LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition

Pranvera Këllezi
Bruce Kilpatrick
Pierre Kobel *Editors*

Abuse of Dominant Position and Globalization & Protection and Disclosure of Trade Secrets and Know-How

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Preface

The International League of Competition Law (LIDC) carries out a leading study every year on two topical questions relating to antitrust law, intellectual property or unfair competition matters. On each question, the key themes in the major jurisdictions are reflected in a series of national reports, whilst an international report identifies common features and trends from the national reports and draws conclusions on potential solutions or ideas to be explored in future. The works of the LIDC have been a source of practical guidance for generations of lawyers, whether or not they are members of the LIDC, and for regulatory authorities.

This publication provides unparalleled comparative analysis of two “hot topics” in the field of antitrust and unfair competition laws.

The first part of the book examines the prohibition of abuse of a dominant position and globalization in relation to two broad questions: first, whether there is consistency between the approaches of different jurisdictions to the notion of abuse, and, second, whether there are too many restrictions on legal rights and business opportunities resulting from the prohibition of abuse of dominance. The international report drafted by Professor Pinar Akman reveals that there are as many similarities as differences between the approaches of the 21 jurisdictions studied and presented in this book. This is an invitation to read the excellent international report, as well as the reports on specific jurisdictions to grasp the variety of arguments and approaches of this antitrust area that looks alike at first sight.

The second part of the book gathers contributions from various jurisdictions on the question of protection and disclosure of trade-secrets and of know-how. The need for adequate protection of trade secrets has increased because of digitalization, and the ease with which large amounts of information can be reproduced as a result of misappropriation. The comprehensive international report, prepared by Henrik Bengtsson brings together these reflections by comparing various national positions. It also considers the practical impact of Directive (EU) 2016/943 of 8 June 2016 (the “Trade Secret Directive”), which was in draft form at the time the reports were prepared but which has since been finalized. The Trade Secrets Directive seeks to balance the interests of trade secrets owners and the public, and together with Article 39(2) of TRIPS, is an important milestone in the process of unifying the concept and protection of trade secrets.

The editors would like to thank all the authors for their contributions and their patient collaboration during the editing of this book. They would like to express their sincere gratitude to the Members of the Bureau, of the Council and of the Scientific Committee for their kind support and encouragement during the preparation of this book.

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Abbreviations

AUD	Australian dollar
Berne Convention	The Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886, as amended
BGBl.	Bundesgesetzblatt (Germany)
BGH	Bundesgerichtshof (Germany)
BGN	Bulgarian lev
B2B	Business to business
B2C	Business to consumers
Bn	Billion
BRL	Brazilian Real (reais)
c./ca.	Circa
cf.	Compare
CFI	Court of First Instance of the ECJ (before 1 December 2009)
CFREU	The Charter of Fundamental Rights of the European Union, OJ 2010 C 83, p. 389
CHF	Swiss franc
CJEU	Court of Justice of the European Union (after 1 December 2009)
CMLR	Common Market Law Review
CR_n	Concentration Ratio measuring the percentage market share held by *n* largest undertakings
De minimis Notice	Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (de minimis), OJ 2001 C 368, p. 13
Directive 97/7	Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts, OJ 1997 L 144, p. 19

Directive 2000/31	Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce'), OJ 2000 L 178, p. 1.
Directive 2011/7	Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions, OJ 2011 L 48, p. 1
Directive 2004/48	Directive 2004/48 of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ 2004, L 157, p. 45
DKK	Danish krone
DM	Deutsche mark
e.g. or eg	for example
EC	European Community
ECHR	Council of Europe, European Convention for Human Rights of 4 November 1950
ECJ	European Court of Justice (before 1 December 2009)
ECR	European Court Reports
ECtHR	European Court of Human Rights
EU	European Union
ff	and following
GBP	Pound sterling (UK)
GC	General Court of the CJEU (after 1 December 2009)
GDP	Gross Domestic Product
Guidelines on the effect on trade concept	Commission Notice - Guidelines on the effect on trade concept contained in Articles 81 and 82 of the Treaty, OJ 2004 C 101, p. 81
ha	Hectare
HADOPI	Haute Autorité pour la diffusion des œuvres et la protection des droits sur Internet, France
HRK	Croatian Kuna (*hrvatska kuna*)
HMT	Hypothetical monopolist test
HUF	Hungarian Forint (*Magyar forint*)
i.e.	id est (that is)
Id./Idem	The same as previously mentioned
IP	Intellectual property
m	Million
m^2	Square metre
min	Minutes
MFN	Most Favoured Nation
NAAT-rule	The non-appreciable affectation of trade rule
Notice on the relevant market	Commission Notice on the definition of relevant market for the purposes of Community competition law, OJ 1997 C 372, p. 5

