

Question Q215

National Group: Netherlands

Title: **Protection of trade secrets through IPR and unfair competition law**

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Questions

General

Groups are asked to give a description of legal developments and the current situation in their jurisdiction with regard to trade secret protection, answering the following questions:

1. Legal developments on trade secrets

How did trade secret protection evolve in your jurisdiction?

The protection of trade secrets in the Netherlands is provided under civil law as well as criminal law. Despite many efforts to draft specific legislation on unfair competition, up to date no specific rules exist under civil law (other than a specific labour law provision that is limited in scope). The protection of trade secrets was first provided for under criminal law (Article 291 of the old Dutch Penal Code of 1886, currently Article 272 and 273 of the new Dutch Penal Code (hereinafter referred to as: "DPC"). Under civil law, protection is provided under the general principles of unfair competition law as derived from the basic provision of tort (the general tort clause embodied in Article 162 of Book 6 of the Dutch Civil Code ("Civil Code"). Protection under civil law was established following the epoch-making judgment of the Dutch Supreme Court ("Hoge Raad") in the Lindenbaum v Cohen case of 1919. This case involved the protection of trade secrets. The ambit and impact of this case was very wide: the Hoge Raad extended the scope of protection of the general tort clause of (now) Article 6:162 Civil Code as to include protection against unfair trading practices not covered by Dutch statutory law.

Besides the provisions mentioned above, additional protection of trade secrets is often secured by entering into confidentiality agreements, including in employment relationships (Article 678 (2)(i) of Book 7 Civil Code).

For example, what kind of practical influence did the TRIPS agreement have on trade secret protection?

The Dutch legislator did not implement Article 39 TRIPS Agreement (“TRIPS”) since it is of the opinion that Dutch law is in compliance with the obligations under this provision. Dutch courts are fully able to grant the protection of Article 39 TRIPS on the basis of Article 6:162 Civil Code, in which they can take into account all relevant circumstances. While courts do mention the relevance of elements mentioned in Article 39 TRIPS (e.g. disclosure, acquiring, use of information obtained by improper means, not generally known, commercial value, reasonable measures to keep it secret), they are not used to explicitly refer to this provision. On the other hand, we did not find any court decision rendered after January 1, 1996 which is in violation of Article 39 TRIPS.

2. Definition of trade secrets

What is the definition of a trade secret in your jurisdiction? This may not be an easy question to answer. Some jurisdictions may adopt different definitions for different fields of law – unfair competition law or others. In some jurisdictions, no statutory law provides a definition of trade secrets. It may be useful to focus on the definition that is believed to be most important for your jurisdiction for discussion purposes. Your definition can be based on the conditions required by Article 39.2 of TRIPS Agreement for the protection of undisclosed information as well as the WIPO proposal for the definition of secret information, and/or if it is the case, the definition can be complemented by features required in your jurisdiction, such as the degree of secrecy, novelty and originality that is considered reasonable for enforcement purposes.

There is no unambiguous definition of “know-how” or “trade secret” in Dutch law. Article 273 (1) DPC makes it a criminal offence for a person to make known “*specific information, to which he has sworn secrecy, related to a commercial, industrial, or service organization in which he is or has been employed*”. Article 678 (2)(i) of Book 7 Civil Code refers to “*particulars regarding the internal affairs or business of the employer*”.

Both Article 39(2) TRIPS as well as Article 1(i) of the Commission Regulation 772/2004 on the application of Article 81(3) EC Treaty to categories of technology transfer agreements (“TTBER”, OJ 2004, L123/11) provide for a definition of trade secrets.

Article 39(2) TRIPS states:

“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.”

Article 1(i) of the TTBER states:

“‘know-how’ means a package of non-patented practical information, resulting from experience and testing, which is:

(i) secret, that is to say, not generally known or easily accessible,

(ii) substantial, that is to say, significant and useful for the production of the contract products, and

(iii) 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”

Both definitions have proven to be of (practical) influence in the Netherlands. The definitions are not identical. For example, the TRIPS definition requires that the information is not generally known or *readily accessible “to persons within the circles that normally deal with the kind of information in question”*, while the TTBER definition does not set this additional requirement. Secondly, TRIPS requires the information to be of *“commercial value”* because it is secret, while the TTBER requires the information to be *“substantial, that is to say, significant and useful for the production of the contract products”*. Thirdly, the TRIPS definition requires the information to have been subject to *reasonable steps* to keep it secret, while the TTBER definition (only) requires the information to have been *“identified, that is to say, described in a sufficiently comprehensive manner (...)”*. The differences must be explained by the different context, i.e. protection of trade secrets against disclosure, acquiring or use of the information obtained by improper means versus the question what clauses are (not) allowed in technology transfer contracts under EU competition law rules.

