

SPAIN IMPLEMENTS THE 2016 TRADE SECRETS DIRECTIVE

A new landscape for legal protection of trade secrets in Spain: the Spanish Parliament has finally approved the Trade Secrets Act implementing the 2016 Directive. The text entails some material changes that all stakeholders should take into account.

Spanish Act 1/2019, of 20 February, on Trade Secrets (the Trade Secrets Act, "TSA"), was published on 21 February 2019 in the Official State Gazette, and will enter into force twenty days after such publication. The TSA implements Directive (EU) 2016/943 of 8 June 2016 on the protection of trade secrets (the "Directive"). Before the Directive entered into force, Spain already had legislation in place governing the protection of trade secrets, although scattered throughout a variety of different laws, such as Unfair Competition Act 3/1991 and the Criminal Code (Organic Act 10/1995). The TSA will not affect the existing legislation completely, but it regulates certain aspects for the first time and modifies some existing civil law regulations.

DEFINITION OF TRADE SECRETS

The TSA adopts a definition of trade secrets in line with the one set out in the Directive and in Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which was not expressly envisaged in the existing Spanish regulations but was consistently applied by Spanish case law.

According to the TSA, in order to be considered a trade secret, "information or knowledge" must be "secret", have "real or potential commercial value because it is secret" and "have been subject to reasonable steps by its holder to keep it secret".

LAWFUL ACQUISITION, USE AND DISCLOSURE OF TRADE SECRETS

The TSA lists lawful acts of acquisition, use and disclosure of trade secrets, basically copied from the Directive, and which were not included in the applicable Spanish regulations to date.

UNLAWFUL ACQUISITION, USE AND DISCLOSURE OF TRADE SECRETS

The TSA distinguishes between original infringers and recipients of trade secrets, as opposed to the Unfair Competition Act (which only listed the acts considered to be an unlawful exploitation of trade secrets and stated that, to consider them unfair competition acts, the person accessing, using or exploiting the trade secret must have acted with the intention of obtaining a benefit for itself or a third party, or of harming the trade secret holder).

Key issues

- The implementation of the Trade Secrets Directive has been completed by the publication on 21 February 2019 of the Spanish Trade Secrets Act, which will enter into force in mid-March.
- The Trade Secrets Act does not completely re-work the existing fragmented civil law regime, but it does modify certain aspects.
- The new Act introduces a definition of "trade secrets".
- It distinguishes between lawful and unlawful acts and includes provisions on "infringing goods".
- The Trade Secrets Act introduces rules on transfers, co-ownership and licences.
- It contains provisions on remedies (including more detailed provisions on damages) and preliminary injunctions.
- The Trade Secrets Act completes and develops rules on confidentiality measures in the framework of court proceedings.
- It governs certain procedural issues such as active *locus standi* and the limitation period.

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Unlawful acts by original infringers:

The TSA includes:

- The unauthorised acquisition of a trade secret through "unauthorised access to, unauthorised appropriation of or copying of documents, objects, materials, substances, electronic files or other mediums containing the trade secret or from which the trade secret can be deduced";
- The unauthorised acquisition of a trade secret through "any other act which, in the circumstances of the case, is contrary to honest commercial practices"; and
- The unauthorised use or disclosure of a trade secret "when carried out by the person who has unlawfully acquired the secret, is in breach of a confidentiality undertaking or any other duty to not disclose the trade secret, or is in breach of a contractual or other duty to limit the use of the trade secret".

The TSA does not require the existence of a subjective element to consider these acts to be unlawful. However, in line with the existing regulations (Unfair Competition Act), the TSA states that damages will only be awarded if the infringer has acted intentionally or negligently.

Unlawful acts by recipients:

The TSA establishes that acquiring, using or disclosing a trade secret will also be considered unlawful, provided that the person carrying them out "knew or ought to have known, under the circumstances, that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully (...)". A subjective element is, therefore, introduced in the case of recipients of trade secrets.

The TSA also incorporates a provision governing the exploitation of "infringing goods" as a possible unlawful use of trade secrets, which is a novelty in the Spanish regime. A subjective element is also required.

CO-OWNERSHIP AND LICENCES

The TSA regulates the co-ownership and licensing of trade secrets, closely following the provisions of the Spanish Patent Act but including certain particularities considering trade secrets' nature; for example, that the assignment of the trade secret must be done jointly by all co-owners.

REMEDIES

The TSA mirrors the existing Spanish regulations, which list the declaration of infringement, cessation (or prohibition), removal of effects, damages and publication of the judgment as remedies available to the plaintiff. However, the TSA includes more detailed and tailor-made remedies not expressly envisaged in the existing regulations (although, arguably, generally comprised within the general remedies established therein). For example, the destruction of or delivery to the plaintiff of documents, objects, materials, substances or electronic files containing the trade secret, or the recall of infringing goods.