OECD	Organisation for Economic Co-operation and Development
OJ	Official Journal
p./pp.	Page(s)
para/paras	Paragraph(s)
Paris Convention	Paris Convention for the protection of industrial property of 20 March 1883
pt	Point
kg	Kilogram
R&D	Research and development
Regulation 1/2003	Council Regulation 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ 2003 L 1, p. 1
Regulation 139/2004	Council Regulation 139/2004 of 20 January 2004 on the control of concentrations between undertakings, OJ 2004 L 24, p. 1
Regulation 316/2014	Commission Regulation 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, OJ 2014 L 93, p. 17
Regulation 330/2010	Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010 L 102, p. 1
Regulation 2659/2000	Commission Regulation 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements, OJ 2000 L 304, p. 7
Regulation 1400/2002	Commission Regulation 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ 2002 L 203, p. 30
Rome Convention	International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, done at Rome on October 26, 1961
RON	Romanian leu
SEK	Swedish Krona
SMEs	Small and medium size enterprises
SMP	Significant market power
Software Directive	Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111p. 16

SSNIP	Small but Significant and Non-transitory Increase in Price
TEC	Treaty Establishing the European Community
TFEU	Treaty on the Functioning of the European Union
TRIPs	Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994
UAH	Ukrainian hryvnia
UK	United Kingdom
US/USA	United States of America
v	Versus
WCT/WIPO Copyright Treaty	World Intellectual Property Organization Copyright Treaty, 1996

Part I

Abuse of Dominant Position and Globalization

International Report

1

Pınar Akman

1.1 Introduction

This International Report aims to summarise and synthesise the responses received from the national LIDC groups in 21 jurisdictions.[1] The national reports were prepared in response to a questionnaire prepared by the author of this International Report. The questionnaire sought to illicit views on abuse of a dominant position and globalisation in relation to two broad questions: first, whether there is consistency between the approaches of different jurisdictions to the notion of abuse and, second, whether there are too many restrictions on legal rights and business opportunities resulting from the prohibition of abuse of dominance. Given that not every jurisdiction that takes part in the LIDC and that has responded to the questionnaire adopts the terminology of abuse of a dominant position, the aim of the exercise is better expressed as the comparison of the different provisions and the different approaches to the issue of the anticompetitive exercise of unilateral market power. For ease of narrative, the concept of 'abuse of a dominant position' will be

[1]The following national groups submitted reports on the topic: **Austria** (G. Fussenegger, F. Schuhmacher and R. Tahedl); **Belgium** (P.M. Sabbadini); **Brazil** (M. Pallerosi); **Bulgaria** (A. Petrov); **France** (M. Boudou, C. Hubert, M. Isola, T. Marcerou, G. Poulakos, M. Vaz d'Ameida); **Germany** (M. Hartmann-Rüppel); **Hong Kong** (K. Fournier); **Hungary** (A. Papp); **Italy** (A. Camusso and C. De Cesero); **Japan** (T. Itoh); **Lithuania** (Y. Goldammer); **Moldova** (A. Svetlicinii); **Netherlands** (S. Beeston and M. Geilmann); **Norway** (J.C. Kongsli); **Poland** (A. Stawicki, B. Turno and T. Feliszewski); **Spain** (M. Cañadas Bouwen and J. Suderow); **Sweden** (T.O. Bergqvist); **Switzerland** (D. Cherpillod); **Ukraine** (N. Ivanytska); **United Kingdom** (J.D.M. Robinson); **United States** (D.I. Baker, K. Mereand-Sinha and M. Ferrari).

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used to refer to such provisions even if they are not expressed in terms of abuse of a dominant position but in terms of monopolisation and similar concepts.

