, unfair competition and unjust enrichment. Remaining in a common law frame of reference, by the XIX trade secrets were dealt with as property rights and by the early XX their misappropriation was handled as a tort that found its ground in the confidential relationship between parties. Finally we reach 1985 when the Uniform Trade Secret Act (“UTSA”) was amended in the U.S.

This brings us to our final requirement, the honour of proof lies upon the plaintiff whose information was wrongfully acquired.

According to the law the use or disclosure of information is wrongful if its acquired through deception, trickery or theft.

This means that not all forms of misappropriation are punishable.<sup>51</sup>

Uncertainty on the subject is also due to an unclear definition of misappropriation.

Most procedures for misappropriation derive from an infringement of a prior obligation, be it contractual or an “implied duty”.

The main issues that lead to trade secret cases are competitive intelligence (which is to some extent permitted so long as it does not exceed the bounds of commercial morality), business transactions and departing employees.

As mentioned earlier on, not every form of misappropriation is wrongful, some types of conduct can be protected under trade secret law; acquiring trade secrets through one’s own work or by reverse engineering a product, are examples of when someone is allowed to do as he/she wishes with the information obtained.

### **2.1.2. Shared aspects between Trade Secrets and other IPRs**

The leitmotiv that we have encountered up to now is that trade secrecy can be and should be studied as a form of IPR, without effectively being one.

In this regard trade secrets have two main characteristics in common with other forms of intellectual property rights that justify this point of view; they promote inventive activity and arguably, to some extents, the disclosure of said inventions.

Proceeding in order let us begin with the incentive to invent.

Possibly the most important feature that all “officially” recognised intellectual property rights share is the exclusivity right, essentially allowing the owner of an invention, a trademark — or in the interest of our analysis a trade secret — to exclude others from using his intellectual property.

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<sup>51</sup> Confirmation of this can be found also within the EU Trade Secret Directive.

The law by granting such a high level of protection encourages the development of new and valuable information.

Trade secrets would then have the same effect, they would allow a developer the right to restrict others from using his newly discovered information and subsequently generate competitive profits from the information.

There is a downside, the owner of a trade secret cannot sue someone who comes up with the same idea independently or reverse engineers a product to learn the secret, but we need to keep in mind that a right to exclude does not necessarily have to be absolute to be effective.

Trade secret law has another selling point which makes it more interesting for developers and businesses alike; it can achieve goals patent law cannot.

For one the category of “valuable information” is much broader than that of what is considered patentable (*i.e.* business plans, client lists or “negative know-how” in general)<sup>52</sup>.

Moreover trade secrets by nature would be instantly protected upon their creation, unlike patents which have to undergo an often long and uncertain evaluation procedure by the relevant authorities.

This would ultimately allow small medium enterprises (*infra* “SMEs”) and startups to afford better protection against much larger enterprises, especially in their initial phases of growth.

Let us now move onto our next topic which is the incentive to disclose.

This is a very debatable point.

The main idea behind disclosure is to allow the public to receive the benefit of the inventions.

A natural reaction at this point would be: “how does disclosure fit in with secrecy?”.

Protection under trade secret law is, as we mentioned earlier on, based on the concept of secrecy and actively keeping the information out of public knowledge.

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<sup>52</sup> The matter regarding what actually construes valuable information is a very delicate one which we will try and deal with further on.

Supporters of the paradoxical notion that trade secret law promotes disclosure not secrecy argue that this is achieved through two means.

Firstly the legal protection provided is a substitute to investing capital in physically and actively protecting the secret.<sup>53</sup>

Nonetheless investments in active protection of secrets can often turn out to be inefficient.

In most cases the problem developers are faced with could be easily solved by the court and, whereas physical investments need to be made on each secret, investments on legal protection need to be made only in case of misappropriation.

Secondly by providing certain rights to the owner of confidential information, the trade secret law would allow a developer to more easily disclose information and facilitate business negotiations, allowing the idea to be developed faster, thus accessing the market in a much shorter timeframemuch.<sup>54</sup>

The requirement for secrecy then makes sure that trade secret law provides protection in situations where inventors might choose excessive secrecy, and denies protection to those inventions that companies themselves would not keep secret if they were denied the possibility to apply for a patent.

To avoid encouraging secrecy, trade secret law applies limits to the scope of the right such as the defence of independent development and the legitimacy of reverse engineering.

There is however an important downside to the basis of this argument.

By upgrading trade secrets to the point where active protection is not so important, this theory ends up making the third requisite for trade secrets redundant.

As will be shown in the following sections the requisite for active protection is important in limiting the extent of the scope of trade secrets.

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<sup>53</sup> A clear example is offered by *E.I. duPont de Nemours & Co. v. Christopher*. The plaintiff was building a chemical plant and it was possible during the construction phase to see the layout from the air and view the secret process duPont was using. There was no need to actively keep it secret and build a roof because the law provided protection in avoiding aerial espionage. In this situation it is obvious that protection provided by the law is more cost efficient than requiring duPont to build a roof.

<sup>54</sup> Alternatively the parties involved could enter a contract or sign an NDA but the buyer might be reluctant to sign such a binding document.

### 2.1.3. Developing a Trade Secret doctrine

An important benefit that comes from considering trade secrets as an IPR in this analysis is the focus that is put on the legal aspect, in layman terms asking the question “does the plaintiff have an IP right or not?”.

Acknowledging trade secrets as a form of IPR and granting them legal protection is a crucial step that could help ensure that the plaintiff clearly defines what it claims to own rather than just giving a general frame of reference.<sup>55</sup>

To some extent it can be said that trade secrets serve the same purpose as patents (and copyright) and promote innovation, all this with a much lower price tag and with the added bonus that by providing a stronger legal protection, trade secret law grants the possibility to disclose secrets to whoever can make a productive use of it, thus promoting innovation and ultimately benefiting society itself.

Viewing trade secrecy as an IPR, would mean that its main attribute would be protecting “investments in innovation as such”.<sup>56</sup>

In other words unlike other forms of IPR, where what is protected is the product of intellectual creativity<sup>57</sup>, trade secret law protects the investment made into protecting the secrecy of the information, or skills used to acquire such product.

Stephen Ladas<sup>58</sup> better explains this concept where trade secrecy law protects the investment in application of know-how when he writes:

“know-how consists of information about how to achieve some technical or commercial advantage over competitors [...]. Such information may or may

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<sup>55</sup> *Id.* p. 133.

<sup>56</sup> JEROME H. REICHMAN, *How trade secret law generates a natural semicommons of innovative know-how*, in ROCHELLE C. DREYFUSS - KATHERINE J. STRANDBURG, *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research*, Edward Elgar, 2011.

<sup>57</sup> Inventions in the case of patents or utility models, literary and artistic works in copyright law, ornamental designs in design protection laws *etc.*

<sup>58</sup> Stephen Ladas emigrated from Greece to the United States in the 1920s. He participated in the 1958 revisions to the Paris Convention and was the author of numerous texts including his three volume treatise *Patents, Trademarks, and Related Rights – National Royal and International Protection*. At the time of his death in 1976, he was Treasurer-General and Member of Honour of the International Association for the Protection of Intellectual Property.



not be secret. If secret, it may be held under actual, but not legal, secrecy, which in turn affects the degree of protection the law affords.”<sup>59</sup>

In conclusion it should be noted how offering the proper protection to trade secrets is a very important issue as they are the only instrument that can keep safe these elements that give a company its competitive advantage on the market and would be otherwise denied safekeeping under other legally recognised IPRs.

## **2.2. Should Trade Secrets be a form of IPR?**

Up until now an outline of why trade secrets could possibly be considered a valid form of IPR has been traced, but not every professional and/or scholar agrees with such an approach.

We previously noted how one of the justifications behind the promotion of trade secrets is that they serve a purpose similar to that of patents.

Nonetheless this theory comes with its own set of problems.

Firstly an important aspect of patent law is to protect non-obvious technical information from becoming public but also to ensure that said information is not rendered unavailable for an indeterminate amount of time.

Secondly it seems misleading that the law would want to protect technical advances that otherwise would not even qualify for a patent.

The main issue here being that potentially any kind of information could meet the requirements for trade secrecy.

In Italy concerns on the matter were brought up by scholars following the upgrade of trade secrets to IPRs after the 2005 reform, and focus on three key aspects of the innovation system.

The norms involved deal with:

- (i) limitations on the reach of the patent right;

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<sup>59</sup> STEPHEN P. LADAS, *Patents, Trademarks and Related Rights: National and International Protection*, 1975.

- (ii) the belief that a proprietary right should be secured only when the overall benefits for innovation surpass the social costs arising from the subtraction of the *quid* invented from the public domain; and
- (iii) the preference for a regulation which might guarantee balancing between the need to promote innovation and the acknowledgement that even imitation and improvement through imitation are necessary to foster innovation and a well functioning market economy.<sup>60</sup>

All three these norms were violated by the Italian reform in 2005; on one hand according to the “new” regime any sort of commercial information may benefit from the exclusivity right, unlike patent law where we encounter specific elements that allows us to identify what is patentable and what is not.

Supporters of this position underlined how the undefined borders of what can be considered a trade secret bypassed the patent system set up by the European Patent Convention, which clearly excludes business schemes and “presentations of information”.<sup>61</sup>

Moreover if an application for a patent contains information or elements that have been made secret, the application shall not proceed on to the European Patent Office.<sup>62</sup>

What is more troublesome is that thorough trade secrecy the inventor could have obtained absolute protection without meeting any of the necessary requirements patents demand (*i.e.* novelty and inventive character).

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<sup>60</sup> GUSTAVO GHIDINI and VALERIA FALCE, *Trade secrets as intellectual property rights: a disgraceful upgrading - Notes on an Italian “reform”*, in ROCHELLE C. DREYFUSS - KATHERINE J. STRANDBURG, *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research*, Edward Elgar, 2011. As clearly put by Professor Ghidini a third party cannot be considered a free rider if, in order to access a determined technology, he pays a reasonable royalty to the IP right holder. See G. GHIDINI, Panel Discussion, *To what Extent Does IP Require/Justify a Special Treatment under Competitive Rules?*, in European Competition Law Annual 2005: The Interaction Between Competition Law and Intellectual Property Law 10 (Claus Dieter Ehlermann and Isabela Atanasiu eds. 2007).

<sup>61</sup> EPC Article 52(2) - Patentable inventions: (c) schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers; (d) presentations of information.

<sup>62</sup> EPC Article 77(2) - Forwarding of European patent applications: A European patent application the subject of which has been made secret shall not be forwarded to the European Patent Office.

Subsequently this meant that the scope of protection offered by the reform was much wider than that granted by the TRIPs Agreement or the European Patent Convention (EPC).

This possibly unlimited scope of trade secrecy also potentially meant that the owner of secret information could diminish the ambit of public domain and delay access to revolutionary inventions with the dire consequence of slowing down the innovative process and diminishing overall competition.

Another important observation that has to be made is that by considering information as a property right, the incentive to patent is greatly reduced.

Particularly in situation where innovative features cannot be evaluated by a person skilled in the art<sup>63</sup> through the examination of the patent proposal.

An absence of dynamic competition impairs innovation and harms consumers by postponing the entry of new products in the market.

The outrage expressed in this paragraph is well summarised by these words taken from Professor. Ghidini's paper on the matter: "upgrading of trade secrets to the upper circle of intellectual property rights frustrates the informative function linked to the mandatory public disclosure of the patented invention. [...] the balance that the patent paradigm expresses between private and public interest [...] would easily be disrupted by the ability to obtain full protection for undisclosed information."<sup>64</sup>

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<sup>63</sup> The "person skilled in the art" should be presumed to be a skilled practitioner in the relevant field of technology, who is possessed of average knowledge and ability and is aware of what was common general knowledge in the art at the relevant date (see T 4/98, T 143/94 and T 426/88). He should also be presumed to have had access to everything in the "state of the art", in particular the documents cited in the search report, and to have had at his disposal the means and capacity for routine work and experimentation which are normal for the field of technology in question. If the problem prompts the person skilled in the art to seek its solution in another technical field, the specialist in that field is the person qualified to solve the problem. The skilled person is involved in constant development in his technical field (see T 774/89 and T 817/95). He may be expected to look for suggestions in neighbouring and general technical fields (see T 176/84 and T 195/84) or even in remote technical fields, if prompted to do so (see T 560/89). Assessment of whether the solution involves an inventive step must therefore be based on that specialist's knowledge and ability (see T 32/81). There may be instances where it is more appropriate to think in terms of a group of persons, e.g. a research or production team, rather than a single person (see T 164/92 and T 986/96). It should be borne in mind that the skilled person has the same level of skill for assessing inventive step and sufficient disclosure (see T 60/89, T 694/92 and T 373/94). [http://www.epo.org/law-practice/legal-texts/html/guidelines/e/g\\_vii\\_3.htm](http://www.epo.org/law-practice/legal-texts/html/guidelines/e/g_vii_3.htm)

<sup>64</sup> GUSTAVO GHIDINI and VALERIA FALCE, *Trade secrets as intellectual property rights: a disgraceful upgrading - Notes on an Italian "reform"*, in ROCHELLE C. DREYFUSS - KATHERINE J. STRANDBURG, *op. cit.*, p. 148.

Essentially the paradigm for trade secrecy shifts from being an instrument to secure returns to those inventors uncertain about their discovery being patentable or who are unable to afford a patent, to a completely valid substitute for patents potentially rendering the latter inconvenient to the most.

## CHAPTER 3

### Framing the regulation of “Trade Secrets” in Italy

#### 3.1. Article 6-bis R.D. 1127/1939

Before the Italian Civil Code and the 2005 reform (followed by the one in 2010), the regulation for patents and industrial inventions was contained in the Royal Decree n. 1127, 29 July 1939 entitled “*Testo delle disposizioni legislative in materia di brevetti industriali*”.

For the purpose of this study and to create a solid historical background the main article that interests us is article 6-bis of the Royal Decree which identifies the elements necessary to consider information “a trade secret” and where infringed, the application of article 2598 Italian Civil Code.<sup>65</sup>

Accordingly there are three conditions that have to be met so the rules of unfair competition can apply:

- (i) the information has to be secret, meaning that considered as a whole it cannot be generally known or accessible to a person skilled in the art;<sup>66</sup>
- (ii) the information must have economic value in lieu of its secrecy;
- (iii) the owner of the information must actively apply appropriate measure to keep the information secret.

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<sup>65</sup> Article 6-bis Royal Decree n. 1127/1939: “(1) Fermo il disposto dell’art. 2598 n. 3 del codice civile, costituisce atto di concorrenza sleale la rivelazione a terzi oppure l’acquisizione o utilizzazione da parte di terzi in modo contrario alla correttezza professionale di informazioni aziendali ivi comprese le informazioni commerciali soggette al legittimo controllo di un concorrente ove tali informazioni:

a) siano segrete, nel senso che non siano nel loro insieme, o nella precisa configurazione e combinazione dei loro elementi, generalmente note o facilmente accessibili agli esperti ed agli operatori del settore;

b) abbiano valore economico in quanto segrete;

c) siano sottoposte, da parte delle persone al cui legittimo controllo sono soggette, a misure da ritenersi ragionevolmente adeguate a mantenerle segrete.

(2) Costituisce altresì concorrenza sleale la rivelazione a terzi oppure l’acquisizione o utilizzazione da parte di terzi in modo contrario alla correttezza

professionale di dati relativi a prove o di altri dati segreti la cui elaborazione comporti un considerevole impegno, e alla cui presentazione sia subordinata l’autorizzazione dell’immissione in commercio di prodotti chimici, farmaceutici o agricoli implicanti l’uso di nuove sostanze chimiche.”

<sup>66</sup> Footnote 71.

As can be noted the requisites directly reflect those illustrated by article 39 TRIPs.

Another form of unfair competition described by article 6-bis(2) deals with the disclosure to third parties of information that can be used in a manner contrary to fair trade and competition, in particular regarding the information necessary to obtain marketing authorisations for pharmaceutical products.

The protection of trade secrets as of 1995, when article 6-bis was introduced, has been inserted directly into the subject of unfair competition.

The aforementioned article deals primarily with two scenarios: the first refers to third parties, who with behaviour contrary to professional integrity acquire knowledge of secret information.

The second occurs when the information covered by secrecy, such as data regarding test results and product information, is revealed to third parties.

Prerequisite for there to be a situation of unfair competition is that the information is dependent on a specific permit such as a marketing authorisations.

### **3.2. Unfair competition; Article 2598 Civil Code<sup>67</sup>**

Article 10-bis of the “Paris Convention for the Protection of Intellectual Property”<sup>68</sup> obliges the countries of the Union to assure to nationals of such countries effective protection against unfair competition.

Italy enacted the convention through article 3 of the Royal Decree n. 169/1926 that established the application of article 10-bis among Italian citizens.

The rule was later supported and then essentially replaced in 1942 by article 2598 of the Italian Civil Code.

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<sup>67</sup> CLAUDIA SIGNORINI, *Concorrenza Sleale e Pratiche Commerciali Scorrette*, in GUSTAVO GHIDINI - GIOVANNI CAVANI, *Lezioni di Diritto Industriale: Proprietà Industriale, Intellettuale e Concorrenza*, Giuffrè Editore, 2014.

<sup>68</sup> Footnote 8.

Later, with the introduction of the Constitution and in particular of article 41, which establishes that the private economic enterprise is free<sup>69</sup>, the dominant interpretative strand of article 2598 remained indifferent to the individual and collective interests of the consumers when adopting a repressive policy against unfair competition.

Professional integrity had to then be analysed in view of the entrepreneurial behaviour held in the interest of a well functioning competitive market and not based on ethical views held by professionals.

With the implementation of Directive 2005/29/EC and in particular its preamble 8 we encounter a reversal of the ongoing trend at the time and the consumer is placed back into a central position, underlining how a good and fair competition also depends on the protection of the consumer base.<sup>70</sup>

In even more recent times Italian case law has realised the importance of the protection of the consumers interests, in particular the Supreme Court, in reference to article 41 of the Italian Constitution, declared that when evaluating any kind of alleged unfair behaviour it is necessary to have regard of what harms the market as a whole and thus the consumers as well, who represents the general interest of the market as such, independent from any professional category.<sup>71</sup>

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<sup>69</sup> Italian Constitution Article 41: *(1) L'iniziativa economica privata è libera. (2) Non può svolgersi in contrasto con l'utilità sociale o in modo da recare danno alla sicurezza, alla libertà, alla dignità umana. (3) La legge determina i programmi e i controlli opportuni perché l'attività economica pubblica e privata possa essere indirizzata e coordinata a fini sociali.*

[Translation: (1) Private economic enterprise is free. (2) It may not be carried out against the common good or in such a manner that could damage safety, liberty and human dignity. (3) The law shall provide for appropriate programmes and controls so that public and private-sector economic activity may be oriented and co-ordinated for social purposes.]

<sup>70</sup> Preamble 8 to Directive 2005/29/EC: "This Directive directly protects consumer economic interests from unfair business-to-consumer commercial practices. Thereby, it also indirectly protects legitimate businesses from their competitors who do not play by the rules in this Directive and thus guarantees fair competition in fields coordinated by it. It is understood that there are other commercial practices which, although not harming consumers, may hurt competitors and business customers. The Commission should carefully examine the need for Community action in the field of unfair competition beyond the remit of this Directive and, if necessary, make a legislative proposal to cover these other aspects of unfair competition."

<sup>71</sup> Cass. civ., sez. I, 26 gennaio 2006, (ud. 15/11/2002, dep. 26/01/2006), n. 1636: "[...] la valutazione di eventuale scorrettezza di un dato comportamento - in specie, ma non solo, per quel che riguarda la determinazione del prezzo al quale un bene o un servizio venga offerto sul mercato - debba essere compiuta non nell'interesse dei mercanti, ma in quello del mercato. Occorre cioè aver riguardo a quel che nuoce o a quel che giova al buon funzionamento del mercato medesimo (in tal senso si veda anche Cass. 11 agosto 2000, n. 10684), e quindi alla generalità dei consumatori, perchè in questo risiede l'interesse generale, a prescindere dalla convenienza di una determinata categoria professionale."

Before analysing paragraph n. 3, which is of greater interest to us, it is worth mentioning that the rules reprimanding unfair competition apply only if the parties involved are entrepreneurs and if between them there is a competitive relationship, even only potential.<sup>72</sup>

A relationship is to be considered competitive when the businesses share the same client base or because they offer the equivalent product or a similar one on the same market (be it current or potential taking into account possible geographical and commodity related expansion).

Moreover a potential competition also exists when the businesses involved operate in two different areas, but one is considered the possible progression of the other: this also means competitiveness can occur between manufacturer and distributor.

Finally according to a well settled case law, the entrepreneur has to also be held liable for unfair competition following the behaviour of his employees, trustees or third parties affiliated with the business, when he has an interest in the illicit act.

### **3.2.1. Article 2598 n. 3 Civil Code**

Paragraph 3 of article 2598 Civil Code states that a party commits an act of unfair competition when it:

“Directly or indirectly uses any other mean not compliant with the principles of professional fairness and able to damage other people’s company.”<sup>73</sup>

At this point the first step to follow is to provide a correct definition of what is considered professional fairness.

According to one line of thought it is any behaviour held by an entrepreneur in the conviction that it is fair in relation to ethical commercial practices or moral standards upheld by the professionals in the specific field.

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<sup>72</sup> Italian case law and jurisprudence has included in the definition of entrepreneur various entities operating on the market, including public undertakings.

<sup>73</sup> Article 2598 n. 3 Italian Civil Code: “*si vale direttamente o indirettamente di ogni altro mezzo non conforme ai principi della correttezza professionale e idoneo a danneggiare l'altrui azienda [1175, 2599, 2600]*”.



Another position determines professional fairness in relation to commercial practices without taking into account any ethical evaluation.

A further point of view tries to interpret professional fairness through economic standards and considers fair what is in line with the principles of competition and economic initiative.<sup>74</sup>

We need to keep in mind that cases of unfair competition do not depend on subjective elements such as intent or negligence.

Usually it depends on objective circumstances that cannot promote a healthy competition.

An important element is also that the behaviour held has to be likely to harm the competitor's business, which means that the possibility of a harmful event is enough to create a situation of unfair competition.

Through the hard work of both doctrine and case law some specific conducts have been considered as illicit and included in the scope of applicability of article 2598 n. 3:

- (i) violating others' exclusivity rights;
- (ii) price manipulation;
- (iii) boycotts;
- (iv) employee transfers<sup>75</sup>;
- (v) illicit abuse of trade secrets;
- (vi) systemically imitating others' business initiatives;
- (vii) infringing public laws; and
- (viii) misleading advertising.

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<sup>74</sup> Footnote 79 and Cass. civ., sez. I, 7 febbraio 1997, n. 1185.

<sup>75</sup> Cass. civ., sez. I, 13 marzo 1989, n. 1263, Soc. Sindi C. Soc. BAM: "*Costituisce concorrenza sleale a norma dell'ex art. 2598 n. 3 c.c., l'assunzione di dipendenti altrui o la ricerca della loro collaborazione, non per la capacità di lavoro dei medesimi, ma per l'utilizzazione delle conoscenze tecniche (know how) usate presso l'altra azienda, e non in possesso del concorrente, configurandosi tale comportamento scorretto di quest'ultimo idoneo a danneggiare l'altrui azienda con il consentirgli l'ingresso sul mercato e la contesa della clientela prima di quanto gli sarebbe stato possibile in base a propri studi e ricerche.*"

To properly understand the illicit abuse of trade secrets it is important to also define what is considered a trade secret under this article.

According to a consistent case law, the only information that can be considered secret is the one that does not include the professional experience acquired by an employee during a normal business relationship.

What this means then is that only the knowledge acquired by the company and strictly connected to its own activity can be covered by secrecy — *i.e.* client lists that are not easily accessible and that contain specific commercial information valuable to build *ad hoc* business offers for clients.<sup>76</sup>

It also means that a former employee cannot use any personal relationship from the former business in the new one.

As mentioned earlier on in the chapter, until 2005, when article 98 and 99 of the Industrial Property Code were introduced, the rules of unfair competition were the only ones that granted protection on the subject of confidential information.

It then seems logical that keeping in mind this introduction to article 2598 of the Italian Civil Code, we proceed to analyse these two important articles.

### **3.3. Articles 98 and 99 of the Italian Industrial Property Code**

These articles reflect and improve upon article 6-bis of the “Law on Inventions”.

Before legislative decree n. 198/1996, which conformed the national Italian legislation to that of the TRIPs Agreement, the acquisition and disclosure of confidential information was reprimanded under the rules of unfair competition and

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<sup>76</sup> Cass. Civ., Sez. I, 20 marzo 1991, n. 3011. “*Con riguardo allo sviamento di clientela, che venga posto in essere utilizzando notizie sui rapporti con i clienti di altro imprenditore, acquisite nel corso di pregressa attività lavorativa svolta alle sue dipendenze, la configurabilità di concorrenza sleale, ai sensi dell’art. 2598 n. 3 c.c., deve essere riconosciuta ove quelle notizie, ancorché normalmente accessibili ai dipendenti, siano per loro natura riservate, in quanto non destinate ad essere divulgate al di fuori dell’azienda.*” Also: Cass. Civ., Sez. I, 13 marzo 1989, n. 1263, GADI, 1989, 35. Cass. Civ., Sez. I, 22 ottobre 1974, n. 3010, GADI, 104. Trib. Brescia 30 aprile 2004, GADI, 1079.

in particular article 2598, n. 3 of the Italian Civil Code (as we had a chance to see above).

Within the structure of the Italian Industrial Property Code “confidential business information” is inserted among those industrial rights that are not “qualified”<sup>77</sup>, meaning they lack a specific title that forms the basis of the right, and before being exercised they require proof of the facts upon which the subject/plaintiff claims to have those rights.

The Italian Legislator’s decision to qualify confidential information as a “property right” has encountered criticism from scholars.<sup>78</sup>

According to them the misunderstanding of intellectual property rights as a form of “property” right (intended as a right on a *res*) stems from the Court of Cassation’s decision<sup>79</sup> delivered by Piola Caselli, in the case that viewed Martini and Rossi against Cinzano, Cora and Gancia on the matter of the use of the expression “Martini Cocktails”.

According to the decision the actions regarding the infringement of a trademark are different in nature and object compared to ones regarding unfair competition.

The first aim to protect the property of a trademark separately from any question regarding the confusion amongst products, intention or effective damage deriving from any infringement; the latter, on the other hand, require a will of the infringer to create confusion for the consumers and gain advantage from such a situation, moreover the damages deriving from such conduct must be proven so to obtain compensation.

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<sup>77</sup> Article 1 I.P.C. - Industrial property rights - “For the purposes of this Code, the expression “industrial property” includes trademarks and other distinctive marks, geographical indications, designations of origin, designs and models, inventions, utility models, topographies of semiconductor products, confidential business information and new plant varieties.”

Article 2,4 I.P.C. - Establishment and acquisition of rights - “When the requirements of law are met, distinctive marks other than the registered trademark, confidential business information, geographical indications and designations of origin are protected”.

<sup>78</sup> A. VANZETTI, *Diritti Reali e “Proprietà” Industriale (... e Mediazione Obbligatoria)*, in Riv. dir. ind., fasc.3, 2010, pag. 173.

<sup>79</sup> Cass. civ., sez. III, 15 giugno 1929; Pres. ed Est. Piola Caselli P., P. M. Macchiarelli (concl. conf.); Soc. Martini e Rossi c. Ditte Cinzano, Cora e Gancia.

Configuring the actions regarding the infringement of a trademark in this manner means that the protection of the IPR is the end in itself, just as what would occur in the protection of other “property” rights, and thus identifying trademarks and other IPRs as absolute rights and more specifically “property” rights.

This line of thought has arguably carried onto more recent times in Italian case law.<sup>80</sup> The position held by Civ. Justice Piola Caselli may have had a solid ground in the structure of the Italian Civil Code, prior to its reform in 1942.

In fact up until 1942 unfair competition was treated as a form of Aquilian (or non-contractual) liability, which meant that the damaged party was able to obtain only a claim for damages on the ground of unfair competition.

This position falters post 1942 thanks to the introduction of articles 2598 *et seq.*, where the application of measures against unfair competition do not require a form of negligence anymore<sup>81</sup>, which means that legal actions regarding unfair competition comprise not only of an obligation to pay damages but also of an absolute right.

Most importantly this shows how IPRs’ qualification as a “property” right may in fact be a misunderstanding that finds its ground in the use of the adjective “property”.

Property, in fact, in countries such as Italy that find their legal traditions rooted in roman law, is a term that is strictly connected to tangible assets.

An objection to this point can be made; by taking such a restricted position on the definition of “property” one is lead to ignore an evolutionary interpretation that claims that IPRs are the object of an exclusivity right and as such are part of an absolute right the beholder has.

In such terms that means that IPRs, or non tangible assets, are in fact “property” rights.

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<sup>80</sup> Cass. civ. 3 aprile 2009, n. 8119.

<sup>81</sup> A presumption of negligence was recognized by Trib. Terni, 27 giugno 2007. See also Riv. dir. ind. 2008, II, 220 ss.

However it is undeniable that non tangible assets have substantial differences if compared to the tangible assets that enter under Book III of the Italian Civil Code, that contains a series of rules more suitable for the latter.

By using the term “property” in the Industrial Property Code we then cannot assume that the legislator intended to automatically apply all the rules in Book III of the Italian Civil Code and moreover intended non-tangible assets as a form of *res* in the traditional roman meaning.

If we then want to find a way to justify the use of the term “property” in the IPC we have to consider it as a form of property *sui generis*, which differs from the standard definition.

In these terms, then, rules regarding property in the traditional sense may be applied by analogy only when there are doubts or regulatory gaps, meaning that as a rule of thumb they are not directly applicable to IPRs.

Already over a century ago Josef Kohler<sup>82</sup>, in his theory of *Immaterialgüterrecht*, expressed the idea that it is not possible to consider non-tangible assets, such as IPRs, admissible in the realm of tangible assets.

He claimed that: “An invention is the creation of an idea, something that has no body, and the right of the inventor is then a right on an object which has no physical manifestation.

This is called a right on non-tangible assets.

In the times that came scholars spoke of intellectual property, because they compared the relationship between the inventor and the inventive idea to that of an owner of a tangible asset.

This comparison is wrong, because, although some analogy is present, between the two assets, there is such a difference that if they were to be grouped in the same legal definition and concept there would only be confusion.

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<sup>82</sup> Josef Kohler (March 9, 1849, Offenburg – August 3, 1919, Charlottenburg) was a german jurist and professor of law, who contributed a lot in the field of comparative and civil law.

Rather it should be said that non-tangible assets do, most of the time, correspond to property as identified by the right on tangible assets; but that they also have their own unique characteristics.

There would be nothing more wrong that to apply to non-tangible assets, the laws and rule for personal tangible movables.”<sup>83</sup>

At this point it would then seem that the term “property” in the IPC only refers to the exclusivity right that comes with owning an IPR.

It is also worth mentioning that in common law countries IPRs are dealt with a “broad” and “not straightforward” analogy to property rights in tangible movables.<sup>84</sup>

Moreover in reference to the TRIPs Agreement we must keep in mind that it was written originally by countries with an Anglo-Saxon tradition, where “property” is used as a general definition with no subcategories, and can be applied without much doubt to exclusivity rights.

To sum up, the definition of property in the TRIPs Agreement does not have a corresponding translation, that matches the common law interpretation, within the Italian legal framework.

During work on the legislative decree n. 198, 19 March 1996, that would then enact the TRIPs Agreement in Italy, there was some difficulty placing the rule indicated by article 39 on trade secrets.

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<sup>83</sup> J. KOHLER, *Lehrbuch des Patentrechts*, Mannheim und Leipzig, 1908, pp. 13-14; «Erfindung ist eine Ideenschöpfung, also etwas Unkörperliches, und das Erfinderrecht ist mithin das Recht an etwas Unkörperlichem. Dies nennt man Immaterialgüterrecht. Frühere Zeiten sprachen von geistigem Eigentum, indem sie die Verbindung des Erfinders mit der Erfinderidee der Verbindung des Eigentümers mit der körperlichen Eigentumssache gleichstellten. Diese Gleichstellung ist fehlerhaft, denn trotz mancher Aehnlichkeit herrscht zwischen beiden Dingen doch solche Verschiedenheit, dass es nur Verwirrung erregen muss, wenn man beides unter einen und denselben juristischen Ausdruck und unter einen und denselben juristischen Konstruktionsbegriff bringt. Vielmehr muss gesagt werden, dass die Immaterialgüter zwar mit dem Eigentum, als dem Recht an körperlichen Sachen, mannigfach übereinstimmen, in vielen Beziehungen aber auch wichtige Selbständigkeiten zeigen. Wo aber dies der Fall ist, darf man zwar mit Recht die Rechtsähnlichkeit hervorheben, es ist aber nicht gestattet, beides unter einen Begriff zu bringen, weil sonst dasjenige, was die Rechtsordnung von dem einen besagt, ohne weiteres auch auf das andere bezogen würde. Es gäbe aber nichts Verkehrteres, als wenn man die Bestimmungen des B.G.B. über das Eigentum, etwa über das Eigentum an beweglichen Sachen, auf die Immaterialrechte übertragen wollte».

<sup>84</sup> CORNISH - LLEWELYN, *Intellectual property: patents, copyright, trade marks and allied rights*, London, 2003, p. 4.

Originally it was placed within the “Law on Patents”, because in some way they still had to do with technology, not withholding that the applicable rules were those that governed unfair competition.

Several years later, in 2005, the IPC placed trade secrets in their own section (Section VII), and the decision then was to identify them as a form of property.

As we had occasion to just see this may have in fact been a misleading solution.

In an attempt to identify trade secrets as a property in its full capacity, and protect them as such, the first legislator of the IPC willingly distanced himself from the position taken within article 39 TRIPs.

The TRIPs Agreement, in fact, only protects trade secrets under the rules of unfair competition, requiring a further element of dishonesty and/or foul play.

In particular article 99 IPC in its original layout recited:

“without prejudice to the provisions of unfair competition, it is forbidden to disclose to third parties, to use or to acquire business information and technical-industrial experience as per article 98”.

In the Ministerial Report that came along with the first edition of the IPC it is written that confidential information is subject to industrial property no differently from a patented invention, and that confidential information differs from patents only in the fact that the latter are written and contained in a document that is made public and the former are protected only when they meet the requirements of article 98.

The difference would then only be that patents aim to render innovative knowledge available to the public while trade secrets aim to obtain the opposite goal.<sup>85</sup>

In this manner article 99 was to be read as a protection of trade secrets against all forms of acquisition and use from third parties be it for fraud or wilful misconduct, reverse engineering or momentary lapse of security measures.<sup>86</sup>

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<sup>85</sup> A. VANZETTI, *La tutela “corretta delle informazioni segrete”*, in Riv. dir. ind., fasc.3, 2011, pag. 96.

<sup>86</sup> Security Measures are an important element of trade secret protection that can prevent any form of misappropriation.

Most absurdly it would also mean protecting information against those who discovered the object, covered by secrecy, on their own, under the principle *prior in tempore, potior in jure*, which identifies with the patents mechanism.

The contrast with article 39 TRIPs at this point should be quite clear.

Article 39 always intended to keep trade secrets under the protection of unfair competition.

At this point it would be wise to ask and try to understand why TRIPs placed confidential information in the property category keeping in mind the definition of property is not the one intended in roman law tradition.

For this we must go back to article 10-bis Paris Convention that rules:

- (i) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

and that

- (ii) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

For Continental Europe this does not pose much of a problem as unfair competition is a subject that has been studied to a greater extent than in the U.S. and non-European countries.

And here lies the reason we were looking for; “it was necessary to single out trade secrets as property rights, so as to assure the broadest protection even in those countries where the misappropriation doctrine never took hold.”<sup>87</sup>

What this means is that the decision made by the Italian legislator, in the first version of the IPC (that carries onto the second one), to exclude trade secrets from unfair competition, finds no solid ground within the TRIPs Agreement.

What was also noted among critics is that this difference in treatment could potentially alter the balance between protecting the entrepreneur’s interest in secrecy and the patent system.

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<sup>87</sup> DESSEMONTÉ, *Protection of Trade Secrets and Confidential Information*, in CORREA and YUSUF, *Intellectual Property and International Trade, The TRIPs Agreement*, London, 1998, pp. 243-244.



In fact, the protection of a secret as a “property” is potentially unlimited time wise, and free from the burden of describing the invention that comes with a patent request.

Secrecy is ultimately incompatible with a patent’s end goal, which is to promote research by granting the inventor a temporary monopoly.<sup>88</sup>

In 2010 the Italian legislator noticed that he had not reproduced article 39 TRIPs within article 98 and 99 IPC and modified article 99 with article 48 of the corrective decree n. 131, 13 August 2010, declaring that the corrections were being made to render the provision more compatible with the TRIPs Agreement.

The current article 99 entitled “Protection” reads as follows:

“Without prejudice to the provisions on unfair competition, the legitimate owner of the information and business experience as per Article 98, has the right to prohibit third parties, *subject to his consent*, from acquiring, disclosing to third parties or using that information and experience in an *unauthorised manner, except for cases in which the third party has obtained it in an independent manner.*”

It still does not erase all doubts.

What does “unauthorised manner” mean exactly?

An “unauthorised manner” could be interpreted according to Italian law as “done illicitly” or “evident abuse”, but this would assume that someone else's right had been damaged.