The TSA also allows the substitution of the remedies sought in a main action by the payment of a pecuniary compensation if certain conditions are met (first and foremost, that the acquirer of the trade secret has acted "in good faith"), a possibility not set out in the existing Spanish regulations.

DAMAGES

Unlike the existing Spanish regulations, which do not envisage specific criteria for quantifying damages, the TSA establishes (copying the Directive practically word for word) that damages will be calculated:

- Taking into account "all appropriate factors, such as the negative economic consequences, including lost profits, which the trade secret holder has suffered, unfair profits made by the infringer and, where applicable, other elements that are not economic, such as the moral prejudice caused to the holder (...)" ; or
- By setting a "lump sum" that will at least consider a notional royalty.

Article 14 of the Directive recognises Member States' possibility of limiting "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." However, the TSA has not recognised this limitation.

LIMITATION PERIOD

The TSA establishes a limitation period of three years, as from the moment when the plaintiff became aware "of the person carrying out the infringement", departing slightly from the one-year limitation period set out in the existing Spanish regulations.

ACTIVE *LOCUS STANDI*

The TSA restricts the active *locus standi* to the trade secret holder and to any licensee who proves that it has express authorisation to bring such actions, thus introducing more restrictive criteria than the existing Spanish regulations (whereby any person participating in the market whose economic interests were directly harmed or threatened by the unfair competition act was entitled to bring the action).

The TSA also includes a provision copied from the Spanish Patent Act enabling the licensee with no active *locus standi* to request the patent holder to bring the action, or to bring it itself if the holder refuses to do so or does not bring the action within three months.

PRESERVING CONFIDENTIALITY IN THE FRAMEWORK OF COURT PROCEEDINGS

The confidentiality obligations and the measures that can be ordered by the court to preserve confidentiality set out in the TSA constitute a more detailed and complete regime than the existing non-disclosure provisions of the Spanish Civil Procedure Act (for example, the TSA envisages the possibility of setting up a "confidentiality club").

While the Directive only refers to measures to protect the confidentiality of information that may constitute a trade secret used or referred to in judicial proceedings regarding trade secrets' protection, the TSA also covers such information provided in proceedings "of another class where the consideration of such information is necessary to reach a decision on the merits."

BREACH OF PROCEDURAL GOOD FAITH

The Spanish Civil Procedure Act establishes fines of up to 6,000 euros for acts carried out in breach of procedural good faith. The TSA introduces a

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specific provision for trade secret infringement proceedings, whereby the fines that can be ordered against a plaintiff that has brought an action abusively or in bad faith may reach a third of the proceedings' amount. Furthermore, the TSA sets out that courts can order the publication of the decision recognising the abusive and manifestly unfounded nature of the complaint.

PRELIMINARY INJUNCTIONS

The provisional measures included in the TSA are similar to measures already established in Spanish law, although they are more closely adapted to the nature of trade secrets and to the concept of "infringing goods".

Applications for preliminary injunctions involving trade secrets must comply with the requirements set out in the Spanish Civil Procedure Act and the Spanish Patent Act. However, the TSA introduces a balance of convenience provision copied from the Directive that is not included in the abovementioned Acts, whereby, when analysing whether an application meets the requirements to order preliminary injunctions, the court will have to "examine especially the specific circumstances of the case and their proportionality, taking into account the value and other characteristics of the trade secret, measures taken to protect the trade secret, the conduct of the defendant in acquiring, using or disclosing the trade secret, the consequences of the illicit use or disclosure, the legitimate interests of the parties and the consequences which the granting or rejection of the measures could have on the parties, legitimate interests of third parties, public interest and the need to safeguard fundamental rights."

The TSA also governs requests for a substitute bond and the possibility of claiming for damages against the applicant if injunctions are granted and subsequently lifted. These rules do not generally depart from the existing regime. However, the TSA adds some specificities, such as:

- The impossibility of substituting preliminary injunctions aimed at avoiding the disclosure of a trade secret by a bond; and
- The obligation to preserve the bond deposited by the applicant for at least a year after the preliminary injunctions have been lifted (considering the possibility of damages being claimed by parties affected by preliminary injunctions that have subsequently been lifted), as opposed to the two-month period established in the Spanish Patent Act.

TRANSITIONAL PROVISIONS

When the TSA enters into force, it will apply to the protection of any trade secret, regardless of the date when the holder legitimately acquired its right over the secret. Until the TSA enters into force, any actions for the protection of trade secrets that have already been brought will be governed by the existing Spanish regulations.

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