The prohibition of abuse of a dominant position is one of the core legal provisions in any modern competition law system. It makes up one of the three pillars of competition law alongside the prohibition of anticompetitive agreements (such as cartels) and merger control. The prohibition of abuse of dominance is a controversial aspect of competition law since there is no apparent consensus across different prohibitions and different approaches of different jurisdictions such as the European Union and the United States of America. There are also no clear, general economic rules establishing when the exercise of unilateral market power is anticompetitive. The European Commission has, for example, been criticised for adopting a formalistic approach rather than an economic effects-based approach in the application of Article 102 TFEU.[2] This is to be contrasted most significantly with the US approach where the antitrust laws are deemed to be 'for the benefit of competition, not competitors'.[3] The Commission has recently sought to modernise its approach by, *inter alia*, adopting a Guidance document on its enforcement priorities in applying Article 102 TFEU to exclusionary conduct arguably to bring its approach more in line with modern economics.[4]

Commentators are also divided on the issue, and particularly in the EU, some commentators have argued that a more economic approach is not appropriate and/or not justified.[5] One of the main aims of this International Report is therefore to establish whether there is consistency between the applications of the rules concerning abuse of dominance in different jurisdictions around the globe. A related aim is to determine whether the existing approaches are too restrictive of business rights and opportunities of the dominant undertakings since, for example, one of the major criticisms against the application of Article 102 TFEU by the European Commission has been that it seeks to 'protect competitors, not competition'.

[2]For the criticisms, see eg E.M. Fox, 'Monopolization and Dominance in the United States and the European Community: Efficiency, Opportunity, and Fairness' (1986) 61 Notre Dame Law Review 981, 1004; P. Jebsen and R. Stevens, 'Assumptions, Goals and Dominant Undertakings: The Regulation of Competition Under Article 86 of the European Union' (1996) 64 Antitrust Law Journal 443; B. Sher, 'The Last of Steam-Powered Trains: Modernising Article 82' (2004) 25 (5) ECLR 243; J. Kallaugher and B. Sher, 'Rebates Revisited: Anti-Competitive Effects and Exclusionary Abuse under Article 82' (2004) 25 (5) ECLR 263; D. Waelbroeck, 'Michelin II: A Per Se Rule Against Rebates by Dominant Companies?' (2005) 1 (1) Journal of Competition Law and Economics 149; A. Jones and B. Sufrin, *EU Competition Law* (Oxford University Press, 4th ed, 2011) 281; R. O'Donoghue and J Padilla *The Law and Economics of Article 102 TFEU* (Hart Publishing, 2nd ed, 2013) 67 et seq.

[3]*Ball Mem'l Hosp., Inc. v. Mutual Hosp. Ins., Inc.,* 784 F.2d 1325, 1338 (7th Cir. 1986) (Easterbrook, J.) cited in Baker et al., US, p. 7.

[4]See 'Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings', OJ 2009 C45, p. 7.

[5]See eg H. Schweitzer, 'Recent developments in EU competition law (2006-2008): Single-firm dominance and the interpretation of Article 82' (2009) (2) European Review of Contract Law 175, 184.

A related criticism has been that efficiencies and other pro-competitive effects of dominant undertakings' practices are not duly taken into consideration by the European Commission, thereby potentially discouraging investment and innovation that would otherwise produce such efficiencies and other pro-competitive effects.[6] In general, the European approach can be contrasted with the US approach, which is less restrictive of the business rights and opportunities of dominant undertakings due to the focus of the latter on the effects of a given conduct on competition and efficiency rather than on the competitors of the perpetrator.

From a study of the national reports that were submitted to the International Reporter, it is apparent that some jurisdictions have *per se* or formal approaches, whereas some claim to adopt an effects-based approach to the prohibition of unilateral conduct. Similarly, a number of jurisdictions claim to pursue objectives such as consumer welfare, whereas others also have objectives that could lead to the protection of competitors *as such*. Although broadly speaking many jurisdictions have very similar provisions to Article 102 TFEU, much legislation also has small but important differences in the list of prohibited practices even when they are explicitly based on the example of Article 102 TFEU. Most notably, in the list of prohibited practices, several jurisdictions have separate clauses on refusal to deal and some have a separate clause explicitly prohibiting exclusion or predatory pricing. A couple of jurisdictions (for example, Germany and France) have specific rules concerning the prohibition of abuse of economic dependency, which does not require the existence of dominance, and go over and beyond the prohibition found in Article 102 TFEU in terms of the strictness of the rule.