What would be more appropriate would be to interpret this term as “in a manner contrary to fair commercial practices”, making article 99 IPC more compatible with the TRIPs Agreement.

As for the closing statement added to the reformed article 99 IPC it introduces an exception to the rule it outlines at the beginning, that considers illicit any form of unauthorised acquisition.

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<sup>88</sup> V. FALCE, *Profili pro-concorrenziali dell’istituto brevettuale*, Milano, Giuffrè, 2008. G. GHIDINI, *La tutela del segreto: critica di una “riforma”*, in *dir. ind.*, 2008, p. 167. GHIDINI-FALCE, *Upgrading trade secrets as IPRs - a recent break through in IP law*, D. Aut. 2008, p. 121.

What deserves particular attention is the phrase “obtained in an independent manner”.

This sentence would apparently leave no questions in regard to the validity of reverse engineering as a form of acquisition of information.

While on the subject, scholars, such as A. Vanzetti, seem adamant to underline how these doubts and vague reconstructions could have been avoided by simply applying from the beginning the criteria of professional integrity, that in light of its versatility would have managed to take on any reasonable necessity.<sup>89</sup>

### **3.3.1. Information protected under article 98 I.P.C.**

Following this general overview it is now important to analyse what kind of information warrants protection in accordance to the Italian Industrial Property Code. Article 98 is entitled “Scope of the protection” and recites as follows:

“1. Protection is granted to business information and technical-industrial experience, including commercial information and experience, subject to the legitimate control of the owner, as long as that information:

- a) is confidential, in the sense that as a whole or in its precise configuration and combination of its elements it is not generally known or easily accessible for experts and operators in the field;
- b) has an economic value inasmuch as it is confidential;
- c) is subject, by the persons to whose legitimate control it is subject, to measures to be considered reasonably adequate to keep it confidential.

2. Protection shall also be granted to data relating to tests or other confidential data, whose processing entails a considerable effort and whose presentation is conditional upon the marketing authorisation of chemical,

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<sup>89</sup> *Supra*, fn. 104.

pharmaceutical or agricultural products implying the use of new chemical substances.”

Traditionally, within the broader notion of “trade secrets” we encounter two subcategories; one category is what is generally referred to as “technical secrets” and the other is identified as “commercial secrets”.

This division, present within article 98, which also protects commercial business information, is relevant when entering the grounds of criminal law (see paragraph 3.4.) that, on the other hand, does not grant protection to commercial information.

A technical secret, is information that is relevant to the characteristics of a product or industrial process, eligible for a patent, that in light of its secrecy, grants the beholder a competitive advantage.<sup>90</sup>

A commercial secret, instead, deals with confidential information relevant to the companies’ commercial organisation, its strategic plans, its business relation with suppliers and customers, pricing *etc.*

In this category the main cause of disputes has to deal with client lists, which usually do not contain only client names but also a series of strictly related information such as prices and discounts usually applied, characteristics and quantity of products from past transactions, the representative for each client and the expiration date of his contract.<sup>91</sup>

The adjective “business” used in article 98 to identify the type of information, would seem to exclude the possibility of protection under its provision to subjects that do not exercise a commercial activity and to any form of information that is essentially irrelevant to the business’ main activity.

An extreme interpretation of this has led to exclude protection to any form of information that would not meet the standards required to potentially obtain a patent.<sup>92</sup>

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<sup>90</sup> App. Milano, 13 june 2007, GADI, 2007, 836. Trip. Milano, 31 march 2004, GADI, 2004, 979. Trip. Modena, 25 july 1996, GADI, 1996, 903.

<sup>91</sup> *Supra*, fn. 86.

<sup>92</sup> M. BERTANI, *Proprietà intellettuale e nuove tecniche di appropriazione delle informazioni*, in *Studi in onore di Gerhard Schricker*, Quaderni di AIDA n. 14, Giuffrè, 2005, pp. 34-36.

In explaining the reasoning behind this theory it is worth keeping in mind that it came to existence in 2005, five years before article 99 was updated to be more compatible with article 39 TRIPs.

The combined provisions of article 98, that protects information that meets the requirements under its letters a), b) and c), and of article 99, that prohibits the acquisition, use and disclosure of business information and experience without a valid authorisation from the beholder, would seem in contrast with the general trend that up until then, in an attempt to remove obstacles to the circulation of information, had attempted to reduce the extent of exclusivity rights.

The new regime, introduced by these articles, instead, seems intent to subject this kind of information to a genuine *ius excludendi*, that can be exercised *erga omnes alios*, with a form of protection that well differs from that of unfair competition contained in article 6-bis l.i. and article 2598, n. 3 c.c.

If we then pay closer attention to the object of the protection and compare article 98 and 6-bis, the new provision does not only protect “business information” but also “technical-industrial experience”, that also includes commercial information.

In particular, according to M. Bertani, “technical-industrial experience” refers to “technicality”, that in the patent system ascertains and identifies directly with the area of knowledge that is not only theoretical but may also be patentable, in light of its industrial applicability.

At this point a valid question may be; what is the connection between business information and technical-industrial experience?

Keeping in mind these two notions, the use of “that information” in article 98 seems to promote a unitary definition of “information” that stems from the combination of the two categories.

This would then corroborate the theory that only information that has industrial applicability and belongs to an area of knowledge that is potentially patentable, may, in fact, be protected under the provisions of article 99 IPC.

It would also mean that the exclusivity right that comes along with trade secrets, would not protect any other form of information that is not patentable, albeit industrial.

By claiming this, client lists, marketing ideas and strategies would not obtain protection under these provisions.

This interpretation is more in line with the principle according to which purely theoretical knowledge is not patentable.

Interpreting article 98 in a different manner from this, would cause imbalance between appropriation and circulation of information.

### **3.3.2. Protection Requirements**

As mentioned above article 98 lists three necessary elements to identify a secret that is eligible for protection under its rule.

The first one is lack of notoriety and accessibility.

It has to be intended in a way that is as strict as the “absolute novelty” that is necessary in order to be eligible for a patent<sup>93</sup>, but it is sufficient that the information is not generally known or readily accessible.

This means that it is possible for more than one entrepreneur to know the same kind of information, as long as it was acquired independently and the number of subjects aware of it is not so high as to enter the grounds of generally known information.

It also excludes protection to information that can be obtained through observation, chemical analysis or reverse engineering.<sup>94</sup>

Finally this first requirement does not refer to each single isolated information that forms the trade secret, but the information as a whole, in other words, to the secret as a combination of each of its elements.

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<sup>93</sup> Article 46 Italian Industrial Property Code.

<sup>94</sup> Reverse engineering is valid as long as it is “easy” for someone who is an expert or skilled in the art. It is important to remember that the “state of the art” in this case has to be intended in a less restrictive manner than that necessary for a patentable invention.

Moving onto the second condition, its goal is to limit the amount of information that is eligible for protection, and requires that it have an “economic value”.

It does not simply mean that it has a market price, but that the possession of the information, which depends on its secrecy, is what assures the beholder a competitive advantage against industries that operate on the same market share.<sup>95</sup>

The third and final requirement is known as “withholding” or “rigorous secrecy”, and has two main functions.

The first is to show to whoever collaborates with the company, and is allowed to use the secret information, that there is a strong intention to maintain that information secret.

The second is to prevent anyone from revealing trade secrets to third parties.

There is no need for physical or contractual means that make it impossible to reveal the information.

What is sufficient, is that reasonable measures have been adopted to keep that information secret.

“Reasonable measures” is a vague concept and needs to be determined on a case to case basis, keeping in mind the market the business operates in, the value of the information to protect, the ratio between the cost of the measures that could be adopted and their effectiveness and, finally, the technological evolution of safety measures.

Such security measures can be split into three main groups:

- (i) physical measures:            separate research areas, applying a “clean desk” policy and destroying any documents or hardware that may contain confidential information;
- (ii) non-physical measures:    passwords, encryption, firewalls and fingerprinting; and

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<sup>95</sup> G. GUGLIELMETTI, *La tutela del segreto*, in C. GALLI, *Le nuove frontiere del diritto dei brevetti*, Torino, 2003.

- (iii) judicial precautions: non disclosure agreements, confidentiality agreements and warning markers.

Moving onto paragraph two of article 98 IPC, instead, we find that it aims to protect the necessary data filed to obtain a marketing authorisation for chemical, pharmaceutical or agricultural products.

According to some scholars this second paragraph may be redundant, given how the particular case it illustrates could be included within paragraph one.<sup>96</sup>

To better comprehend this rule we must look at article 39, n. 3 TRIPs that orders member States to protect this kind of data from the risk of unwanted disclosure, which is inherent within the obligation to release such information to the Public Administration, unless the disclosure is necessary on the grounds of public safety.

The main difficulty in Italy is brought by law n. 241/1990 that grants access to administrative documents with the goal to ensure transparency in the Public Administrations' activity.<sup>97</sup>

### **3.3.3. Unauthorised behaviour under article 99 I.C.P.**

This article identifies three forms of illicit behaviour that warrant the protection under the rules seen above;

- (i) disclosing to third parties
- (ii) acquiring information
- (iii) use of information illustrated in article 98

The Italian Legislator also decided to specify that all these behaviours are illicit unless they are authorised by the “rightful holder”.

According to some scholars this specification, however, seems redundant in view of the fact that the disclosure, acquisition or use of confidential information is illicit when done without authorisation.

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<sup>96</sup> A. VANZETTI - V. DI CATALDO, *Manuale di Diritto Industriale*, Giuffrè, Milano, 2012.

<sup>97</sup> For further details on the subject see Head V of law 241/1990.

Article 99, in fact, reads: “Without prejudice to the provisions on unfair competition, the legitimate owner of the information and business experience as per Article 98, has the right to prohibit third parties, subject to his consent, from acquiring, disclosing to third parties or using that information and experience in an *unauthorized manner*, except for cases in which the third party has obtained it in an independent manner by the third party.”

The first restriction regards disclosure, and it refers not only to people who acquired the information in an unauthorised manner, but also those who acquired it fairly because they assisted in the creation of the good protected by secrecy (*i.e.* employees) or because they assisted to a minor extent such as providing the necessary materials or consulting, or finally because they are licensees.

The second limit set by acquisition deals with confidential information acquired by violating the “private sphere” of the owner.

This means that it does not include individual discovery and reverse engineering.

Finally, the last ban confronts the matter of use of confidential information.

The main question regarding protection against the use of information is whether or not it includes information that can be obtained only by knowledge of the one covered by secrecy; or if the development and success of a project is facilitated by such knowledge.

In fact, in this situation, a competitor obtains substantial advantages from his misconduct and from the information he acquired through it, such as strengthening his market share to the detriment of the victim who suffered at his hand.<sup>98</sup>

Determining the limit within which information, that differs from the one it originates from, can be considered “derivative”, and as such consequence of the use of confidential information, is a very delicate subject and must be studied in light of the single case.<sup>99</sup>

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<sup>98</sup> G. GUGLIELMETTI, *La tutela del Segreto*, in C. GALLI, *Le nuove frontiere del diritto dei brevetti*, Giappichelli, Torino, 2003, p. 123.

<sup>99</sup> Trib. Milano, 2 February 2002, n. 202.



Finally, still remaining on article 99 IPC, we must look at how it relates to article 2598 Civil Code.

The opening statement “Without prejudice to the provisions on unfair competition” can possibly be interpreted as an extension to the protection of confidential information that is much broader than that anticipated by the literary interpretation of the provision.

In other words there are some types of information that do not fit in with all the prerequisites listed in section VII of the Industrial Code, but nonetheless merit protection under the discipline of unfair competition, because in one way or another they represent misconduct or unfair business practices.

Such an example could be the unfair competition that stems from acquiring information on a chemical formula, susceptible of reverse engineering (which is a valid form of acquisition), only to save time and money on the costs of discovery through a valid means.

More specifically article 2598, n. 3 Civil Code would apply to those instances where there is an acquisition, through illicit means, of confidential information, that has not been correctly protected by the “owner”.

According to this interpretation a collection of both actions (article 99 IPC and article 2598, n. 3 Civil Code), where requirements are met, would also seem acceptable, due to the different sanctions provided by the two.

The last step in the overview of these articles is their relationship with article 68 IPC in particular paragraph 3.<sup>100</sup>

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<sup>100</sup> During the twelve months prior to the date of filing of the patent application or the date of priority, whoever has made use of the invention in his own business may continue to use it within the limits of previous use. That authority may only be transferred together with the business activity in which the invention is used. The proof of previous use and its extension is the responsibility of said previous user.

As is clear by now, one of the main disadvantages of choosing secrecy over patent protection, is the risk that others may patent it before hand, having reached the same inventive idea in an independent manner.<sup>101</sup>

Article 68 number 3 IPC mitigates this risk by providing that whoever used within his business an invention covered by secrecy within twelve months before the filing of the patent application, can continue using the invention according to the limits determined by “prior use”.

According to such limits the exclusivity right that comes with patents coexist with the right of the pre user, who also loses protection provided by article 98 IPC<sup>102</sup>, from the moment the patent application is made public.

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<sup>101</sup> If this were not the case then article 118 I.P.C. would apply providing that: “(1.) Whoever is entitled to do so under this Code may file an application for registration or a patent application.

2. If by a final judgment it is determined that the right to registration or the patent belongs to a person other than the one who filed the application, such person may, if the industrial property title has not yet been issued, and within three months of the judgment becoming final:

a) take over the application for the patent or registration in his own name, assuming the capacity as the applicant for all purposes;

b) file a new application for a patent or registration whose starting date, to the extent that its content does not exceed that of the first application or refers to an object that is essentially identical to that of the first application, dates back to the date of filing or priority of the initial application, which in any case ceases to have effect; in the case of a trademark, file a new application for registration, whose starting date, to the extent that the trademark contained in it is essentially identical to that of the first application, dates back to the date of filing or priority of the initial application, which in any case ceases to have effect;

c) obtain the rejection of the application.

3. If the patent has been issued or the registration made in the name of a person other than the entitled party, the latter may do one of the following:

a) obtain the transfer of the patent or certificate of registration to his name by way of a judgment, starting on the date of the filing;

b) claim the nullity of the patent or registration granted to the person who was not entitled to it.

4. Once a period of two years has passed from the date of publication of the granting of the patent for an invention, utility model, new plant variety, or from the publication of the granting of the registration of a topography of semiconductor products, without the entitled person having made use of one of the rights under paragraph 3, nullity may be claimed by whomever has an interest to do so.

5. The provision of paragraph 4 does not apply to registrations of trademarks and designs and models.

6. Subject to the application of any other safeguards, on request from the entitled party, the registration of a business domain name granted in violation of Article 22 or requested in bad faith may be revoked or transferred to him by the registration authority.”

<sup>102</sup> VANZETTI - DI CATALDO, *Manuale di diritto industriale*, VII ed., p. 501, Milano, 2012.

### 3.4. Article 623 Criminal Code

The protection of trade secrets is also granted through the Italian Criminal Code which in its article 623 defines industrial secrets as any information pertaining to secrets regarding discoveries, scientific inventions and industrial applications.<sup>103</sup>

Before proceeding it is important to mention that there is no coordination between the various forms of protection of trade secrets; this means that the interpreter has to face diversified definitions of trade secrets each one with a different *ratio* behind it referring to different forms of infringement.

An interpretation that belongs exclusively to the branch of criminal law, without taking anything from other branches of law, such as civil law, labour law and more importantly industrial law, would be extremely impractical, considering how fast the technological evolution is and how vague a definition of trade secrets can be.

Traditionally amongst scholars there are two opposing theories regarding the sources of secrecy.

One follows an objective point of view which basis the protection on an interest deemed worthy of protection by the judicial system that certain information be kept secret.

The other position is a subjective one and links secrecy to the will of the entrepreneur, which is sufficient for protection under criminal law.

With time an intermediary theory came to life that values both the will of the beholder and the objective interest.

The main promoter that both “will” and “worthy interest” are necessary was Kostoris<sup>104</sup>.

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<sup>103</sup> Article 623 cod. pen. - Rivelazione di segreti scientifici o industriali - “*Chiunque, venuto a cognizione per ragione del suo stato o ufficio, o della sua professione o arte, di notizie destinate a rimanere segrete, sopra scoperte o invenzioni scientifiche o applicazioni industriali, le rivela o le impiega a proprio o altrui profitto, è punito con la reclusione fino a due anni. Il delitto è punibile a querela della persona offesa.*”

<sup>104</sup> SERGIO KOSTORIS, *Il Segreto come Oggetto della Tutela Penale*, Padova CEDAM, 1964, p. 10.

What this line of thought wants to express, is that an information should not be kept secret out of whim of the beholder, but because it is truly important for the business and infringing it would cause irreparable damage.

A common element between the objective theory and the intermediary one is that they both require that the secret have an “economic value”.<sup>105</sup>

How much a technical/industrial information can be worth is a very difficult figure to determine.

The most common approaches are:

- (i) the “market approach” which compares sale prices of similar objects already on the market;
- (ii) the “cost approach” which uses production cost as a reference; and
- (iii) the “income approach” which values future benefits that could have come from the sale and use of the product.<sup>106</sup>

All these elements have also been adopted by industrial law when trying to identify the economic value of a secret, to such a point that it is included in the definition of trade secret given by the IPC.

The advantage offered by keeping information secret does not necessarily have to be quantified economically, but has to derive from the potential value obtainable by the economic use of the information.<sup>107</sup>

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<sup>105</sup> How much a technical/industrial information can be worth is a very difficult figure to determine. The most common approaches are: (i) the *market approach* which compares sale prices of similar objects already on the market; (ii) the *cost approach* which uses production cost as a reference; and (iii) the *income approach* which values future benefits that could have come from the sale and use of the product.

All these elements have also been adopted by industrial law when trying to identify the economic value of a secret, to such a point that it is included in the definition of trade secret given by the Code on Industrial and Intellectual Property (“C.P.I.”), which will be better analysed in paragraph 3.4.

<sup>106</sup> CARR-GORMANN, *The Revictimization of Companies by the Stock Market Who Report Trade Secret Theft Under the Economic Espionage Act*, in 57 Bus. Law. 25, 2001, 34-38;

FRIEDMAN-LANDED-POSNER, *Some Economics of Trade Secret Law*, in *The Journal of Economic Perspectives*, Vol. 5, No. 1, 1991, 61-72.

<sup>107</sup> MANSANI, *La Nozione di Segreto di cui all’art. 6-bis l.i.*, in Dir. ind., 2002, n. 3, 218;

GUGLIELMETTI, *La Tutela del Segreto*, in GALLI (a cura di), *Le Nuove Frontiere del Diritto dei Brevetti*, Torino, 2003, 128; AUTERI-FLORIDIA-MANGINI-OLIVIERI-RICOLFI-SPADA, *Il Segreto della Realtà Giuridica Italiana* (Atti del Convegno Nazionale - Roma, 26-28 ottobre 1981), Padova, 1983, 194.

Typical cases requiring the criminal protection of trade secrets usually follow different forms of infringement such as illicit procurement, disclosure or facilitation in acquiring information (all situations listed are strictly fraudulent except “revealing information” and “facilitation” which can also be involuntary<sup>108</sup>).

Article 623 applies to a smaller range of cases than those illustrated by article 2598 Civil Code and 98-99 IPC.

It only punishes the use of a secret by a qualified person, who may use it for his own personal gain (or others) or could simply reveal the information.

These are the only two behaviours contemplated by article 623, which also means the application of the article is strongly limited.

The mere acquisition of information not followed by its use for economical gain is criminally irrelevant according to article 623.<sup>109</sup>

Another limit to its application is a subjective one; as we previously mentioned if someone discovers the information casually, he cannot be criminally charged.

The typical case requires a mere conduct and the offence takes place when the perpetrator reveals or uses the information without authorisation from the legitimate owner of the secret.

Article 623 unlike article 622 does not even consider the possibility of just cause; this does not mean that there are not any cases where secrets are revealed legitimately (*i.e.* duty or following the exercise of a right)<sup>110</sup>.

Finally, on a more practical ground, the violation of the provision expressed within the article determines a sentence of up to two years imprisonment.

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<sup>108</sup> Articles 259, 261,5, 262,4, and 326,2 of the Italian Criminal Code.

<sup>109</sup> This is also made abundantly clear if we take into account the protection of secrets in general and so articles 621 and 622 of the Italian Criminal Code.

<sup>110</sup> STEFANIA GIAVAZZI, *op. cit.*, Giuffrè Editore, 2012, 471 ss.

### 3.5. A practical case

For the purpose of clarifying the application and use of the measures currently available in Italy - *i.e.* articles 98 and 99 of the Industrial Property Code and unfair competition under article 2598 n. 3 of the Civil Code - a practical case study may be of use.<sup>111</sup>

In the recent decision made by the judge of the specialised section in matters of industrial law of the Civil Court of Bologna, it is possible to understand the function of both measures and also see how the application of articles 98 and 99 can be a difficult matter; in particular, regarding the protection of the same object, the Plaintiffs' motion for protection of trade secrets is denied, but the claim of unfair competition is granted.

The case at hand deals with the infringement of designs of spare parts for machinery that processes paper.

In order to protect designs as trade secrets all three requirements listed in articles 98 and 99 IPC have to be met.

This means proving their secrecy, economic value and the protection measures applied.

In support of his argument the Plaintiff claimed that the designs that were matter of debate were essential to the companies' competitiveness and were kept secret through a series of IT measures and agreements signed with suppliers and customers.

However the Court found the claim inadmissible based on the following elements.

Firstly the Court determined that the standard forms for the protection of trade secrets the Plaintiff's suppliers had to sign did not meet the necessary requirements to be considered legally binding.

Moving onto the level of protection provided by the Plaintiff, the independent technical consultant appointed by the court found that the safety measures had only been taken recently (2002) and in no way could be considered applicable to designs

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<sup>111</sup> Tribunale Ordinario di Bologna, Sezione Specializzata di Diritto Industriale Civile n. 1006, 21 aprile 2016.

with a prior date (in some cases decades earlier to the application of the safety measure).

Which means that although these designs are currently protected, the safety measure applied supervened at a much later date than when the designs were originally made. Overall the Court found the documentation presented by the Plaintiff to be lacking concrete evidence of the requirements necessary to apply protection of trade secrets under the Industrial Code; in the specific case the protection of the secrecy and the economic value of the designs.

In these kinds of situations where the evidence is incomplete or missing the only outcome for the case is to reject the Plaintiff's claim for protection under article 98 and 99 IPC.

Moving onto the next matter, as seen earlier on, the same article 99 IPC grants the possibility to seek compensation under the laws of unfair competition - "without prejudice to the provisions on unfair competition" - when confronted with situations where the same information cannot be treated as a trade secret.<sup>112</sup>

In order to apply article 2598, n.3 Civil Code the information although not secret must be proprietary and destined to remain within the company (*i.e.* not intended for general knowledge), have an economic value and be illegitimately acquired by a competitor.

In the case at hand an act of unfair competition would be that of acquiring and using the technical designs of a competitor with the end goal of accessing the market much earlier than what would have been possible.

The Court, with help from the appointed independent technical consultant, determined that without a doubt the behaviour held by the Defendant was unfair on the basis that the Defendant was aware of the source of these designs and that it was acquiring specific proprietary knowledge that would allow for a faster access to the maker.

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<sup>112</sup> Cass. Civ. 2014, n. 1100; Trib. Bologna Sez. Spec. 2016, n. 638 ; Trib. Milano Sez. Spec. 18 marzo 2011, GADI 2013, 5939; Trib. Bologna Sez. Spec 15 luglio 2013, GADI 2013, 6038; Trib. Bologna, 22 giugno 2010, GADI 2010, 5565.

The consultant argued that preliminary knowledge of the characteristics of the design of a complex element (such as a component for a machinery) would allow a competitor to study the template and offer enhancements or better solutions compared to the original part.

To sum up the Court recognised that an act of unfair competition had been perpetrated but could not determine compensation due to the fact that the Plaintiff did not provide sufficient evidence of general damages and loss of profits.

Following this framework we have built regarding the situation of trade secrets in Italy, it is time to move onto the impact of the European Directive, which throughout the years has been lingering in the shadows and hanging, almost like a sword of Damocles, above the ongoing debate around trade secrets as an IPR, and see if it can bring clarity, improve or leave the treatment of undisclosed information substantially unvaried compared to its current status.



## **SECTION II**

### **DIRECTIVE (EU) 2016/943 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 8 JUNE 2016 ON THE PROTECTION OF UNDISCLOSED KNOW-HOW AND BUSINESS INFORMATION (TRADE SECRETS) AGAINST THEIR UNLAWFUL ACQUISITION, USE AND DISCLOSURE**

SUMMARY: 1. Subject matter and scope - 1.1. The European situation and the necessity for Directive (EU) 2016/943 - 1.2. The European definition of “Trade Secret” - 2. Unlawful acquisition, use and disclosure of trade secrets - 3. Measures, procedures and remedies - 3.1. The problem surrounding the applicable law - 3.2. Cross-boarder recognition of judgements and ADRs - 3.3. Extra-EU Defendants - 3.4. The shortcomings in litigation rules.

## **CHAPTER 1**

### **1. Subject matter and scope**

Section I provided a first analyses of the definition, value and practical use of trade secrets.

Particular attention was given to the situation within Italy where trade secrets can be protected through the measures of unfair competition residing in the Civil Code or, where necessary requirements are met, through the more specialised discipline defined by the Industrial Property Code.

Arguably the measures applied in Italy seem to grant trade secrets a good level of protection to the extent that, where one may not be applicable, the other could still provide some form of compensation for the injured party.

The goal set forth in the following chapters is to try and understand if Directive (EU) 2016/943 (*infra* “the Directive”), in its attempt to create a uniformed rule for trade secrets, will provide a clearer comprehension of trade secrets and thus facilitate the application of current measure in Italy, or if on the other hand it leaves the current legislation unaltered.

### **1.1. The European situation and the necessity for Directive (EU) 2016/943**

In order to better comprehend the impact of the Directive the first step is to try and understand the legal framework concerning the treatment of trade secrets across European Member States and why there was a common need to establish a harmonised approach.

Before proceeding it is important to keep in mind that the ultimate goal of the Directive is in fact that of providing a uniformed regulation of trade secrets, and not to elevate trade secrets to the level of standard IPRs.<sup>113</sup>

As mentioned earlier, trade secrets have a different approach within each Member State.

The main concerns on the matter revolve around four main issues; the legal protection models, the absence of a common definition, the actions and remedies available and the factors that impair enforcement.

As a consequence to the historical evolution within the continent, legal protection of trade secrecy varies significantly.

Although an attempt on an international level to create a common frame was made through the TRIPs Agreement and its article 39, which provides a definition and a variety of enforcement methods and remedies<sup>114</sup>, not every Member State adopted

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<sup>113</sup> Recital (16) Directive (EU) 2016/943: “In the interest of innovation and to foster competition, the provisions of this Directive should not create any exclusive right to know-how or information protected as trade secrets.”

<sup>114</sup> Such remedies include; Article 43 - Evidence, Article 44 - Injunctions, Article 45 - Damages, Article 46 - Other Remedies, Article 47 - Right of Information and Article 50 - Provisional Measures (*i.e.* preventing infringing good from entering the channels of commerce).

the guideline or, where adopted, it did so with different specifications and implementations.<sup>115</sup>

The current models applied within the European Union differ between a dedicated and a general legislation.<sup>116</sup>

Within the EU the only country currently providing an *ad hoc* legislation is Sweden. Other Member States rely heavily on different aspects of civil and criminal legislation.

In particular for example: Austria, Germany, Poland and Spain rely strongly on unfair competition.

France alone has a specific provision for the protection of trade secrets that relate to manufacturing.

Portugal and Italy are the only ones that have specific provisions contained within their respective Industrial Property Code.

Immediate repercussion of this lack of a common legal framework is that within the EU there is no uniformed definition of trade secrets.

Each jurisdiction has adopted different standards information must meet to be considered a trade secret.

More complications arise from the fact that even within the same jurisdiction, definitions are spread across different pieces of legislation, which make it harder to reconcile them in a unique and clear definition.

Only a few Member States, among which Italy, can claim to have specific statutory definitions.

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<sup>115</sup> Recital 6 of the Directive: “Notwithstanding the TRIPS Agreement, there are important differences in the Member States’ legislation as regards the protection of trade secrets against their unlawful acquisition, use or disclosure by other persons. For example, not all Member States have adopted national definitions of a trade secret or the unlawful acquisition, use or disclosure of a trade secret, therefore knowledge on the scope of protection is not readily accessible and that scope differs across the Member States. Furthermore, there is no consistency as regards the civil law remedies available in the event of unlawful acquisition, use or disclosure of trade secrets, as cease and desist orders are not always available in all Member States against third parties who are not competitors of the legitimate trade secret holder. Divergences also exist across the Member States with respect to the treatment of a third party who has acquired the trade secret in good faith but subsequently learns, at the time of use, that the acquisition derived from a previous unlawful acquisition by another party.”

<sup>116</sup> *Study on Trade Secrets and Confidential Business Information in the Internal Market - Final Study*, April 2013.

Despite this puzzling situation certain common requirements for information to be considered a trade secret can be found among Member States:

- (i) it is technical or commercial information related to the business;
- (ii) it is secret in the sense that it is not generally known or easily accessible;
- (iii) it has economic value consisting of conferring a competitive advantage to its owner; and
- (iv) it is subject to reasonable steps to keep it secret.

Nonetheless there are some significant differences among Member States.

To name one the Swedish Trade Secrets Act<sup>117</sup> requires “competitive” damages for information to be qualified as a secret.<sup>118</sup>

On the other hand in Slovenia, information is deemed to be a trade secret if qualified as such by a corporate written resolution, and in no way accounts for damages.<sup>119</sup>

Another repercussion is that actions available and their prerequisites, in cases of trade secret violations, differ between Member States.<sup>120</sup>

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<sup>117</sup> Act 1990:409, of May 31, 1990.

<sup>118</sup> Swedish Act On The Protection Of Trade Secrets - Introductory Provisions - Article 1 - “For the purposes of this Act, a “trade secret” means such information concerning the business or industrial relations of a person conducting business or industrial activities which that person wants to keep secret and the divulgence of which would be likely to cause a damage to him from the point of view of competition.”

<sup>119</sup> Slovak Commercial Code - ACT 513/1991 - Part V Business Secrets - Section 17 - “The rights belonging to an enterprise comprise also its business secrets. Business secrets shall consist of all the facts of trading, manufacturing and technological nature related to the enterprise, which have actual, or at least potential, tangible or intangible value, are normally not available in the respective industry and the entrepreneur wishes that the same are not disclosed, provided that the entrepreneur adequately provides for the confidentiality thereof.”

<sup>120</sup> Recital 7 of the Directive: “National rules also differ as to whether legitimate trade secret holders are allowed to seek the destruction of goods produced by third parties who use trade secrets unlawfully, or the return or destruction of any documents, files or materials containing or embodying the unlawfully acquired or used trade secret. Furthermore, applicable national rules on the calculation of damages do not always take account of the intangible nature of trade secrets, which makes it difficult to demonstrate the actual profits lost or the unjust enrichment of the infringer where no market value can be established for the information in question. Only a few Member States allow for the application of abstract rules on the calculation of damages based on the reasonable royalty or fee which could have been due had a licence for the use of the trade secret existed. Additionally, many national rules do not provide for appropriate protection of the confidentiality of a trade secret where the trade secret holder introduces a claim for alleged unlawful acquisition, use or disclosure of the trade secret by a third party, thereby reducing the attractiveness of the existing measures and remedies and weakening the protection offered.”

Usually to initiate a civil action for violation of trade secrets the following evidence must be provided:

- (i) the existence of a protectable secret;
- (ii) the infringement of the same; and
- (iii) the unlawful nature of the misappropriation or use by the defendant.

Depending on the action brought forth additional requirements may be necessary.<sup>121</sup>

Further elements could be requested depending on the individual capacity of the person targeted by the action, such as current and former employees, contractual partners and licensees, competitors, third parties who acquired information through “industrial espionage” or even “innocent recipients” (*i.e.* third parties who received the information in good faith).

Regarding this last aspect, again we must underline how there is no consistency among Member States, where only a few allow civil action against third parties independently of good faith.<sup>122</sup>

Instead, according to Italian law the trade secret owner is able to take action only for breach of contractual obligation or if the infringer knew or should have known that the information was confidential and was acquired through illicit means.

The final issue confronted within the study presented to the European Commission deals with the possible factors impairing enforcement.

Facilitating a uniformed regulation of trade secrets is a key issue in this Directive and it calls for a system of cooperation and exchange of information both between Member States themselves and between the Commission and Member States.

To assure that any measures taken fulfil their intended purpose, the Commission assisted by the European Union Intellectual Property Office, when necessary, should examine the application of the Directive and the efficiency of the measures adopted within single Member States.<sup>123</sup>

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<sup>121</sup> In cases of unfair competition the plaintiff is usually required to provide evidence that the infringer intended to compete with the injured party by using the secret information he acquired unlawfully.

<sup>122</sup> Austria, Czech Republic, Denmark, Estonia, Finland, Germany, Republic of Ireland, Latvia, Lithuania and Portugal.

<sup>123</sup> Recital (33), Directive (EU) 2016/943.

In line with the Directive's intention not to intrude on the sovereignty of Member States or diminish important personal rights in order to protect trade secrets, Recitals (34) and (35) assure that the Directive respects fundamental rights and principles such as "the right to respect for private and family life, the right to protection of personal data, the freedom of expression and information, the freedom to choose an occupation and right to engage in work, the freedom to conduct a business, the right to property, the right to good administration, and in particular the access to files, while respecting business secrecy, the right to an effective remedy and to a fair trial and the right of defence."<sup>124</sup>

Protection of personal data, in particular, is a delicate matter if it concerns any person whose data may be processed by the trade secret holder in order to enact the necessary measures to protect a trade secret.

In these cases however existing regulations and directives dealing with data protection and privacy remain applicable such as the "Data Protection Directive" (officially Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data).

Along with Directive (EU) 2016/679 the General Data Protection Regulation was adopted in April 2016 and will supersede the Data Protection Directive.<sup>125</sup>

Moving on, among the aforementioned impairing factors, the final and main one has to do with the lack of adequate measures to avoid trade secrets leakage in legal proceeding (this matter is of particular interest when analysing the impact of the Directive in Italy).

Many firms operating in major industries (*i.e.* pharmaceutical, automotive, IT and chemical), in fact, claim that they fear the loss of trade secrets in the course of Court proceeding.

It is clear how this issue is a key factor, given that the plaintiff must submit his claim by disclosing the allegedly infringed secret.

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<sup>124</sup> Recital (34), Directive (EU) 2016/679.

<sup>125</sup> The General Data Protection Regulation will be enforceable starting on 25 May 2018.

Moreover this is not only a preoccupation for the plaintiff, but it is also a matter of great interest to the defendant, who in order to counteract the claims against him may have to in turn reveal information that constitutes trade secrecy for his business. Some jurisdictions offer the right for the party to request that the proceedings be entirely or partially heard in private to grant confidentiality. Although Hungary, through *in camera* proceedings, Germany, through the “Düsseldorf procedure”<sup>126</sup>, and the UK, by means of a specific agreement between the parties that limits disclosure, are the only countries that grant an effective procedural measures to prevent disclosure, the other Member States that account for procedural risks, only theoretically acknowledge this possibility for the party. Another factor that complicates enforcements is that trade secrets are not ranked as IPRs in the vast majority of Member States.<sup>127</sup> This means that generally speaking it is impossible to enforce a trade secret against a third party who obtained the information in good faith (unless said party obtained it negligently, *i.e.* in breach of the ordinary “duty of care”<sup>128</sup>).

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<sup>126</sup> Düsseldorf courts have developed this particular procedure. It seeks to balance the parties’ interests. On the one hand, there is the claimant’s interest to acquire knowledge of all facts relevant to establish the infringement, and on the other is the defendant’s interest to keep his trade secrets secret. In order to achieve that balance, the Düsseldorf courts combined two kinds of procedure that had already been available in German procedural law.

The first part regularly includes an order to have a court-appointed expert examine certain specified devices or machines to determine whether a particular right is infringed. The expert is asked to inspect the device and prepare a written opinion.

The second part of the order is a preliminary injunction requiring the defendant to acquiesce to the inspection. The defendant cannot alter the inspection’s subject matter after the order has been served and must provide all information/codes/access to the information necessary for the expert to perform its inspection duties. (for further information see JENS KÜNZEL, *Germany: Special Inspection Proceedings And Trade Secrets*, 9 May 2016, available at <http://www.worldipreview.com/contributed-article/germany-special-inspection-proceedings-and-trade-secrets>).

<sup>127</sup> In most Member States the owner of a trade secret has no action at all against third parties acting in good faith. Exceptions are limited to Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Latvia, Lithuania and Portugal where remedies are potentially available regardless of the recipient’s good or bad faith.

<sup>128</sup> Duty of Care: a requirement that a person act toward others and the public with watchfulness, attention, caution and prudence just as a reasonable person under circumstances would behave. If a person's actions do not meet this standard of care, then the acts are considered negligent, and any damages resulting may be claimed in a lawsuit for negligence.

Therefore a key requirement for civil action in these matters is misappropriation or unlawful use of the secret information, or at least the knowledge that the information is confidential.<sup>129</sup>

The above considerations bring a general idea of how difficult it may be for a trade secret owner in Europe to protect his confidential information from competitors, not only within his own state but in other countries as well.