3. Control of trade secrets

Also, who is entitled to control trade secrets should be discussed with respect to the employer-employee relationship. Can an employee who conceives an idea or invention may have primary control over it? Can the employer have control over information created by an employee under assignment from the employer even if personal knowledge and skills of the employee are involved? Is co-ownership of trade secrets addressed by your legislation or case law?

The answer to the first question can be deduced from the following provisions in Dutch law which regulate the legal position of employer and employee with regard to trade secrets. In general, under Dutch law the disclosure of trade secrets by an employee is considered an act of wrong doing towards the employer. Article 7:678(2)(i) of the Civil Code provides that disclosure of information which the employee is supposed to keep secret is considered a valid ground for immediate dismissal.

Art 273 DPC provides that in case secrecy of information has been imposed upon an employee the disclosure of such secret information, during or even after termination of

his employment, is considered a criminal act. From both Articles it may be concluded that the employer is the one who is in control over secret information that belongs to his company. In order to avoid confusion or misunderstanding resulting from differences in the interpretation of the meaning of the law, in most labor agreements one will find a clause stipulating that the employee is supposed to keep secret any and all company confidential information, both during his employment and after termination of his employment. Information is company confidential unless it is made public by or with permission of the employer or is known from a generally accessible public source.

Furthermore the employer is under certain circumstances supported by the law in safeguarding his position with regard to patents, designs and copyright. Article 12(1) of the Dutch Patents Act provides that in case an invention for which a patent application has been filed has been made by an employee, the employee shall be entitled to the patent *unless* the nature of his employment entails the use of the employee's special knowledge for making inventions. In such a case the employer will be entitled to the patent. This specifically relates to employees who work in a company's research and development department.

The position of universities, colleges and research institutes is even stronger: pursuant to Article 12(3) of the Dutch Patents Act their employees cannot claim entitlement to a patent for their inventions. In these situations, the entitlement to the patent is accrued to the institute involved.

Deviation from the aforementioned provisions by written agreement is allowed. Consequently, labour agreements may go beyond what is stipulated in especially Article 12(1) Dutch Patents Act and provide that the employer will be entitled to a patent in case the nature of the invention falls within the scope of activities of the employer. In practice, most innovative companies will assure contractually that they have full control over any invention of their employees.

The obligation of keeping the invention secret follows from the novelty requirements for a valid patent application. Since it is up to the employer to decide to file a patent application, the invention will remain a trade secret until the employer has decided otherwise and allowed the invention to become part of the public domain. In case a patent application is filed, at any rate the secrecy will end by the publication of the application.

Provisions with regard to ownership and novelty of designs are found in the Benelux Treaty on Intellectual Property ("BTIP"). Article 3(8) BTIP provides that the right to the design will vest in the employer in case the design was made by an employee in the execution of his duties. As a result, the employer has control over the design.

Furthermore, Article 7 of the Dutch Copyright Act stipulates that if the labour carried out by an employee consists in the making of certain literary, scientific or artistic works (which may e.g. be drawings or design studies), the employer shall be deemed the author thereof, unless otherwise agreed between the parties. Consequently, also the right of publication will generally belong to the employer and the latter will keep control in case such work is considered a trade secret.

Can an employee who conceives an idea or invention may have primary control over it?

An employee will have control over the idea or invention unless provided differently by law or contract.

Can the employer have control over information created by an employee under assignment from the employer even if personal knowledge and skills of the employee are involved?

Art 12(1) Dutch Patents Act provides that in case the nature of the service entails the use of the employee's special knowledge for the purpose of making the inventions, the employer will be entitled to the invention and any patent resulting thereof. In all other cases the employee will be entitled to the invention unless provided otherwise by contract.

Is co-ownership of trade secrets addressed by your legislation or case law?