Interestingly, many jurisdictions provide definitions of 'dominant position', and some provide explanations of 'abuse' in their legislation unlike the EU or the US. In the same vein, many jurisdictions consider the effect of abuse on a contract to be nullity and voidness, although this is not always explicitly regulated in the relevant provisions and is not regulated in Article 102 TFEU or in Sherman Act Section 2 on monopolisation. Unlike the EU or US prohibition, as well as some national provisions, some jurisdictions also do not require any effect on trade within their jurisdiction that would result from the abuse of dominance as part of the prohibition.

In terms of the question of whether there are too many restrictions on business rights and opportunities, it is not possible to discern a clear position from the national reports that there are too many restrictions on businesses. Most jurisdictions seem to rather complain that there are too few cases concerning anticompetitive unilateral conduct, and therefore there is too little guidance for businesses. Because they suggest that there are too few cases, there is no suggestion that there are too many restrictions but, if anything, possibly that there is little control over dominant undertakings' conduct. The one jurisdiction that expressly

[6] See eg J. Killick and A. Komninos 'Schizophrenia in the Commission's Article 82 Guidance Paper: Formalism Alongside Increased Recourse to Economic Analysis' (2009) (February-I) Global Competition Policy; Y. Katsoulacos, 'Some Critical Comments on the Commission's Guidance Paper on Art. 82 EC' (2009) (February-I) Global Competition Policy.

indicates a concern that over-enforcement of anti-monopoly rules would deter innovation and investment in dynamic markets that are so important to the economy is the United States.[7] The US has far fewer restrictions on business rights and opportunities for dominant undertakings as a result of adopting a narrower approach to defining dominance, enforcement caution by agencies and a higher bar for private monopolisation and abuse suits in comparison to many other jurisdictions around the globe.[8] This position adopted in the US leads to the main point of divergence concerning the prohibition of anticompetitive unilateral conduct across different jurisdictions. Such divergence has serious practical implications since both the undertakings and the enforcers of competition law operate in a global economy and the divergence risks creating a situation where the same undertaking's same conduct will be prohibited in one jurisdiction in the world and allowed (or even encouraged) in another jurisdiction.[9]

In the following, this report first provides a brief overview of the different prohibitions of abuse of a dominant position across the different jurisdictions studied in Sect. 1.2. It then shifts the focus to the different aspects of conduct prohibited as an abuse of a dominant position in Sect. 1.3. Section 1.4 considers the enforcement of the prohibition by competition authorities and courts, before Sect. 1.5 concludes with some observations.

1.2 The Different Prohibitions of Abuse of a Dominant Position

The oldest prohibition of anticompetitive unilateral conduct in the national reports submitted is the US Sherman Act of 1890. For most of the rest of the different jurisdictions studied, the majority of which are EU Member States, adoption of competition law seems to follow the EU model and many—if not most—of them have adopted competition legislation when they were candidates for EU membership.[10] In contrast, in Germany, the first competition rule concerning unilateral conduct dates back to the Regulation against the Abuse of Economic Dominant Positions from 1923.[11] In Japan, the prohibition of private monopolisation

[7]Baker et al. US, p. 1.

[8]Baker et al., US, p. 2. Indeed, it is pointed out that it might be lack of competition intervention that might restrict the business opportunities of undertakings other than the dominant undertaking; see Baker et al., US, p. 3.

[9]Baker et al., US, p. 2.

[10]Beeston and Geilmann, Netherlands, p. 2; Camusso and De Cesero, Italy, p. 2; Sabbadini, Belgium, p. 4; Papp, Hungary, p. 4; Goldammer, Lithuania, p. 1; Stawickiet al., Poland, p. 1; Boudou et al., France, p. 3; Cañadas Bouwen and Suderow, Spain, p. 3; Robinson, UK, p. 6; Fussenegger et al., Austria, p. 3.

[11]Hartmann-Rüppel, Germany, p. 4.

modelled after the US Sherman Act existed since 1947.[12] In Brazil, the first prohibition of anticompetitive conduct can be found in a Decree from 1945.[13]

In almost all of jurisdictions covered by this report, the rules concerning competition are found in statutes that exclusively concern competition law, or if they are broader, they concern competition and fair trade/fair competition/consumer protection.[14] In contrast, in two jurisdictions (France and Belgium), the competition rules are found in a more general statute, eg in a general commercial or economic code.