Among the obstacles a trade secret owner can encounter while building a case against the adverse party, the major ones are the qualification of right and burden of proof.

It is critical for the Plaintiff that, while building the case, the information provided does not leak and in general that they do not lose control over the trade secret for lack of protection offered by the European legal system.<sup>130</sup>

This difference in legal approach within Member States brings with it uncertainty over the level of protection granted to trade secrets, thus leading to fragmentation of the internal market.

According to Recital (8) of the Directive this means that:

“[...] The internal market is affected in so far as such differences lower the incentives for businesses to undertake innovation-related cross-border economic activity, including research cooperation or production cooperation with partners, outsourcing or investment in other Member States, which depends on the use of information that enjoys protection as trade secrets. Cross-border network research and development, as well as innovation-related activities, including related production and subsequent

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<sup>129</sup> As mentioned in Chapter 1, and as we will see further on in the analysis, in Italy trade secrets are in fact classified as IPRs. It is sufficient here to say that in order to launch proceedings for trade secret infringement and unfair competition the recipient must be aware of the misappropriation. On the other hand in the UK a duty of confidentiality may be implied by the circumstances. Generally a persona who innocently receives confidential information does not bear a duty of confidentiality until he is rendered aware of the information if confidential.

<sup>130</sup> According to the study presented to the European Commission, this is confirmed by the lack of faith trade secret owners put within the Courts. Evidence emerged from the survey answered by 537 companies and revealed limited trade secret cases within Member States and an almost total absence of cross-border litigation.



cross-border trade, are rendered less attractive and more difficult within the Union, thus also resulting in Union-wide innovation-related inefficiencies. ”

Before moving on with the analyses of the Directive, it is worth mentioning at this point the potential gains of a legislative initiative for trade secrets that were envisioned by the “Study for the European market”.

The general consensus is that a harmonised legislation will have a significant impact and will foster innovation and economic growth.

It will do so by providing within Europe a safe harbour for firms to develop, exchange and use innovative knowledge.

This harmonious legal framework will in turn give the EU a competitive advantage when facing other economic systems a concept that is made quite clear by Recital 1 of the Directive:

“ Businesses and non-commercial research institutions invest in acquiring, developing and applying know-how and information which is the currency of the knowledge economy and provides a competitive advantage. This investment in generating and applying intellectual capital is a determining factor as regards their competitiveness and innovation-related performance in the market and therefore their returns on investment, which is the underlying motivation for business research and development. Businesses have recourse to different means to appropriate the results of their innovation-related activities when openness does not allow for the full exploitation of their investment in research and innovation. Use of intellectual property rights, such as patents, design rights or copyright, is one such means. Another means of appropriating the results of innovation is to protect access to, and exploit, knowledge that is valuable to the entity and not widely known. Such valuable know-how and business information, that is undisclosed and intended to remain confidential, is referred to as a trade secret. ”

Keeping in mind such an objective, trade secret law is fundamental in these key aspects:

- (i) it provides an optimisation for the protection of intangible assets;
- (ii) it creates an efficient system to secure the result of R&D, essential to innovation;
- (iii) its flexible nature provides a form of protection quite suitable for the way innovation works in today's business environment (*i.e.* on one hand, constant incremental change as opposed to discontinuous leaps and, on the other hand, the open model, where several players cooperate to create innovation, which require a safe environment for the flow of information).<sup>131</sup>

Trade secrets then effectively fill the gap between other forms of IPRs (copyright and patents).

Favourable factors to the use of trade secrets include; no limitation in subject matter, no costly and time consuming administrative procedures and are an immediate complement to contractual protection.

In conclusion the current scenario offered by the European market for trade secrets conflicts with the very logic that founded it: that undeniable principle that services, workers, entrepreneurial activities, ideas, knowledge and technology should circulate as easily as possible, as if they were in one harmonious vast market.

## **1.2. The European definition of “Trade Secret”**

As mentioned in the beginning to achieve all this first and foremost there has to be consistency over what actually enters into the “trade secret” category.

This is a very delicate subject because a definition that is too vague would then allow any type of information to be covered by secrecy and this would in turn mean an excessive use of trade secrecy by business owners which would then bring the function of the internal market and the flow of information to a general halt.

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<sup>131</sup> *Study on Trade Secrets and Confidential Business Information in the Internal Market - Final Study*, April 2013, p. 15.

Already from the title given to the Directive it is made quite clear that its intention is to cover both technical knowledge (also referred to as “know-how”<sup>132</sup>) and commercial information.

The definition provided by article 2(1) of the Directive is:

“[...] ’trade secret’ means information which meets all of the following requirements:

- (a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- (b) it has commercial value because it is secret;
- (c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret”.

This may sound familiar and it is, because it reproduces the same provision expressed within Article 39 TRIPs.

It is not however a meaningless repetition.

As noted earlier, not every Member State provides for a proper definition or adopted the TRIPs agreement on the matter.

The Directive then finally provides once and for all what kind of secret information is eligible for protection on a European level, requiring member states that did not fully comply with the TRIPs Agreement to meet this minimum standard.

The definition here constructed covers know-how, business information and technological information when accompanied by a legitimate interest in keeping them secret and where there is reason to expect that such confidentiality will be preserved.

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<sup>132</sup> Know-how should be intended in this case as secret technical information for the manufacture of a certain product or the application of a certain process. The Commission's Technology Transfer Block Exemption Regulation (TTBER) contains a useful definition of "know-how", and this since its very first version of 1988. Article 1.1(i) of the TTBER defines "know-how" as a package of practical information, resulting from experience and testing, which is: (1) secret, that is to say, not generally known or easily accessible, (2) substantial, that is to say, significant and useful for the production of the contract products, and (3) identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality.

In reference to the commercial value it should be intended both as actual or potential. Information would be considered commercially valuable if its unlawful acquisition, use or disclosure should cause harm to the commercial interests of the trade secret owner, meaning that it undermines his technical potential, business or financial interests, strategic options or abilities to compete.

Most importantly the definition provided, according to Recital (14) of the Directive, is to be intended as not comprehensive of “trivial information and the experience and skills gained by employees in the normal course of their employment, and also excludes information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question.”

This final reference of Recital (14) to “persons within the circles that normally deal with the kind of information in question” construes a very different standard from that set out by patent law.

In fact according to patent law any public disclosure of an invention, regardless of the recipient, can lead to a loss of novelty and therefore to protection being refused.<sup>133</sup>

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<sup>133</sup> To better understand the concept of Novelty in patent law it is useful to look at the specific Article in the European Patent Convention. “According to Art. 54(2) EPC, everything which is made available to the public before the date of filing of the European patent application is considered to belong to the state of the art. Written and oral descriptions and use are explicitly mentioned. This includes published patents and patent applications, scientific articles, dissertations, oral presentations (e.g. at scientific conferences) and public use. However, the state of the art is not limited to subject matter which is made available to the public by means of a written or oral description or by public use, but also comprises subject matter which is made available to the public “*in any other way*”, for example by the demonstration of subject matter during teaching lessons or on television. The concept that everything which has been made available to the public is considered to be novelty destroying is called the “*principle of absolute novelty*.” In this context, “absolute” means that no limits as to time (e.g. documents of the past 100 years) or place (e.g. only domestic prior use operations). If the particular information was made available to some selected members of the public on the condition that these members should not spread the information (secrecy agreement), the information is not considered to have been made available to the public. It is important to note, however, that a secrecy agreement only provides prima facie evidence that the person to which the invention has been revealed has not spread this information (“made available to the public”). If, however, it can be proven that the person bound by the secrecy agreement has passed the information on to a member of the public despite the agreement, the information is considered to have been made available to the public.” *Is It Divulgence Or Can You Still File A Patent Application?*, DR. RUDOLF WEINBERGER, Vossius & Partner, 2004 Dale Bjorkman & Rudolf Weinberger.

On the contrary it is possible that for people specialised in a particular field or commercial sector (*i.e.* “circle”), some information from other sectors might not be significantly relevant.

Essentially what could be a trade secret for a person in one circle could be generally known for another, more experienced and/or specialised circle.

At a first glance this method for determining the secret nature of the information may seem subjective, however differences in perception or opinions can occur in a same field.

Divergences between circles could in turn increase the risk for self-proclaimed trade secrets that could, in certain cases, be nothing more than unawareness about the trade.

The secret nature inherent to this kind of information could then be what stops it from being able to be considered an IPR to its full potential.

Keeping it secret would make it extremely difficult to determine in an objective way that that specific “know-how” is in fact what gives a company its competitive advantage.

This is even more so the case if we consider the technological/mechanical/productive field.

As mentioned earlier two operators from the same field could be using the same technological information.

One might consider it essential, while for the other it is almost comparable to common knowledge.

It would then seem unfair to grant either one an exclusivity right over information that would not even be patentable in the first place.

The smaller company would not be able to stop the bigger one from using what it already knew due also to prior use and the company who was already aware of this “know-how” would have another instrument to exclude a new competitor from entering the market by aggressively protecting information it did not even consider

valuable in the first place, as its exclusivity would exist from the moment it started using that information and without having to follow any bureaucratic procedure.

This “subjective” characteristic of a trade secret is to some an essential reason why it never obtained the status of IPR in most European Member States, and also probably why the goal of the Directive is to harmonise and not create.

All of the above is also to be read in reference to the goals set forth and the exclusions listed by Article 1 paragraph 2 of the Directive which assures that the Directive shall not affect:

- (i) the exercise of the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;
- (ii) the application of Union or national rules requiring trade secret holders to disclose, for reasons of public interest, information, including trade secrets, to the public or to administrative or judicial authorities for the performance of the duties of those authorities;
- (iii) the application of Union or national rules requiring or allowing Union institutions and bodies or national public authorities to disclose information submitted by businesses which those institutions, bodies or authorities hold pursuant to, and in compliance with, the obligations and prerogatives set out in Union or national law;
- (iv) the autonomy of social partners and their right to enter into collective agreements, in accordance with Union law and national laws and practices.

Maybe more importantly, at least to the majority of cases discussed in front of Italian Courts, is paragraph 3 of the same Article which takes into account worker’s rights and in particular their right to mobility.

Concerning this the Directive shall not construe grounds for:

- (i) limiting employees' use of information that does not constitute a trade secret as defined in point (1) of Article 2;

- (ii) limiting employees' use of experience and skills honestly acquired in the normal course of their employment;
- (iii) imposing any additional restrictions on employees in their employment contracts other than restrictions imposed in accordance with Union or national law.

Accordingly the definition herein provided is much broader than the standard one used for know-how by the “Commission's Technology Transfer Block Exemption Regulation” (TTBER)<sup>134</sup>, which limits it to technical information by defining it “practical information resulting from experience and testing”.

The definition of a "trade secret" under the Directive will therefore harmonise the scope of what is protected under this concept in Member States and it will include more than technical information.

Nonetheless, what remains is whether or not an identical level of protection will effectively arise in every Member State since there might be a certain leeway with the interpretation of what is required for "reasonable steps under the circumstances, (...), to keep it secret".<sup>135</sup>

However in order to understand this it will be interesting and necessary to see how case law across Europe applies and interprets this article.

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<sup>134</sup> Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (Text with EEA relevance). Official Journal L 123 , 27/04/2004 P. 0011 - 0017

<sup>135</sup> Article 2.1(c) Directive (EU) 2016/943.

## CHAPTER 2

### 2. Unlawful acquisition, use and disclosure of trade secrets

What transpires most throughout the Directive, is the attention given to the importance of a well functioning internal market and above all the preoccupation that innovation may not be hindered by an excessive amount of secrecy.

Recital (3) of the Directive acknowledges the essential value of an open innovation system and how trade secrets cover an important role in granting protection when exchanging information.<sup>136</sup>

This is made quite explicit in reference to promoting an internal market “in which barriers to cross-border collaboration are minimised and cooperation is not distorted, intellectual creation and innovation should encourage investment in innovative processes, services and products. Such an environment conducive to intellectual creation and innovation, and in which employment mobility is not hindered, is also important for employment growth and for improving the competitiveness of the Union economy”.<sup>137</sup>

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<sup>136</sup> Recital 3 Directive (EU) 2016/943: “Open innovation is a catalyst for new ideas which meet the needs of consumers and tackle societal challenges, and allows those ideas to find their way to the market. Such innovation is an important lever for the creation of new knowledge, and underpins the emergence of new and innovative business models based on the use of co-created knowledge. Collaborative research, including cross-border cooperation, is particularly important in increasing the levels of business research and development within the internal market. The dissemination of knowledge and information should be considered as being essential for the purpose of ensuring dynamic, positive and equal business development opportunities, in particular for SMEs. In an internal market in which barriers to cross-border collaboration are minimised and cooperation is not distorted, intellectual creation and innovation should encourage investment in innovative processes, services and products. Such an environment conducive to intellectual creation and innovation, and in which employment mobility is not hindered, is also important for employment growth and for improving the competitiveness of the Union economy. Trade secrets have an important role in protecting the exchange of knowledge between businesses, including in particular SMEs, and research institutions both within and across the borders of the internal market, in the context of research and development, and innovation. Trade secrets are one of the most commonly used forms of protection of intellectual creation and innovative know-how by businesses, yet at the same time they are the least protected by the existing Union legal framework against their unlawful acquisition, use or disclosure by other parties.”

<sup>137</sup> Recital 3 Directive (EU) 2016/943.



It is undeniable that SMEs, especially innovative ones, face a constant risk of being exposed to dishonest commercial practices (*i.e.* breach of confidentiality requirements, unauthorised copying or in general economic espionage).

This form of unfair conduct compromises the ability for the trade secret holders to obtain “first-mover” returns from their innovations.<sup>138</sup>

The Directive claims that this status of uncertainty surrounding trade secrets discourages innovation and creativity, thus demising investments and compromising the internal market.

A strong position on the role of trade secrets as an IPR was analysed earlier on in this dissertation, and a valid argument made against it was that other means of protection do exist, such as patents, and that by giving such a major role to trade secrets could put these “alternatives” at risk.

On the other hand by providing and identifying valid means of discovery the Directive, in a way, still protects competition within the market.<sup>139</sup>

Given how the Directive has no intention in elevating trade secrecy to the position of intellectual property right, the independent discovery of the same information remains a valid possibility.

This could be a serendipitous event or, more likely, could be achieved through a legal method known as “reverse engineering”.

In case the trade secret holder wishes to avoid such a possibility, contractual agreements can be reached to limit or exclude the use of reverse engineering.

However, as the Directive points out, the freedom to conclude a similar agreement can be limited by law.

The duty of secrecy, in fact, is limited in time and responsibility.

Such limits between contractual parties occur when the information is already circulating within the public domain, it becomes public through no fault of the

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<sup>138</sup> In the financial world “first-mover” is an expression used to identify the commercial advantage a business obtains by being the first to place a certain product on the market.

<sup>139</sup> Further on, in reference to the Italian system, we will see how the majority of legal measure, although not written explicitly within the IPC, had already been identified by a well established national case law.

person bound by secrecy or if he found the information out by a third party or through different means.

Articles 3 and 4 of the Directive respectively deal with lawful and unlawful acquisition of trade secrets setting in stone on one hand the validity of independent discovery and reverse engineering; and on the other the illicitness surrounding dishonest commercial practices of who acquires information through dishonest means.

Among what are regarded to be unlawful means the Directive most notably considers the behaviour of those who, under the circumstances knew, or should have known, that the trade secrets had been obtained directly or indirectly from another person who was using or disclosing the information unlawfully in accordance to Article 4 paragraph 3 of the Directive.<sup>140</sup>

It should also be noted that article 4 paragraph 2(b) opens with a vague expression referring to “any other conduct” contrary to fair commercial practices.

This general clause is utilised to account for illicit conducts not expressly mentioned within the rule such as social engineering, which consists in the psychological manipulation of a person of interest into thinking you are trustful enough and induce him to revealing confidential information.<sup>141</sup>

Ultimately the innovative element introduced by these articles is the possibility to hold liable for infringement of trade secrets a third party, different from the infringer, who should have known or should have been able to know, through reasonable measures, that the information had been obtained unlawfully.

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<sup>140</sup> Article 4,3 Directive (EU) 2016/943: “The use or disclosure of a trade secret shall be considered unlawful whenever carried out, without the consent of the trade secret holder, by a person who is found to meet any of the following conditions: (a) having acquired the trade secret unlawfully; (b) being in breach of a confidentiality agreement or any other duty not to disclose the trade secret; (c) being in breach of a contractual or any other duty to limit the use of the trade secret.”

<sup>141</sup> Social engineering can be defined as any act that influences a person to take an action that may or may not be in their best interest. See also Dir. informatica, fasc.1, 2009, pag. 83. in Riv. it. di dir. e proc. pen., 2007, 903 ss.: “*Il phishing può essere definito come una tecnica di social engineering in quanto è una metodologia di comportamento sociale indirizzata a carpire informazioni personali, oppure abitudini e stili di vita. L'etimologia del termine ne indica un'origine dubbia, derivante dall'unione delle parole "harvesting" con "password", ovvero, "password" con "fishing" o, ancora, quest'ultima con "phreaking"*”.

Moving on with the analysis, the Directive met strong criticism on behalf of civil right activists due to the lack of guarantees and protections offered to categories such as public authorities, journalist and whistleblowers when faced with the delicate task of publicly revealing business information.

Essentially opposers accused the Directive of being a “muzzling-act” set out to give more power to industries who seek protection from the leak of information, and of performing a trade-off between freedom of expression and business interests, in favour of the latter.

This preoccupation is not the result of some paranoid conspirationist, but rather is the consequence of what critics deem to be an excessively broad definition of trade secret which lacks specificity in determining its exceptions.

In fact originally the list of exception was inserted as a closing paragraph in the article that dealt with the unlawful acquisition of information.

Only in the final draft exceptions are provided within their own separate article.<sup>142</sup>

The journalists’ category was the one that felt more at risk with the initial draft.

The Directive, in fact, in its proposal draft Article 4,2(a) states that it shall not apply when the acquisition of information is made through the “legitimate use of the right to freedom of expression and information”.

This wording worried journalists as it would have set an unwanted precedent which would have put the burden of proof of “journalistic validity” on the investigative journalists who intend to expose business malpractices, when dealing with industrial and corporate matters.

According to the category this could ultimately lead to a form of self-censorship to the point where journalists would lose interest in investigating the private sector.

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<sup>142</sup> Article 5 Directive (EU) 2016/943 - Exceptions - “Member States shall ensure that an application for the measures, procedures and remedies provided for in this Directive is dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases: (a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media; (b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest; (c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise; (d) for the purpose of protecting a legitimate interest recognised by Union or national law.”

The final draft instead obtains a strong reassurance for freedom of information by inserting the phrase “as set out in the Charter, including respect for the freedom and pluralism of the media”.<sup>143</sup>

This is a transposition of what is written in the “Charter Of Fundamental Rights Of The European Union” and in particular Article 11 paragraph 2.<sup>144</sup>

The exemption herein provided assures that the Directive cannot be used as an instrument to limit and obstruct valid journalistic activity.

Be that as it may it does not restrain the possibility for business to bring legal action against journalists under the Directive’s provisions.

In such a circumstance, however, the burden of proof would lie on the company and not on the media entity that revealed or planned to reveal the allegedly secret information.

The most likely scenario where a journalist would be convicted under the Directive’s provision would be that in which he is conducting an activity of full on industrial espionage.

Directly connected to this matter is the unclear protection granted to whistleblowers, who are essential to an investigative reporters activity.

The Directive in Article 5(b) refers to the acquisition of information carried out in the interest of “revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest.”

Debates in the drafting process ensued around the word “wrongdoing” and in particular its French translation which referred to “inappropriate behaviour”.

The protection for whistleblowers, in fact varies according to whether it covers misconduct and behaviour regarded as generally bad, or whether it solely covers strictly illegal activity.

A consensus was reached according to which the French version would use the wording “reprehensible act” implying that both strictly illegal acts and acts that are

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<sup>143</sup> Article 5(a) Directive (EU) 2016/943.

<sup>144</sup> Charter Article 11,2 - Freedom of expression and information: “The freedom and pluralism of the media shall be respected.”

more simply morally condemnable could be included in the exception set for whistleblowers.

A way to better comprehend the importance of the wording in this provision is to look at how the LuxLeaks<sup>145</sup> scandal would have turned out had the Directive's scope of protection been limited to that of solely illegal activity.

In the LuxLeaks case Antoine Deltour exposed activity that was immoral but in no way illegal according to Luxembourg's tax regulations.

Presumably, then, had the provision been limited to illegal activity he would not be able to obtain protection under the Directive as a whistleblower who acted in the public's general interest.

However his situation within our hypothetical analysis still remains complicated given the circumstances surrounding the LuxLeaks case.<sup>146</sup>

If the Directive had been confirmed in its proposal version to grant protection as a whistleblower to Mr. Deltour, his defence would have had to have been able to prove three elements:

- (i) the misconduct, wrongdoing or illegal activity;
- (ii) that the disclosure of the secret was necessary; and
- (iii) that he acted in the public interest.<sup>147</sup>

As mentioned in the beginning of the example proof of illegality would be almost impossible given that the deals exposed represent valid legal arrangements under Luxembourg "Tax ruling".

Against the second element of necessity, a possible argument would be that information surrounding the special agreement between companies and the state of Luxembourg could have been made available to the public through more legal means, that would not involve the theft of confidential information, such as

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<sup>145</sup> <http://www.justice.public.lu/fr/actualites/2016/06/jugement-affaire-luxleaks/index.html?print>

<sup>146</sup> <http://www.taxjustice.net/2016/04/01/the-european-trade-secrets-directive-how-to-silence-tax-whistleblowers/>

<sup>147</sup> Article 4.2(b) Proposal Directive: "*for the purpose of revealing an applicant's misconduct, wrongdoing or illegal activity, provided that the alleged acquisition, use or disclosure of the trade secret was necessary for such revelation and that the respondent acted in the public interest.*"

campaigning against tax ruling or informing the European Commission of an illegal state aid.

Regarding the final requirement, the revelation did in fact stir up a debate regarding tax regulation within Luxembourg.

The final draft of the Directive, on the other hand, simplifies matters a little by eliminating the requirement of necessity.<sup>148</sup>

Withstanding the other two conditions, however, Mr. Deltour still would not qualify for protection under Directive (EU) 2016/943.

Although lacking a clear understanding of what constitutes a “legitimate use of the right to freedom of expression and information”, leaving its determination to international and European treaties on human rights, which complicates the protection of whistleblowers in trade secret affairs, the Directive allows for an exception of good faith in its recitals.

Recital (20) in fact reads as follows: “[...] This should not be seen as preventing the competent judicial authorities from allowing an exception to the application of measures, procedures and remedies in a case where the respondent had every reason to believe in good faith that his or her conduct satisfied the appropriate criteria set out in this Directive.”

Ultimately the final Draft, in addition to Recital (20), should temper the fear that whistleblowers in lieu of the Directive will be less prone to cooperate with journalist and reveal illicit or generally wrongful conducts within companies.

This however brings us back to a problem encountered before when dealing with journalists, and that is the element of proof.

The problem in situations where “good faith” is brought up as a defence, is that the burden of proof is placed upon the respondent (*i.e.* the whistleblower), thus bringing back into the equation the obstacle that is the loss of interest in revealing the information.

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<sup>148</sup> Article 5(b) Directive (EU) 2016/943: “for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest.”

## CHAPTER 3

### 3. Measures, Procedures And Remedies

One of the most important contributions the Directive has to offer comes with the provisions regarding legal proceedings, precautionary measures and corrective measures.<sup>149</sup>

It is undeniable that the current business models our modern economy is based on provide a fertile ground for the misappropriation of trade secrets.

More and more businesses, in fact, rely on intangible assets and in particular we find our selves in a “knowledge economy”<sup>150</sup> where trade secrets play an important role.

Among such business models, the ones based on networks such as outsourcing, joint-ventures and licensing contributed to creating favourable situations for the leak of important information.

Most notably models that rely on long supply chains, and thus depend strongly on IT and communication, add to the increasing fear of loss of control of trade secrets among SMEs.

The evolution in information and communication technology alone has made industrial espionage simpler.

Globalisation also played an important role in spreading R&D across the world in general and in particular European Member States.

Finally the fundamental right for workers, in particular skilled labour, to move freely across borders is a strong contributor to risk of exposure of trade secrets.

It is then understandable that the same importance given to trade secrets *tout court* should be granted to the measures given to the trade secret holders in case of misappropriation to prevent damages or obtain redress from losses already incurred.

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<sup>149</sup> Chapter III of the Directive is going to be of particular interest when analysing its impact on the Italian legal framework.

<sup>150</sup> The term “knowledge economy” refers to a system based on intellectual capital. An example of this could be the value of a workers’ knowledge, but most generally essential information valuable to a companies activity.

The possibility for a trade secret owner to access rapid and effective injunctive relief is fundamental in guaranteeing that the information remains valuable to him.

In the unfortunate event that a misappropriated trade secret enters public domain it is impossible to revert to a situation prior to the loss of secrecy.

This in turn would have devastating economical effects on the business owner.

Cease and desist orders would then play an extremely important role in providing protection to trade secrets, particularly in circumstances where there has been a total loss of secrecy.

In these cases simply awarding damages would not be a sufficient form of compensation.

On one hand the infringer would still be able to use the acquired information, and on the other new business or competitors in general could enter the market with a similar product based on the secret, given how at this point it would have entered public domain.

A basic form of protection is provided by contract law.

However NDAs or non-compete clauses are limited to the parties that enter the agreement.

This means that they can be enforced in front of a Court if the misappropriation is carried out by an employee or licensee.

Contractual protection does not apply if the misappropriation was executed by a third party.

This explains why most legal frameworks provide some form of statutory protection against misappropriation by third parties (*i.e.* extra-contractual legal protection).

National laws usually provide for civil/commercial law and in certain instances also criminal law.

However they pursue different objectives.

Civil law aims at placing the trade secret holder in the same situation as if the misappropriation had never occurred.



To achieve such a goal it tries to prevent the infringing party from taking advantage of his dishonest act and at the same time, or alternatively, make sure that the owner of the secret is appropriately compensated of any prejudice suffered.

This could also be obtained through out-of-court redress such as ADR methods.

Criminal law, instead, sanctions the wrongful conduct and intends to act as a deterrent.<sup>151</sup>

In principle these statutory measures of protection represent an international obligation in particular under Articles 39 and 41 TRIPs.<sup>152</sup>

As underlined in the initial chapters article 39 requires signatories to protect undisclosed information.

Article 41 takes it one step further and calls signatories to ensure an effective action against any infringement of IPRs.<sup>153</sup>

In order to do so Article 42 rules that WTO members must make fair and equitable civil procedures available to combat dishonest practices that infringe trade secrets, and at the same time must provide the necessary measure to identify and protect confidential information.<sup>154</sup>

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<sup>151</sup> ANNEX 9, *Legislative Framework in EU Member States on the Protection of Trade Secrets Against Misappropriation*, page 179, in Impact Assessment accompanying the proposal, Brussels 28 November 2013.

<sup>152</sup> Article 41 TRIPs: “1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

3. Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard.

4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member’s law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case. However, there shall be no obligation to provide an opportunity for review of acquittals in criminal cases.”

<sup>153</sup> N.B. In accordance to Article 1(2) TRIPs trade secrets are considered part of Intellectual Property Rights. This is also the case in Italy, however it is important to remember that the Directive has no intention of elevating trade secrets to IPRs, nor does it request that member states do so.

<sup>154</sup> See also footnote 122 on list of rights guaranteed by the Directive.

This includes the right to a written notice that contains the detailed basis of the claim that must be sent with sufficient time so the respondent can prepare his defence.

Most notably, among other provisions, article 42 requests that the procedure “shall provide a means to identify and protect confidential information”, which is an important issue dealt within article 9 of the Directive and that will be analysed in grater detail further on in reference to the impact on the Italian legal framework.

In accordance to articles 43 and 44 TRIPs, respectively, the defendant should cooperate to facilitate the proceedings and courts must have the authority to issue injunctions and order the infringer to pay damages.

Ultimately legal differences among member states and the lack of a correct application across borders of the TRIPs agreement creates inconsistent practices across the EU, possibly leading to diverse court practices.<sup>155</sup>

Differences in national rules are essential when facing cross-boarder disputes.

Considering the integration of the EU internal market cases of misappropriated trade secrets used by a third party in another Member State, or even in a third country, are destined to increase according to the “Impact Assessment Document” SWD(2013) 471, presented to the EU Commission in Brussel.

A real example of this is offered by *Vestergaard Frandsen et Ors v. Bestnet Europe et Ors*, in which a trade secret stolen in one state was later used in two other Member States.<sup>156</sup>

The involved employees’ contracts contained provisions requiring them to respect the confidentiality of Vestergaard’s trade secrets.

In 2004, they set up a competing company employing a doctor, who worked as a consultant to Vestergaard.

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<sup>155</sup> For example a legitimate method such as reverse engineering, considered valid in one country, could potentially be considered illegal in another state.

<sup>156</sup> Annex 8.6., Misappropriation of trade secrets: selected cases, Case 5, in Commission Staff Working Document Impact Assessment Accompanying the document proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure. And Judgement of the Court of Appeal in *Vestergaard Frandsen et Ors v Bestnet Europe et Ors*, [2011] EWCA Civ 424; Press release of Vestergaard Frandsen, *Bestnet Executives Found Liable for Misuse of Trade Secrets*, 8.7.2010 (updated March 2010).

The new company launched a competing product.

After proceedings were brought in Denmark another new company, Bestnet Europe Limited, was formed in England and carried on working in the same business.

The UK Supreme Court considered the scope of the duty of confidence.

It held that an action for breach of confidence is based ultimately on conscience and that a person can only be liable if they agree or know that the information being used is confidential.

On appeal it was argued that one of the employees was liable for breach of confidence on the following grounds: (i) under her employment contract; (ii) for being party to a common design which involved Vestergaard's trade secrets being misused; (iii) for being party to a breach of confidence, as she had worked for Vestergaard, and then formed and worked for the companies which were responsible for the breaches of confidence.

The Supreme Court unanimously dismissed the appeal.

Vestergaard's arguments failed because of the combination of two crucial facts: (i) the accused employee did not ever acquire the confidential information in question; and (ii) until some point during these proceedings, the accused party was honestly unaware that Netprotect had been developed using Vestergaard's trade secrets.

An action for breach of confidence is based ultimately on conscience.

In order for the conscience of the recipient to be affected, the employee must be aware that the information agreed is confidential or must have taken part in some act being aware that it involved the misuse of confidential information.

Essentially a defendant cannot be liable without knowledge that the information is confidential.<sup>157</sup>

Moving on, to better comprehend the problems surrounding litigation the following paragraphs consider four key issues: the applicable law, the cross-border recognition of judgements, the role of arbitration and disputes where the defendant comes from outside the EU.

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<sup>157</sup> Case Comment: Vestergaard Frandsen v Bestnet Europe [2013] UKSC 31. Available at <http://uksblog.com/case-comment-vestergaard-frandsen-v-bestnet-europe-2013-uksc-31/>

### 3.1. The problem surrounding the applicable law

In non-contractual obligations<sup>158</sup> where the misappropriation of trade secrets, within the EU Internal Market, leads to cross-boarder disputes, the Rome II Regulation<sup>159</sup> helps determine which law applies to which case.<sup>160</sup>

Identification of the applicable law is essential to determining the merits of the claim. However the applicable law goes beyond establishing if a wrongful act occurred or not seeking a wider scope that is listed in article 15 Rome II<sup>161</sup> such as determining liability, damages and the possibility for injunctive relief.<sup>162</sup>

As is for many member states, when dealing with trade secret violations a strong role is covered by rules governing unfair competition.<sup>163</sup>

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<sup>158</sup> A non-contractual obligation in accordance to Recital 11 is defined as “autonomous” to indicate that it has a meaning indecent of any national law. “The concept of a non-contractual obligation varies from one Member State to another. Therefore for the purposes of this Regulation non-contractual obligation should be understood as an autonomous concept. The conflict-of-law rules set out in this Regulation should also cover non-contractual obligations arising out of strict liability.”

<sup>159</sup> Regulation (EC) 864/2007 is relevant to intellectual property as it contains a special regime for determining the applicable law in cases involving the infringement of IPRs.

Nonetheless it still raises some questions in relation to quasi-IP rights, *i.e.* trade secrets.

The attention given to IPRs is made clear by Recital 26: “Regarding infringements of intellectual property rights, the universally acknowledged principle of the *lex loci protectionis* should be preserved. For the purposes of this Regulation, the term ‘intellectual property rights’ should be interpreted as meaning, for instance, copyright, related rights, the *sui generis* right for the protection of databases and industrial property rights.” And also Article 8 regarding the infringement of IPRs: “1. The law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is claimed. 2. In the case of a non-contractual obligation arising from an infringement of a unitary Community intellectual property right, the law applicable shall, for any question that is not governed by the relevant Community instrument, be the law of the country in which the act of infringement was committed. 3. The law applicable under this Article may not be derogated from by an agreement pursuant to Article 14.”

<sup>160</sup> Contractual obligations would be covered by Rome I Regulation.

<sup>161</sup> Article 15 Rome II, Scope of the law applicable: “The law applicable to non-contractual obligations under this Regulation shall govern in particular: (a) the basis and extent of liability, including the determination of persons who may be held liable for acts performed by them; (b) the grounds for exemption from liability, any limitation of liability and any division of liability; (c) the existence, the nature and the assessment of damage or the remedy claimed; (d) within the limits of powers conferred on the court by its procedural law, the measures which a court may take to prevent or terminate injury or damage or to ensure the provision of compensation; (e) the question whether a right to claim damages or a remedy may be transferred, including by inheritance; (f) persons entitled to compensation for damage sustained personally; (g) liability for the acts of another person; (h) the manner in which an obligation may be extinguished and rules of prescription and limitation, including rules relating to the commencement, interruption and suspension of a period of prescription or limitation.”

<sup>162</sup> These issues as we will have occasion to see are also central to Directive (EU) 2016/943.

<sup>163</sup> Rome II contains a specific provision for IPRs in article 8 (see footnote 153). However it is clear that the regulation intends to keep articles 6 and 8 separate. This means that if protection of trade secrets fall under “unfair competition” then the principle of *lex specialis* means in cannot be simultaneously covered by article 8 as an IPR.

In Rome II acts of unfair competition perpetrated through the theft of trade secrets are covered by article 6 paragraph 2<sup>164</sup>, that indicates article 4 paragraph 1 as the applicable general rule according to which: “unless otherwise provided for in this Regulation, the law applicable to a non-contractual obligation arising out of a tort/delict shall be the law of the country in which the damage occurs irrespective of the country in which the event giving rise to the damage occurred and irrespective of the country or countries in which the indirect consequences of that event occur.”

According to paragraph 1 the law of the country where the damage occurred is the applicable one, thus implementing the *lex loci damni* rule.

This rule does not take into account where the damaging event effectively took place, meaning that if the misappropriation took place in country A but the damage was suffered in country B, the applicable law is that of B ignoring any “indirect consequences” the misappropriation may have had in A, such as economic loss.

Applying *lex loci damni* to trade secret cases, in fact, may have potentially harmful repercussions due to the fact that it is “difficult to apply because trade secrets are even more nebulous and intangible than intellectual property rights in general, and damage arising from their disclosure or misuse is neither localised nor confined to a particular jurisdiction”.<sup>165</sup>

Essentially the place of the wrongful act is not necessarily that where the damage took place.

Article 4 paragraph 1 then would likely lead to a further fragmentation of the applicable law, which is the main issue Directive 2016/943 is trying to avoid at least within EU Member States.

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<sup>164</sup> Article 6,2 Rome II, Unfair competition and acts restricting free competition: “Where an act of unfair competition affects exclusively the interests of a specific competitor, Article 4 shall apply.” Also in accordance to Recital 21 article 6 is not an exception to article 4 but rather a special case aimed to prevent the ECJ from giving it a restricted interpretation: “The special rule in Article 6 is not an exception to the general rule in Article 4(1) but rather a clarification of it. In matters of unfair competition, the conflict-of-law rule should protect competitors, consumers and the general public and ensure that the market economy functions properly. The connection to the law of the country where competitive relations or the collective interests of consumers are, or are likely to be, affected generally satisfies these objectives.”

<sup>165</sup> C. WADLOW, “Trade Secrets and the Rome II Regulation on the Law Applicable to Non-contractual Obligations”, in *European Intellectual Property Review*, 2008, p. 313.

The Commission for the proposal of Rome II Regulation recognised that an anticompetitive conduct “commonly has an impact on several markets and gives rise to the distributive application of the laws involved” and also established that article 4 paragraph 1 “entails, where damage is sustained in several countries, that the laws of all the countries concerned will have to be applied on a distributive basis, applying what is known as “*Mosaikbetrachtung*” in German law.”<sup>166</sup>

The *lex loci damni* rule could then be particularly disastrous in circumstances where trade secret protection involves more than one legal system, because in accordance to *Mosaikbetrachtung* the laws of all the countries concerned would be applicable and the protection offered would then only be as strong as the one provided by the country that offers less guarantees to trade secret holders.

This is due to the fact that, unlike patents, similar trade secrets in different countries do not benefit from mutual independence, meaning that once the secret becomes public, independent of the method in which it was revealed (wrongful or pursuant to a judgement), the information will have lost its essential quality of confidentiality which justified its protection in the first place.<sup>167</sup>

The potential fragmentation is mitigated by paragraphs 2 and 3 of the same article, which however come with their own set of difficulties.