No, co-ownership of trade secrets by employer and employee is not addressed by Dutch legislation or case law. Reference is made to the answer to question 7 which explains in more detail that trade secrets as such cannot be assigned to another party.

4. Source of law for trade secret protection

Are statutory provisions available for the protection of trade secrets? Is protection awarded by case law or court precedents or direct application of the relevant provisions in the TRIPS Agreement? Under your laws, do trade secrets belong to the category of property rights? Or is the protection derived from unfair competition law or other sources of law against misappropriation or dishonest commercial practices?

No statutory provisions are available for the protection of trade secrets, other than some very limited provisions under Criminal and Employment Law mentioned *supra* 1. Protection is mainly awarded under (1) unfair competition law by way of the general tort clause (Article 162 of Book 6 of the Civil Code) and (2) contract law by imposing contractual obligations of confidentiality. As stated above, Dutch courts are fully able to grant the protection of Article 39 TRIPS on the basis of Article 6:162 Civil Code. As a result, the Netherlands Supreme Court has not had a chance to decide whether or not Article 39 TRIPS is directly applicable, or only indirectly via Article 6:162 Civil Code. However, we note that in a patent case, the Netherlands Supreme court did not have any difficulty in setting aside a provision in the Patents Act of 1995, which restricted the right to claim damages for patent infringement, because it did not comply with the protection granted under Article 45 TRIPS. As there is no EU legislation in the field of trade secrets, it follows from the ECJ judgment in *Dior v Tuk* that the judicial authorities of the Member States are not required by virtue of Community law when called upon to apply national rules, to do so as far as possible in the light of the wording and purpose of TRIPS. In other words: there is no EU standard or minimum for the protection of trade secrets.

In the absence of relevant statutory provisions under civil law, trade secrets are not regarded as belonging to the category of property rights. Dutch law does not provide for exclusive and absolute rights of trade secret protection as opposed to intellectual property rights. Furthermore, trade secrets as such cannot be assigned to another party. However, in practice, trade secrets are "sold" and licensed to other parties by agreements, which try to create a situation which comes as close as possible to a

classic IP assignment or license agreement (vide the answer to question 7 for further clarification on this issue).

5. Available remedies

What would be an outline on remedies available against trade secret violations in your jurisdiction? First, types of prohibited acts should be discussed, followed by available relief such as preliminary injunction or temporary restraining orders. It is probably useful to highlight issues particular to trade secrets. Please comment on the list of acts violating trade secret protection provided in the Q115 Copenhagen Resolution. Pros and cons of criminal or administrative remedies should be discussed. Are these remedies also available against someone who obtains trade secrets in good faith?

In general, protection of trade secrets under Dutch civil law is limited to those cases where either the acquisition, the use or the disclosure of the trade secret constitutes a wrongful act under Section 6:162 Civil Code. In principle only if the secret information was obtained in a manner which is not in accordance with the standards of decency applicable in society, this is deemed unlawful. The aggrieved party may recover damages suffered as a result of the unlawful disclosure, use or acquisition of its trade secret. Besides claiming damages, it is also possible under Dutch law to obtain a temporary restraining order to prohibit the disclosure and/or the (continued) use of unauthorized obtained information. It is noted that Dutch Courts are very reluctant to award restraining orders in cases where the trade secret was already made publicly available.

In contractual relationships the scope and content of the (non-disclosure) agreement primarily determines the extent to which confidentiality obligations should be taken into account. Depending on the (wording of the) agreement, a party may have the possibility to claim contractual penalties based on violation of the secrecy obligation.

If no contractual sanctions are included in the agreement, violation may constitute a breach of contract. Based on Section 74, Book 6 Civil Code, every failure in performance of an obligation shall require the obligor to repair the damages which the obligee suffers there from, provided this failure is attributable. Besides, this breach of contract also gives the obligee the possibility to (partly) terminate the agreement or on the other hand to demand specific performance of the secrecy obligation included in the agreement. In case no contractual provisions apply, possible actions arise from the general provision for unlawful acts (6:162 Civil Code) as mentioned in the first paragraph.

As mentioned before, where it concerns employment relationships, according to Article 7:678, 2 sub i of the Civil Code, an employee commits a breach against his employer if he reveals trade secrets regarding the enterprise of its employer. This constitutes a ground for immediate termination of the employment contract for urgent reasons. In brief, there are generally three ways of acting against an employee that discloses confidential (company) information: under the law of tort (paying damages), criminal law (imprisonment or a criminal penalty) or dismissal on the basis of employment law. An action in tort can be combined with one of the other aforementioned two actions.