Interestingly, several statutes contain a definition and sometimes a presumption of dominance. For example, the German provisions set out a definition of dominance, as well as the criteria to be considered and the presumptions in analysing market power.[15] The provision also contains a presumption of dominance for undertakings holding a market share of at least 40%.[16] Similarly, the Austrian legislation provides a definition of dominance and a presumption of dominance at 30% market share alongside a reversal of burden of proof: the undertaking has to prove that it is not dominant if it has market share of 30% and above.[17] A legislative definition of dominance is also provided in Switzerland; Lithuania, with a presumption of dominance at 40% market share; Belgium; Bulgaria; the Netherlands; Ukraine, with a presumption of dominance at 35% market share (although dominance at lower market share is stated to be possible in the Act) and a reversal of burden of proof similar to Austria; and Moldova, with a presumption of dominance at 50% market share.[18]

An interesting case is that of Brazil, where dominating a market in itself appears to be prohibited except when such dominance results from a natural process caused by the greater efficiencies of the undertaking compared with its rivals and where there is a presumption of dominance at 20% market share.[19] It should be noted that there is no definition of dominance in the Brazilian legislation. Another striking example is Japan, where the prohibition of anticompetitive unilateral conduct (ie, private monopolisation) does not require the existence of a dominant undertaking or an undertaking with substantial market power. What is required is instead the causing of a ‘substantial restraint of competition in any particular field of trade’ that is contrary to public interest.[20]

[12] Itoh, Japan, p. 1.

[13] Pallerosi, Brazil, p. 4.

[14] These jurisdictions include Italy; Ukraine; Poland; Bulgaria; Japan; United Kingdom; Austria; Germany; Hungary; Switzerland; Lithuania; Spain; Brazil; Netherlands; Norway; Ukraine; Sweden; Moldova; Hong Kong (due to enter into force in December 2015).

[15] Hartmann-Rüppel, Germany, pp. 1-2.

[16] See Act against Restraints of Competition Section 18 (4) cited in Hartmann-Rüppel, Germany, p. 2.

[17] Fussenegger et al., Austria, pp. 9-10.

[18] Cherpillod, Switzerland, p. 2; Goldammer, Lithuania, pp. 2-3; Sabbadini, Belgium, p. 3; Petrov, Bulgaria, p. 2; Beeston and Geilmann, Netherlands, p. 2; Ivanytska, Ukraine, p. 4; Svetlicinii, Moldova, pp. 4-5.

[19] Pallerosi, Brazil, p. 1.

[20] Itoh, Japan, p. 1.

In the jurisdictions where a definition of dominance has been provided, it is striking that many of them have adopted the definition of dominance provided by the CJEU in its case law (most notably, in *Hoffmann-La Roche*), which included notions of economic strength that allows the undertaking to prevent effective competition and the possibility of acting independently of competitors and consumers.[21] For example, the legislative definitions of dominance in the Republic of Moldova, the Netherlands, Bulgaria, Belgium and Switzerland have either adopted the definition of dominance from the CJEU case law in its entirety or adopted significant elements of that definition.

The market share thresholds and presumptions in domestic competition laws are to be contrasted with the case of the US, where monopoly power is unlikely to be established at a market share lower than around 70%.[22] It is also noteworthy that many European jurisdictions have opted for a presumption of dominance at lower market share thresholds than that adopted in the CJEU case law, which is that of 50%.[23] It is similarly striking that in one of the jurisdictions studied, namely Hong Kong, the Competition Ordinance due to come in effect in December 2015, adopts a lower substantive threshold (despite generally following the EU model) by replacing the concept of 'dominance' with that of 'substantial degree of market power' as more suited to the reality of the country's business world.[24]

The foregoing clearly demonstrates that one of the points on which different jurisdictions diverge in their approach to abuse of dominance considers the issue of dominance. The same undertaking is likely to be presumed dominant in some jurisdictions with a burden to rebut that presumption, whereas it is not likely to be presumed dominant in some other jurisdictions and be presumed dominant in yet some other jurisdictions with no duty to rebut the presumption. In a global context where the undertakings and their operations are global, it would be desirable to base presumptions of dominance on the same market share threshold or abandon the market share threshold altogether: modern economics, as well as competition policy practice, suggests that market shares only provide a first indication of 'market power'.[25] Subsequently, what should be placed in the centre of the assessment is 'market power'—namely, the ability to profitably raise price or reduce output—rather than 'market shares' as such.[26]

[21]See Case 85/76 *Hoffmann-La Roche & Co AG v EC Commission*, ECR 1979 461, para. 38.