Article 4 paragraph 2 states that “[However] where the person claimed to be liable and the person sustaining damage both have their habitual residence in the same country at the time when the damage occurs, the law of that country shall apply”.

The applicable law is that of the country where the victim and the defendant have the same habitual residence in accordance to the *lex domicilii communis*.<sup>168</sup>

Paragraph 2, in contrast to paragraph 1, ignores where the damage occurs so long as both parties have the same habitual residence.

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<sup>166</sup> European Commission (July 2003), p. 11. See also C. WADLOW, *The new private international law of unfair competition and the ‘Rome II’ Regulation*, Journal of Intellectual Property Law & Practice, 2009), Vol. 4, No11, p. 791.

<sup>167</sup> Annex 16.1 *The question of the Applicable Law*, in “Commission Staff Working Document Impact Assessment Accompanying the document proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure”, Brussels, 2013, page 227.

<sup>168</sup> Article 4,2 Rome II requires habitual residence and not domicile.

For instance if an employee were to steal information from his former employer and sell it to a competitor in another country, the applicable law is that of the country where both parties have the same habitual residence, independent from the fact that the damage occurred somewhere else.

However if the employee successfully changed his habitual residency before damages occur that would leave a series of questions such as: what point did the damage occur; did the employee change country; when did the change take place? Once answered these question could lead to identifying different applicable laws all together, leaving the problem of fragmentation essentially unsolved.<sup>169</sup>

An escape clause<sup>170</sup> is offered by article 4 paragraph 3:

“Where it is clear from all the circumstances of the case that the tort/delict is manifestly more closely connected with a country other than that indicated in paragraphs 1 or 2, the law of that other country shall apply. A manifestly closer connection with another country might be based in particular on a pre-existing relationship between the parties, such as a contract, that is closely connected with the tort/delict in question.”

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<sup>169</sup> See C. WADLOW, “*Trade Secrets and the Rome II Regulation on the Law Applicable to Non-contractual Obligations*”, in *European Intellectual Property Review*, 2008, p. 315.

<sup>170</sup> Article 4 paragraph 2 is mandatory if its facts are present, and not a simple exception to paragraph 1. This in turn means that it is forbidden to go back to paragraph 1 once criteria are met for paragraph 2 and the only possibility remaining is that to meet the required elements to apply paragraph 3. Moreover paragraph 3 does not allow to derogate from the criterion of the common residence to select the country which would have been selected under the general rule of paragraph 1. This is explained by Wadlow (2009), p. 795, as follows: “Suppose that the country identified by Article 4(1) is state X, but both parties have their habitual residence in state Y. Since paragraph 2 always trumps paragraph 1, the law of Y will apply unless paragraph 3 can be brought to bear. Now suppose everyone agrees that the law of Y is totally inapplicable on any rational basis, and that absolutely every relevant connecting factor other than common residence points to the law of X. Does Article 4(3) operate to make X the applicable law? No, since although paragraph 3 has the power to override paragraph 2, it cannot turn back the clock and reinstate the law originally identified by paragraph 1 but subsequently ousted by paragraph 2. The applicable law according to paragraph 3 must be that of a country ‘other than indicated in paragraphs 1 or 2’, say state Z. So what if the agreed objective ranking of laws in terms of connecting factors is first X (closest connection with the tort), second Z (less close connection), and last Y (no connection except that of common habitual residence, which in the circumstances is fortuitous or irrelevant). Law X cannot apply because it has been displaced by law Y according to paragraph (2), and cannot be restored by paragraph (3). Law 2 cannot apply in preference to law Y because the tort is more closely connected with X than with Z, no matter that law X is now ineligible. We are left, by default, with the law of Y, which is admittedly the least appropriate of the three choices.”

In point of fact when it is clear that the wrongdoing is more strictly connected to another country, then the law of this country shall apply, effectively enabling the court to apply its own law to all the claims presented in front of it and collected in a single bundle.

It is then easy to see how a uniformed trade secret law within the EU could be helpful in these matters.

By providing a single uniformed minimum standard for trade secrets it is easier to avoid fragmentation and protect the trade secret holder's right to legal certainty.

However as noted by the Rome II Regulation this may be achievable for antitrust law, but it is more difficult in matters regarding unfair competition, which includes trade secrets.

The fact that the applicable law matches the jurisdiction remains a mere coincidence in trade secret disputes.<sup>171</sup>

What is even more interesting to trade secret cases is the last sentence to paragraph 3 that accepts a pre-existing relationship between the parties as a sufficient element to justify a connection between them.

The Commission also acknowledged that a subsisting contract is not necessary for the exception to apply and illustrated a situation which is quite common in trade secret cases, which is when "the text is flexible enough to allow the court to take account of a contractual relationship that is still only contemplated as in the case of the breakdown of negotiations."<sup>172</sup>

In conclusion, although paragraph 3 can lead to a single applicable law it is incapable of guaranteeing protection to a trade secret owner whose trade secret has been violated by an unconnected third party, due to the lack of a pre-existing relationship.

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<sup>171</sup> See footnote 165.

<sup>172</sup> COM(2003) 427 final at page13.



### 3.2. Cross-boarder recognition judgements and ADRs

Up until Regulation (EU) No. 1215/2012 to obtain the enforcement of a decision in the addressed Member State it was necessary that the Plaintiff obtain a formal declaration called *exequatur*.

According to the Industry Survey held in 2012 out of 57 companies that litigated trade secrets within the EU, only 17,5% were successful in enforcing the *exequatur*, 28% were unsuccessful and the remains initiated new separate court proceedings, preferring to avoid the nuisance of requesting an order of *exequatur* due to both its cost and uncertainty.<sup>173</sup>

As of 2015 however the order of *exequatur* has been made redundant, and in accordance to Chapter III of the reformed version of Brussels I Regulation, a judgment given in a Member State shall be recognised in the other Member States without any special procedure being required.<sup>174</sup>

This is of particular interest as the Directive in its Section 3 disciplines injunction, corrective measures and damages, which benefit from this new regime.<sup>175</sup>

However there are some limits to the recognition and enforceability of judgements coming from a different Member State than the one they are addressed to.

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<sup>173</sup> Baker & McKenzie (2013), *Study on trade secrets and confidential business information in the internal market*. Study carried out for the European Commission (MARKT/2011/128/D). Available at: [http://ec.europa.eu/internal\\_market/iprenforcement/trade\\_secrets/index\\_en.htm#maincontentSec](http://ec.europa.eu/internal_market/iprenforcement/trade_secrets/index_en.htm#maincontentSec) 1. See also, *Commission Staff Working Document Impact Assessment Accompanying the document proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure*, Figure A16.1, page 229.

<sup>174</sup> Article 36 REGULATION (EU) No 1215/2012 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast): “1. A judgment given in a Member State shall be recognised in the other Member States without any special procedure being required. 2. Any interested party may, in accordance with the procedure provided for in Subsection 2 of Section 3, apply for a decision that there are no grounds for refusal of recognition as referred to in Article 45. 3. If the outcome of proceedings in a court of a Member State depends on the determination of an incidental question of refusal of recognition, that court shall have jurisdiction over that question.”

<sup>175</sup> Articles 12, 13, 14 and 15 Directive (EU) 2016/943.

First and foremost the public policy exception according to which a judgment shall not be recognised “if such recognition is manifestly contrary to public policy in the Member State in which recognition is sought.”<sup>176</sup>

Moreover in the event provisional injunctions are granted without the defendant being heard, these provisional orders would not benefit from automatic recognition as they would have been granted in violation of the defendants constitutional right to being heard and to state his reason.<sup>177</sup>

A valid argument to the contrary could be that, in matters involving the infringement of intellectual property, Directive 2004/48/CE may have reached a high enough level of harmonisation to allow for automatic recognition.

However the problem still remains that within the EU there is not a general consensus surrounding the promotion of trade secrets to IPRs, and the Directive expressly excludes that as one of its goals, rather focusing on the harmonisation of their protection across Member States.<sup>178</sup>

Another limit to enforcement and recognition is contained within the Brussel I Regulation and allows a Member State’s court to refuse the enforcement of a judgement, addressed to it by another Member State, when it is contrary to its public policy.<sup>179</sup>

A simple difference within civil law provision is not sufficient to invoke the limitation but rather there has to be a manifest breach of a rule of law regarded as

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<sup>176</sup> Article 34 contains the public policy clause of Regulation (EC) No 44/2001. For further details on the subject see, *Interpretation of the Public Policy Exception as referred to in EU Instruments of Private International and Procedural Law*, by Directorate General For Internal Policies Policy Department C: Citizens' Rights And Constitutional Affairs. Available at [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2011/453189/IPOL-JURI\\_ET\(2011\)453189\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2011/453189/IPOL-JURI_ET(2011)453189_EN.pdf)

<sup>177</sup> In Italy the right is protected under Article 111 of the Constitution.

<sup>178</sup> See Recital (16) Directive (EU) 2016/943 *footnote* 112.

<sup>179</sup> Articles 45 and 46 of Regulation (EU) No 1215/2012: In case of recognition, Article 45: “1. On the application of any interested party, the recognition of a judgment shall be refused: (a) if such recognition is manifestly contrary to public policy (ordre public) in the Member State addressed; [...]”. In case of enforcement, Article 46: “On the application of the person against whom enforcement is sought, the enforcement of a judgement shall be refused where one of the grounds referred to in Article 45 is found to exist.”

essential in the legal order of the State in which enforcement is sought or of a right recognised as being fundamental within the legal order.<sup>180</sup>

This could theoretically have a repercussion on cases that award excessive punitive damages.

In fact according to Recital (32) of Rome II Regulation excessive damages could be considered, by the Court of a Member State, as a violation of its country's public policies.<sup>181</sup>

However excessive punitive damages are more likely to occur with judgements arriving from third State Jurisdictions, external to the EU.<sup>182</sup>

Moving onto the issue of alternate dispute resolution methods, and in particular arbitration, these are strongly promoted by the World Intellectual Property Organisation, which underlines how a copious amount of cases dealing with licensing agreements of technology and know-how are discussed and resolved through arbitration.

The recognition of an arbitration award falls outside the scope of Brussels I Regulation and is governed by national laws.

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<sup>180</sup> Judgment Of The Court, 28 March 2000, in Case C-7/98, Krombach, paragraph 37: "Recourse to the public-policy clause in Article 27, point 1, of the Convention can be envisaged only where recognition or enforcement of the judgment delivered in another Contracting State would be at variance to an unacceptable degree with the legal order of the State in which enforcement is sought inasmuch as it infringes a fundamental principle. In order for the prohibition of any review of the foreign judgment as to its substance to be observed, the infringement would have to constitute a manifest breach of a rule of law regarded as essential in the legal order of the State in which enforcement is sought or of a right recognised as being fundamental within that legal order."

<sup>181</sup> Recital (32) of the Rome II regulation: "Considerations of public interest justify giving the courts of the Member States the possibility, in exceptional circumstances, of applying exceptions based on public policy and overriding mandatory provisions. In particular, the application of a provision of the law designated by this Regulation which would have the effect of causing non-compensatory exemplary or punitive damages of an excessive nature to be awarded may, depending on the circumstances of the case and the legal order of the Member State of the court seised, be regarded as being contrary to the public policy (ordre public) of the forum."

<sup>182</sup> The Commission services impact assessment for the review of Regulation 44/2001 explains that "to the knowledge of the Commission there has not been a single case since the entry into force of the Brussels Convention where recognition and enforcement of a judgment has been refused for this reason [N.B. the substantive public policy exception]" (cf. European Commission Staff (December 2010), p.15). Moreover, the need for a substantive public policy defence has been reduced by the harmonisation of the applicable law in Rome I and Rome II because, in theory, all courts in the Member States of the EU will be applying the same law to the dispute. However, both these instruments have a public policy exception: cf. Article 21 of Rome I Regulation and Article 26 of Rome II Regulation.

The international legal framework for their recognition is offered by the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

This Convention, which requires the Courts of Contracting State to acknowledge and enforce arbitral awards granted from within other Contracting States.<sup>183</sup>

Industry professionals and legal practitioners alike have underlined how many jurisdiction do not guarantee confidentiality during court proceeding, which presents a great risk for trade secret litigation and is a crucial article within the Directive.<sup>184</sup>

Confidential mediation and arbitration can then remedy this risk by providing a secure environment in which matters can be discussed away from prying eyes.<sup>185</sup>

### **3.3. Extra-EU Defendants**

The issue here is to determine what occurs when someone, who acquired and used trade secrets, decides to export the resulting infringing goods to the EU market, in order to profit from his illicit conduct.

Brussels I is not useful as the litigation may involve a defendant situated outside the EU, which means that the possibility for them to gain redress is to turn to a national law that allows them to sue extra-EU defendant form within the EU.

These national rules vary immensely within Member States which means that, when the defendant has no connection to the EU, trade secret owners face an unequal access to justice which depends strongly on the national law applicable to the case.

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<sup>183</sup> Article III New York Convention (1958): “Each Contracting State shall recognize arbitral awards as binding and enforce them in accordance with the rules of procedure of the territory where the award is relied upon, under the conditions laid down in the following articles. There shall not be imposed substantially more onerous conditions or higher fees or charges on the recognition or enforcement of arbitral awards to which this Convention applies than are imposed on the recognition or enforcement of domestic arbitral awards.”

<sup>184</sup> Article 9 Directive (EU) 2016/943.

<sup>185</sup> See Annex 16.3 of Impact Assessment Study page 231: “Some experts recommend specifying that trade secret and other IP disputes are to be resolved through confidential mediation or arbitration in a convenient and trusted jurisdiction rather than litigation in the local courts. As one practitioner has warned, ‘in many offshore jurisdictions trade secret litigation can lead to the open disclosure and consequential loss of the trade secrets at issue if the legal proceedings are not closed’. Moreover, mandatory mediation or arbitration can sometimes help avoid the delays, inefficiencies, and risk of bias and corruption that often plague litigation in foreign countries.” For further information see Center for Responsible Enterprise and Trade (CREATE), Trade Secret Theft – Managing the growing threat in supply chains, 2012.

Depending on the Member State that has jurisdiction the outcome for the trade secret owner is very volatile due to the fragmented situation surrounding trade secret protection within the EU.

This in turn is accompanied by an increase in business risks and higher legal costs for EU companies registered in Member States that do not grant access to their court when third country defendants are involved.<sup>186</sup>

The lack of common rules in the EU of the enforcement of judgements provides another set of difficulties.

A ruling accepted in one Member State may not be welcomed by another member, thus creating an unequal protection against third State Judgements.<sup>187</sup>

In an attempt to find a solution to this issue the Commission proposed to revise Brussels I by extending the rules regarding jurisdiction to third country defendants and introducing two *fora*<sup>188</sup> for disputes with extra-EU defendants.

An extension of the scope of Brussels I Regulation would increase the possibility for EU companies to litigate within the Union rather than having to initiate costly proceeding abroad.

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<sup>186</sup> European Commission Staff (December 2010), page 20: “Not being able to litigate in a close jurisdiction has a negative economic impact on companies, albeit one that is difficult to quantify: claimants are not familiar with the foreign legal system, lack access to their known and trusted lawyers and have the inconvenience of travelling and wasted management time.”

<sup>187</sup> European Commission Staff (December 2010), page 22: “The absence of common rules in the EU on the effect of third State judgments leads to a situation where such judgments may enter the EU in some Member States and not in others. Some Member States are very open to recognise and enforce third State judgments, others are very strict, yet others do not recognise and enforce third State judgments at all except in the event of a bilateral convention with the third State concerned. This creates unequal protection of EU citizens and companies against third State judgments, in particular when the third State court has taken jurisdiction on the basis of exorbitant grounds of jurisdiction [...] or on the basis of grounds which violate the exclusive jurisdiction of Member States' courts. It may also lead to market distortions.”

<sup>188</sup> One would be the court where the defendant has assets in the EU. The other would be decided according to *forum necessitatis*, if no other forum would be able to guarantee the right to a fair trial. For further details on the matter see European Commission (December 2010), *Proposal for a Regulation of the European Parliament and of the Council on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast)*, COM(2010)748, 14.12.2010.

The subsequent harmonisation would provide for grater legal certainty and potentially increase cross-boarder transactions.<sup>189</sup>

### **3.4. The shortcomings in litigation rules**

Maintaining secrecy during legal proceeding is, as briefly mentioned in previous paragraphs, a very delicate and important matter when facing the protection of trade secrets.

The confidentiality status that qualifies the information for protection is even more at risk when debating the misappropriation of trade secrets in front of the Court, both for the Plaintiff and the Defendant.

If secrecy during proceedings is not properly assured the trade secret owner could potentially lose his market advantage.

Moreover the Defendant who allegedly stole the trade secret, and in reality was not in possession of it before the trial (*i.e.* he is innocent), would have the chance to acquire the trade secret during proceedings, which does not fall into the category of unlawful measures of acquisition.

In other words he would be legally able to fully use the information acquired in Court.

Some of the riskiest moments during proceedings for the Plaintiff are:

- (i) the description;
- (ii) the production of evidence; and
- (iii) the publicity of judicial proceedings.

Describing the trade secret to the judge, so he may better understand the elements he is called to make a decision on, puts the Plaintiff in a very tight corner.

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<sup>189</sup> European Commission Staff (December 2010), page 26. "This would bring about a reduction in the average litigation costs and delays for EU companies because litigation within the European area of justice is generally cheaper and simpler than litigation in a country outside the EU. [...] The improved legal framework might also encourage more companies to engage in cross-border transactions. [...] Any cost savings will be particularly beneficial for SMEs which do not have the resources to handle complex international litigation in the same way as large companies."

In fact, the Plaintiff does not know how much information the Defendant has, and could then disclose even more confidential information than what is needed for the case.

Moreover when initiating a civil case the application describing the facts is also served personally to the Defendant, who may learn information he was not aware of, even before the proceedings begin.

In fact, if the plaintiff does not provide sufficient information he may put his own case at risk and, if requested, he may find his motion for precautionary measures denied.

The same risk accompanies the production of evidence.

In civil law countries, such as Italy, the Defendant could, in fact, request that the Plaintiff present certain documents that are within his control and contain essential elements that may help move the proceedings along, forcing him to reveal his trade secret through a judges order.<sup>190</sup>

It should be duly noted that the Plaintiff could also in bad faith use the same method to obtain confidential information from the Defendant, initiating a fishing expedition to acquire trade secrets from the Defendant and thus abuse litigation rules.

Finally the publicity of judicial proceedings is also a worrying issue.

Hearings are often public and judicial decisions may describe in full the trade secret. Also in some countries judicial documents can be accessed by third parties, posing yet again a threat to the confidentiality of information.

All this put together means that there is a very high possibility that trade secrets may lose their main attribute during legal proceedings, rendering their protection in vain. Within the EU only Hungary and Germany have placed effective procedural measures to prevent trade secrets from leaking into the public during civil proceedings.

Particular attention on the matter should be given to patent litigation.

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<sup>190</sup> Article 210 Italian Civil Procedure Code.

In fact in these circumstances the risk of unwillingly leaking confidential information is always present.

Truth and cooperation between parties are essential characteristics to a fair procedure.

Throughout the course of patent litigation we find on one hand the necessity of disclosure and discovery and on the other the need to protect one's trade secrets.

As of now, and until the correct application of Directive (EU) 2016/943 within the EU, the rules for protection during legal proceeding vary between Member States and do not offer the same minimum standards, leaving the decision on the correct method up to national law, case law and the Enforcement Directive<sup>191</sup> in its articles 6, 7 and 8, which deal with IPRs.

Article 6 paragraph 1 of the Enforcement Directive provides the principle of due regard for the confidentiality of information during IP legal proceedings according to which if one party proves that key information for the case is in the hand of the opposing party then "[...] the competent judicial authorities may order that such evidence be presented by the opposing party, subject to the protection of confidential information."<sup>192</sup>

Member States have to then provide provisional measure to preserve and protect important evidence relative to the ongoing case (*i.e.* seize infringing goods, secure documents and materials that relate to the production or distribution of said goods and so on<sup>193</sup>).

It is also common, during patent litigation, that information on the source of the infringing product be presented in court, and article 8 of the Enforcement Directive

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<sup>191</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

<sup>192</sup> This is also in line with what is already disciplined by article 42 TRIPs, Fair and Equitable Procedures: "Members shall make available to right holders<sup>11</sup> civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements."

<sup>193</sup> Article 7 Directive 2004/48/EC.



deals with such issue and the right of information by providing a series of circumstance in which the infringer must provide said information along with details of its origin and distribution networks.<sup>194</sup>

The competent Judicial Authority may in fact order the infringer, or any person who is found in use, possession or is commercialising on a larger scale the infringing goods, to provide the aforementioned information.<sup>195</sup>

Distribution channels could be considered trade secrets for the defendant (they could include client lists<sup>196</sup>), however if the court concludes that the products are in fact infringing the plaintiff's patents, then the patentee's right to stop the illicit activities should outweigh the defendant's interest in keeping his suppliers and customers secret.

It is then important to balance the plaintiff's right to be made aware of the defendant's customers and also the defendant's interest that no commercially valuable information is leaked to his competitors.<sup>197</sup>

Be that as it may articles 47 TRIPs and 8 of the Enforcement Directive do not expressly contain a reference to trade secrets.

Considering, then, that the safeguard of trade secrets is dealt with only in general terms there are only a few possible ways to achieve their protection.<sup>198</sup>

One could be the legal right of a certain person such as a lawyer or patent agent to refuse to answer any question or disclose confidential information, but this would be more likely to create obstructions and delay the proceedings.

Another solution would be to deal with these matters through *in camera* hearings.

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<sup>194</sup> Article 47 TRIPs already provided for this on an international scale, the right of information read as follows: "Members may provide that the judicial authorities shall have the authority, unless this would be out of proportion to the seriousness of the infringement, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution."

<sup>195</sup> Article 8 Directive 2004/48/CE.

<sup>196</sup> See page 34 and *fn.* 76.

<sup>197</sup> The Dutch Supreme Court for example achieves this guarantee by providing that the information be revealed to a notary or auditor. *Hoge Raad*, February 23, 1990, 1990 Nederlandse Jurisprudentie 664, annotation by VERKADE (Hameco).

<sup>198</sup> C. GIELEN, Trade Secrets and Patent Litigation, in *Patents and Technological Progress in a Globalized World: Liber Amicorum Joseph Straus*, 2009, Prinz Zu Waldeck Und Pyrmont, W., ADELMAN, M.J., BRAUNEIS, R., DREXL, J., NACK, R. (EDS.)

However circumstances under which court proceedings may take place behind closed doors may not be readily accessible for trade secret litigation.<sup>199</sup>

Ultimately a better method of providing protection to trade secrets would be that to have a variety of safeguards set within a statute or a directive.

In line with this last thought, it is then clear how important article 9 of Directive (EU) 2016/943 is as it contains a set of fundamental rules which provide for important guarantees during legal proceeding such as not allowing any person involved in the proceeding to use or disclose any trade secret that the competent Judicial Authority has acquired following a duly reasoned request by an interested party.

Most importantly this obligation remains valid even once the proceedings have ended, and shall only cease to be applicable if the information is found not to meet the requirements necessary to be considered a trade secret, or if in time it has become generally known.

In its paragraph 2 article 9 requests that Member States ensure that their competent Judicial Authorities, if presented with a duly motivated application by one of the involved parties, take necessary specific measure to guarantee secrecy.

In general these measure should restrict access to any documents submitted by the parties involved in the proceedings, limit the number of people allowed to participate to hearings or view the official transcript and finally any passage that contains trade secrets must be stricken by any non-confidential copy of the decision.

Specifications on the publication of a Court's decision are contained in article 15 of the Directive, that expressly accounts for the possibility for the applicant to request publication of the decision in full at expense of the infringer.

However this must be done in accordance to what is indicated by article 9, and the judicial authority must take into account the conduct of the infringer, the value of the trade secret and the likelihood of recidivism of the infringer.

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<sup>199</sup> A more in depth analysis of current proceedings is contained in the following chapter dealing with the impact of Directive (EU) 2016/943 in Italy.

More precautionary measures are listed in articles 10 and 11 of the Directive and include:

- (i) the cessation of or the prohibition of the use or disclosure of the trade secret on a provisional basis;
- (ii) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;
- (iii) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.

Furthermore the Directive provides available actions once a decision on the merit has been reached and it determines a series of rules dedicated to calculating the damages owed to the injured party.

Article 12 and 13, in fact, deal with injunctions, corrective measure and conditions for their application.

In particular, if requested by the applicant, the competent judicial authority may order a series of measure against the infringer which include: cessation or prohibition of the use or disclosure of the trade secret, prohibition of production or placement of the infringing goods on the market, the destruction of all documentation pertaining or containing the trade secret (alternatively said documentation could be handed over to the plaintiff) and finally the adoption of corrective measures contained in the following paragraph of the same article.<sup>200</sup>

The three corrective measure listed in paragraph 2 are:

- (i) a recall of the infringing goods from the market;
- (ii) depriving the infringing goods of their infringing quality;

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<sup>200</sup> Article 13,2 Directive (EU) 2016/943: “Member States shall ensure that the measures referred to in points (a) and (b) of Article 12(1) are revoked or otherwise cease to have effect, upon the request of the respondent, if the information in question no longer meets the requirements of point (1) of Article 2 for reasons that cannot be attributed directly or indirectly to the respondent.”

- (iii) the destruction of the infringing goods or, where appropriate, their withdrawal from the market, provided that the withdrawal does not undermine the protection of the trade secret in question.

The conditions that allow for the application of the measures listed in article 12 are contained in article 13 and require the judicial authority to take into account the value of the trade secret, the measure of protection adopted by the applicant, the infringers conduct, the impact of the unlawful use, the legitimate interest the parties have (including third parties) and the consequences that derive from granting or denying the corrective measure, the public interest and, finally, the safeguard of fundamental rights.

Corrective measures must also last as long as is necessary to eliminate any commercial or economic advantage that the infringer could have acquired through his illicit activity.

If the person concerned at the time of use or disclosure neither knew or could have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully, the execution of the corrective measures would cause him disproportionate harm and the pecuniary compensation to the injured party appears reasonably satisfactory, then the party liable to the measure can request to pay a pecuniary compensation instead of being subject to the corrective measures identified by the competent judicial authority.<sup>201</sup>

When faced with the task of calculating damages, the competent judicial authority must identify an amount that is sufficient to cover the actual prejudice suffered by the trade secret owner in consequence of the infringers activity.<sup>202</sup>

The court must take into account the negative economic consequences (including lost of profits and unfair profits made by the infringer) and the moral prejudice caused to the trade secret holder.

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<sup>201</sup> Article 13,3 Directive (EU) 2016/943.

<sup>202</sup> In accordance to article 14,1 Directive (EU) 2016/943 if the infringer is an employee who acted without intent Member States may set rules that limit his liability.

Alternatively the Court could award a lump sum that must at least amount to the royalties or fees which would have been owed to the trade secret holder had the infringer obtained authorisation to use the information.<sup>203</sup>

Finally, to sum up, the importance surrounding the Directive's provisions on the litigation process is that they try to provide a seal in those instances where trade secrets might leak out.

The main problem, in fact, is that at any point in time during proceedings any party involved may have to reveal confidential information in order to give validity to his claim.

This involves risks such as giving excessive details in the application, providing evidence that contains confidential information and the overall presence of the opposing party during proceedings is a disincentive for cooperation.

There are also more risks that follow public disclosure brought on by the possibility of public access to hearings, the publication of the decision and public access to documents.

All this put together discourages cross-border innovation activities due to:

- (i) a reduced expected value of innovation;
- (ii) higher costs for protecting innovation; and
- (iii) higher business risks when sharing trade secrets in innovative activities.

In a market where litigation is less likely to provide an efficient means to protect ones' rights and commercial interests, trade secret based businesses are at a risk of losing their competitive advantage.

The higher risk of disclosure in legal proceedings, in fact, entails a lower expected revenue from the specific trade secret based product.

Moreover there would be a higher cost for court enforced measure (including extra expenses due to the litigation taking place in another Member State) and companies

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<sup>203</sup> Article 14 Directive (EU) 2016/943.

would have to invest in extra safety measure during transactions that involve sharing trade secrets.

This last point is followed by the fact that research and development would be hindered and innovation through the collaboration between Member States would be viewed more as a risk rather than an opportunity.

Considering that the vast majority of national civil procedure rules among Member States do not account for these problems and that they differ among one another, trade secrets are under a constant threat even during civil procedures creating an overall unattractiveness of litigation as a redress system for SMEs and businesses that have suffered an infringement of their trade secret.

**SECTION III**  
**ECONOMIC ANALYSIS OF DIRECTIVE (EU) 2016/943;**  
**IMPACT ON INNOVATION AND COMPETITION IN THE EUROPEAN**  
**MARKET**

SUMMARY: 1. Towards a Union of Innovation - 1.1. The economic theory - 1.2. The applied economic model - 2. A focus on Reverse Engineering.

**CHAPTER 1**

**1. Towards a Union of Innovation**

An effective economic analysis of the impact of Directive (EU) 2016/943 on the European internal market, at the time this dissertation is written, can only be based on the hypothetical theories laid out by the studies conducted for the European Commission when discussing the Directive, which was just approved on 8 June 2016 and according to its article 19, Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with it by 9 June 2018.

The economic study provided was conducted by professors of the University of Bologna and the economic department of important law firms such as Baker & McKenzie assisted also by American, Dutch and German colleagues.<sup>204</sup>

The study addressed two major topics:

- (i) the economic theory of trade secrets and their protection; and
- (ii) the applied models used to verify said theories.

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<sup>204</sup> Professor Luigi A. Franzoni, Doctor of Philosophy and Professor of Public Economics, University of Bologna, Bologna, Italy. The economic research team of Baker & McKenzie was led by Dr. Thomas Respass (Washington, DC), with the valuable assistance of economists Dr. Hicham Hadni (Washington, DC), Omar Moerer (Amsterdam, Netherlands), Dr. Jens Rubart (Dusseldorf, Germany), and Riccardo Vaccaro (Milan, Italy).

The main focus points of these theories and their applied models are the economic impact of trade secrets on innovation, their relationship with other IPRs, the tradeoff between “owning” a secret and using it and the cost deriving from a fragmented legal framework within the EU.

Overall the results of the study show how innovators more times than not rely on trade secrets rather than other more traditional forms of intellectual property protection.

A general consensus was formed around trade secrets playing an important role in the return of investments and that their efficient protection should be an integral part of the European legal framework.<sup>205</sup>

Of course it should be duly noted that the importance of trade secrets varies according to the industry sector considered, playing a more important role in industries where innovation and research and development are key to their success.

This however does not exclude sectors where the connection to trade secrets might not be as immediate as one would expect, such as marketing, business consultancy and financial services.

Moreover trade secrets also live in strict connection with other IPRs.

Consider, for example, their relationship with patents where trade secrecy provides a complimentary protection to those elements that cannot be patented and yet are necessary for the competitive advantage of the product.

Most importantly an efficient trade secret regulation should be able to balance numerous policies such as protecting the returns from an innovative activity, encourage the disclosure and low-cost distribution of the invention, contribute to innovation at the lowest possible cost and align a series of economic goals (*i.e.* increase economic growth, use resources efficiently and favour labour mobility).

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<sup>205</sup> This is where the concept of an Innovation Union comes into play. It is a crucial investment for the future. Among the goals set forth and beginning with better IPR protection, the target for the European Union is to invest 3% of its GDP in R&D by 2020 (currently it only stands at 0.8% GDP). This in turn could create 3.7 million jobs and increase the annual GDP by €795 billion by 2025. A uniformed trade secret protection is only a part of this project and for more details on the subject of “Innovation Union” see [http://ec.europa.eu/research/innovation-union/index\\_en.cfm?pg=home](http://ec.europa.eu/research/innovation-union/index_en.cfm?pg=home).



## 1.1. The Economic Theory

Economists apply a broad definition to trade secrets and consider them as a protectable interest of a firm which is valuable due to the investment behind its discovery and which is kept secret from the public and competitors.

Already over fifty years ago important economists such as K. Arrow envisioned that information obtained by an invention is “indivisible”.

In other words the use of information by one person does not limit other people’s use.

Arrow was trying to convey that information obtained from one process may be transferred at a cost to others and promote technological evolution.

Information would then have a commercial value as long as the “owner” is capable of preventing others from using it for their own benefit (*i.e.* he would need to keep it secret).

Information may then be treated as a commodity, on the basis that special legal protection is provided.<sup>206</sup>

However the risk here is to create a situation of monopoly which would be detrimental to competition in a fair market and subsequently counterproductive for innovation, by delaying research on alternative uses for that information.

It is then important to establish a uniform category of what constitutes trade secrets and provide them with the necessary protection, to avoid that anything may be considered confidential information for a business.

Nonetheless it is undeniable that in a free economy a firm only has an incentive to innovate if it expects to receive returns that are proportionate to its investments.

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<sup>206</sup> In the absence of legal protection a trade secret owner could not simply sell the information on an open market. In fact anyone who is capable of reproducing the information with little to no cost could easily destroy the monopoly. For further information on the subject see K. ARROW, *Economic Welfare and the Allocation of Resources for Invention*, in *The Rate and Direction of Inventive Activity: Economic and Social Factors*, Princeton University Press, 1962.

If their ability to acquire information and research it, to the point it can be commercially valuable, is limited by inefficient protection measures, then they will not be encouraged to continue and invest in an innovative activity.

An invention, at least in its initial stages, is nothing more than information and as such it should be granted protection at least until it is eligible to be patented.

Arguably, according to more aggressive markets, trade secrets should confer a form of exclusivity right, but this in other words would anticipate the rights obtainable through a patent and lead to a more troublesome question: why even bother patenting an invention if it is possible to obtain an equivalent protection through trade secrets.<sup>207</sup>

Moreover by anticipating the exclusivity right, in the event the patent application is denied, the applicant will have benefited from a right he could not have, thus delaying access to other operators and competitors.

The use of trade secret protection as a method to prevent free riding can be efficient so long as its rules determine a clear area where the protection and provisions contained within them are applicable.

Determining lawful ways of acquiring confidential information can then be considered a valid way of limiting the extent of the general protection offered and allow to keep competition on the market intact.

Trade secrets should then compliment and supplement the protection offered by other IPRs, like patents.

Trade secret law would then be able to provide a “plug” for any holes present within the patent system.<sup>208</sup>

An inventor should then be able to turn to secrecy where his invention does not qualify for a patent, or if patenting still represents a measure that is too costly, keeping in mind that patents should not be relegated to the background in the interest of both innovation and competition.

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<sup>207</sup> See Lemley argument starting on page 22 and *fn.* 48.

<sup>208</sup> Friedman et al. (1991), FRIEDMAN, DAVID D., LANDES, WILLIAM M. and POSNER, RICHARD A., *Some Economics of Trade Secret Law*, The Journal of Economic Perspectives, Vol. 5, No. 1, pp. 61 – 72.

The spread of knowledge is, in fact, an important variable for economic efficiency as it helps promote innovation across industries.

This is also why most economists acknowledge that the disclosure characteristic of patents is of fundamental importance to a well balanced and efficient market.

Although at first trade secrets may seem to build a wall that obstructs an idealistic “open source” knowledge, according to some “they are justified by the economic benefits that flow from their existence, most notably incentives for businesses to spend less money protecting secret information or attempting to appropriate secret information”.<sup>209</sup>

A strong argument made in favour of trade secret law and regulation is that it will enhance the marginal benefits of society (and subsequently reduce its costs) by decreasing the amount of money spent on protecting it and at the same time reduce the amount spent by those who try to uncover it.<sup>210</sup>

However by paying close attention to the Directive it is possible to understand how this might not be the case.

In particular the requirement for active protection might not be as cost beneficial as assumed in certain cases where necessary instruments to maintain confidentiality can be quite costly.

One can argue that the incentive to innovate is a minor justification for trade secret protection, but one nonetheless.<sup>211</sup>

Moreover the information protected by secrecy does not necessarily have to be innovative (for example client lists).

Patents, on the other hand, provide for a stronger incentive to innovate as they grant an exclusivity right to the inventor/patent owner.

The exclusivity is a direct consequence of the problem the invention solves, in other words it provides a public good, and as such the patent owner should be granted the

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<sup>209</sup> MICHAEL RISCH, Why Do We Have Trade Secrets?, in *Marquette Intellectual Property Law Review*, Vol.11, p.1, 2007.

<sup>210</sup> *Id.* page 26.

<sup>211</sup> For more information see ROBERT G. BONE, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 245 (1998).

opportunity to recoup his money without fear of competitors violation his right and as quickly as possible.<sup>212</sup>

In an innovative industry, where a product is of particular interest to the public good, an inventor may not have sufficient means to protect his creation by himself, it is then only fair that the legal system provide for an exclusivity right that grants him a strong level of protection for a limited amount of time in exchange for publicity of the creation.

Trade secret protection does not interfere with this system to the extent that it does not provide a means to protect information that the inventor is not able to keep confidential on his own in the first place.<sup>213</sup>

In a way then trade secret law would not be able to interfere with the pricing of a particular product on the market.

Paradoxically if trade secret law provides for a cheaper solution to protection it should reduce the price of products on the market.

Trade secrets protect information that is valuable to a business, in other words they strengthen the competitiveness of a company on the market.