Available remedies under Dutch penal law. Pursuant to Section 273 of the DPC the deliberate betrayal of trade secrets to any third party is a criminal offence. For this punishable act, the maximal penalty is a six-month term of imprisonment or a criminal

fine of the fourth category (€ 11,250). In accordance with this Article the offender can be a (former) employee of a firm, but also for example an independent contractor that became familiar with information of the undertaking while working there temporarily. It is still unclear as to whether the employer has to take specific measures in order to keep certain information secret, or whether the secrecy requirement should be derived from the circumstances of the case. Prosecution of a Section 273 offence can only take place upon a claim of the board of the enterprise involved. Because of its limited scope, Article 273 of the DPC has not been applied often, as a result whereof there is hardly any related (recent) criminal case law.

Further to Section 272 DPC anyone who knows or reasonably should have known that he has (had) to keep something secret because of his (former) office or profession or any statutory provision, and betrays this secret, is liable to imprisonment for a term not exceeding one year or to a maximum criminal fine of the fourth category (€ 11,250). Pursuant to Section 47 DPC also a competitor who incites an employee to betray a trade secret is guilty of a criminal offense. Furthermore, the DPC contains several provisions dealing with computer crime, in order to protect computer files containing confidential information against break-ins. Hacking of computers is a criminal offense. However, it must be noted that enterprises are responsible themselves to adequately and recognisably secure their computers against hackers.

Comments on the list of acts violating trade secret protection provided in the Q115 Copenhagen Resolution

Under Dutch unfair competition law, as a rule, benefiting from another's trade secrets is allowed. The simple use of trade secrets by third persons does not necessarily fall under the law of tort, but is dependent on the way in which the secret information was obtained. A person who uses improper methods in discovering another's trade secret may be held liable. This includes inter alia the use of industrial espionage, theft, the bribery of employees or the use of information disclosed by employees in violation of their obligation of secrecy as well as the abuse of confidential information acquired during the pre contractual stage protection for trade secrets is provided. In addition, the exploitation and reproduction of samples acquired during the cooperation between businesses may be held unlawful. In most cases, in order to be awarded protection, the plaintiff is required to keep the information secret, e.g. by imposing secrecy upon anyone he discloses the information to.

Are these remedies also available against someone who obtains trade secrets in good faith?

In general, the answer whether a bona fide third party is allowed to use obtained secret information mainly depends on the question which party bears the risk for the fault as a result whereof the trade secret came into wrong hands. When someone obtains a trade secret in good faith because it was sent to him by mistake (or if he obtained the information from a loose-tongued employer of a competitor), in principle he would be allowed to take advantage thereof. Furthermore, erroneous acts by auxiliary persons as a result whereof secrecy obligation are violated mainly are at the risk of the party that engaged these auxiliary persons.

Under Dutch criminal law, the disclosure of trade secrets is not punishable if the alleged offender could in good faith have assumed that it was in the public interest to disclose the confidential/secret information. This exception may apply in case of justifiable disclosure of trade secrets by a so-called whistleblower.

Does your legislation distinguish trade secret violations committed when the undisclosed information was accessed by means of an employment or other contractual relationship from those practiced by means of fraud, "espionage" or other improper means? Are the same remedies available for the two cases?

Yes, as explained in more detail in the answer to the previous sub question, Dutch law distinguishes different legal provisions for trade secret violations committed within the context of an employment relationship and those practiced by means of fraud or improper means etc. in the DPC. Besides this, the general provisions of the Dutch civil code relating to tort and breach of contract can be relied upon in case of violation of contractual non-disclosure obligations. Comparable (civil) remedies are available depending on the circumstances of the case, as explained in further detail in the answer to the previous sub question. Furthermore, violation of a criminal provision under Dutch law will also lead to a civil unlawful act as a result whereof the injured party (i.e. the board of a company) has the option to claim damages.

How does your jurisdiction apply the concept of "grossly negligent" third parties referred to in footnote 10¹ of Article 39,2 of TRIPS?

The Article 39.2 TRIPS concept of "grossly negligent" will or should be taken into account by the courts when assessing whether a trade secret violation constitutes an unlawful act under Article 6:162 Civil Code.