However even if the information is a company's ace up its sleeve, other variables such as product quality and pricing affect competition.

Competitors, in fact, will have their own technological know how to make their own products more appealing to consumers.

Another factor that facilitate the advancement of innovation is worker mobility, which is strictly connected to trade secrets.

Scholars have shown that when a researcher's contribution to innovation is fundamental, a non compete clause may in fact reduce both effort and subsequently profits.

On one side having no clause binding the inventor to a specific employer allows the researcher to leave for a rival.

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<sup>212</sup> It is also important that the information be publicly known so to allow other inventors to study and provide for further innovation and technological progress.

<sup>213</sup> In the words of RISCH: *"If a company cannot keep its secrets confidential, trade secret protection will not add new abilities to keep the information secret."*

This in turn would force the firm to reward a successful researcher.

On the other side, if a firm has a particular interest in protecting its R&D having non compete agreements could be an efficient means to ensure the firm's incentives to invest.

Nonetheless a strong trade secret policy combined with incentives (such as bonuses for a successful research result) could enhance profits and inventive productivity of a firm.<sup>214</sup>

The economic theory, finally, analyses the correlation between trade secret protection and the maximisation of economic welfare.

Highly complex models were used to prove how hard it is to determine the optimal trade-off between protecting the returns of first investors and promoting the disclosure of inventions which effects could be twofold: on one hand improve the original invention and on the other diminish the possibility for the trade secret owner to recoup his original investment.<sup>215</sup>

The first model consists of an innovative stage and a duplication stage.<sup>216</sup>

In the innovative phase once the hypothetical innovator has decided the extent of his investment in research and development he must decide between trade secret protection, that carries a strong risk of disclosure, or applying for a patent, which has its limits.<sup>217</sup>

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<sup>214</sup> For a more in depth analysis of the theories illustrated see M. MOTTA and T. RONDE, *Trade Secret Laws, Labour Mobility and Innovations*, Centre for Economic Policy Research (CEPR), Discussion Paper No. 3615, 2002. Also see D. BERNHARDT and V. DVORACEK, *Preservation of Trade Secrets and Multinational Wage Premia*, *Economic Inquiry*, Vol. 47, Issue 4, p. 726, (2009), J. ZÁBOJNÍK, *A Theory of Trade Secrets in Firms*, *International Economic Review*, Vol. 43, No. 3, p. 831, (2002) and BOGLIACINO and Pianta, *Innovation and Employment. A Reinvestigation using Revised Pavitt Classes*, *Research Policy*, vol.39, issue 6, July 2010, p. 799.

<sup>215</sup> Study on Trade Secrets and Confidential Business Information in the Internal Market, April 2013, Chapter II, Economic Analysis of Trade Secrets and Confidential Business Information, Section 2, Economic Theory of Trade Secret Protection, Subsection 2.3. Trade secrets and models of economic welfare maximisation, page 89.

<sup>216</sup> *International Review of Law and Economics* 23 (2004) 365–380, The contract theory of patents V. DENICOLÒ, L. A. FRANZONI, Department of Economics, University of Bologna, Piazza Scaravilli 2, Bologna 40126, Italy.

<sup>217</sup> The main issues being the patents' chronological limit and its cost.

In the duplication stage a follower<sup>218</sup> must decide if it is worth investing in replicating the invention.

The model used assumes that strong patent rights are applicable and that patent life is crucial to the decision of which protection measure the innovator wants to turn to.<sup>219</sup>

The study then proceeds to compare the deadweight loss<sup>220</sup> under the conditions of monopoly (following a successful patent application) and the loss that derives from the duplication of the invention.

A successful replica of the invention causes the competition to vary by shifting the market from a monopoly to a duopoly.

This could then prevent market inefficiencies in situation where monopoly has rendered it stagnant or, on the contrary, create market inefficiencies by causing a disequilibrium in product prices.

An updated version of this model takes account for the possibility of knowledge spillovers.<sup>221</sup>

The trade-off this time is between the need to innovate and the interest to diffusion of the discovery: in other terms a strong exclusivity right would promote innovation by assuring an exclusivity right to the inventor allowing a legal monopoly on the market for a set amount of time.<sup>222</sup>

A weaker scheme of protection however could foster imitation and competition.

Again the authors compare the deadweight loss under monopoly and under a competitive structure, to then conclude that strong exclusivity rights are socially preferable where industry competition is very aggressive and research knowledge is jealousy guarded.

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<sup>218</sup> A follower is to be intended as a competing company that wishes to replicate the good on the market.

<sup>219</sup> The model does not account for weak patent protection as it would render the decision to apply trade secrecy more enticing, as the patent would be incapable to protect the return to innovation.

<sup>220</sup> A deadweight loss is a cost to society created by market inefficiency. Market inefficiency occurs when goods within the market are either overvalued or undervalued. While certain members of society may benefit from the imbalance, others suffer consequences in regards to their welfare. Source: <http://www.investopedia.com/terms/d/deadweightloss.asp>

<sup>221</sup> V. DENICOLÒ, L. A. FRANZONI, Weak Intellectual Property Rights, Research Spillovers, and the Incentive to Innovate, *American Law and Economics Review*, Vol. 14, No. 1, p. 111, 2012.

<sup>222</sup> In Italy it is 20 years for patents and 10 years for utility models.

In the absence of this dog-eat-dog scenario however trade secrets may be more socially optimal.

Another study published in 2011 concluded that a strong trade secret protection would also permit society to save on costs a new player may incur when entering the market.<sup>223</sup>

An example of optimal conditions for trade secrecy is a linear Cournot duopoly<sup>224</sup> where the secret part of technology is rather relevant in terms of production costs and the probability of duplication success is sufficiently elastic with respect to the expenses for duplication.

According to the results of the study such savings may be sufficient to more than compensate the relatively high expected present value of dead-weight losses associated with a low probability that the duplication attempt is successful.<sup>225</sup>

Earlier it was mentioned how trade secrets are often connected to patents.<sup>226</sup>

For example trade secrets could provide more in depth information, than what is necessary to obtain patent approval, such as the optimal conditions necessary to obtain the product or details that are necessary to create the correct storage facility or construction plant.

A patent has to contain an amount of information that is sufficient to allow a person skilled in the art to reproduce the product; in other word it has to contain information essential to the invention but not necessarily what pertains to the procedure it is part of (for example it does not need to indicate the size of machinery used).

Moreover there are elements that cannot be reproduced by a patent such as employee training and craftsmanship.

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<sup>223</sup> E. OTTOZ and F. CUGNO, Choosing the Scope of Trade Secret Law when Secrets Complement Patents, *International Review of Law and Economics*, Vol. 31, p. 219, 2011.

<sup>224</sup> It is a game model where each firm chooses its output independently and the market determines the price at which it is sold. See more at <https://www.economics.utoronto.ca/osborne/2x3/tutorial/COURNFRM.HTM>

<sup>225</sup> *Id.* paragraph 4 Conclusions.

<sup>226</sup> See paragraph 1 of this chapter page 106.

Trade secrets (and in this case to use more layman terms “know-how”) can then play an important role within patented inventions and provide for a competitive advantage.

This is extremely important if we take into account article 101(3) of the Treaty on the Functioning of the European Union (*infra* “TFEU”) and article 2 of the “Technology Transfer Regulation”.<sup>227</sup>

Adopting the definition contained in article 1(1)c of the Technology Transfer Regulation a technology transfer agreement is: “a technology rights licensing agreement entered into between two undertakings for the purpose of the production of contract products by the licensee and/or its sub-contractor(s)” or “an assignment of technology rights between two undertakings for the purpose of the production of contract products where part of the risk associated with the exploitation of the technology remains with the assignor”.

In accordance to TFEU 101 paragraph 3 any agreement or category of agreements between undertakings following a decision (or category of decisions) by associations of undertakings and any concerted practice (or category of concerted practices) that contributes to improving the production or distribution of goods or promotes technical or economic progress, while allowing consumers a fair share of the resulting benefit, shall not be considered incompatible with the internal market or to be the cause of violation and restriction of competition.

However these agreements must not impose on the undertakings any form of restrictions which are not indispensable to the attainment of the objectives set within paragraph 3 or afford such undertakings the possibility of eliminating competition.

Article 2 of the Tech-transfer Agreement, which deals with the correct application of article 101(3) TFEU, specifies that the restrictions set forth in article 101(1) TFEU do not apply to tech-transfer agreements.

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<sup>227</sup> Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.



Most importantly in its paragraphs 2 and 3 it determines that technology transfer agreements shall be exonerated so long as the agreements contain restriction that enter within the scope of article 101(1) TFEU.

The exemption shall also remain valid so long as “the licensed technology rights have not expired, lapsed or been declared invalid or, in the case of know-how, for as long as the know-how remains secret”.<sup>228</sup>

In case the know-how contained in the agreement becomes publicly known, due to the actions perpetrated by the licensee, the exemption shall apply for the duration of the agreement.

In other word the licensee shall continue paying royalties to the trade secret owner for the remainder of the agreement.

Taking all this into account an agreement on the restriction of use of trade secrets, which is valuable to the production of a good, that accompanies a patent licensing agreement, could then be used as a trojan horse to overcome the limit of five years set for market agreements between businesses, or even worse to set the basis to maintain a certain level of monopoly even once the patent expires or, finally, to over all exercise control on competitors or licensees.<sup>229</sup>

A stronger protection of trade secrets could then facilitate this kind of behaviour among competing companies, and if overused it could lead to a delay in innovations on the market.

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<sup>228</sup> Article 2(2) Commission Regulation (EU) No 316/2014.

<sup>229</sup> For this workaround to be efficient there has to of course be documentation of the agreement between parties to license the know-how. For example it could accompany the patent licensing agreement.

## 1.2. The applied economic models

Before proceeding a premise should be made: the economic models utilised by the study focus solely on the manufacturing industry.

This is due to the fact that trade secret theft is mainly associated to innovative and productive industries, although it does also occur in the finance sector and other non-manufacturing business sectors (albeit to a lesser extent).

The majority of data and information relating to trade secret theft, however, comes from the United States of America, in light of the fact that they have overtime payed more attention to the subject and are overall more open to revealing this kind of data.

This paragraph however wants to focus only on the European scenario.

Harabi in 1995, after analysing 10 different industry groups, found that secrecy was more effective in the chemical, electronic, food and in general private research sectors, when dealing with the protection of process methods.<sup>230</sup>

Four years later Brouwer and Kleinknecht researched the Community Innovation Survey (*infra* “CIS”) paying particular attention to the Netherlands.

Following the answers received from the questions asked in their survey, that dealt with the importance and efficiency of key business factors (such as lead time, secrecy, complexity of the product and so on), they reached a similar conclusion to Harabi.

In fact, the 1300 manufacturing firms questioned claimed that secrecy is, in many aspects, more important to them than patenting the final product.<sup>231</sup>

Some even claimed that is was important for protecting both the process and, most notably, the product.<sup>232</sup>

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<sup>230</sup> For further information see N. HARABI, *Appropriability of Technical Innovations An Empirical Analysis*, Research Policy, Vol. 24, Issue 6, pp. 981 - 992, 1995.

<sup>231</sup> See more in E. BROUWER and A. KLEINKNECHT, *Innovative Output, and a Firm's Propensity to Patent: An Exploration of CIS Micro Data*, Research Policy, Vol. 28, Issue 6, pp. 615-624, 1999.

<sup>232</sup> *Id.* page 617.

Another study conducted in Germany, always targeting manufacturing businesses, researched the alternative between patents and secrecy over the first few years of the new millennia.

Results, again, show that firms prefer patents for product innovation, that are at risk of being re-engineered, and that they turn to secrecy for protection of process innovation.

An interesting aspect of this study is that it shows that firms turn to a mixture of protections to cover the different stages of an innovation, with the risk that this entails for the correct function of the market.<sup>233</sup>

Overall the results show that in Germany patents are more important for innovations contained within the final product, and that secrecy is essential when the inventions are still not commercialised.<sup>234</sup>

In the following years more studies were conducted, but a “new” trend started to seep through: in the countries that were questioned a higher percentage, while still considering trade secrecy extremely important, showed that the importance of trade secrets decreased as the size of the firm questioned increased.<sup>235</sup>

This could be seen as an indicator that a firm with a stronger cash flows is more able to face patent costs and litigation, and would rather not gamble with the risk of their secret becoming public.

It would then seem that SMEs have a greater interest in efficient trade secrecy policies.<sup>236</sup>

A key factor in the decision of SMEs to prefer informal protection methods (*i.e.* contracts, HR management and secrecy) is the size of the firm and its business type.<sup>237</sup>

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<sup>233</sup> See pages 113-114.

<sup>234</sup> See K. HUSSINGER, *Is Silence Golden? Patents versus Secrecy at the Firm Level*, Economics of Innovation and New Technology, Vol. 15, No. 8, pp. 735 – 752, 2006.

<sup>235</sup> More details in A. ARUNDEL, *The relative Effectiveness of Patents and Secrecy for Appropriation*, Research Policy, Vol. 30, Issue 4, pp. 611 – 624, 2001.

<sup>236</sup> European Commission, Study on Trade Secrets and Confidential Business Information in the Internal Market (2013), starting on page 103.

<sup>237</sup> See A. LEIPONEN and J. BYMA, *If you cannot block, you better run: Small firms, cooperative innovation, and appropriation strategies*, Research Policy, Vol. 38, Issue 9, pp. 1478 – 1488, 2009.

Patent enforcement costs and disclosure requirements are also other elements to take into consideration when asking why SMEs seem to prefer secrecy.

Trade secret protection is then an important instrument to recoup the investments made in new products.

## CHAPTER 2

### 2. A Focus on Reverse Engineering

To better comprehend the impact of the Directive both in Europe and particularly in Italy, it is important to understand the role reverse engineering plays in the competition between manufacturing industries and businesses of the same sectors.

Starting with the finished product, reverse engineering is the activity through which someone disassembles and traces the construction steps backwards (*i.e.* from the end good to its single components) to find out the technical principles behind the inventive product.

On a strictly economic basis, the effects of reverse engineering depend on certain variables that include the purpose for which reverse engineering is undertaken, the industrial context within which such acts occur, the costs and time required to engage in reverse engineering, the amount of lead-time the innovator has before competitive entry occurs, whether second comers decide to reverse engineer or to license the innovation, and what the reverse engineer does with the information discerned in the reverse engineering process.<sup>238</sup>

The first purpose that comes to mind for investing in reverse engineering is to create an equivalent or better product than the one offered on the market by the competitor whose product is being put under the microscope.

However reverse engineering is just one piece of a more intricate puzzle to acquiring the information contained within an innovative product.

The first stage is awareness, in other words when a firm recognises that the competitor's product it wants to replicate has an innovative and economical value.

Then comes the actual reverse engineering stage which can be very costly and time consuming.

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<sup>238</sup> SAMUELSON and SCOTCHMER, *The Law and Economics of Reverse Engineering*, 111 Yale Law Review, 1575,1577 (2002).

The difficulty of reverse engineering however does not come close to the difficulty and expense of developing the secret in the first place.<sup>239</sup>

After acquiring the information, the second comer must put the information acquired to use and create his own copy, or a better version of the competitors product.

This step represents the implementation stage.

Further costs during this phase may incur such as: prototype testing, adapting the manufacturing facilities, preparing a new design and in some cases even having to repeat the reverse engineering steps to see if anything had been looked over the first time around.

The final stage is the introduction of the “new” product on the market.

At this point it is up to the market to determine how quickly this product will erode the innovator’s share.

However it should be mentioned that the innovator may not suffer great damages if his product has a strong brand name and is already known for its good quality.

To determine the economic impact of reverse engineering, then, these four factors should be kept in mind: the effects of reverse engineering on incentives to innovate, its effects on prices, its potential for creating incentives to invest in improved products, and its potential for duplicated or other socially wasteful expenditures of resources.<sup>240</sup>

There are some beneficial aspects to reverse engineering like creating competition, which could lead to lower prices and inspire second comers to introduce new innovations.

However there is another variable that has to be accounted for and that is the opportunity to license technological know-how to second comers as a way to avoid excessive costs and at the same time promote innovation.

The decision to license could be in the best interest of the innovator and could provide some protection against the threat of reverse engineering.

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<sup>239</sup> If this were the case then reverse engineering would be a very inefficient tool.

<sup>240</sup> *Id.* fn. 230.

By allowing a controlled entry of second comers into the market, an innovator could reduce the erosion of his market share.

Licensing could then allow the innovator to recover costs and would stop the second comer from selling his product on the market at an excessively competitive price that could put the innovator in a very difficult situation and create market inefficiencies.<sup>241</sup>

Licensing could then favour knowledge-sharing and market outcomes without incurring in the same costs as reverse engineering.

Some jurisdictions, however, like the US, have a long history of accepting reverse engineering as a legitimate method of acquiring information, others, like Germany and Italy<sup>242</sup> consider reverse engineering of a complex product as unfair competition, especially if the product is covered by a patent.

A valid question now could be: why turn to reverse engineering for reasons beyond mere curiosity?

There could be three main scenarios; the first is that of the “innovative analyst” who uses reverse engineering as a learning tool to create new innovative products, when he has no other means of acquiring the necessary information.

The second is that of the “copycat analyst” who, as the name suggests, is a competitor solely interested in reproducing the same product so to cut out his own piece of market share.

Finally we find the “right-owner analyst” who is the owner of an IPR that disassembles a competitors product to gather evidence of violation of his proprietary rights.<sup>243</sup>

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<sup>241</sup> See J.H. REICHMAN, *Legal Hybrids Between the Patent and Copyright Paradigms*, 94 Colum. L. Rev. 2441, 1994. and See also by the same author, *Of Green Tulips and Legal Kudzu: Repackaging Rights in Subpatentable Innovation*, 53 Vand. L. Rev. 1743 (2000).

<sup>242</sup> See Section IV for reverse engineering in Italy.

<sup>243</sup> A. OHLY, *Reverse Engineering: Unfair Competition or Catalyst for Innovation?*, in *Patents And Technological Progress In A Globalized World: Liber Amicorum*, Joseph Straus, ed., page 537, Berlin, Springer, 2009.

When looking at these three possibilities a common element stands out: each “analyst” is trying to uncover information that a business owner spent money, time and resources to try and keep away from competitors.

It is in fact in the best interest of a business to protect its own internal sphere, and trade secrecy is key to obtaining just that.

Innovation, not unlike Rome, is not built in a day.

Businesses need to build areas to research, test and develop their ideas, and trial and error comes with the job description.

Large amounts of money are invested in the next big thing to put on the market, and close monitoring by competitors could hinder the innovative process from even beginning.

If we take into account how risky the period of time leading up to a patent being granted is for an innovator, trade secrecy seems to become more and more an important instrument and shield for the original investment made.

Turning back to reverse engineering, it should be noted that it differs substantially from traditional trade secret theft.

A private person who buys a product on the market is not under the same duty of confidence that an employee is subject to, so if said person were able to disassemble and recover confidential information he would not be in breach of any confidentiality agreement.

He also is not comparable to an industrial spy who physically breaks into a competitors’ premises to acquire confidential information.<sup>244</sup>

In a way then reverse engineering constitutes a violation of trade secret law if acquiring information by “breaking into a product”<sup>245</sup> can be considered the same as breaking into a competitors’ factory.

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<sup>244</sup> Social Engineering is an example of methods used by industrial spies to acquire trade secrets for their clients.

<sup>245</sup> R. C. DREYFUSS and R. R. KWALL, *Intellectual Property*, 818 (1996) in A. OHLY, *Reverse Engineering: Unfair Competition or Catalyst for Innovation?*, in *Patents And Technological Progress In A Globalized World: Liber Amicorum*, Joseph Straus, 2009.



On a strictly economic basis one could claim that there are circumstances that cover the original innovator without the need of a strict trade secret law, to the extent that reverse engineering is both extremely expensive and time consuming for a second comer.

However there are other circumstances in which it is convenient as it saves the imitator the expenses of research and development.

It could then be economically sound for the law to restrict a market-destructive behaviour for an amount of time that is sufficient to allow the original innovator to recoup his R&D costs.<sup>246</sup>

So where reverse engineering is used as a means to promote development and innovate products, a ban on it could be detrimental to innovation.

It is then a matter of distinguishing “good” and “evil” reverse engineering.

The European rule, up until the Directive’s implementation, and relating to software copyrights, is that decompilation is valid if it necessary to determine interoperability between software.

However a purpose base rule has the disadvantage of being legally uncertain.

In conclusion, then, a rule against reverse engineering of manufactured products would indirectly give firms an exclusivity right for non-patented innovations by not allowing access to the know-how contained within the product.<sup>247</sup>

Nonetheless a right to reverse engineer has a salutary effect on price, competition and on the dissemination of know-how that can lead to new and improved products.<sup>248</sup>

It is of great importance then that article 3(b) of the Directive officially recognises the validity of reverse engineering, within the EU, as a lawful way of obtaining trade secrets.

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<sup>246</sup> SAMUELSON and SCOTCHMER, *The Law and Economics of Reverse Engineering*, 111 Yale Law Review, 1594 (2002).

<sup>247</sup> D. FRIEDMAN, W. M. LANDES, & R. A. POSNER, *Some Economics of Trade Secret Law*, 5 J. Econ. Persp. 61, 71 (1991)

<sup>248</sup> See *fn.* 243.

Most notably the same article establishes that he who reverse engineers a product which is lawfully in his possession is not bound by any duty to limit the acquisition of his discovery.

If used correctly then reverse engineering has the potential of being a powerful accelerator for innovation.

## SECTION IV

### IMPACT OF DIRECTIVE (EU) 2016/943 ON THE ITALIAN LEGAL FRAMEWORK FOR THE PROTECTION OF TRADE SECRETS

SUMMARY: 1. From Know-how to Trade Secret 2. Unlawful acquisition in Italian case law - 3. Trade secrets and Employee Loyalty - 3.1. The Obligation of Loyalty - 3.2. Poaching Employees - 3.3. How Directive 2016/943 impacts the employer-employee relationship - 3.4. The worker's right of defence and trade secrets 4. Procedural Law - 4.1. Judicial Description and Seizure - 4.2. (*Follows*) Focus on the Description Procedure - 4.3. Compensation for damages and restitution of profits - 4.4. Publication of the judgment.

## CHAPTER 1

### 1. From Know-how to Trade Secret

A common term used in Italy to identify trade secrets is *know-how*, and it tends to include all technical information, be it empirical or experimental, necessary for the production of a good or to perfect a manufacturing process.

It also covers more personal details, such as modifications requested by customers, advertising strategies and client lists (*i.e.* all the information necessary for placing the product on the market), but also financial, organisational strategies and operating procedures that allow a business to sell a product at a competitive price.

The first encounter in Italy with this terminology is provided by European Regulations such as Reg. (EEC) No. 19/65<sup>249</sup> and Reg. (EEC) No. 2821/71<sup>250</sup> which

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<sup>249</sup> Regulation No 19/65/EEC of 2 March of the Council on application of Article 85(3) of the Treaty to certain categories of agreements and concerted practices.

<sup>250</sup> Regulation (EEC) No 2821/71 of the Council of 20 December 1971 on application of Article 85(3) of the Treaty to categories of agreements, decisions and concerted practices.

both allow the European Commission to adopt exemptions for agreements that limit competition and have as an object the licensing of what can be summarised as technical know-how (*i.e.* trade secrets).<sup>251</sup>

Taking from these regulations the Italian legal doctrine subsequently tried to construct a clearer definition of know-how distinguishing, on the one hand, between broad and limited, and on the other, between industrial and commercial.<sup>252</sup>

Know-how was dealt with for the first time by the Italian Supreme Court in a case regarding the possibility to integrate it in the company's budget.<sup>253</sup>

In the decision the Court of Cassation determined that know-how should have the following characteristics:

- (i) its object consists in intangible goods (that could eventually be transferred through material supports such as reproductions or electronic documents); and
- (ii) the information has to be secret (or at least confidential), that is to say not immediately accessible by the public.

To sum up, the court established that know how, in whatever way it is acquired, consists in “a complex system of knowledge and market and technological experience acquired by others on a subject, destined to remain secret, and acquired upon valuable consideration.”<sup>254</sup>

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<sup>251</sup> See Article 1,1(b) Reg. (EEC) No. 19/65: “[...] the rights arising out of contracts for assignment of, or the right to use, a method of manufacture or knowledge relating to the use or to the application of industrial processes.” And Article 1,1(b) Reg. (EEC) 2821/71: “[...] the research and development of products or processes up to the stage of industrial application, and exploitation of the results, including provisions regarding industrial property rights and confidential technical knowledge.”

<sup>252</sup> A broad know-how, as defined by F. GALGANO in, *I contratti di know how*, in Aa. Vv., *I contratti del commercio, dell'industria e del mercato finanziario*, Torino, 1995, p. 1121 ss. “[...] any form of knowledge or experience, not necessarily secret, concerning a particular commercial or industrial sector, that is capable of providing technical improvements to production or distribution, that, although patentable, is used by the entrepreneur without a patent.” Limited know how, instead, consists in knowledge and experience characterised by novelty and secrecy, independently from the fact that they can be patented or not (see P. PITTER, *Know how e contratto di know how*, in Riv. dir. civ., 1983, II, page 35).

Moving onto industrial know how, it consists in technical knowledge applicable to production methods, whereas commercial know how relates to all the information that deals with the good management of the company.

<sup>253</sup> Corte Cass. Civile, sezione I, 27 febbraio 1985, n. 1699. It was determined that know-how could be inserted in the budget under the voice “intangible investments”.

<sup>254</sup> Corte Cass. Civile, sezione I, 27 febbraio 1985, n. 1699, in *Foro it.*, 1985, I, c. 2661.

Almost a decade later, the Supreme Court, taking into account what the legal literature of the time wrote on know-how, claiming how it should include commercial knowledge as it is also intangible, determined that “the knowledge in question enters into the realm of industrial technology and is necessary for the production of a good, to actualise a production process or for the correct use of the technology; moreover, [it includes] the rules of conduct that, in the field of mercantile technology, are based on the experience and study of business management, paying particular attention to organisation and the strictly commercial sector.”<sup>255</sup>

Confirming the previous orientation of the Court, information that could be considered know-how is that which is new or secret and does not necessarily have to be patented or patentable.

Acquired knowledge is new when it brings a technical and/or competitive advantage to the beholder; it is secret if it is not publicly known, that is to say it cannot be acquired by a third party without the will and consent of the beholder or independent discovery.<sup>256</sup>

The importance of secrecy (and novelty) as a prerequisite is also made clear by the fact that it is an essential element of a contract which has know-how as an object.

In fact if during the execution of the contract the information were to become public, the contract would suddenly lack its economical justification, meaning that the contract would be null and void due to lack of cause (*i.e.* the exchange of technological information for a price).

Moving on, the decision made by the Court of Cassation in 1992 listed a further qualification information has to have to enter into the scope of know-how.

In fact, if the previous requirements are met (*i.e.* a new or secret intangible good), know-how is susceptible to an economic evaluation, thus it must be considered an

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<sup>255</sup> Corte Cass. civile, Sez. I, 20 gennaio 1992, n. 659, in *Giur. it.*, 1992, I, p. 1021.

<sup>256</sup> M. MONTANARI, *Contratti di cessione e di uso di know how e concorrenza sleale*, in *Contratte e Impresa*, 2007, n. 4-5.

intangible good, that is not included among the ones already governed by the legal system, and its ownership must be protected from enrichment without a just cause.

Moreover, know how can be considered an economically valuable good that can be transferred so long as the agreement does not conflict with the law, public policy or principles of morality.<sup>257</sup>

So prior to the TRIPs agreement the Italian Court of Cassation adopted a broad definition of know-how which includes knowledge, experience, minor improvements, that cannot be patented, and inventions that the creator does not want to patent.

With the introduction of the TRIPs Agreement, which was ratified in 1995, Italy adopted the international definition, which is still used today, that requires information to not be generally known by people who are part of the same circle, its secrecy gives it an economic value and most notably the information owner has to have adopted efficient security measures.

Before the first draft of the Italian Industrial Property Code, law No. 129, 6 May 2004, which set out a series of rules for franchising, gave a definition of know-how coherent with what was expressed in the aforementioned European Regulations and decisions made by the Court of Cassation.

In its article 1 it states that know-how is “a body of non-patented practical knowledge that comes from experience or tests carried out by the franchisor, a body which is secret, substantial and identified.”<sup>258</sup>

Finally in 2005, as analysed in section I, articles 98 and 99 IPC finally introduce a specific rule that deals with trade secrets and takes directly from article 39 TRIPs.

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<sup>257</sup> It should be noted that already article 1,7(1), Reg. (EEC) 556/89 already defined know how as “a body of technical information that is secret, substantial and identified in any appropriate form.”

<sup>258</sup> Article 1,3(a) Law No. 129, 6 May 2004, “*per know-how, un patrimonio di conoscenze pratiche non brevettate derivanti da esperienze e da prove eseguite dall'affiliante, patrimonio che è segreto, sostanziale ed individuato; per segreto, che il know-how, considerato come complesso di nozioni o nella precisa configurazione e composizione dei suoi elementi, non è generalmente noto né facilmente accessibile; per sostanziale, che il know-how comprende conoscenze indispensabili all'affiliato per l'uso, per la vendita, la rivendita, la gestione o l'organizzazione dei beni o servizi contrattuali; per individuato, che il know-how deve essere descritto in modo sufficientemente esauriente, tale da consentire di verificare se risponde ai criteri di segretezza e di sostanzialità.*”

A specification should be made at this point, on the subject of the definition of trade secrets in Italian law.

The Italian IPC gives a different translation of the first requisite (*i.e.* “it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question”) than the one provided for Directive (EU) 2016/943.

In fact, the IPC talks about a “person skilled in the art” whereas the Directive, in its Italian translation mentions, a “persons within the circles”.

One could be led to think that this difference in terminology might indicate that the provision in the Italian IPC is stricter than that indicated by the Directive and that in turn it provides a harder requisite for information to be considered a trade secret. However it should be noted that the IPC, when it was written, probably preferred to use a terminology more suitable and common among patent litigators and attorneys, in other words more customary in the field of patents, and that the Italian translation of the Directive was meant to be a literally transposition of both Directive (EU) 2016/943 and article 39 TRIPs on which the Directive’s definition of trade secret is based.

In conclusion the use of the expression “know-how” as of now, and in lieu of the uniformity the Directive seeks to obtain, is outdated.

The Directive itself in the title already indicates how know-how and confidential information should be placed under the bigger scope of trade secrets.<sup>259</sup>

Moreover it would be advisable that when preparing a confidentiality agreement, instead of using the term “confidentiality undertaking” the agreement should read “trade secret undertaking” as a means to have a more clear and direct connection to Directive (EU) 2016/943 and the protection it offers.

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<sup>259</sup> Directive “on the protection of undisclosed know-how and business information (*trade secrets*) against their unlawful acquisition, use and disclosure.”

On a final note, when comparing article 98 IPC and article 2,1(c) of the Directive regarding the third requisite for security measures in order to benefit from trade secret protection, there is an inconsistency in terminology between the two rules.

This is important as when dealing with trade secret matters the condition for adequate security measure is essential on a practical level in determining if the case itself has any validity and if it is worth proceeding on with the litigation.

The Italian Industrial Property Code requires that the security measures be “adequate”, whereas the Directive, both in English and in its official Italian translation, requires these measure to be “reasonable under the circumstances”.

For example a facility that can be accessed through a Keycard given only to authorised personnel could be seen as a “reasonable measure under the circumstances” to protect confidential information stored within the company.

However by itself it becomes completely inadequate if the authorised employee were able and allowed to store the documents on a USB key, and freely leave the facility with no check beyond the swipe of a magnetic badge.

Focusing solely on the terminology it would then seem that the expression used in Italy is *prima facie* stricter than what is illustrated in article 2,1(c) of the Directive.

The term “adequate” in fact does not only imply that the security measures be verified under the circumstances but also that the measures be efficient and not simply reasonable.

Focusing on the language used by the rule set forth in the Directive it is important to underline how it is word by word the copy of what was previously established by article 39 TRIPs, and that at the time, the Italian translation of the Agreement preferred to use the expression “*siano state sottoposte [...] a misure adeguate nel caso in questione*”, whereas the translation of the Directive uses the wording “*sottoposta a misure ragionevoli, secondo le circostanze*”.<sup>260</sup>

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<sup>260</sup> Article 39,2(c) TRIPs in English “has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.” In its Italian translation: “siano state sottoposte, da parte della persona al cui legittimo controllo sono soggette, a misure adeguate nel caso in questione intesa a mantenerle segrete.”



A doubt then comes to mind: why the different translation of the same requisite, thus leading to an inconsistency with the TRIPs Agreements?

The Directive does not go in depth on the matter and it should then be considered that as it takes much from the TRIPS agreement the Italian translation should be interpreted as adequate and efficient in no way implying a weakening of the requisite, thus remaining in line with the language used both by article 98 IPC and the Italian translation of the Trips Agreement.

## CHAPTER 2

### 2. Unlawful acquisition in Italy

First and foremost it is important to underline how the Italian IPC lacks a definition of what behaviour constitutes lawful or unlawful acquisition, leaving the matter up to the principles of fair commercial practices, unfair competition and the decisions provided by case law.

It is then already clear how articles 3 and 4 of the Directive contain novelty elements for the Italian legal framework.<sup>261</sup>

The major introduction on the lawful (or unlawful) acquisition, use and disclosure of trade secrets brought forth by the Directive, is that it sets in stone how independent discovery (or creation)<sup>262</sup>, and reverse engineering, are both valid means of discovery.

According to Italian case law there is a situation of “independent discovery” when, even in circumstances where there are only slight variations, the differences between two products are sufficient enough to allow the “informed user”<sup>263</sup> to distinguish them and exclude that one copied the other.

Moreover in a case regarding the infringement of a non-registered model, the court of Turin established that there is certainly an infringement when, in lieu of the

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<sup>261</sup> See Section 2, Chapter 2 starting on page 70.

<sup>262</sup> Article 3,1(a) Directive 2016/943.

<sup>263</sup> A clear definition of “informed user” under EU case law is provided by paragraph 53 of the Judgment Of The Court (Fourth Chamber), 20 October 2011, Case C-281/10 P, PepsiCo, Inc. “Regulation No 6/2002 does not define the concept of the ‘informed user’. However, as the Advocate General correctly observed in points 43 and 44 of his Opinion, that concept must be understood as lying somewhere between that of the average consumer, applicable in trade mark matters, who need not have any specific knowledge and who, as a rule, makes no direct comparison between the trade marks in conflict, and the sectoral expert, who is an expert with detailed technical expertise. Thus, the concept of the informed user may be understood as referring, not to a user of average attention, but to a particularly observant one, either because of his personal experience or his extensive knowledge of the sector in question.” And paragraph 59, of the same case, clarifies the level of attention the informed user must have by stating that: “[...] the qualifier ‘informed’ suggests that, without being a designer or a technical expert, the user knows the various designs which exist in the sector concerned, possesses a certain degree of knowledge with regard to the features which those designs normally include, and, as a result of his interest in the products concerned, shows a relatively high degree of attention when he uses them.”

publicity campaign held by the original model designer, it is impossible to think that the second comer could have come up with the same product independently.<sup>264</sup>

The Court of Venice reached the same conclusions regarding the infringement of a community design.

In accordance with article 19,2 of “Council Regulation(EC) No 6/2002 of 12 December 2001 on Community designs” the Court established that there is a violation when the slavish imitation itself makes it highly unlikely that the allegedly copied product is the result of independent discovery.<sup>265</sup>

Article 19 Regulation No. 6/2002, then, distinguishes between protection granted to a registered community design (paragraph 1)<sup>266</sup> and a non-registered community design (paragraph 2).<sup>267</sup>

Paragraph 2 is of particular relevance as it establishes that the contested use “shall not be deemed to result from copying the protected design if it results from an independent work of creation by a designer who may be reasonably thought not to be familiar with the design made available to the public by the holder”.

This means that while for registered designs protection is granted against any form of use of the product by others; non-registered designs are protected only in circumstances where the infringer is aware that he is copying a product, thus excluding the independent creator.<sup>268</sup>

Another example for clarification could be made with reference to the textile industry.

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<sup>264</sup> Tribunale Torino 27 August 2012, Blue White Group S.r.l. V. Binda Italia S.r.l., and Stroili Oro S.p.a. Available at, *Le sezioni specializzate italiane della proprietà industriale e intellettuale* 2012, 1, 590.

<sup>265</sup> Tribunale Venezia, 29 November 2012, Zancan S.p.a. V. Arcadia S.r.l. Available in, *Le sezioni specializzate italiane della proprietà industriale e intellettuale* 2012, 1, 628.

<sup>266</sup> Article 19,1 Reg. 6/2002: “A registered Community design shall confer on its holder the exclusive right to use it and to prevent any third party not having his consent from using it.”

<sup>267</sup> Article 19,2 Reg. 6/2002: “An unregistered Community design shall, however, confer on its holder the right to prevent the acts referred to in paragraph 1 only if the contested use results from copying the protected design.”

<sup>268</sup> Tribunale Venezia Sez. Proprietà Industriale e Intellettuale, 29 July 2004, Veneroso s.n.c. V. Campanella S.r.l. in Sez. Spec. P.I. 2004, 2-3, 534. Also Tribunale Venezia, Sez. Proprietà Industriale e Intellettuale, 09/06/2006: “[...]a product] cannot be considered a copy if the product is the result of independent creation by an author who one can reasonably assume was not aware of the product placed on the market by the original creator.”

Company “A” buys its curcuma, to obtain the colour yellow for its materials through natural means, in a small village in Thailand, that is not well known, at half the price its competitors have to pay from other suppliers.

This type of information is eligible to be considered a trade secret as it provides a competitive advantage and is then also susceptible of economic evaluation.

Company “A” is then entitled to protect this know-how, that gives it a competitive advantage for yellow materials: it cannot however stop another company “B” from independently discovering the same village and buying curcuma from there as well at a good price.

In this manner fair competition and the proper functioning of the market are not put in danger.

The other big introduction in the Directive is the lawfulness of reverse engineering as an instrument for retrieving information from a product.

The Directive establishes a prerequisite for it to be valid: the product has to be free from any legally valid duty to limit the acquisition of the trade secret.<sup>269</sup>

In other words a product can only be reversed engineered if there are not any restriction to this practice that impede the interested party from proceeding with the research on the products.

Limitations to this kind of activity could come from contract clauses that exclude a party from reverse engineering, this is the case in particular with software.

Before the introduction of the IPC, in Italy, both case law and legal doctrine seemed to agree that reverse engineering, under certain conditions (mainly not infringing a preexistent exclusivity right) is a valid method of discovery.

The original version of article 99 IPC, in 2005, however, left some doubts regarding the licitness of this activity.

In fact before the specification that the information had to have been used, acquired or disclosed in “an abusive manner”<sup>270</sup>, it seemed that the IPC offered an *erga omnes*

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<sup>269</sup> Article 3,1(b) Directive 2016/943.

<sup>270</sup> Articolo 99 CPI “[...] in modo abusivo.”

protection to information that apparently did not need to meet any prerequisites to justify its protection.<sup>271</sup>

This supposedly meant that reverse engineering *tout court* was to be considered as a method of unlawful acquisition.

However the illicitness of reverse engineering was not a clear cut conclusion.

Although the introduction of the industrial property code tried to bring some clarity on trade secrets and seemed to exclude reverse engineering all together, Italian Courts still identified, after the Code's introduction, a series of circumstances that allowed for reverse engineering, in line with the case law and legal doctrine prior to the original draft of article 99 ICP.

For example the Court of Milan, in May 2009, on a case that dealt with the design of a valve, determined that there is not an infringement of trade secrets when it can be easily reproduced through reverse engineering.

The simplicity of reproduction is sufficient enough to determine that a product's structure is readily accessible to a competitor who is skilled in the art.<sup>272</sup>

Various attempts nonetheless were made by the legal doctrine to try and mitigate the unjustified (apparent) exclusivity offered to secrecy.<sup>273</sup>

For a conduct to constitute an infringement of trade secrets, according to the 2005 ICP, the simple acquisition or use of the information would be sufficient.

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<sup>271</sup> V. DI CATALDO, *I brevetti per invenzione e per modello di utilità. I disegni e modelli. Artt. 2584-2594*, in *Il Codice Civile: Commentario*, 2012, Giuffrè, articolo 2584, page 90.

<sup>272</sup> Tribunale Milano Sez. Proprietà Industriale e Intellettuale, 28 May 2009, R.P.E. S.r.l. V. comm. Adriatica S.r.l., in *Sez. Spec. P.I.* 2010, 1, 158.

<sup>273</sup> M. FRANZOSI and M. SCUFFI, *Diritto Industriale Italiano, Tomo I: Diritto Sostanziale*, 2014, CEDAM.

There would also be no need that the infringer reveal if the acquisition was perpetrated with illicit means or in a manner contrary to professional correctness.<sup>274</sup>

According to this reconstruction, then, whoever reverse engineers a product on the market commits an illicit act independent from his good or bad intentions.

Moreover the third party, who obtained the information, would be held liable without regard to the fact that he did not know or could not know, due to his grave negligence, that the information was acquired illicitly.<sup>275</sup>

The owner of a trade secret could then impede whomever he desired from acquiring, using or divulging the information.<sup>276</sup>

This would theoretically occur independent from a current or prior collaboration with the person involved.<sup>277</sup>

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<sup>274</sup> V. DI CATALDO, *Il nuovo codice della proprietà industriale*, in *Giurisprudenza Commentata*, 2005, 574, where he claims that prior to the introduction of the code in 2005, article 6-bis of the invention law specified that for protection to be granted, the infringement had to be contrary to professional correctness. With the original text of article 99 IPC, that did not mention the “abusive manner” but only unfair competition (i.e. “Salva la disciplina della concorrenza sleale, è vietato rivelare a terzi oppure acquisire od utilizzare le informazioni e le esperienze aziendali di cui all’articolo 98”), the conditions by article 6-bis is suppressed, the acquisition of trade secrets is then prohibited to third parties independently from their method of acquisition, be it lawful or unlawful. See also Trib. Bologna 4 luglio 2008: “l’eliminazione nella nuova formulazione contenuta negli artt. 98 e 99 c.p.i. (rispetto al precedente art. 6 bis l.i.-abrogato) dell’inciso “in modo contrario alla correttezza professionale” consente di ritenere che il codice abbia attribuito tutela assoluta e reale alle informazioni che presentino i caratteri dell’art. 98 c.p.i. [...] nel caso in cui manchino i requisiti di protezione previsti dall’art. 98 c.p.i. potrà farsi luogo all’applicazione della disciplina in materia di concorrenza sleale [...] La semplice condotta di volontaria acquisizione, attesa la realtà della tutela, integra la fattispecie di cui all’art. 99 c.p.i.” Also Trib. Bologna 21 ottobre 2010: “Nell’art. 6 bis l.i. veniva normativamente configurata una ipotesi speciale di concorrenza sleale. L’abolizione dell’inciso “in modo contrario alla correttezza professionale” consentiva di ritenere — fino all’entrata in vigore del D.Lgs 131/2010 — che si fosse in presenza di una nuova privativa (non titolata) alla quale veniva riconosciuta tutela assoluta e non personale, nel caso sussistessero tutti i presupposti e i requisiti previsti dagli artt. 98 e 99 c.p.i.... La creazione di un autonomo diritto di proprietà industriale non titolata assicurava dunque una tutela erga omnes al suo titolare.... L’impostazione recentemente adottata dal Legislatore fa emergere la perdita, nel regime di tutela del segreto, della natura assoluta, sicché lo stesso, pur potendo (astrattamente) prescindere dal rapporto concorrenziale [...] richiede in capo all’autore della condotta la violazione dei principi di correttezza professionale, così costituendo un regime di tutela relativo e non più assoluto.... L’art. 2598, n. 3, c.c. resta applicabile agli atti di acquisto, divulgazione e utilizzazione di segreti commerciali e di know how per i quali, non sussistendo tutti i requisiti di cui agli artt. 98 e 99 c.p.i., ricorrano tutti i presupposti soggettivi ed oggettivi prescritti per l’azione di concorrenza sleale”.

<sup>275</sup> V. FALCE, *Profili pro-concorrenziali dell’istituto brevettuale*, in B. LIBONATI, P. FERRERO-LUZZI, *Quaderni romani di diritto commerciale*, Saggio 14, 2008, Giuffrè,

<sup>276</sup> G. GHIDINI, V. FALCE, *Upgrading trade secrets as IPRs: a recent break through in Italian Ip Law*, in *Il Diritto di Autore*, No. 2, Aprile-Giugno 2008.

<sup>277</sup> Theoretically, because the protection offered to third parties that are not bound by a past or current contractual relationship with the trade secret owner, requires the adoption of security measures that impede collaborators from discovering confidential information. In other words it presupposes a protection *intra muros*. For further detail see V. FALCE (2008), *op. cit.*, page 170, and G. GHIDINI, V. FALCE, *op. cit.*, 2008.

However by inserting the specification “abusive manner” Legislative Decree No. 131/2010 seems to have reintroduced, at least in principle, the validity of reverse engineering.

The Court of Appeals of Turin established that to obtain protection under article 6-*bis* l.i. (which is now article 98 IPC), both conditions of secrecy and adequate security measures have to be met.<sup>278</sup>

In the case at hand, specifically, information concerning production methods that can be accessible through reverse engineering to a technician skilled in the field, cannot be protected.<sup>279</sup>

Protection is then denied only if the knowledge is “generally known” or “easily accessible to a person skilled in the art” be it an expert or other person who works in the field.

Accordingly, the condition under which a trade secret can only be protected if adequate security measures have been adopted by the beholder, is not met, if withstanding the adopted safety precautions, the information is “easily” accessible and not just accessible *tout court*.

By “easily accessible” one should intend that its discovery does not imply particular difficulties for a person skilled in the field.

In other words information is secret if its discovery requires a skilled person to invest a much greater amount of time, finances (and other factors) than what would be normally necessary for him.<sup>280</sup>

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<sup>278</sup> For a correct application of article 6-bis Invention Law see also Tribunale di Milano, 2 February 2000, in V. FALCE, *Profili pro-concorrenziali dell'istituto brevettuale*, in B. LIBONATI, P. FERRERO-LUZZI, Quaderni romani di diritto commerciale, Saggio 14, 2008, Giuffrè, page 170. In this decision the judging authority list the elements necessary to determine if an act of unfair competition took place, including the lack of a long and costly research that could justify the independent discovery of the same information. See also L. MANSANI, *La nozione di segreto di cui all'art. 6-bis l.i.*, in *Il Diritto Industriale*, 2002, 217, 218, and P. MARCHETTI, L. C. UBERTAZZI, *Commentario breve alle leggi su Proprietà Intellettuale e Concorrenza*, 2007, 506.

<sup>279</sup> Corte appello Torino, 28 January 2010, Bovone Diamond Tools s.r.l., Elettromeccanica Bovone s.r.l. e CO.ME.BO. s.r.l. V. Belfortglass s.r.l., in *Giur. annotata dir. ind.* 2010, 1, 368.

<sup>280</sup> *Giur. annotata dir. ind.*, 2010, 01, 00, 0368

Moreover the fact that a product is placed on the market does not exclude that the adequate precautions to keep its information secret have been adopted, that is to say security measure could be *in re ipsa*.<sup>281</sup>

However this does not exclude the freedom for anybody, who legitimately acquired the good, to investigate the product to understand its core functioning and legitimately use or divulge the technical knowledge he discovers through this process.

The only legitimate information he may use is the information acquired through an effective disassembly of the good and if he sustained the necessary costs; alternatively it could be information acquired by research that is not based on the examination of someone else's product.<sup>282</sup>

The acquisition would be considered unlawful if the second comer tried to work around these obstacles, for example by obtaining the confidential information from a competitors employee or ex employee who, in lieu of the difficulty to acquire said information, is not meant to disclose it or use it for his own goals.<sup>283</sup>

The Court of Bologna also underlines this aspect when it claimed that information cannot be protected as a secret if it can be acquired through reverse engineering<sup>284</sup> of a product.<sup>285</sup>

Nonetheless due to the requisite of non accessibility the abstract possibility to acquire the information through the analysis of the product, is not sufficient to exclude its protection, it is also necessary that the process of reverse engineering is easy for experts and technicians of the field.

In the event the process requires a substantial cost (in relation to market standards), both in time and finances, the information can be deemed to be secret and protected under the rules of the IPC.<sup>286</sup>

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<sup>281</sup> L. MANSANI, *La nozione di segreto di cui all'art. 6-bis l.i.*, in *Il dir. ind.*, 2002, 216 ss. And G. GUGLIELMETTI, *La tutela del segreto*, in *Le nuove frontiere del diritto dei brevetti*, 130 ss. Giappichelli, Torino, 2003.

<sup>282</sup> *Id. fn.* 269.

<sup>283</sup> This is a problem that shall be analysed in the following paragraph.

<sup>284</sup> Consisting in the observation, chemical analysis or mechanical deconstruction of a product.

<sup>285</sup> Tribunale Bologna Sez. spec. Impresa, 5 January 2015, *Metanova s.r.l. V. Vega s.r.l.*

<sup>286</sup> *Idem.*



When referring to the knowledge of the “expert of the field” it should be intended as that condition that allows the perception of a solution without the necessity of long and costly operations of reverse engineering, but it also takes into account the knowledge obtainable through an independent examination of the product for which the protection is requested.<sup>287</sup>

The addition of “abusive manner” in article 99 IPC then reinstated with less uncertainty the validity of reverse engineering on the condition that it is not accomplished by illicit means or is not facilitated by acquiring information unlawfully.

In case a product lacks a patent as an invention or a utility model, the technical evolution it carries within it becomes immediately public once it is placed on the market.

At this point competitors, in particular, but also anybody who may have an interest is free to acquire the information through reverse engineering and use it or divulge it as he pleases, as long as there are not any other conditions of fair competition that are being infringed by the imitator.<sup>288</sup>

Most notably, under a purely competitive standpoint, the second comer who places on the market an identical product to that he reverse engineered, and the original good was not covered by a patent, does not commit an act of unfair competition.<sup>289</sup>

The owner of the original (non-patented) good is then forced to accept the coexistence of the second comer’s product.

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<sup>287</sup> Tribunale Milano, 5 June 2012, Cama 1 S.p.a. V. Rama S.r.l. in *Le sezioni specializzate italiane della proprietà industriale e intellettuale* 2012, 1, 345.

<sup>288</sup> Tribunale Milano, 27 November 2012, CMP I. s.r.l. V. L. 1 s.a.s. in *Giurisprudenza annotata di diritto industriale* 2012, 1, 1194.

<sup>289</sup> *Id. fn.* 271.

In case the second comer then decides to patent his creation, the original inventor will be forced to accept the limitation provided by the concept of prior use.<sup>290</sup>

Essentially if the owner of a trade secret, subsequently patented by a second comer, produced X amount of the copied good in the year prior to the patent application, starting from product X + 1 the trade secret owner would have to pay royalties, for each product that exceeds amount X, to the second comer who owns the patent.

The addition “in an abusive manner” that was made in 2010 to article 99 ICP, is then more in line with what was established by article 39 TRIPs which did not expressly exclude reverse engineering, nonetheless it does not give a definitive answer to the validity of reverse engineering.

In other words this interpretation, that is more in line with the TRIPs rules, poses the validity of reverse engineering more as a *questio facti*, rather than a dogmatic principle.<sup>291</sup>

It is important at this point to note that according to Italian case-law there still is a distinction between what can be considered “easy reverse engineering”, which does not require great difficulty, meaning that a person who operates in the field can easily deconstruct a final product in its structural elements, and “hard reverse engineering”, where the obstacles are far greater and the operation would require measures, instruments and costs far superior to what would be considerable as economically sound, but most importantly would cross the line that limits what can be viewed as fair commercial practices.

In fact the latter, in Italy, is considered to be an illicit activity under the rules of unfair competition.

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<sup>290</sup> Prior use indicates the use of an invention during the 12 months that precede the date the application for a patent is filed. Article 68,3 IPC recognises that the pre-user has a right to continue using the invention. The rule seems to balance the *first to file* principle (see V. DI CATALDO, *Manuale di Diritto Industriale*, 447). It is an exception to the general rule of protection granted to someone who files for a patent (for an indication of the rules that govern prior use see Tribunale Milano, 8 March 2007, GADI, 5145/3). For further information on prior use see L. Briceno, *Le Limitazioni de Diritto di Brevetto: Libere Utilizzazioni, Invenzioni Dipendenti e Preuso*, in M. FRANZOSI and M. SCUFFI, *Diritto Industriale Italiano, Tomo I: Diritto Sostanziale*, Sez. VIII, starting on page 700, 2014, CEDAM.

<sup>291</sup> *Id. fn.* 269.

Italian jurisprudence is also in agreement with this point of view.<sup>292</sup>

In fact according to the majority of the legal literature on the subject, the party who acquired trade secrets through reverse engineering is free of responsibility so long as the activity was easy and did not require an unreasonable investment.<sup>293</sup>

If this were not the case then it would be admissible to consider that the information was acquired by infringing its secrecy.

Having clarified this, Directive (EU) 2016/943 does not make such a distinction, which leads to the following question: does this separation between easy and difficult reverse engineering still remain valid in Italy, or is it surpassed and difficult reverse engineering is to now also be considered a valid instrument to access secret information?

If this duopoly were overcome then the Directive would, under this aspect be considerable as infringer friendly.

Where the infringer were to have the man power, and economical resources to withstand the expenses of a difficult procedure of reverse engineering without great sacrifice, then this act would be considered valid and potentially provide a further instrument for bigger companies to render the access in the market even more difficult for new comers.

In other words an activity previously illicit in Italy would then become valid.

However since the *ratio* behind the Directive is to offer a uniformed minimum level of protection and at the same time not to impose on a Member State's sovereignty to allow stronger forms of protection, it is then possible to recognise that the current interpretation in Italian case law could remain valid, and that difficult reverse

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<sup>292</sup> For further information see D. SARTI, *Informazioni aziendali segrete*, in Enciclopedia Treccani Diritto On Line, 2014, available at [http://www.treccani.it/enciclopedia/informazioni-aziendali-segrete\\_\(Diritto-on-line\)/](http://www.treccani.it/enciclopedia/informazioni-aziendali-segrete_(Diritto-on-line)/) and G. CRESPI, *Commento agli artt. 98 e 99 C.P.I.*, in Codice della Proprietà Industriale a cura di A. Vanzetti, Milano, 2013, p. 1110.

<sup>293</sup> G. Crespi, *Commento agli artt. 98 e 99 C.P.I.*, op. cit., p. 1105: «occorre anche che tale processo di reverse engineering possa qualificarsi come “facile” per “gli esperti del settore”. Ove invece esso comporti tempi o costi particolarmente rilevante in relazione alla caratteristiche del mercato, le informazioni potranno dirsi egualmente segrete». And see N. ROMANATO, *La Tutela Giudiziaria Del Know-How In Una Recente Ordinanza Del Tribunale Di Venezia*, in *Rivista di Diritto Industriale*, fasc.6., 2015.

engineering is not possible on a national level, in the interest of innovation and competition.

The question then remains if substantial investments, made to deconstruct a product and destined to acquire confidential information, can constitute an abusive method of acquisition or indicate a non entirely independent discovery.

If we frame the issue as a *questio facti*, then, awareness of the secrecy of the information and ease of accessibility to it can be determining factors when evaluating the lawfulness of reverse engineering on a case to case basis.

Moreover this assessment cannot ignore the infringement of eventual contractual agreements or the amount of financial resources invested in trying to acquire the information.

Another issue that confronts the Italian legal framework is that this abstract licitness of reverse engineering comes face to face with other exclusivity rights such as copyright.

In this last case special attention should be given to software, and particularly to recovering its source code (*i.e.* decompiling).

Decompiling is considered valid only when interoperability with other programs is an issue and has to be pursuant to the conditions set forth by article 64-*quater* Copyright Law (“Legge sul Diritto d’Autore”), which are the decompiling process has to be carried out by someone who has a valid authorisation, the information necessary for interoperability is not already easily accessible and that it is limited to only the information that is necessary for the new software to work.<sup>294</sup>

If one looks at article 64-*quater*,1(a), that allows an authorised person to decompile software, then there is no reason to prohibit a third party from acquiring the data resulting from such procedure.<sup>295</sup>

Allowing reverse engineering for software is the result of the pressure exercised by software companies, who based this necessity on the fact that providing the source

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<sup>294</sup> Article 64-*quater*,1(a)(b)(c) Legge Diritto d’Autore.

<sup>295</sup> L. BREGANTE, La Tutela del Software, in *Giurisprudenza/Oggi* directed by P. CENDON, Torino, Giappichelli, 2003.

code for interoperability affords an advantage for the market by facilitating innovation and creativity.

One should of course keep in mind that decompiling software also allows for illicit activity to take place.

For example taking into account iOS software, which is notoriously an extremely closed operating system, IT experts most likely through the process of reverse engineering<sup>296</sup>, in this case decompiling, managed to jailbreak<sup>297</sup> the portable devices running iOS, allowing for a more open operating system.

Through this process a user is able to alter and bypass software restriction imposed by the original manufacturer (*i.e.* install shortcuts, modify grid layout and other graphic UI limitations and many more solutions to render the device's use more comfortable for the end user).

However these innocent modifications are obtainable thorough software that is downloaded by an alternative market, where independent programmers create applications that allow for these changes.

Herein lies the problem.

In line with the philosophy behind the jailbreaking community all software is open source, which means that anybody can get to the source code and develop compatible application also ones that allow to download for free software that would otherwise be available on the official store at a price.

This last use is of course illicit as it infringes the original creators rights.

Of course the first solution to this was to render the whole jailbreaking process illegal.

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<sup>296</sup> An alternative could be to use "Developer Application Toolkits". However it is highly unlikely that Apple would release their source to that extent.

<sup>297</sup> Jailbreaking, as explained by saurik (a very important figure in the developer community) is the process of installing "a modified set of kernel patches (the kernel being the supervisor of the operating system) that allow you to run unsigned code."

Be that as it may in recent times, in the United States, it was recognised that the procedure is not illegal, as it allows for the development of new innovative software and also favours competition.<sup>298</sup>

This however does not mean that those application that allow to violate “Digital Rights Management” (*infra* “DRM”) have become legal.

DRM infringement still remains an illegal activity as it violates copyright.

This quick example shows how reverse engineering can allow to open a new market on one hand, but on the other also facilitate illicit activity.

As mentioned earlier the legitimacy of reverse engineering software is connected to interoperability.

Article 6 of Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, dictates the rules to follow in order to obtain interoperability.<sup>299</sup>

Interoperability has to be researched keeping in mind already existing programmes, and not new ones created by using the knowledge acquired through decompilation.

Moreover the creation of a new interface that, through decompiling, allows interoperability, can only be protected when it does not hinder competition, that is to say that the same result can still be obtained through alternative means.<sup>300</sup>

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<sup>298</sup> For more information see LIBRARY OF CONGRESS, U.S. Copyright Office, 37 CFR Part 201, Docket No. 2014-07, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, available at <http://copyright.gov/1201/2015/fedreg-publicinspectionFR.pdf>

<sup>299</sup> Directive 91/250/EEC, Article 6 Decompilation: “ 1. The authorisation of the right holder shall not be required where reproduction of the code and translation of its form within the meaning of Article 4 (a) and (b) are indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs, provided that the following conditions are met: (a) these acts are performed by the licensee or by another person having a right to use a copy of a program, or on their behalf by a person authorised to do so; (b) the information necessary to achieve interoperability has not previously been readily available to the persons referred to in subparagraph (a); and (c) these acts are confined to the parts of the original program which are necessary to achieve interoperability.

2. The provisions of paragraph 1 shall not permit the information obtained through its application: (a) to be used for goals other than to achieve the interoperability of the independently created computer program; (b) to be given to others, except when necessary for the interoperability of the independently created computer program; or (c) to be used for the development, production or marketing of a computer program substantially similar in its expression, or for any other act which infringes copyright.

3. In accordance with the provisions of the Berne Convention for the protection of Literary and Artistic Works, the provisions of this Article may not be interpreted in such a way as to allow its application to be used in a manner which unreasonably prejudices the right holder's legitimate interests or conflicts with a normal exploitation of the computer program.”

<sup>300</sup> *Id. fn.* 289, page 194.

In conclusion then Directive 2016/943 through its articles 3 and 4 officially allows for both independent discovery and reverse engineering.

These rules set out are nothing too new to what was already considered a legitimate activity by Italian case law, however the novelty aspect is that the Directive takes away all doubt that surrounds these procedures (especially in light of the original draft of article 99 IPC in 2005) by once and for all setting out in black and white that independent discovery (or creation) and what can be simply put as reverse engineering<sup>301</sup> are both lawful means of acquiring information throughout the European Member States.

This in turn means that innovators will have to take extra precautions in their products by inserting clauses that do not allow for reverse engineering, or patent those elements that are both eligible for the protection and essential to their product, or otherwise invest in stronger measure to keep the secret information contained within their product away from prying eyes.

Nonetheless one should keep in mind those products that go through a process that renders reverse engineering impossible, and subsequently facilitates the protection of trade secrets.

For example the production of a tyre requires the rubber to go through a vulcanisation process<sup>302</sup> that changes its natural properties to the extent that reverse engineering is useless to try and recover the original elements and the process itself.

If a tyre company wants to patent the new compound it uses in its manufacturing process, it is required to list the bear essential for its production in the patent application.

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<sup>301</sup> Article 3,1(b) and 4,2(a) Directive 2016/943 do not expressly use the wording “reverse engineering” but rather indicate a series of behaviours that can be traced back to this procedure. Only recital 16 of the Directive expressly mention “reverse engineering” and its lawfulness: “[...] *is the length of time that a commodity may be stored without becoming unfit for use, consumption, or sale.*”

<sup>302</sup> Vulcanisation is the chemical process by which the physical properties of natural or synthetic rubber are improved; finished rubber has higher tensile strength and resistance to swelling and abrasion, and is elastic over a greater range of temperatures. For further details see <https://www.britannica.com/technology/vulcanization>.

This means it is not necessary that it shows in the application how its vulcanisation process takes place, keeping its competitive advantage, and only providing details on the compound itself.

Another example could be made in reference to the pharmaceutical industry.

Once a pharmaceutical company discovers a new drug and finally obtains its patent it cannot take advantage of the full life of the patent due to the long government and federal procedures the final product goes through to make sure it is not harmful to the public.

One solution to this is the Supplementary Protection Certificate, which extends the life of certain rights associated to the patent.

Another solution is that in the initial patent (*i.e.* product patent) application the company is not required to provide information such as process or dosage, elements that can contain indication to the products shelf life<sup>303</sup> and that can be patented at a later date.<sup>304</sup>

This means that those ulterior elements can be patented when the generic companies have already placed their product on the market, allowing the original manufacturer to maintain a competitive advantage, for example, thanks to its longer shelf life.

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<sup>303</sup> Shelf life is the length of time a product can be stored without becoming unfit for use, consumption, or sale.

<sup>304</sup> The product patent in fact only has to contain the active principle. Other patents used in the pharmaceutical industry are: product by process patent, process patent, formulation patent and method of use. For further details see <http://mpasearch.co.uk/product-process-formulation-patents> and <http://dctf.uniroma1.it/galenotech/brevetti.htm>.



## CHAPTER 3

### 3. Trade secrets and Employee Loyalty

The employer-employee relationship is one where knowledge and information, especially if confidential, find fertile ground to develop, and as such trade secrecy is often a preferred instrument of protection.<sup>305</sup>

An employee then represents an important asset for a company and, particularly if he is a good one, when the business grows so do his skills, competences and knowledge of the inner working of the company.

All these elements are what help make a business competitive on the market, so it is clear how competitors may want to find a way to acquire this knowledge in order to understand how that particular business obtained its competitive advantage and plan a counter strategy.

#### 3.1. The Obligation of Loyalty

Strictly connected to this relationship is the employee's duty of loyalty to his employer.

Article 2105 of the Italian Civil Code provides for this obligation.<sup>306</sup>

The rule outlined by the article is very important as it aims to protect a business's economic position on the market.

Due to the fact that article 2105 Civil Code describes the behaviour that an employee should not keep in order to protect the employer's interests, it cannot technically be considered a duty in the strictest terms as it does not put the employee in a position of subjection.

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<sup>305</sup> Especially if patent protection is out of the question due to lack of prerequisites.

<sup>306</sup> Articolo 2105 c.c. - Obbligo di fedeltà: *“Il prestatore di lavoro non deve trattare affari, per conto proprio o di terzi, in concorrenza con l'imprenditore, né divulgare notizie attinenti all'organizzazione e ai metodi di produzione dell'impresa, o farne uso in modo da poter recare ad essa pregiudizio [2106, 2125].”*

Put simply the Italian legislator does not describe an obligation *per se* but rather two distinct negative behaviours.

In fact the first part of the article requires an employee to refrain from doing business, for himself or for a third party, that is in direct competition with that of the employer.

The second part, that is of greater interest to the purpose of this dissertation, requires an employee to not disclose any news or information pertaining to the business's organisation and its production methods, but also to not use said knowledge in a manner that could cause prejudice to the business itself.

According to Italian case law the duty of loyalty requires an employee to refrain not only from any behaviour expressly prohibited by article 2105 Civil Code (*i.e.* direct competition, disclosing or using confidential information), but also any other action that may, due to its nature or possible consequences, be in contrast with the duties an employee has as an integral part of an enterprise's structure and organisation, and that could be considered in contrast with the corporate goals or, more in general, hinder the fidelity in the employer-employee relationship.<sup>307</sup>

Rules of professional correctness<sup>308</sup> and the duty to act in good faith<sup>309</sup> both often accompany Court decisions on duty of loyalty.<sup>310</sup>

An exemplary decision that demonstrates a brash use of these principles is provided by a 2001 sentence of the Court of Cassation, in which these duties are referenced not in order to decide on the merits of the behaviour held by an employee who took corporate documents to use them in his defence against a hypothetical termination.<sup>311</sup>

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<sup>307</sup> Cass. 4 Aprile 2005, n. 6957, RIDL, 2005, II, 914. See also Cass. 18 Gennaio 1997, n. 512, LPO, 1997, 1220; Cass. 5 Dicembre 1990, n. 11657, RIDL, 1991, II, 832; Cass. 1 Giugno 1988, n. 3719, FI, 1990, I, 989.

<sup>308</sup> Article 1175 Codice Civile - Comportamento secondo correttezza: "*Il debitore e il creditore devono comportarsi secondo le regole della correttezza [in relazione ai principi della solidarietà corporativa].*"

<sup>309</sup> Article 1375 Codice Civile - Esecuzione di buona fede: "*Il contratto deve essere eseguito secondo buona fede.*"

<sup>310</sup> The violation of the duty of loyalty - which constitutes a valid reason to terminate employment - must be connected to the general principles of professional correctness and good faith pursuant to articles 1175 and 1375 of the Italian Civil Code. For more details see Cass. 4 Aprile 2005, n. 6957.

<sup>311</sup> See P. CENDON, Commentario al Codice Civile art. 2060-2134, Lavoro Subordinato, 2011, page 830.

In particular the decision reads: “the duty of loyalty pursuant to article 2015 c.c. and the connected ones of correctness and good faith, must be functional only if related to a “licit” activity of the employer, it is then not possible to ask the employee to observe these duties, within the scope of cooperation with the employer, even when the latter intends to pursue illicit goals, such as evading taxes by hiding the sale records of the produced goods.”<sup>312</sup>

It is then safe to say that in Italy article 2105 Civil Code has a broad application and as such, for the purpose of this dissertation, it is necessary to focus on the second part of the article that refers to business information.<sup>313</sup>

In particular where the article impedes an employee from disclosing or using information on the organisation of the company and its production methods.

The aim here is to protect the secret on the intangible heritage of a company and avoid the use of its secrets by an employee who wishes to use them for his own personal gains or for a third party's.<sup>314</sup>

The contractual responsibility that derives from violating these duties coexists with the criminal liability for disclosing professional secrets pursuant to article 622 of the Italian Criminal Code, but also with non contractual liability and unfair competition if the prerequisites are met.

What is protected then is the right to privacy of the employer (be it a natural or legal person) against any invasion in his private domain pursuant also to the Constitutional rights of personal inviolability, domicile integrity and privacy of correspondence.<sup>315</sup>

An important aspect of the relationship between confidential information and labour law is that the technical knowledge and specific abilities acquired by the employee during his employment add to his personal skill set.<sup>316</sup>

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<sup>312</sup> Cass. 16 Gennaio 2001, n. 519, MGL, 2001, 593. See also Cass. 26 November 2014, n. 25161 that specifies that employee must respect the principles of good faith a professional correctness also outside of the work place.

<sup>313</sup> Part of the legal doctrine expressed its worries associated to considering article 2105 c.c. as an elastic rule, that allows powers of judicial review on the gravity of the non-fulfilment and the proportionality of the disciplinary sanctions. For further details see P. CENDON, *op. cit.* 2011.

<sup>314</sup> S. MAGRINI, *Lavoro (contratto individuale di)*, in *Enciclopedia del Diritto XXIII Istit - Legge*, p. 412, 1973, Guffrè.

<sup>315</sup> Cass. 2 Marzo 1993, n. 2560.

<sup>316</sup> Cass. 20 Novembre 1985, n. 5708.

This means that article 2105 c.c. only refers to confidential information that pertains to the business's organisation.

To be more precise the prohibition set forth in article 2105 c.c. refers to “the way a company is managed; the use of discovery and inventions; the machineries characteristics; plans to update facilities; marketing; competition plans; unpublished financial systems; the decisions of the board of directors; the relationship with suppliers, customers, administrative entities, public entities and union representatives; staff treatment.”<sup>317</sup>

Confirmation of the broad field covered by the loyalty duty, concerning the disclosure of confidential information, comes from the Court of Cassation.

In fact it declared that pursuant to article 2105 c.c. an employee must refrain not only from the behaviour expressly prohibited by the article but also that which is requested in lieu of the employee's participation in the company's organisation and that could be in direct competition with it.<sup>318</sup>

An example for clarification is an employee who is fired for sharing the company's password with third parties, allowing them to access confidential documents.<sup>319</sup>

Similarly to what was established for non compete, the major Italian case law determined that the information dealing with production and organisation is not the only kind that constitutes a breach of fidelity when disclosed.

In fact, an employee who, through an anonymous written correspondence with the parent company, disclosed information on irregularities within the organisation of the Italian branch was found in breach of his duty of loyalty.<sup>320</sup>

Another significant aspect is that the trust an employer places on his employee can be broken by the mere risk of the violation of confidential information through actions that may seem suspicious and/or preparatory to obtaining a trade secret.

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<sup>317</sup> G. NICOLINI, *Diritto del Lavoro*, 1992, Giuffrè, p. 512.

<sup>318</sup> Cass. 9 Gennaio 2007, n. 153. In this particular case the court decided that the behaviour of the employee who acquired data that was achieved on a private folder in the company's servers and that did not have anything to do with his employment, was contrary to the duty of loyalty. In other words the employee breached his contract with the company independently from the content of the information retrieved.

<sup>319</sup> Cass. 13 Settembre 2006, n. 19554.

<sup>320</sup> Trib. Milano, 9 Settembre 1995, OGL, 1995, 713.

A distinction is now necessary, the ban from disclosing information on a company's organisation and production methods applies without the necessity of any damages occurring.

Instead, if the violator-employee decides to use the information, the damaging factor is necessary to determine the applicable penalty.<sup>321</sup>

In particular regarding the relationship between article 2105 c.c. and the criminal code<sup>322</sup>, it should be noted that legal literature determined that trade secrets do not constitute a specification of professional secrecy considering that they are directed at two different categories of people.<sup>323</sup>

Specifically the crime pursuant to article 622 criminal code was deemed to be existent in the case of an employee who during the notice period used technical information in his possession to help his future employer win a tender at the expenses of his former employer.<sup>324</sup>

Similar conclusion can be drawn for article 623 on scientific secrets (*i.e.* the discovery of a new natural reality or the invention of a new physical or chemical combination that leads to useful results) and industrial secrets (*i.e.* the practical use of the discovery or invention covered by scientific secrecy); in other words a more specific professional secret<sup>325</sup> limited to information regarding scientific discoveries or inventions and their application.<sup>326</sup>

Ultimately the distinction between professional secret, under criminal law, and trade secret is irrelevant when the end result is the rupture of the trust between employer and employee culminating in the termination of the latter's employment.<sup>327</sup>

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<sup>321</sup> Cass. 16 Gennaio 2001, n. 519.

<sup>322</sup> See criminal code articles 622, on revealing professional secrets, and 623, on revealing scientific or industrial secrets.

<sup>323</sup> *Op. cit. fn.* 310.

<sup>324</sup> Cass. pen. 4 Settembre 1985, n. 7861.

<sup>325</sup> A professional secret, in relation to labour law, should be regarded as the obligation that employees, who cover a particular role, have to keep information pertinent to corporate organisation and production methods secret from competitors and third parties.

<sup>326</sup> Article 623 criminal code punishes the disclosure of information pertaining to discoveries, inventions or industrial applications, known by an employee in light of the role he covers within the company.

<sup>327</sup> P. ICHINO, *Diritto alla Riservatezza e Diritto al Segreto nel Rapporto di Lavoro*, Giuffrè, 1979.

In conclusion what is relevant to this paragraph is that a worker can use the skills he has acquired, including the memories of certain procedural aspects, in a new job, meaning that for the existence of any criminal liability it is necessary that a former employee must slavishly and derivatively use the knowledge acquired during his former employment.

In the end the duty of loyalty adds up to the employee maintaining a trustworthy behaviour toward his employer by protecting his interest; this also means that an employee is prohibited from acting in his own interest, when dealing with the company's business, or from making deals with his employer's competitors that could damage the business's position on the market.<sup>328</sup>

### **3.2. Poaching Employees**

A common practice to gain access to the inner workings of a competitor is to poach his employees by offering better working condition.

Poaching employees is a particular practice that lives in a legal grey area where under certain condition it is a completely legitimate act, under others it can constitute a case of unfair commercial practices.

Focusing on the Italian situation, the problem of employee loyalty and their desire to end an ongoing working relationship in favour of a more promising position, is well discussed within both legal doctrine and case law.

Moreover it represents a further circumstance where an efficient trade secret protection plays a very important role in a business's economic wellbeing.

The most problematic aspect comes from trying to balance the value of the trade secret and the right of an employee to use or disclose the knowledge he acquired during his years in a business.