Which options are available for damages? How are damages calculated? Is the violation of trade secrets at all subject to punitive damages? If so, under what conditions?

In general under Dutch law the assessment of damages is based on Articles 6:95 and 6:96 Civil Code and can exist of loss of property, rights and interest and various costs incurred, as well as non-material damages, this last category only to the extent that the law confers a right to damages thereof. In principle damages can be claimed for all types of economic loss, such as loss of profits and loss of business. Depending on the circumstances of the case also a claim for payment of a reasonable royalty is conceivable (for example when the company involved grants licences for the use of its protected know-how against payment of royalties).

Dutch courts must assess the damages in a manner most appropriate to its nature. Where the extent of the damage cannot be determined precisely, it shall be estimated *ex aequo et bono*. Furthermore, reparation of damages can only be claimed for damages which is related to the event giving rise to the liability of the obligator, which, also having regard to the nature of the liability, can be attributed to him as a result of such event.

There are no established guidelines on the basis of Dutch (case) law for calculating damages suffered as a result of betrayal of trade secrets. In general, it is deemed difficult to assess damages as a result of violation of trade secrets. Demonstrating the causal relationship between the unauthorized use or disclosure of the trade secret on the one hand and the damages suffered as a result thereof on the other hand may be difficult due to the fact that a variety of economic factors affect the financial position of

¹ Footnote 10 states that: "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."

the injured party. Furthermore, the evidence of loss of profits is difficult since it usually remains open to discussion what profits would have been made without the violation of the trade secret. A further complication lies in the fact that commercial parties are reluctant to provide inside into their profit margin, since this could indirectly reveal confidential data.

Under Dutch law there is no possibility to impose punitive damages. The aggrieved party in principle only can claim the actual damages suffered by it.

6. Protection of trade secrets before and during litigation

This question has two aspects: one is the protection of trade secrets during, say, patent infringement litigation, and the other the maintenance of secrecy of trade secrets so that the person lawfully in control can safely seek remedies before the court. How does your statutory law incorporate the rule contained in the last sentence of Article 42, TRIPS?²

There are several means - that will be discussed in answer to the next sub question – for protection of trade secrets during litigation as meant in Article 42 TRIPS. All of these means have in common that it is up to the court to decide whether specific information should be considered confidential and whether the information for that reason should not be disclosed (entirely). However, the court should take into account that its decision must comply with Article 6 of the European Convention on Human Rights (fair trial). The obligation for any party to provide information or submit documents that are relevant for the case is not absolute, but any provision of secrecy should be proportionate and have sufficient counterbalance in procedural guarantees.

What specific measures or means are available for the effective protection of trade secrets before (in discovery and seizure proceedings) and during litigation?

Before litigation. The Dutch legal system does not encompass pre-trial discovery, but seizure is possible before litigation. With regard to the protection of trade secrets, especially evidential seizures are relevant, since there may always be potential risk that trade secrets of the judgment debtor are disclosed in the course of the seizure. In case of (threat of) IP infringement (which does not include a wrongful act on the basis of e.g. stolen trade secrets), on the basis of Article 1019b(1) Dutch Code of Civil Procedure “DCCP”, the court may grant leave to seize evidence regarding the infringement. This is one of the Articles included in the Dutch law upon incorporating the European Directive on Enforcement of Intellectual Property Rights (EC 2004/48/EG of April 29, 2004), specifically relating to Articles 6-9 of the Directive on gathering and protecting evidence of IP-infringement. If a party suspects that another party shall ask for such leave it may file protective letters in which he indicates that such leave should be denied, or that he should be heard beforehand. Some of the Dutch courts accept these protective letters, but others do not.

Furthermore, the court shall deny a claim for evidential seizure of an applicant if the protection of confidential information is not guaranteed (Article 1019b(4) DCCP). In practice this means that the court can either deny the claim or, in most cases, order that sufficient means are provided that should safeguard the confidential nature of the documents. Usually this means that the information that has been seized is to be placed

² Article 42, entitled “Fair and Equitable Procedures”, provides, at its last sentence, that: “The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.”

with an independent third party or a civil law notary, before the court will further decide on the infringement and access to the seized material.