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<sup>328</sup> Cass. 19 April 2006, n. 9056.

This opens up for another delicate matter, that is the difficulty of trying to separate what constitutes a business's trade secret from what has to be considered part of an employee's skill set that cannot live independently from the physical person.

Key element to poaching employees is determining their quality and talent, in layman terms the "dowery" he can bring to the company in lieu of his employment in a competitor's business structure.

For the employer whose employees are being poached, this can be a particularly damaging situation, especially if said employees cover an important role both within the organisation or the manufacturing aspects of the business.

Usually employees being hired by a competitor is a valid activity if it follows the normal standards within the market, but when other elements come into play it can be an illicit activity that could hinder the competition on the market.

It is in fact considered valid in light of the constitutional right of free economic enterprise and most importantly the free movement of labour.<sup>329</sup>

Freedom of competition then has to be guaranteed not only for goods and services but also on the labour market, so each company operating in a determined industry

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<sup>329</sup> See Trib. Milano 13 November 2002, Publicenter s.p.a. V. CardNet s.p.a. and CardNet Group s.p.a. where the Court determined that "poaching employees to assure a competitor's top workers is a licit activity pursuant to the free economic initiative ex art. 41 Constitution and the free movement of labour ex article 4 and 35 Constitution. So for the activity of poaching to be considered unfair competition ex art. 2598,3 c.c. it is necessary that it is done in a manner that would not damage the competitor more than the normal prejudice it would suffer if the employee spontaneously left the company for another one." In other word it is necessary to identify those actions that specifically make employee transfer an act of unfair competition based on their level of danger for the company (for more details see Trib. Milano, 28 September 2002, ord. 4454). To identify this unfairness it is necessary to consider on one hand the method used to recruit the targeted employees and then calculate the consequences and their destructive potential on the targeted company. Also see Trib. Milano 8 May 2002, Hyperion Solution Italia s.r.l. V. Outlooksoft Italia s.r.l. according to which "the elements that allow to identify an activity of unfair competition through employee transfer include: the relevant number of employees poached in relation to the size of the competitor's company, the specific role they cover within the company (management level or seniority), the concentration of all resignations in a short period of time, the fact that employees did not respects the necessary time of notice resulting in difficulty for the company to proceed with production du to lack of time to find a valid substitute. Moreover the animus nocendi can be determined by the fact that the organisational structure of the poaching company is made up of the same elements of the poached company and that those now former employees in a very short amount of time continued their consultancy and management activities on the products and with the customers of the poached company." Moving onto the periculum in mora the Court established that it "derives from the fact that the damage cannot be quantified on a strictly monetary basis and thus be entirely indemnified. Moreover it derives from the circumstance that there are no elements from which one can definitively determine the interruption oaf the poaching activity also given how the pre-requisite of imminent prejudice has to be referred to the time the precautionary appeal."

sector is free to hire the worker it feels will better suit its business structure and interests.

Articles 4 and 35 of the Italian Constitution grant these worker's rights.<sup>330</sup>

The freedom to hire or be hired is certainly undeniable, but it must not turn into an instrument that exudes the correct functioning of the market or that contrasts with the proper allocation of resources.

An example of incorrect use is an employer who abuses his right to hire in order to dismantle and destroy a competitor's organisation taking away from him his most valuable employees.

Acting in this way is certainly against the markets interest because it could potentially mean causing irreversible damage to a competitor thus strengthening a single player's position in and industry sector (*i.e.* lead to a monopoly).

Italian case law reached this conclusion of unfair competition by referring to a criteria often connected to a psychological profile of the poacher.

In fact employee transfer is contrary to fair competition only when it is attributable to the *animus nocendi* of the poacher; in other words an intention to harm the competitor without gaining any other advantage from hiring the "stolen" employees.

It is then harmful if the only goal is that of damaging the competitor's organisation.

This however is quite simplistic and Italian case law developed to the point it took into consideration the actual reasons behind hiring a competitor's employees, and went into two directions.<sup>331</sup>

On one hand by giving relevance to behaviours that already themselves are to be considered unfair competition independently from the fact that they are instrumental to the reason behind hiring the workers.

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<sup>330</sup> Article 4 Cost. "The Republic recognises the right of all citizens to work and promotes those conditions which render this right effective. Every citizen has the duty, according to personal potential and individual choice, to perform an activity or a function that contributes to the material or spiritual progress of society." And art. 35 Cost. "The Republic protects work in all its forms and practices. It provides for the training and professional advancement of workers. It promotes and encourages international agreements and organisations which have the aim of establishing and regulating labour rights. It recognises the freedom to emigrate, subject to the obligations set out by law in the general interest, and protects Italian workers abroad."

<sup>331</sup> G. FLORIDIA, P. AUTERI, V. MANGINI, G. OLIVIERI, M. RICOLFI, P. SPADA, *Diritto Industriale Proprietà Intellettuale e Concorrenza*, IV ed., Giappichelli, 2012.



An example could be that of spreading defamatory information on the competitor or spreading rumours that he is in a financial crisis in order to more easily hire his employees.

On the other hand, by taking into account circumstances that could be seen as symptomatic of the *animus nocendi*, and that beyond this psychological element they would be considered insignificant.

Identifying employee transfer as an act of unfair competition is then left up to case law and judges when they are called upon to apply article 2598(3) c.c. that mentions measures contrary to professional fairness and that are suitable to damage a competitor's business.

Employee transfer is then an important instrument used to acquire a competitor's confidential information.

The main interpretation on this subject is that it is not so much the act of convincing the employee to infringe trade secrets, or that the unfairness of the transfer is moved by the end goal of acquiring the confidential information; rather the attention should be put on the acquisition of the secrets itself.<sup>332</sup>

This however does not mean that we cannot find decisions where trade secret infringement is directly connected to employee transfer.<sup>333</sup>

Although employee transfer and trade secret violation seem to go hand in hand, there are cases where employee transfer is just a means to an end.

In other words we have two separate actions; hiring someone, which is not illegal, and acquiring confidential information, which under determined circumstances is an act of unfair competition.

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<sup>332</sup> G. FLORIDIA, *op. cit.*, p. 346.

<sup>333</sup> See Trib. Torino, 5 April 2004, according to which "unfair competition based on employee transfer does not exist if the employee used knowledge and abilities that pertain to his own skills he improved during his employment. However this does not cover trade secrets and knowledge that other companies on the market could not acquire and that can be considered separate from the former employee's skill set." Also see Trib. Torino, 17 November 2006, "The customer transfer perpetrated by a former employee is an act of unfair competition if it is obtained through the use of corporate confidential documents."

Trade secret infringement can then occur independently from an illicit activity of employee transfer.<sup>334</sup>

Job mobility then faces in these circumstances a trade off between the employer's interest in keeping secret the information that relates to his business organisation and the right that the employee use the skills he has acquired as a consequence of his employment.

On this subject the Court of Cassation established that the professional evolution of a worker, based on the knowledge acquired during his employment is part of his own professional dowry and he can legitimately take advantage of it to gain more profitable jobs.

Moreover he can also use his own professional knowledge in his own personal endeavours, this is in the interest of competition as well.<sup>335</sup>

Of course in this situation all rules and customs of professional correctness remain applicable , meaning for example that the now former employee cannot use his knowledge to divert clients or boast qualities that belong to his former place of employment.

In order to consider valid the use of the acquired knowledge, its acquisition has to have been made through licit means; that is to say that the former employee who uses information that he obtained from his colleagues and did not have direct access to, is to be considered an act of unfair competition.<sup>336</sup>

To sum up an employee changing job and moving to a competitor's firm does not always consist in an activity of unfair competition pursuant to article 2598(3), as was already made clear by the Court of Cassation when it decided that the mere employee transfer cannot itself constitute an act of unfair competition, but there also has to be

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<sup>334</sup> M. BELLIA, *Concorrenza sleale da Storno di Dipendenti e sua Interpretazione nella Giurisprudenza più Recente*, in Riv. Dir. Ind., fasc. 4-5, 2013.

<sup>335</sup> Cass. 11 October 2002, n. 14479.

<sup>336</sup> Cass. 20 March 1991, n. 3011. “*Con riguardo allo sviamento di clientela, che venga posto in essere utilizzando notizie sui rapporti con i clienti di altro imprenditore, acquisite nel corso di pregressa attività lavorativa svolta alle sue dipendenze, la configurabilità di concorrenza sleale, ai sensi dell'art. 2598 n. 3 c.c., deve essere riconosciuta ove quelle notizie, ancorché normalmente accessibili ai dipendenti, siano per loro natura riservate, in quanto non destinate ad essere divulgate al di fuori dell'azienda.*”

an objective element from which to assume that the ultimate scope of the competitor is to nullify his antagonist's investments, thus creating discrepancy and uncertainty in the market.<sup>337</sup>

In order for employee transfer to be deemed illicit the poached employees have to have particular qualifications and skills that are necessary for the proper functioning of the competitor's business.<sup>338</sup>

In other words when dealing with employee transfer, in order to determine its qualification as an act of unfair competition, focus must be placed on the role covered by the employee in the company of origin and not the one given in the company he transferred to.<sup>339</sup>

At this point it is necessary to focus on the concept of *animus nocendi*, which is key in determining if an act of unfair competition effectively took place.

It is clear how employee transfer is illicit not only if the poacher is aware that his action could be damaging for his competitor, but also if he acted with the sole intention of causing the damage (*i.e.* the *animus nocendi*).

*Animus nocendi* is present any time that, based on the judge's investigation, the employee transfer is enacted in a way that cannot find any justification under the principle of professional correctness, and instead is justified by the sole intention of damaging and disrupting a competitor's production structure.<sup>340</sup>

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<sup>337</sup> Cass. 9 June 1998, n. 5671.

<sup>338</sup> Cass. 15 May 1983, n. 3365. See also Cass. 13 March 1989, n. 1263 in which the court decided that "hiring a competitor's employee or seeking his cooperation in order to take advantage of or acquire his knowledge of the competitor's technical know-how, and not for his own personal skills, constitutes an act of unfair competition pursuant to article 2598(3) c.c. This behaviour is an act of unfair competition as it is suitable to damage a competitor's business by allowing the poacher to enter the market sooner than he would have done had he used his own means."

<sup>339</sup> Riv. Dir. Ind. 2001, II, p. 44 and 67-74 for opposing theories between a subjective and an objective view on the illicitness of employee transfer.

<sup>340</sup> Cass. 21 November 1983, n. 6928. See also Cass. 20 June 1996, n. 5718 and Cass. 3 July 1996, n. 6079.

The injurious effects need to then be intentional and the damages the poached company suffers have to exceed the normal cost it would suffer if the employees had spontaneously left the business.<sup>341</sup>

Moreover the illicitness of an employee transfer is not precluded by the fact that the employees were the first ones to contact a competitor either interested in a job there or wanting to start a collaboration.

What is then necessary is that on this premise the competitor take advantage of this initial contact to then enact a plan that could sabotage his antagonist's business.<sup>342</sup>

According to part of the legal doctrine the *animus nocendi* should not be determined through objective indicators but rather by analysing on a case to case basis the potential risk and danger each act has in relation to the company whose employees are being poached.<sup>343</sup>

When dealing with the presumption of illegality the poacher should have the opportunity to prove that he acted because he needed to hire those specific employees, that could not be found anywhere else on the job markets, thus disproving the illicitness of his conduct.<sup>344</sup>

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<sup>341</sup> Cass. 25 July 1996, n. 6712 “*Il c.d. storno dei dipendenti, mediante il quale l'imprenditore si assicura le prestazioni lavorative di uno o più dipendenti di un'impresa concorrente, essendo espressione dei principi della libera circolazione del lavoro e della libertà d'iniziativa economica, non costituisce attività di concorrenza sleale, a meno che non sia stato attuato con l'intenzione di danneggiare l'altrui azienda in misura che ecceda il normale pregiudizio che ad ogni imprenditore può derivare dalla perdita dei dipendenti in conseguenza della loro scelta di lavorare presso altra impresa.*”

<sup>342</sup> Cass. 22 July 2004, n. 13658 “*La configurabilità dello storno non è preclusa dal fatto che i contatti per passare alle dipendenze dell'impresa concorrente o per iniziare con questa un rapporto di collaborazione siano avviati per iniziativa degli stessi dipendenti o agenti successivamente stornati, sempre che su tale iniziativa venga poi ad inserirsi l'attività dell'impresa concorrente si da incidere causalmente (tramite, ad esempio, l'offerta di un migliore trattamento economico o di altri vantaggi) sulla decisione dei primi di interrompere il rapporto di lavoro con l'impresa in cui si trovano inseriti.*”

<sup>343</sup> VANZETTI DI CATALDO (2005) in P. CENDON, Commentario al Codice Civile art. 2595-2642, 2011, page 99.

<sup>344</sup> GHIDINI (2005) in P. CENDON, Commentario al Codice Civile art. 2595-2642, 2011, page 99.

### **3.3. How Directive 2016/943 impacts the employer-employee relationship**

Now that the relationship between trade secrets and employees has been outlined it is time to see how Directive (EU) 2016/943 has faced the subject and in which way this affects the Italian legal framework.

First and foremost the Directive takes the job aspects of trade secret protection into great account.

This is already made clear by its recitals.

In fact in Recital (13) it already establishes that in no way it intends to restrict the freedom of establishment, the free movement of workers or their mobility as provided by Union Law.<sup>345</sup>

These principles are also mentioned within article 1,3 of the Directive:

“Nothing in this Directive shall be understood to offer any ground for restricting the mobility of employees. In particular, in relation to the exercise of such mobility, this Directive shall not offer any ground for: (a) limiting employees' use of information that does not constitute a trade secret as defined in point (1) of Article 2; (b) limiting employees' use of experience and skills honestly acquired in the normal course of their employment; (c) imposing any additional restrictions on employees in their employment contracts other than restrictions imposed in accordance with Union or national law.”

Moving onto recital (14) the Directive touches the delicate matter, already faced by Italian case law, of the workers' personal skill set and professional baggage (something that we find mentioned again in article 1,3(b) of the Directive).

In fact when the recital deals with the definition of trade secret it specifically excludes trivial information and “the experience and skills gained by employees in the normal course of their employment [...]”, which is something of an achievement,

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<sup>345</sup> In particular see TFUE Title IV Free Movement Of Persons, Services And Capital Chapter 1, Workers Articles 45 Through 48 And Chapter 2 Right Of Establishment Article 49 Through 55. See Also Regulations Regulation (Eu) No 492/2011 Of The European Parliament And Of The Council Of 5 April 2011 On Freedom Of Movement For Workers Within The Union.

because up until now this was an element that in Italy had only been determined through case law, lacking any specific reference in a written code.

Another important aspect of labour related trade secret matters which the Directive faces is that of determining the damages owed by an employee who acts against corporate interests or in general in violation of his duty of loyalty and most importantly confidentiality.

Recital (30) when determining the rules to follow and apply in order to calculate damages deriving from the violation of trade secrets, ends by guaranteeing a Member States' right to provide in its national law that the liability for damages of employees is restricted in cases where they have acted without intent.

In other words a Member State can limit an employee's responsibility when he involuntarily caused damages by unwillingly revealing confidential information.<sup>346</sup>

This is also made clear by article 14(1) of the Directive:

“[...] Member States may limit the liability for damages of employees towards their employers for the unlawful acquisition, use or disclosure of a trade secret of the employer where they act without intent.”

To underline the importance of labour rights within the Directive it is worth mentioning that among the reports due by 2022 on the Directive's application, there is an intermediate report that shall examine, in particular, the possible effects of the application of this Directive on research and innovation, the mobility of employees and on the exercise of the right to freedom of expression and information.

In conclusion Directive (EU) 2016/943 protects worker's rights and covers aspects that were already determined in Italian case law that dealt with the duty of loyalty

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<sup>346</sup> In Italy in circumstances where an employee does not respect his duty of diligence and does not follow the principles of professional correctness the rule that determines an employee's liability is article 2104 Civil Code.

When the employee acts with intent of course the employer can apply the necessary sanctions under the normal rules, these include disciplinary provisions, in extreme cases termination, and the possibility to initiate civil proceeding against the employee responsible for the damages.

The normal rules apply in situations where an employee acts with an intent to cause damage.

Circumstances of gross negligence however are a consequence of lack of respect of ordinary rules of discipline or simply put negligence on behalf of the employee. Ordinary negligence is excluded when it is the consequence of an accident or *force majeure*.

The distinction between tort and negligence is important because with the latter redress is limited to the foreseeable damage.

(*i.e.* article 2105 Civil Code) and aspects of unfair competition that were generally identifiable under the scope of article 2596(3) c.c. but ultimately determined by the Courts on a case to case basis during the articles application.

### **3.4. The worker's right of defence and trade secrets**

Although procedural issues will be faced in the following paragraphs, it is important to analyse the particular case where a worker, in order to provide a proper defence for himself during litigation, has to provide corporate documents.

Various orientations have formed throughout the years in Italy.

Although article 24 of the Constitution<sup>347</sup> establishes the right of defence, the misappropriation of corporate documents, even if it is necessary only for a procedural matter, represents a violation of the duty of loyalty and thus grounds for termination.<sup>348</sup>

Same consideration is given to the act of photocopying confidential documents.<sup>349</sup>

Irrelevant to the licitness of the presentation of these documents as evidence during litigation, is the fact that the employee wrote the document himself or had access to them, if these acts constitute part of his duties, and as such can only be used accordingly.<sup>350</sup>

Nonetheless in other situation the Court of Cassation reached opposite conclusions to the ones mentioned herein.

In particular considering how article 2105 c.c. must be read in connection to the principles of fair practice and good faith and how its elasticity allows for an activity of specification, on behalf of the judge, pursuant to the general principles of the legal order, in particular that of solidarity, it should be noted that the employee's right to

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<sup>347</sup> According to article 24 of the Italian Constitution anyone may bring cases before a court of law in order to protect their rights under civil and administrative law and that defence is an inviolable right at every stage and instance of legal proceedings.

<sup>348</sup> In certain cases misappropriation of documents can be grounds for theft under the criminal code. See Cass. 25 Ottobre 2001 n. 13188.

<sup>349</sup> Cass. 9 Maggio 1996, n. 4328.

<sup>350</sup> Cass. 29 Giugno 1982, n. 4229.

defence prevails over the employer's right to confidentiality, when the production of secret documents is necessary to determine damages, also considering that the documents are only presented during litigation in Court and not released to the public.

Moreover the Court of Cassation established that the employee who takes legal action against his employer and produces copies of corporate documents, that are directly pertinent to his position within the company, does not violate his duty of loyalty, considering how the correct application of procedural rules prevents disclosure of these documents.<sup>351</sup>

Given this orientation that sees the right to defence prevailing over secrecy and confidentiality, the Supreme Court found it necessary to make an ulterior specification by establishing that the main difference between producing confidential documents as evidence during litigation, while being *per se* a valid activity, does not mean that the method through which these documents were acquired is to be ignored. Essentially one thing is to produce secret documents in judicial proceedings, another is the way this information is acquired which has to be established on a case to case basis.<sup>352</sup>

On these grounds, in Italy, an employee is allowed to produce documents at his disposal in Court, including copies, however different rules apply if the employee accessed the company without authorisation or asked that someone else acquire documents that otherwise he would not have access to, ultimately committing an act that violates trade secrecy.

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<sup>351</sup> Cass. 4 Maggio 2002 n. 6420.

<sup>352</sup> Cass. 7 Dicembre 2004 n. 22923.



## CHAPTER 4

### 4. Procedural Issues

Among the Directives intentions the last one left to analyse relates to the opportunities a trade secret holder has to exercise his civil rights to contrast illicit activities.

These include the possibility to seek injunctive relief from the infringer, the restriction from using or disclosing confidential information without permission, seizing and destroying any product that is the result of trade secret infringement.

Alternatively the possibility to sanction the illegitimate acquisition of a trade secret as a non-contractual violation and compensate the unjustly suffered damages.

In particular the following paragraphs will focus on three main issues that relate to Directive (EU) 2016/943 and its impact on procedural matters contained within the Italian Industrial Property Code.

Such topics include description and seizure, compensation for damages and restitution of profits of the author of the infringement and publication of the judgment.

#### 4.1. Judicial Description and Seizure

The precautionary proceedings of description and seizure are now contained in article 129 IPC that already in its first paragraph guarantees the safeguarding of confidential information.<sup>353</sup>

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<sup>353</sup> Article 129 IPC - Description and seizure “1. The owner of an industrial property right may request the description or seizure, and also the seizure conditional on the description, of some or all of the items constituting an infringement of that right, as well as of the means used for their production and of the elements of proof concerning the reported infringement and its entity. The measures necessary to guarantee the safeguarding of confidential information shall be adopted. 2. The Court, upon consulting the parties, and when necessary acquiring summary information, shall issue an order, and if the Court orders the description, it shall authorise the possible taking of samples of the items indicated in paragraph 1.”

Before article 56 of legislative decree n. 131/2010 united the two procedures under one single article, leaving room for article 128 IPC to discipline the preliminary expert's report, the procedures were separate but still took into account the protection of trade secrets.<sup>354</sup>

This unification of substantive rules eliminated special procedural dispositions contained in the 2005 version of article 128 IPC to then have description and seizure proceedings governed by the provisions of the Code of Civil Procedure concerning proceedings for interim relief, to the extent compatible and not derogated by the Code itself.<sup>355</sup>

The *ratio* behind this unification is to simplify the proceedings and to do so article 129 IPC brings three new elements:

(i) the President of the Court's specialised section is no longer the one who can emit the ordinance regarding description, effectively handing this power over to the ordinary judge, who now decides on all precautionary measure regarding IPRs;

(ii) the introduction to the description process of the adversarial principle and encumbrances that pertain to the precautionary procedure and the subsequent loss of the principle according to which the description ordinance could not be appealed; and

(iii) the official recognition that the descriptive process is not only finalised to acquiring evidence to use during proceedings on the merits, but it is also a fundamental instrument in the precautionary proceeding as well, in particular to decide on injunction measures or the seizure of goods.

Keeping these two procedures under the same article does not however mean that they now have the same prerequisites or nature.<sup>356</sup>

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<sup>354</sup> Article 128,4 and Article 129,1 legislative decree 10 February 2005, n. 30.

<sup>355</sup> *Id. fn.* 347 point 4.

<sup>356</sup> C. BACCHINI, *La Descrizione secondo il nuovo art. 129 c.p.i.*, DI, 2010, 506.

The idea of the description process as a method to acquire evidence is already encountered starting with article 50 TRIPs and within article 7 Directive (EU) 2004/48/CE<sup>357</sup> (*infra* “Enforcement Directive”).

This evidence-gathering nature caused the description process in Italy to be confused with the preventive technical appraisal disciplined within article 696 of the Procedural Codes with which it shared its content and implementation.<sup>358</sup>

However the differences between the two procedures, as concluded by the court of Turin<sup>359</sup> do not allow them to be considered interchangeable between one another.

All considered the description process should be placed in an intermediary position between preventive summary procedure and seizure.

Ultimately it is a procedure that allows its beneficiary to invade someone else's personal sphere.

In other words it is an instrument that could be used to access a competitor's production plant and acquire confidential information that would otherwise be unobtainable.

The conditions to grant both mentioned precautionary measures are the *fumus boni iuris* and the *periculum in mora*.

Most notably the necessity to have a uniformed discipline for description and seizure caused the 2010 reform of the Industrial Property Code to find the source for both procedures in the uniformed rules for precautionary measures as set by article 129,4 IPC.

One of the consequences is that precautionary hearings must always be dealt with in adversary proceedings, meaning both parties must be present.

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<sup>357</sup> Directive 2004/48/EC Of The European Parliament And Of The Council of 29 April 2004 on the enforcement of intellectual property rights is available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:195:0016:0025:EN:PDF>. Article 7,1 of the Enforcement Directive expressly mentions “[...] Such measures may include the detailed description, with or without the taking of samples, or the physical seizure of the infringing goods, and, in appropriate cases, the materials and implements used in the production and/or distribution of these goods and the documents relating thereto.”

<sup>358</sup> Trib. Milano, 15 September 1977, GDI, 686.

<sup>359</sup> Trib. Torino, 13 July 2004, (ord.), LSS, 2004, II-III, 453.

In turn this means that if the proceeding takes place *ex parte* the resulting measure will necessarily have to be confirmed, cancelled or modified in the subsequent proceeding where the absent party can participate.

Paragraph 4 of article 129 IPC in fact states that “[...] For the purposes of confirmation, modification or revocation of description and of the possible granting of the interim measures requested together with or conditional upon description, the Court shall set a hearing for oral discussion taking into account the description in order to evaluate its result.”<sup>360</sup>

There is however an exception established in article 129(2) IPC under which the judge of the *interim* proceeding can decide with an *ex parte* provision “[...] In cases involving special urgency, and in particular when possible delays could cause an irreparable harm to the owner of the rights or when the convening of the other party could prejudice the carrying out of the order for description or seizure, the Court shall act on the request issuing a grounded order.”

Nonetheless the fact the ordinary method is that of a proceeding where both Plaintiff and Defendant are present poses, for reasons already mentioned above, a risk for the safekeeping of trade secrets.

Who then is the party interested in obtaining these precautionary measure?

Article 129 paragraph 1 does not only establish that the measures necessary to guarantee the safeguarding of confidential information shall be adopted, but also that the owner of an industrial property right may request the description or seizure, and also the seizure conditional on the description, of some or all of the items constituting an infringement of that right, as well as of the means used for their production and of the elements of proof concerning the reported infringement and its entity.

When mentioning industrial property rights the article covers both titled and non titled property rights.

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<sup>360</sup> On the subject see also R. CARTELLA, *Brevi note in merito ai profitti processuali del D.lgs. 13 agosto 2010, n. 131*, in RD IND, 2011, starting on page 255. And also B. CORONA, *Le novità in materia di descrizione e sequestro*, in Galli, *Codice della proprietà industriale, la Riforma 2010*, Milano.

This in turn means that these forms of precautionary measures can be requested when protecting trade secrets as identified under article 98 IPC.

Again this opens the possibility for trade secret misappropriation as the risk of it occurring is inherent in the measure itself.<sup>361</sup>

In accordance to article 4,1(b) of the Enforcement Directive licensees and any other persons entitled to intervene in an infringement action should also be considered as parties who can legitimately initiate a precautionary proceeding.<sup>362</sup>

Another risk for trade secret protection stems from article 132 IPC when establishing that the measures provided for by article 129 may also be granted during the patenting or registration procedure, as long as the application has been made available to the public or with respect to the persons to whom the notification of the application was given.

Simply put this represents another way to abuse procedural measures in order to gain access to confidential information.

Moving onto the object of the proceedings these include the goods that incorporate the violated right, the goods themselves but most notably the elements of proof such as documents, catalogues, drawings, promotional material, data bases, invoices, orders, commercial offers, accounting records and client lists.

These are all elements that can be covered by secrecy.

It is then relevant how procedural rules can impact trade secret's safety.

The need in Italy to accompany disclosure and seizure with measures necessary to guarantee the safeguarding of confidential information was first recognised when legislative decree 198/1996 was introduced in order to comply with article 42

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<sup>361</sup> G. CAVANI, *Commento sub artt. 128 e 129*, in Ghidini-De Benedetti, *Codice della proprietà industriale*, Milano, 2006. And also B. CORONA, *Le misure della descrizione e del sequestro*, in Galli-Gambino, *Codice commentato della proprietà industriale e intellettuale*, Milano, 2011.

<sup>362</sup> Article 4,1(b) Enforcement Directive "Persons entitled to apply for the application of the measures, procedures and remedies Member States shall recognise as persons entitled to seek application of the measures, procedures and remedies referred to in this chapter: [...] (b) *all other persons authorised to use those rights, in particular licensees, in so far as permitted by and in accordance with the provisions of the applicable law* [...]."

TRIPs<sup>363</sup>, and established that the protection measures were only for elements of proof concerning the alleged violation.

As of 2010 however the reformed article 129 uses a more general wording and allows to presume that the power to adopt precautionary measures is not only bestowed upon the judge but also, under his permission, to the judicial officer or the technical consultant.

The issue of confidential information gathered during the description or seizure process is very delicate, as whoever is called to interpret on the matter must find a balance between the right holder's interest to acquire and analyse all information necessary to evaluate the possible extent of an alleged infringement and the interest the persone who suffers the measures has to make sure that the information collected does not spread any further.

One solution is to apply a very strict interpretation of what constitutes a trade secret in article 129 IPC by aligning it to what is determined by article 98 IPC.

The consequence of such an interpretation is that the defendant who is subject to these procedures and wants protection from any further unwanted disclosure will have to prove that the information he wants protected meets the standards listed in article 98 IPC.

What is even more problematic is that the law does not determine the actual way the information can be protected, leaving the determination up to the judges' creativity.

It is however possible to group the Court's decisions in three categories that can better help comprehend the possible applicable solutions.<sup>364</sup>

On the lowest level there are measures of a purely formal nature which can be found in other rules of law which in the end are not very effective in impeding confidential information from spreading.<sup>365</sup>

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<sup>363</sup> Article 42 TRIPs deals with the rules for a fair and equitable procedure.

<sup>364</sup> A. VANZETTI, *Codice della proprietà industriale*, Giuffrè, 2013, page 1377.

<sup>365</sup> M. SPOLIDORO, *Profili processuali del codice della proprietà Industriale*, DI, 2008.

Such solutions include the possibility for parties and legal representatives to access case-files as provided by article 76 of the implementing provisions of the Italian civil procedure code.<sup>366</sup>

The chance to limit access solely to technical consultants, excluding the parties involved.

In this case Italian law is in line with the Enforcement Directive which calls for the protection of information gathered by a technical consultant that responds directly to the Judge.

On a side note if the Judge were to forget to adopt the appropriate protection measures it is implied that the technical consultant, based on his experience, should act accordingly and adopt all necessary means to make sure that any information he gathers does not leak.

The French legal system however applies a more extreme solution known as the *saisie-contrefaçon*, which is also the basis to the provision of article 7 of the Enforcement Directive.

This procedure is very common in infringement cases and permits the holder of the intellectual property right, upon receiving the authorisation of a judge, to call upon a bailiff authorised both to enter any place where the infringement might be observed and to seize the items of evidence of the infringement.<sup>367</sup>

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<sup>366</sup> Art. 76. disp. att. c.p.c. - Potere delle parti sui fascicoli “Le parti o i loro difensori muniti di procura possono esaminare gli atti e i documenti inseriti nel fascicolo d'ufficio e in quelli delle altre parti e farsene rilasciare copia dal cancelliere, osservate le leggi sul bollo.” See also Trib. Milano, 11 October 2006 (ord.), GADI, 2006, page 914.

<sup>367</sup> The process *saisie-contrefaçon* is quite similar to an injunctive relief, where only the judge appointed technical consultant may enter the facility, excluding any form of opposition between parties. The *ex parte* and restrictive nature of the *saisie-contrefaçon*, which makes it so efficient, can also be perceived as a possible source of abuse. It is possible that a dishonest operator, under the pretext of the alleged infringement of its intellectual property right, misuses the *saisie-contrefaçon* procedure in order to enter the premises of a competitor and try to obtain some of its industrial and trade secrets. To avoid this risk, the judge has the ability to preserve the confidentiality of the information gathered during the *saisie-contrefaçon*. Another principle is that the *saisie-contrefaçon* investigations are the responsibility of the requesting party. This means that the judge, when rendering the order for a *saisie-contrefaçon*, can order the requesting party to furnish security to compensate the seized party for any loss it may suffer, in case it later appears that the *saisie-contrefaçon* was abusive.

Also included in the basic solutions provided by the Courts is to apply the rules of unfair competition to whoever leaks or uses the information acquired during a description procedure.

This solution makes trade secret protection coincide with the rules of compensation for damages caused by the disclosure of confidential information.

A more efficient method, although resulting more as a deterrent from trade secret misappropriation rather than an instrument for its preservation, is providing that the party who requests the precautionary measure deposit a certain amount of money as a form of security.<sup>368</sup>

On an intermediary level of protection the judge can issue measures that require the auxiliary experts he appointed to make all the information, that they acquire during the description procedure, available to the involved parties and their legal representatives, who will subsequently examine the content and determine what data or information (technical or commercial) to exclude because it is irrelevant to the infringement procedure.<sup>369</sup>

An effective alternative is that the Judge list the location and places where the description procedure can legitimately take place.<sup>370</sup>

Moving on we find the “decree of secrecy” which is arguably the highest level of protection the Court can offer to who is victim of a description process.

This decree is an order issued by the judge that the court appointed judicial officer must enclose all documents in a sealed envelope which is to be preserved by the Registry of the proceeding Court.<sup>371</sup>

Secrecy decrees seem to have become a common practice due to the fact that Judges tend to not indicate which are the necessary measure to preserve confidentiality and prefer to simply warrant that during the description procedure sufficient guarantees for secrecy are taken.

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<sup>368</sup> See A. VANZETTI, *Codice della proprietà industriale*, Giuffrè, 2013, pages 1367-1368.

<sup>369</sup> C. DE SAPIA, *Un bilancio positivo per la Sezione specializzata milanese*, DI, 2008, starting on page 135.

<sup>370</sup> Trib. Milano, 7 April 2004, (decr.), LSS, 2004, II-III, 431.

<sup>371</sup> M. SCUFFI - M. FRANZOSI - A. FITTANTE, *Il codice della proprietà industriale*, CEDAM, Padova, 2005, page 595.



In turn the Judicial Officer finds himself having to decide what solution to adopt, and in order to exclude any liability on his part he will end up resorting to decrees of secrecy, leaving the judge to ultimately decide on its fate.<sup>372</sup>

Nonetheless a decree of secrecy is destined to be a temporary solution.

Once the proceedings on the merits begin, or at the latest during a technical consultancy phase, the owner of the exclusivity right (and his consultants) must be in a position where they can access the gathered evidence, meaning they should be able to access the confidential files contained in the sealed folder.

If this were not the case there would be a blatant violation of the right of defence and the adversary principle as the sealed documents are part of the claim.

In the end the matter of protecting trade secrets is not solved but just delayed to another moment in the proceedings, where any measure adopted till then ceases to be applicable.

The solutions found by case law, and here listed, such as allowing the consultant to exclude confidential documents from his report, are not convincing as they would then result in defective reasoning and the resulting decision would lack solid grounds.<sup>373</sup>

Even if the chosen solution is to limit access only to legal representatives and technical consultants, who are required to respect the confidential privilege based on the business relationship with their client, a decree of secrecy does not represent the ultimate solution given how the legal representatives and the technical consultants (both the ones of the parties involved and the ones that were court appointed) will have to reveal, in their final acts and closing arguments, the information they acquired from an analysis of the report, ultimately breaking the secrecy that covered those documents.

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<sup>372</sup> See F. GHIRETTI, *Commento all'articolo 129 CPI*, in A. VANZETTI, *Codice della proprietà industriale*, Giuffrè, 2013, page1378.

<sup>373</sup> Trib. Roma, 15 February 1999, (ord.), GDI, 2000, 215. See also G. CAVANI, *Commento sub artt. 128 e 129*, in Ghidini-De Benedetti, *Codice della proprietà industriale*, Milano, 2006.

Another relevant downside to resorting to a decree of secrecy is that by shifting the decision on the merits of the content of the report, forces the plaintiff to resort to a sort of leap of faith when initiating the proceedings on the substance of the matter.

This goes against the *ratio* of the description procedure which is to facilitate the proceedings by gathering the necessary evidence for the requesting party that wants to prove an infringement of his exclusivity right.<sup>374</sup>

A basis against a widespread use of these methods can be found within article 129,4 IPC that requires a Judge, when called upon to grant a precautionary measure following a description procedure, to set a date to decide on the validity of the results of the description during and adversary hearing.<sup>375</sup>

The corresponding evaluation process is in direct contrast with the secrecy of the documents, as it requires the access to the files in order to decide their fate in the following proceedings.

It would then seem that, according to the Italian legislator, a judge can reconsider his decision to grant a decree of secrecy, shifting this legal instrument from an ordinary measure of protection to one that is granted only in exceptional cases where the trade off between the interest of both parties results in the need to allow the applicant to access the documents resulting from the description process only further on in the proceedings.

Such would be the case if the information gathered met all the requirements set forth in article 98 IPC, even more so if its economic value were to be particularly high.

An example can be offered by infringement cases revolving around chemical formulas.

The economic importance these formulas can have could encourage the judge to initiate an *ex parte* description procedure and order a decree of secrecy for the results gathered.

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<sup>374</sup> M. SPOLIDORO, *op. cit.*, fn. 359.

<sup>375</sup> Article 129,4 IPC “[...] For the purposes of confirmation, modification or revocation of description and of the possible granting of the interim measures requested together with or conditional upon description, the Court shall set a hearing for oral discussion taking into account the description in order to evaluate its result.”

Subsequently he could decide that the evaluation or confirmation of the results not take place in an adversary proceeding as hinted by in article 129(4) IPC, but rather during the arguments of the resisting party who criticises the basis for granting the interim measure.

At this point the results can be twofold; either the Judge acknowledges the resisting party's arguments, revokes the granted measure and hands the report over to him or the Judge can confirm the interim measure and allow the party who requested it to open the sealed report.

Another possible scenario is that where a party turns to description in order to obtain solely a competitor's accounting documents necessary to calculate the possible damages ensued from an alleged infringement, that may or may not be confirmed in a subsequent hearing.