During litigation. As a basic principle of Dutch procedural law, proceedings before the court are public (Article 27(1) DCCP) and the judgments are announced publicly (Article 28(1) DCCP). However, there are various means that can serve to protect confidential information from being disclosed either to the opposing party or to the general public.

For instance, at the request of any of the parties the Court may order that the proceedings will take place behind closed doors if the “privacy” of that person would require non-disclosure of the hearing to the general public. Alternatively, the court could order that only specific people may be present during the proceedings. It is established case law that the protection of confidential information of a legal person can also form the basis of either type of order. In such event the court will only issue judgments that are made anonymous to the general public. Furthermore, the parties shall then also be ordered to not discuss anything that went on during the proceedings with any third party (Article 29 DCCP).

In other cases, a party may want to keep information from being disclosed at all during the proceedings due to confidentiality. This may conflict with Article 22 DCCP which provides that the court may order a party to submit certain documents that are relevant to the case. If the concerned party does not want to oblige, he must inform the court that there is a substantial interest of confidentiality in non-disclosure. In order to assess whether these interests outweigh the other party’s interest in disclosure of the documents, parties may agree that only the court will take notice of the documents. In some cases it may even be agreed upon between the parties that the court renders judgment on the basis of such document that has not been shown to the opposing party, but in most cases this will be unacceptable for the opposing party. If this is unacceptable for the opposing party, the court shall have to rule on the confidentiality issue and if it is of the opinion that there are reasons to keep the documents confidential the court shall have to resign and have itself replaced by other judges. Alternatively, other judges could rule on the confidentiality issue. If a party does not even want to disclose the documents to the court, the court has discretion but will generally rule in favour of the other party.

Furthermore, if a party wants to submit confidential information in order to provide evidence in his favour, but does not want to disclose the contents thereof to the opposing party, such party may also request the court to allow that specific information shall only be made available to the opposing party’s counsel provided that he shall not share this information with his client. However, such request will in most cases be dependent on the agreement of the other party.

Finally, any party may also specifically request that the court orders the other party to submit one or more specific documents (this can be done during pending litigation or as separate proceedings). This will be assessed by the court on the basis of Article 843a DCCP (exhibition of documents). If the applicant proves that it has a legitimate interest in the case it may ask the court to order the other party to submit specific documents that concern a legal relationship in which the applicant or its legal successor is a party to. The legal history of Article 843(a) DCCP explains that a wrongful act may also be regarded a legal relationship within the meaning of this Article. Therefore, in case of e.g. stolen trade secrets, the victim may rely upon Article 843(a) DCCP provided that all other requirements of this Article are met. As an alternative to the 843(a) DCCP route, any party may apply for a court order appointing an expert to provide his opinion on

several questions regarding confidential information which is either in possession of the opposing party, or held by a custodian after seizure, without disclosing this information to the applicant.

To be complete, pursuant to Article 1019a(1) DCCP, infringement of IP-right is regarded a legal relationship in conformity with Article 843a DCCP. Therefore, Article 843a DCCP is regularly invoked in an attempt to get access to documents that have been evidentially seized (see above). Still, Article 1019a(3) DCCP specifically holds that the request shall be denied if the protection of confidential information is not guaranteed. Therefore, the court may for instance decide to first have an expert look at the seized material before it is handed over the other party.

7. Licensing trade secrets

What are issues relevant or important for contractual aspects regarding trade secrets?

Under Dutch law, trade secrets as such cannot be assigned to another party. This is because Article 3:83(3) Civil Code provides that "[o]ther rights" [i.e. other than ownership, limited rights and claims] are only transferable where the law so provides, and unlike with respect to IP rights, Dutch law does not provide so for trade secrets. However, in practice, trade secrets are "sold" and licensed to other parties by agreements, which try to create a situation which comes as close as possible to a classic IP assignment or license agreement. In principle, such trade secret agreements only bind the contractual parties and not third parties. The hard core provisions of an "assignment" of trade secrets include:

- the seller must provide the trade secret to the buyer;
- the seller agrees to cease its own use of the trade secret;
- the seller shall keep the information secret after the "assignment".

An important contractual aspect regarding such "assignments" is that the buyer of the trade secrets is not a secured creditor in case the seller goes bankrupt. In principle, he has the same position as all other creditors without any priority rights. Of course, the legal owner can become the owner of all tangible goods, such as discs containing the trade secret information, but such (assignable) property rights do not protect the trade secrets (information) as such.

In Dutch case law, the following issues related to contractual aspects regarding trade secrets have been relevant:

- does there exist an implied confidentiality obligation notwithstanding the absence of an explicit confidentiality clause? Note that Article 7:611 Civil Code provides that an employee shall be obliged to act as a good employee, which under circumstances includes the obligation not to disclose trade secrets of his employer.
- one should distinguish between confidentiality (non-disclosure) clauses and non-use (non-competition) clauses. If a party only signs a confidentiality clause but not a non-use clause, it may be very difficult to prevent this party from competing by using the trade secret without disclosing it.

- is the information indeed a trade secret or was already in the public domain? Note that often the onus of proof in this regard is shifted on the basis of contractual clauses.
- how long should non-disclosure and/or non-use obligation last after termination of the agreement?
- what remedies should be granted in case of breach of contract? To what extent could a court mitigate the agreed penalty sum in case of a breach of contract?
- do the clauses of the agreement violate any European or national antitrust rules?
- ex-employees: how to find a balance between the obligation of an ex-employee not to breach any non-disclosure and/or non-use obligation(s) and his right to use his general skills which he has obtained working for his ex-employer.

Typical issues which are provided for in trade secrets license agreements are:

- definition of trade secrets, products/services, territory
- grant of rights (use, manufacture, sell)
- provisions how the trade secrets shall be disclosed to the other party
- confidentiality provision, penalty clauses, evidence provisions
- duration
- what to do if third party rights are infringed
- improvements to trade secrets
- payment, auditing and control provisions
- trade mark, quality requirements
- warranties, liability provisions
- termination provisions
- governing law
- jurisdiction

How important are anti-trust considerations in your jurisdiction?

Very important. In practice, the clauses in trade secret transfer agreements are very often checked for their compliance with Commission Regulation 772/2004 on the application of Article 81(3) EC Treaty to categories of technology transfer agreements (= TTBER, OJ 2004, L123/11) and the Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (OJ 2004, C101/2). In principle, the hard core restrictions of Article 4 TTBER and excluded restrictions of Article 5 TTBER must be avoided in order to profit from the exemption from antitrust liability under Article 2 TTBER.

8. Effectiveness of non-disclosure and non-use agreements

What is the practical effectiveness of non-disclosure and non-use agreements in your jurisdiction?

It is very well possible to protect trade secrets by adopting the right document and facility measures and information technology measures in combination with good non-disclosure and non-use agreements with the right persons (e.g. employees, licensees). To the extent that in practice non-disclosure and/or non-use agreements are not very effective, this is because the clauses have not been well-written or because the trade secret owner did not take adequate document, facility and/or IT technology measures. Such measures include:

- identification of trade secrets. Note that Article 1(1)(i)(iii) TTBER defines "identified" as "described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality"
- classification of secret information and security/secrecy level; use of "confidential", "internal use only" stamps
- shredding sensitive documents
- requirement to return copies of documents
- storage of documents in locked cabinets
- locked building/rooms entrances
- visitor badges
- disclosure to employees and third parties only on a need-to-know basis
- use of passwords, automated shut-off of non active computers, encrypted storage and transfer of sensitive information, use of firewalls
- employee exit procedure with acknowledgments of secrecy obligations

Are any important court precedents available?

- Court of Appeal Arnhem February 29, 1956, BIE 1957, no. 2, p. 4 (De Goey vs. Reijners): no injunction to use designs of product since no confidentiality agreement had been signed.
- Court of Appeal Amsterdam February 20, 1964, BIE 1966, no. 48, p. 151 (Lastang): Licensee of trade secret containing non-disclosure clause may continue to use the secret after termination of the agreement in absence of a non-use clause.
- Court of Appeal The Hague January 8, 1998, BIE 1999, no. 23, p. 76 (D'Expert 2000 vs. Van Basten et al.): later use of information exchanged during negotiations about possible co-operation is not unlawful in the absence of any non-disclosure and non-use clause.

- Court of Appeal The Hague January 16, 1992, BIE 1993 no. 9, p. 44 (Wavin vs. Pipeliners): requirements of reasonableness and fairness govern the interpretation of a confidentiality clause. It was held that there was no non-use agreement, but that Wavin had to pay a reasonable remuneration for the use of the non-publicly available information, "the tricks of the trade", which included the negative results of "trial and error".