In this case it would seem that protecting the gathered information with a decree of secrecy does not harm the requesting party's right to defence.

In fact in the procedure on the merits, if he is capable of proving that an infringement took place he may request that the judge withdraw the decree of secrecy and grant access to the accounting documents to calculate the *quantum* of the damages.

To sum up what was written so far it would seem appropriate to claim that case law suggests that a Judge, when analysing the information gathered during a description procedure, should focus solely on what is relevant to the decision he will have to make on the procedure on the merits.

In other words the Judge should act as a filter of the collected information and exclude all data that is irrelevant to the object of the procedure; in the past a solution was that the Judge indicate beforehand the scope on the description procedure limiting its object.<sup>376</sup>

However even this solution has its own flaws.

The main problem is its applicability, especially when dealing with trade secrets.

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<sup>376</sup> Trib. Milano, 13 July 1999, (ord.), GDI, 2000, 330.

In fact, in this case, the appointed technical consultant may have some difficulties in determining by himself which is the appropriate information for the purpose of deciding on the matter of the case, and it may be necessary that the counter party's consultants be present during selections.

In turn this means that the plaintiff could have access to information that may be discarded for the main hearing, but that could be relevant for secondary means that could also be illicit (*i.e.* the plaintiff could be using the procedure as a trojan horse to acquire other trade secrets).

Article 130 IPC is important in determining whether the presence of the applicant can be sacrificed in order to protect confidential information.<sup>377</sup>

In particular in its second paragraph article 130 IPC establishes that the interested parties "may be authorised" to be present during the operations, including by way of their representatives, and to be assisted by technicians chosen by them.

The wording here used seems to hint that the opportunity to attend the description process is not part of the right of defence but rather an opportunity that the plaintiff can request and is dependent on the court's discretion.

Ultimately this means that participation to the description procedure can be sacrificed in order to protect trade secrets

Moreover to facilitate the appointed technical consultant's job, when requesting an interim measure, the appellant should avoid ample, vague requests and should be as clear as possible and instruct the consultant on how he could manage to find that information among the corporate goods.

The Judge, instead, on his part should clarify the data he needs and also what kind of information is irrelevant to the case and should be also kept away from the appellant. Proceeding in this manner does have its advantages.

One is speeding up the procedure and hearing to determine if an infringement actually took place, thus reducing the length of procedures due to the fact that the decision of relevant documents would occur *in loco* and not in a second separate

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<sup>377</sup> Article 130 IPC - Execution of description and seizure.

procedure also reducing the risk of unwillingly revealing information that was meant to be kept secret.

Concluding the analysis of the current Italian solution for secrecy during interim procedures, it should be noted that according to most interpreters when a Judge does not provide for the correct measures to protect confidential information, the resistant (*i.e.* the person who is subject to the interim measure) can request an autonomous procedure in order to get some guarantees for his trade secrets.<sup>378</sup>

Similarly the party who requested the measure should be able, during proceedings, to request that the decree of secrecy protecting the documents be lifted.

Following this overview on the current Italian procedure for interim measures in trade secret procedures, the question to answer is how does Directive (EU) 2016/943 provide for protection during civil procedure.

As mentioned earlier article 9 of the Directive focuses on trade secrets and civil procedure.

In its first paragraph the article recalls the role Member States play in ensuring that the parties involved in the procedure are not allowed to use or disclose any trade secret which the competent judicial authorities have acquired through an *interim* procedure and have identified as confidential.

This is already a different set up from what is offered by article 129 IPC, which references IPRs in general and then only on a secondary level mentions the need to adopt measures necessary to guarantee the safeguarding of confidential information.

Going a step further article 9 also underlines that the measures adopted to guarantee secrecy shall remain in force also after the legal proceedings.

Such obligation is a logical consequence and necessity as we are dealing with confidential information.

If this were not the case then there would be no need to apply protection measures in the first place.

However this is not an unlimited protection.

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<sup>378</sup> Trib. Rovigo, 24 December 2001, (ord.), GDI, 2002, 520.

In fact there are two cases where this obligation would cease to exist: the first is when the alleged trade secret is found, by a final decision, not to meet the requirements set out in point (1) of Article 2 of the Directive and the second is where over time, the information in question becomes generally known among or readily accessible to persons within the circles that normally deal with that kind of information, thus losing another of its requirements to be considered a trade secret.

The second paragraph of article 9 establishes, in line with what was determined above during the analysis of the Italian regulation, that upon a reasoned application a party can request that necessary measure be adopted for the safekeeping of confidential information.

The competent judicial authorities may also establish these measure *ex-officio*.

Once again article 9 continues setting a higher bar by listing some of the measures that can be adopted by the competent authorities.

Among the measure it includes the possibility:

- (i) of restricting access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties, in whole or in part, to a limited number of persons;
- (ii) of restricting access to hearings, when trade secrets or alleged trade secrets may be disclosed, and the corresponding record or transcript of those hearings to a limited number of persons
- (iii) of making available to any person other than those comprised in the limited number of persons referred to in points (a) and (b) a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed or redacted.

In a way the measure listed in points (i) and (ii) were already used and found in Italian case law.

Point (iii) however possibly represents a new solution to the ones already encountered, and in its own way is quite effective ad would maintain confidentiality

for the people involved and also provides information to whoever may be interested without the risk of revealing trade secrets.

It would nonetheless require that the judge have already established what information actually constitutes a trade secret.

When determining the number of people that may be present article 9 of the Directive considers it to be no greater than what is strictly necessary to ensure a correct and fair procedure that respects the parties' right to a proper and efficient defence.

It does set a minimum amount by listing "at least, one natural person from each party and the respective lawyers or other representatives of those parties to the legal proceedings."

In its final two paragraphs article 9 not only requires the procedure to treat personal data in accordance with Directive 95/46/EC<sup>379</sup>, but also that the Judge, when deciding on the most appropriate measure, take into account "the right to an effective remedy and to a fair trial, the legitimate interests of the parties and, where appropriate, of third parties, and any potential harm for either of the parties, and, where appropriate, for third parties, resulting from the granting or rejection of such measures."

In conclusion article 9 Directive (EU) 2016/943 not only recalls and lists measures and solutions already encountered in Italian case law, but also sets forth another series of standards that the competent judicial authority must take into account not only when applying an interim measure, but throughout the entire civil procedure, keeping in mind that these measure will remain applicable so long as there is a valid trade secret that needs protection.

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<sup>379</sup> Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

#### **4.2. (Follows) Focus on the Description Process**

The main reason for a party to request an interim measure such as that offered by description is to acquire all the elements of proof necessary to demonstrate that their counterpart is infringing one or more exclusivity rights.

It should also be noted how evidence acquired during description cannot be left, under a general rule of confidentiality, in the hands of a public officer or technical consultant without it being available immediately to the party who requested it in the first place.

This is due to three main reasons.

The first is quite obvious if the requesting party cannot immediately access the documents and information collected by the public officer or court appointed consultant he cannot initiate the proceeding on the merits in the shortest time possible.

The second reason is that it is difficult for the judge and his appointed technical consultant to determine by themselves *ex post* what information is relevant, this is why it is up to the requesting party to specify in his formal request what elements the judge and his officers should be paying most attention to.

The third reason tends to be more intricate.

The immediate access to the acquired documentation cannot damage the party subject to the *interim* procedure.

In fact if the party under exam is infringing damages will be due to his illicit activity and not the description process.

However if he is not infringing, immediate access to these documents will avoid him civil litigation and all expenses relating to it.

Prior to the introduction of the Industrial Property Code in cases where the knowledge of all the information contained in the documents, including trade secrets,



could cause any form of harm, if properly documented this information could then be liquidated in the final decision.<sup>380</sup>

Nonetheless it would seem more appropriate, as the Directive aims to do, that any confidential information be protected as such from the beginning without having to wait and see if any damages do arise.

Of particular interest to the description method is the third requisite information needs to have to be considered a trade secret, *i.e.* that it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

At this point a distinction should be made.

When discussing products it is clear that once these are placed on the market any right to confidentiality and trade secrecy is lost.

However with manufacturing procedures it is a different story.

Lets take into account a procedure that could not be patented, that does not exist on the market, and where its final product does not leave a trace of its production method (“fingerprints”).

In these cases the description procedure has the purpose to describe the manufacturing phases of the final product and as mentioned above could be used as a trojan horse by a competitor who abuses his right to process in order to acquire his competitors trade secrets.

On the other hand if description for a manufacturing procedure were not granted, infringers who copied these processes would benefit from a *de facto* and *de jure* immunity.

So for who relies on production methods the importance of the third requisite for trade secrecy is clear, as he cannot simply claim that that information is confidential.

An example can help better understand the importance of security measures and most importantly that they be adequate to protect the secrecy.

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<sup>380</sup> G. MODIANO, *Misure idonee a garantire la tutela delle informazioni riservate nel corso di descrizioni giudiziarie*, in Studi in onore di Adriano Vanzetti, 2004.

For sake of discussion lets say that a company engages a manufacturing firm to build its new innovative product.

Other from the necessary NDAs and confidentiality agreements the hired firm will have to prove the security of its facilities.

This means limiting access only to the strictly identified personnel.

However it is not sufficient because there are a series of other factors that can constitute risks, such as the people who are hired to clean the facilities within the highly restricted areas and the method used to dispose of documents or drawings within the plant.

In other words there are many elements that go beyond the simple plant itself, in fact it could be equipped with all the latest technology for security on sight, but for example if documents are not shredded in the proper way and then just left on the side of the road to be collected by the street cleaners then one cannot claim that he adopted the appropriate measures.

In general, particularly for firms that base themselves on research and development, minimum standards of security should include having separate facilities, access only for limited personnel and non disclosure agreements.

The judge who emits an ordinance that allows description should then respect on one side the interest of the requesting party to acquire all the information necessary to prove the infringement, and on the other the interest of the party subject to the procedure that any trade secret remain confidential.

The public officer or the appointed technical consultant should then make sure that the conditions listed above are respected (*i.e.* separate facilities and limited access), if so then they will not need further permission from the party subject to the description.

Even if this were not the case, the public officer and technical consultant should always remember that the law requires them to discriminate between trade secrets and information necessary for the description.

Nonetheless between the right of the plaintiff to prove the infringement and the defendant's right to secrecy, the first should prevail.

If description were impeded by secrecy, proving patent infringement for example would be impossible.<sup>381</sup>

#### **4.3. Compensation for damages and restitution of profits**

Proceeding with the analysis of the Directive's impact in Italy an important innovative aspect relates to the calculation of damages owed to the party who suffered an infringement of its trade secret.

The Italian IPC lacks a specific rule for compensation in trade secret violation cases. However it does have a general rule provided by article 125 IPC which deals with compensation and restitution of profits that were earned by the party who committed the infringement.

Nonetheless article 125 IPC covers an important flaw in the IP protection system in Italy that existed prior to the introduction of the industrial property code itself.

In fact until 2005 the special laws regulating intellectual property only hastily mention damages, without providing a method of calculation.

Until then a "codified" solution was provided by the Enforcement Directive in its article 13.

This Directive was very helpful in Italy as it introduced in the national legal system a better way to assess damages, to secure the damage payments, the discovery, the indication to recognise the winning party the due amount of legal and other fees effectively spent.

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<sup>381</sup> G. MODIANO, *op. cit.*

In fact the first two paragraphs of article 125 IPC replicate provisions contained within article 13 and in particular its letters (a) and (b).<sup>382</sup>

According to part of the legal doctrine the compensation for damages in IP cases can tend to be inadequate due to the small amounts liquidated during the hearing.<sup>383</sup>

Moreover the efficiency of the sanction would be diminished if it were only limited to the restitution of illegitimate profits.

This gave birth to the idea that damages in IP cases should not only have a deterrent nature but also resemble more the concept of “punitive damages” present in the USA.

However there is no legal basis for such a use of damages within the Enforcement Directive or even Italian case law.<sup>384</sup>

In fact the whole concept behind punitive damages contrasts with national principles that recognise civil damages as purely compensative and prohibit the damaged party from profiting from the damage he suffered.<sup>385</sup>

Moreover article 125,1 IPC references article 1223 Civil Code<sup>386</sup> meaning that also in IP cases damages include lost profits and damages suffered as a direct consequence of the infringement.

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<sup>382</sup> Article 13,1(a)(b) Directive 48/2004/CE “When the judicial authorities set the damages: (a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement; or (b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.”

<sup>383</sup> M. BARBUTO, *Il risarcimento dei danni da contraffazione di brevetto e la restituzione degli utili*, Riv. Dir. Ind., 2007, I, 175. P. FRASSI, *I danni patrimoniali. Dal lucro cessante al danno emergente*, AIDA, 2000. G. GUGLIELMETTI, *La determinazione del danno da contraffazione di brevetto*, in AA. VV., *Il risarcimento del danno da illecito concorrenziale e da lesione della proprietà intellettuale*, Milano, 2004.

<sup>384</sup> P. FRASSI, *Commento articolo 125 CPI*, in in A. VANZETTI, *Codice della proprietà industriale*, Giuffrè, 2013, 1300.

<sup>385</sup> Cass. Civ., 19 January 2007, n. 1183. See also V. DI CATALDO, *Compensazione e deterrenza nel risarcimento del danno da lesione dei diritti di proprietà intellettuale*, G. COM, 2008. And M. SCUFFI, *Diritto processuale della proprietà industriale e intellettuale*, Milano, 2009.

<sup>386</sup> Article 1223 Civil Code - Compensation for damages: “Compensation for damages arising from non-performance or delay shall include the loss sustained by the creditor and the lost profits insofar as they are a direct and immediate consequence of the non-performance or delay.”

Another matter to keep in mind is that of indirect damages that can occur as a consequence of “convoyed sales”<sup>387</sup>, which takes into count the loss caused by the units that went unsold due for example to the fact that the infringing product was offered on the market at a much more competitive price, unaffordable to the original manufacturer.

There is also a reference to article 1226 Civil Code meaning that damages can be equitably liquidated by the court if it is not possible to prove them in their exact amount.

However an equitable solution means that prior to calculating the amount owed, the infringing act must be effectively proven beyond doubt and the judge only has the duty to compute and award damages.<sup>388</sup>

The last reference to the Civil Code, contained in article 125 IPC, is article 1227 Civil Code, which accounts for negligence as a contributing factor in the cause of damages.

In these circumstances compensation is reduced according to the seriousness of the negligence, and the extent of the consequences arising from it, or is not due if the damaging party could have avoided the harmful act by using ordinary diligence.

The closing paragraph<sup>389</sup> to article 125 IPC establishes that the guilty party should pay back to the injured party all the profits he made selling the counterfeit products “in any event”.

This wording and article 125 IPC itself have brought on some issues regarding the correct application of the provisions contained within it.

In fact this general expression and the heading of the article, that seems to place recovery of lost profits on the same level as that of compensation, have led

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<sup>387</sup> A convoyed sale occurs when a non-patented item is sold with a functionally associated patented item and the items are part of a single, cohesive unit. See Trib. Milano, 17 September 2009, GDI, 2009, 1157 and Trib. Milano, 5 August 2005, DI, 2006, 210. Also see G. GUGLIELMETTI, *op. cit.* and A. RAPISARDI, *Il risarcimento del danno da contraffazione brevettuale*, in AA. VV., *Il risarcimento del danno da illecito concorrenziale e da lesione della proprietà intellettuale*, Milano, 2004.

<sup>388</sup> Cass. Civ., 19 June 2008, n. 16647. And Trib. Bologna, 25 September 2009, GDI, 2009, 1174.

<sup>389</sup> Article 125,3 IPC “In any event, the owner of the infringed right may request the recovery of the profits obtained by the infringer, either as an alternative to compensation for the loss of profits or to the extent that they exceed that compensation.”

interpreters to believe that restitution of profits is another autonomous sanction the Judge can impose upon request of the injured party, and not an element of proof upon which to determine the amount of damages.<sup>390</sup>

When looking at article 13 Enforcement Directive, restitution of unwarranted profits is set in its letter (a), as an element of the reparable damage, and in its second paragraph, as an alternative Member States can turn to if the infringer did not knowingly, or with reasonable doubt, commit the infringing activity.

At the time the provision in article 125 IPC was written the Italian legislator did not implement article 45,2 TRIPs<sup>391</sup> which contained a specification that determined that this measure (*i.e.* returning profits) could be also used in cases in which a party unknowingly participated or caused the infringement of someone's intellectual property.<sup>392</sup>

The solution provided by the Italian legislator instead does leave room for the judge's discretion and uses profit restitution "in any case" not limiting it to specific violations.

According to some legal doctrine this interpretation has some shades of unconstitutionality.<sup>393</sup>

Nonetheless it should be noted how Italy has been systematically incorrectly applying the rule contained in article 125,3 IPC.<sup>394</sup>

A recent case in front of the court of Turin could better clear this incorrect application of the law.<sup>395</sup>

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<sup>390</sup> For further debate on the subject see M. BARBUTO, *op. cit.*, and A. VANZETTI, *La restituzione degli utili di cui all'articolo 125, n. 3 nel diritto dei marchi*, DI, 2006.

<sup>391</sup> Article 45,2 TRIPs - Damages "[...] In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity."

<sup>392</sup> Further details in A. NICOLUSSI, *Proprietà intellettuale e arricchimento ingiustificato: la restituzione degli utili nell'art. 45 TRIPs*, in *Europa e diritto privato*, n. 4, 2002, 1005.

<sup>393</sup> See P. FRASSI, *op. cit.*, and A. VANZETTI, *La restituzione degli utili di cui all'art. 125, n. 3 c.p.i. nel diritto dei marchi*, DI, 2006.

<sup>394</sup> Avv. Giovanni F. Casucci (Bardehle & Pagenberg), Mercoledì 5 Ottobre 2016, Politecnico di Milano incontro dal titolo: La Nuova Direttiva sui Trade Secrets e le conseguenze in relazione alle strategie di protezione dell'innovazione tecnologica.

<sup>395</sup> Trib. Torino, 5 May 2015, n. 3174.

The case deals with the calculation of damages owed by two companies that sold digital decoders in violation of the original manufacturer's patents.

Focus is placed on the request made by the recurring parties to determine the damages owed to the injured party on the basis of royalties that are ordinarily applied on the market and not on the profits made.

In any case the main recurring party requests that the amount be determined in order to avoid the effects of "royalty stacking"<sup>396</sup> relating to other technologies involved that are not part of the infringement case.

The responding party however requested confirmation that the damages owed amount to the undue profits made by the recurring parties as confirmed in the non definitive sentence made a year earlier.

In that decision both parties were found guilty of IP violations, so in the decision now under analysis the judge requested that an Independent Technical Consultant appointed by the Court (*infra* "ITC") ensure the number of sold counterfeit products, the exact profit made by the sale and the correct royalties that are applied in that particular market on average taking into account the negotiation between the parties involved.

The Judge when making his decision, that denies calculation of damages through royalties, focuses on the fact that article 125,3 IPC mentions that restitution of profits is owed "in any case" even as an alternative to the ordinary form of compensation based on general damages and loss of profits.

The fact that the patent owner focused on determining the damages as instructed in the first two paragraphs of article 125 IPC is not a valid reason to exclude disgorgement of profits, which is due "in any case and also as an alternative".<sup>397</sup>

In other words the judge not only orders compensation according to general damages but upon this also adds the restitution of undue profits, which cannot be interpreted in any other way if not as a punitive sanction.

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<sup>396</sup> "Royalty stacking" means that manufacturers/sellers of standards-compliant products need to obtain licenses from several SEP (Standards Essential Patent) holders, and the aggregate royalty then becomes the sum of the individual royalties paid to the different SEP holders.

<sup>397</sup> Trib. Torino, 5 May 2015, n. 3174, paragraph III.

To sum up if the loss of profits can be proven but there is no causal link then the injuring party should pay back the whole profits he made through his illicit activity.

If however damages were caused through an involuntary act (*i.e.* against the infringers knowledge and in lack of any negligence on his behalf) the sentence should not be based on undue profits, but rather on the royalties that should be paid had the injuring party followed the ordinary path that requires one to license another person intellectual property in order to use it.

Moreover the *quantum*, resulting from the calculation based on the royalties, could be doubled to serve as a deterrent rather than a punishment.

The incorrect application in Italy of article 125 paragraph 3 could be a consequence of a misappropriation of article 13,2 Enforcement directive.

Although it is true that in its second paragraph article 13 provides restitution of profits, it should also be read in combination with recital (26) of the Enforcement directive especially in the part where it claims that “as an alternative, for example where it would be difficult to determine the amount of the actual prejudice suffered, the amount of the damages might be derived from elements such as the royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question. The aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the right holder, such as the costs of identification and research.”<sup>398</sup>

In other words it should always be kept in mind that the purpose is compensation for damages and not of a punitive nature.

However this misuse of article 125,3 IPC could be the result of a mechanical application of the law without seeking the *ratio* behind its formulation that aims to obtaining justice and not a simple punishment.

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<sup>398</sup> Close attention should also be given to recital (25) of the Enforcement Directive particularly where it claims that “Where an infringement is committed unintentionally and without negligence and where the corrective measures or injunctions provided for by this Directive would be disproportionate, Member States should have the option of providing for the possibility, in appropriate cases, of pecuniary compensation being awarded to the injured party as an alternative measure.”



On the subject an official request for a “Public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights: Judiciary and Legal Profession” has been issued to the European Commission by the “Centro Studi Anticontraffazione” of Milan.

The claim focuses on how the wording used by the Enforcement Directive could create some misunderstanding in the Italian implementation, in particular with reference to its article 13.

According to this the main risk is to generate an absurd “overcompensation” effect just like in the case mentioned before in front of the Court of Turin.<sup>399</sup>

In fact the Court established that, in case of lack of evidence of a proven applied royalty rate by the Claimant (a non-practicing entity, royalties collector) for the infringement of two patents, instead of recognising the royalty rate requested by the Claimant, it would assign to the patent owner the full profits deriving from the sale of all the electronic devices, coming to the conclusion that the infringer had to pay five times the value of the royalty rate under discussion.

Turning to Directive (EU) 2016/943 article 14 faces the question regarding compensation for damages.

Taking both from the Enforcement Directive and TRIPs Agreement for the basic structure to calculate the amount owed for damages, the first thing that should be noted is that the Directive applies the discipline seen up until now specifically to trade secrets, meaning that it removes any possible doubts regarding the application of compensation measure to the misappropriation of confidential information.

In fact the first paragraph recalls that upon request of the injured party, Member States shall ensure that the competent judicial authorities “order an infringer who knew or ought to have known that he, she or it was engaging in unlawful acquisition, use or disclosure of a trade secret, to pay the trade secret holder damages appropriate to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret.”

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<sup>399</sup> Rovi c. Italvideo n.3174/2015 published the 5 May 2015 - R.G. 5441/2010 under Appeal.

It then seems that the Directive aims to award compensation on the basis of damages suffered and profits lost, in line with the current general rule applicable in Italy.

However it does add a specific provision mentioned earlier (regarding the relationship between trade secrets and labour law) that limits the liability for damages of employees towards their employers for the unlawful acquisition, use or disclosure of a trade secret of the employer where they act without intent.

Paragraph two of article 14 is particularly important as it provides a detailed list of information necessary to compute the amount of money owed as compensation (*i.e.* negative economic effects, lost and undue profits and elements other than economic factors like the moral prejudice caused to the trade secret holder by the unlawful acquisition, use or disclosure of the trade secret).

It should be noted how here, unlike what happens in the current application of article 125,3 IPC, undue profits are expressly mentioned as an element upon which to reconstruct the correct amount of damages owed and not as an alternative for compensation itself.

Concluding article 14 of the Directive introduces the possibility to alternatively quantify damages as a lump sum on the basis of elements such as, at a minimum, the amount of royalties or fees which would have been due had the infringer requested authorisation to use the trade secret in question.

The possibility for this is left up to the authorities discretion and no specific cases are mentioned.

It would then seem to represent a solution to the risk of overcompensation mentioned earlier during the analysis of article 125 IPC.

Of course only a proper analysis on the concrete application of article 14 of the Directive will be able to prove this, nonetheless it seems to be a complete article aimed at guaranteeing a correct calculation and application of sanctions that aim not to be punitive but rather deterrents against any further violations.

#### 4.4. Publication of the judgement

Final analysis in this dissertation is left to the possibility the judicial authority has to render public the protective order or the final decision.

This clearly represents a risk for trade secrets and the judge has to edit his decision in order to reveal what is of interest to the public without giving away confidential information that could damage the owner if it were to enter public knowledge.

The Italian industrial property code disciplines publication under its article 126 which states that the judge may order that the interim relief order or the judgment that determines the infringement of the industrial property rights be published in full or as a summary taking into account the seriousness of the circumstances, in one or more newspapers indicated by it, at the expense of the losing party.

Article 126 IPC is a reproduction of what had already been established in article 65 trademark law and article 85 invention law, but expands the provision to all forms of exclusivity rights including ones that are “non-titular”.

Moreover it establishes that publication may be granted not only for final decisions but also for *interim* measures.<sup>400</sup>

The introduction of article 126 IPC brought Italy’s legislation in line with the provisions contained within the Enforcement Directive, in particular with recital (27), which views publication as a supplementary deterrent to future infringers and as a contribution to the awareness of the public at large, and article 15 where it is established that “Member States shall ensure that, in legal proceedings instituted for infringement of an intellectual property right, the judicial authorities may order, at the request of the applicant and at the expense of the infringer, appropriate measures for the dissemination of the information concerning the decision, including displaying the decision and publishing it in full or in part. Member States may

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<sup>400</sup> For further information on the matter see G. BONELLI, *La pubblicazione del provvedimento cautelare a tutela della proprietà intellettuale (più qualche considerazione in tema di tutela cautelare in generale)*, riv. dir. ind., 2005. And F. FERRARI, *Note a prima lettura sulle norme processuali contenute nel codice della proprietà industriale*, riv. dir. ind., 2005.

provide for other additional publicity measures which are appropriate to the particular circumstances, including prominent advertising.”<sup>401</sup>

It should however be noted how publication or “disclosure” of a sentence is a practice that is well known and used in the Italian legal system also in other fields of law.

The use and effectiveness of this measure has been discussed in legal literature.

According to an older orientation the “disclosure” of a decision to the public covers a purely compensatory function and would then be connected to proof of damages and a subjective element be it wilful misconduct or gross negligence.<sup>402</sup>

Another orientation however places its compensatory role in the background and prefers to view disclosure as more of a deterrent measure.<sup>403</sup>

However in industrial law, without prejudice to article 2600 Civil Code, which expressly subjects disclosure to the proof of wilful intent or gross negligence, publication of a judgement has always had multiple functions.

On one side there was never the intent to deny its compensatory nature and on the other its deterrent nature, which does not require any subjective elements, has always been widely recognised.<sup>404</sup>

Information should also be considered as another use for disclosing a decision.

In fact the educational nature of this aspect should help understand the negative opinion society has and the harmful effects counterfeiting brings with it.

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<sup>401</sup> On the subject some literature underlines how Italy up to the time shortly after the introduction of the Industrial Property Code had not been applying article 15 of the Enforcement Directive correctly, in particular in its first part. See G. CAPUZZI, *Pubblicazione della sentenza, trasparenza e mass-media: la (mancata) attuazione della direttiva sull'enforcement e del principio di “adeguatezza”*, riv. dir. ind. 2006.

<sup>402</sup> M. VANZETTI, Commento articolo 126 CPI, in in A. VANZETTI, *Codice della proprietà industriale*, Giuffrè, 2013, 1310.

<sup>403</sup> B. CAVALLONE, *La divulgazione della sentenza civile*, Milano, 1964, claims that disclosure is made in the interest of the public to prevent the circulation of false representations of reality that could potentially harm individuals or society itself. Also V. ANDRIOLI, *Commentario al codice di procedura civile*, 1961, according to whom disclosure can prevent future damages and is a preventive compensatory measure. In case law see Cass., 11 November 2004, n. 21492 and Trib. Milano, 30 January 2009, GDI, 2009.

<sup>404</sup> G. RATTI, *La contraffazione del marchio. Profili processuali*, in N. BOTTERO - M. TRAVOSTINO (a cura di), *Il diritto dei marchi d'impresa. Profili sostanziali, processuali e contabili*, Torino, 2009. Also G. BONELLI, *op. cit.*, in the part where he claims that publication of the judgement must never have a punitive nature but should rather answer a necessity to prevent further damaging consequences.

It could also be useful in reducing the number of disputes, minimise confusion and abuse of procedural law.<sup>405</sup>

Article 126 IPC does not specify, but it would seem by its phrasing that publication is allowed only if there has been an express request by the winning party.<sup>406</sup>

This is also confirmed by article 15 Enforcement Directive.

The judge has a certain level of discretion once the request has been made, as he can decide the method and content.

However he must keep in mind the seriousness of the facts pursuant to article 124,6 IPC in the part where it requests that in applying the sanctions, the judicial authority must take into account the necessary proportion between the seriousness of the infringements and the sanctions, as well as the interests of third parties.

This proportionality criteria is necessary to avoid that the judge apply excessive measures but also to prevent that he be too lenient avoiding disclosure in front of serious infringements.

A serious deficiency in article 126 IPC is that it seems to only identify newspapers as a means of publication, excluding more modern instruments provided by the digital era.<sup>407</sup>

Nonetheless in lieu of the 2009 reform, article 120 of the civil procedure code, which deals with publication of decision in civil matters in general, now includes internet and thus more modern means of communication.

Where this is an important step of modernisation, when confronted with trade secrets it turns into a more preoccupying matter due to the speed and vast coverage provided by this service.

At this point it is necessary to see how Directive (EU) 2016/943 addresses the subject and the problems that come with it.

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<sup>405</sup> G. CAPUZZI, *op. cit.* Trib. Roma, 19 December 2006, GDI, 2007, 571. Trib. Milano App., 19 March 2005, GDI, 2005, 786. Cass. 14 October 2009, n. 21835.

<sup>406</sup> Cass. 1 March 1993, n. 2491.

<sup>407</sup> M. Vanzetti, *op. cit.*

In the first place it should be underlined how article 15,1 of the Directive takes inspiration from the general ruling of article 126 IPC but applies it specifically to the unlawful acquisition, use or disclosure of a trade secret.

It maintains the fact that the applicant must be the one to request publications and that this should be done at the expense of the infringer.

In doing so the article requests that the publication should be made pursuant to what is required by article 9 of the Directive in order to preserve confidentiality of trade secrets (see paragraph 4.1).

Unlike article 126 IPC the Directive lists a series of elements relating to trade secrets that the judge must keep in mind when deciding to disclose the decision pursuant to the principle of proportionality.

Such elements are the value of the trade secret, the conduct of the infringer in acquiring, using or disclosing the trade secret, the impact of the unlawful use or disclosure of the trade secret, and the likelihood of further unlawful use or disclosure of the trade secret by the infringer.

This last aspect clarifies further how publication of the judicial decision should be viewed more as a deterrent rather than a punitive measure.

The final provision contained within article 15 of the Directive exists in order to protect the infringer's privacy and establishes that the competent judicial authority shall also take into account whether the information on the infringer would be such as to allow a natural person to be identified and, if so, whether publication of that information would be justified, in particular in light of the possible harm that such measure may cause to the infringer's privacy and reputation.

It would then seem that once again Directive (EU) 2016/943, when compared to the existing Italian legal framework relating to confidential information, does not put forward groundbreaking solutions but rather codifies principles and solution that are already found in case law and other fields of law, while at the same time applying them specifically to trade secrets taking away any doubt that could have existed regarding their applicability.

## CONCLUSION

Now that a complete overview of both Directive (EU) 2016/943 and its possible impacts on the Italian legal system has been drawn up, it is possible to come to initial conclusions on how the Directive will actually effect business owners, in particular SMEs and companies that rely strongly on research and development.

Before proceeding a few of these statistics should be kept in mind.

Out of the 537 SMEs interviewed, during the drafting process of Directive (EU) 2016/943, approximately 75% of them claimed that trade secrets are an important asset for the growth, competition and commercial performance of their business.

Almost 39% of the interviewed enterprises expressed their sincere preoccupation regarding the potential economical damages that could derive from their trade secrets becoming public.

Remaining momentarily on this aspect King's College London Law School researchers concluded that the loss from an illicit acquisition of trade secrets potentially results in sales going down by 56%, costs and internal investigations going up by almost 45%, security expenses, ADR and litigation costs increasing by 31-35%.

Leaving the monetary aspects aside, trade secret violation also entails damages for a company's image, reputation and competitive advantage resulting also in a possible loss of interest in transnational cooperation, outsourcing production and investments in innovation.

All in all the importance of the Trade Secret Directive should then be acknowledged as it offers a well balanced regulation for the goals it set forth.

In particular a serious worry for literature and practitioners alike was that trade secrets could become an exclusivity right just like patents, copyright and trademarks. However, the Directive, since its inception and already within its recitals (*i.e.* recital 10), aims and claims not to give trade secrets the status of IPR but rather provide a

uniformed definition of the subject and most importantly a minimum standard of protection across the EU.

This necessity, as was laid out in this dissertation, but firstly in the preparatory works to the Directive, was due to requests made by businesses and a general feeling among market operators that the protection outside their Member States was uncertain and as such was a disincentive to invest in new ideas and projects.

Although aiming to obtain a minimum protection standard, Member States still have sovereignty in the sense that they are free to adopt stricter protection methods.

Cooperation with Member States is a recurring theme, in fact EU rules along side national laws are called upon to determine whether a conduct is fair or not and who are the people that can legitimately acquire, use or disclose trade secrets.

The Directive also guarantees the respect of national and international principles, it respects international agreements and underlines the need to allow the competent judicial authorities to operate as freely as possible and in the best interest for justice when issuing interim measures or determining damages.

It also promotes limited liability for the employee who unwillingly discloses confidential information and, following the many complaints, it guarantees freedom of speech for journalist and particularly for whistle-blowers.

A final relevant element is that the Directive stresses how important confidentiality is during civil litigation.

Under this last aspect it finally introduces, also in Italy, the concept of “sham litigation” following an abuse of process.

Article 7,2 in fact states that: “Member States shall ensure that competent judicial authorities may, upon the request of the respondent, apply appropriate measures as provided for in national law, where an application concerning the unlawful acquisition, use or disclosure of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith. Such measures may, as appropriate, include awarding damages to the respondent,



imposing sanctions on the applicant or ordering the dissemination of information concerning a decision as referred to in Article 15.”

The intentions set forth by Directive (EU) 2016/943 are then a welcome initiative especially as they provide minimum standard of protection within the EU by also specifying what acts constitute the elements of illicit use, acquisition or disclosure of confidential information and which ones are to be considered legitimate (see article 3 and 4).

One should then hope that the road the Directive has embarked on will be able to pave the way and help treat trade secrets as an auxiliary instrument for innovation and in particular as a valid companion for a patent’s early years.

Nonetheless it should be noted how some of the protections trade secrets will benefit from the new Directive may in fact create rights that reach as far as "true" intellectual property rights, since trade secrets can, under the new provisions, be opposed *erga omnes*.

This is due to article 10 in particular which provides that upon the request of the trade secret holder, the judge can order provisional and precautionary measures against the alleged infringer, in particular “the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis; the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes; the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.”

A doubt does then come to mind; is the Directive actually trying to implicitly elevate the protection of trade secrets to that of other IPRs, or is it setting the basis to then upgrade them in the future?

This would seem most unlikely considering how the Recitals themselves deny such an intention and reassure that the Directive aims solely at creating a uniformed regulation of trades secrets.

However it will be interesting to view the results following the application of Directive (EU) 2016/943 and be able to analyse the first reports due in 2018 by the European Commission.

Another interesting element, especially from an innovative and competitive standpoint, is that reverse engineering, under specific circumstances (*i.e.* article 3,1(b) and Recital 16), is officially recognised as a valid means of acquiring information.

Theoretically this should be provided for more competitive products but also more innovation and interoperability between products.

Moreover it could allow innovators to cooperate with one another more easily speeding an innovative process.

In Italy however the official legitimization of reverse engineering could reduce the number of patent and utility model violation cases where article 2598, n.3 Civil Code is applicable.

In conclusion, the value information has within the economy is undeniable and by offering it a standard level of protection, innovation and competition alike should benefit as well.

By attempting to uniform the discipline within the EU the Directive provides a series of solutions that are welcome in Italy due to the fact that in the most part they confirm the orientation national law took on the various subjects analysed in the final section of this dissertation (*i.e.* definition, labour issues and procedural aspects).

In fact it should be seen as a reason of pride that Italy represents one of the most advanced legislations among the EU Member States on the topic of trade secret protection.

Implementing this Directive on a national level should not represent a troublesome task.

On a purely practical level the Directive seems to be infringer-friendly and not in a bad way.

Not only does it recognise reverse engineering as valid under certain circumstances but it also informs a potential infringer, on one hand, of all the types of behaviour under which he might be found guilty and, on the other, of the conducts that do not amount to trade secret violation.

Put simply a violator is aware of the risks he may face when embarking in his illicit activity.

The Directive also reinforces and underlines the trade secret holder's duties and obligations, in particular by stressing the importance of the third condition in article 2,1(c) which requires whoever seeks protection for their trade secret to adopt proper security measures, meaning that where these measure turn out to be inefficient the trade secret owner will not be able to act in redress.

Finally by also providing specific rules during civil procedure and interim measures the Directive reduces the chance that a competitor may in bad faith use litigation as a trojan horse to acquire confidential information.

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