Which of contract law or unfair competition law prevail in this regard?

In principle, non-disclosure and non-use clauses are effected by contract law. One would invoke unfair competition law as a subsidiary source to the extent that contract law is not available. In unfair competition law, the existence of a non-disclosure or non-use clause may be a relevant circumstance which may add to the conclusion that the defendant has committed an act of unfair competition under the given circumstances.

Is unilateral imposition of nondisclosure after leaving the company or retirement possible in your jurisdiction?

No. However, depending on the circumstances of the case, one may conclude that there exists an implied confidentiality obligation.

Does the US doctrine of inevitable disclosure exist under your laws?

We understand that the US "doctrine of inevitable disclosure" is used to assess the need for a preliminary injunction or temporary restraining order: such an order can be granted if a former employee takes a position with a competitor and the disclosure and especially use of the former employer's trade secret information would "inevitably" occur. In the Netherlands, such a doctrine does not exist. Netherlands courts solve the fundamental tension between legitimate competing interests, the need to protect an employer's investment in trade secrets on the one hand, and the need to support free competition and movement of labour on the other hand, by balancing all circumstances of the case. In such an ad hoc balancing test no specific factor is given any specific weight under any doctrine. Also the interest of ex-employees to be able to use their general skills in their new profession is considered to be an important factor. The outcome of the balancing test varies widely depending on all circumstances of the case, which include the interpretation of any non-disclosure or non-use clause under reasonableness and fairness principles.

Harmonization

9. Common and practical definition of trade secret

As discussed above, the TRIPS Agreement deals with "undisclosed information" which is basically the same as what we discussed as a "trade secret," primarily because the term "trade secret" may have different meanings in different jurisdictions. Groups are asked to consider whether a common and practical definition of trade secret is viable or even desired. Are there any proposals for such a definition, or is the definition provided in the TRIPS Agreement sufficient for our purposes? Should there be a minimum standard for information to qualify as a trade secret? If so, what should the standard be?

In our view, Article 39 TRIPS is in principle sufficient as a common and practical definition for trade secrets. The definition is (or should at least be) guiding for the

national judicial authorities. Other than Article 39 TRIPS, we do not see the need for a minimal or additional standard for information to qualify as a trade secret.

10. What is desired in your jurisdiction?

What are perceived as current problems in your jurisdiction? What is desired or needed for effective protection of trade secrets? What kind of improvements in your own system for trade secret protection is sought? Also, are there any legal provisions or practices that you may consider to be advantageous in your jurisdiction compared to other countries?

Given the fact that the Dutch rules on (the protection of) trade secrets are mainly based on the general principles of tort, Dutch courts have a lot of flexibility in deciding whether a party has breached or infringed certain trade secrets. In our view this flexibility is advantageous as it allows the courts to rule on a case-by-case basis while using Article 39 TRIPS.

Although the IP Enforcement Directive, which aims to ensure a better and effective enforcement of intellectual property rights, invites the EU Member States to extend the provisions of the Directive to acts involving unfair competition, the Dutch implementation of the IP Enforcement Directive does not apply to trade secrets. In our view it could be (re)considered whether these Dutch provisions on the measures, procedures and remedies for the effective enforcement of IP Rights in civil proceedings should also be made applicable to the misappropriation of trade secrets. The (partial) applicability of these provisions to trade secrets, would allow the holders of trade secrets to use, amongst others, the available provisional and precautionary measures, the measures for preserving evidence, as well as the right of information, in proceedings regarding the misappropriation of trade secrets.

11. What is required for an improved global standard for trade secret protection?

As discussed above, collaboration among different entities in product development is becoming more important on a global scale. Groups are asked to entertain proposals for enhancement of international standards on remedies against trade secret violations. Groups are also asked to comment on what is necessary in practice for the protection of trade secrets during litigation and to discuss proposals for standard means available in court proceedings.

No comments.

12. What would be a desirable and realistic way to proceed?

For future possibilities, we have a choice among another multilateral convention, bilateral agreements or agreements among certain countries that are regionally close to each other or in similar stages of industrial development. What would be, in your view, a realistic way for us to proceed?

No comments.

13. Other comments?

No comments.