[22]See eg *United States v Aluminium Co of America*, 148 F.2d 416, 424 (2d Cir 1945).

[23]See Case C-62/86 A*KZO Chemie BV v Commission*, ECR 1991 I-3359, para. 60.

[24]This wording is more akin to the Australian provision; Fournier, Hong Kong, pp. 16-17.

[25]See eg Commission Guidance, para.13.

[26]For the definition of market power, see eg Commission Guidance, para. 11.

1.3 Conduct Prohibited as Abuse of a Dominant Position

Most provisions prohibiting the abuse of a dominant position contain lists that are almost always indicative, except for the list of unfair trade practices in Japan, which is exhaustive.[27] The US provision of Sherman Act Section 2 contains no list of prohibited practices, which is suggested to reflect the intention of the drafters to create a common law system of enforcement—as opposed to a code-centred administrative system—that leaves generalist federal judges applying the undefined concept of 'monopolisation' with vast discretion in defining the legal wrongs.[28] Similarly, the prohibition of private monopolisation in Japan also does not contain a list although the Japanese Fair Trade Commission (JFTC) has issued guidelines that indicate typical prohibited practices.[29]

In most EU Member States, the provisions have been modelled after the list of practices contained in Article 102 TFEU. This modelling takes the form of either almost identically copying the list in Article 102 TFEU or expanding on the list of Article 102 TFEU. Some lists include more examples, such as the explicit and separate prohibition of refusal to deal or below-cost pricing.[30] Some jurisdictions that are not EU Member States but have agreements with the EU (neighbourhood policy, EEA, FTA or accession agreements) have also modelled their prohibitions after Article 102 TFEU.[31] The listing of practices appears to have particular significance in one jurisdiction, namely Switzerland, where if the practice in question is not found in the list of prohibited practices, it may not be subjected to fines due to not fulfilling the requirements of predictability as envisaged by Article 7 of the European Convention on Human Rights.[32] The only EU Member State whose legislation does not contain a list is the statute of the Netherlands, although the Explanatory Memorandum does refer to the Article 102 TFEU list.[33] Some jurisdictions, such as the UK and France, also contain explicit legal exclusions from the prohibition of unilateral anticompetitive conduct.[34]

[27] Svetlicinii, Moldova, p. 4; Beeston and Geilmann, Netherlands, p. 2; Camusso and De Cesero, Italy, p. 5; Sabbadini, Belgium, p. 4; Pallerosi, Brazil, p. 4; Papp, Hungary, p. 5; Fussenegger et al., Austria, p. 2; Goldammer, Lithuania, p. 2; Itoh, Japan, pp. 1 -2; Kongsli, Norway, p. 1; Ivanytska, Ukraine, p. 5; Stawicki et al., Poland, p. 1; Petrov, Bulgaria, p. 7; Bergqvist, Sweden, p. 1; Boudou et al., France, p. 3; Cañadas Bouwen and Suderow, Spain, p. 3; Switzerland, Cherpillod, p. 4; Robinson, UK, p. 7; Germany, p. 4; Hong Kong, pp. 2, 8, 15: the provisions state either 'including, but not limited to' or 'in particular'. The Japanese Anti-Monopoly Act prohibits two types of conduct: i. private monopolisation; ii. unfair trade practices; Itoh, Japan, p. 1.

[28] Baker et al, p. 6.

[29] Itoh, Japan, p. 1.

[30] Provisions which add to the Article 102 TFEU list are found in Bulgaria; Spain; Austria; Poland; France; Hungary; Germany.

[31] These are Moldova; Ukraine; Switzerland; Norway.

[32] Cherpillod, Switzerland, p. 4.

[33] Beeston and Geilmann, Netherlands, p. 2.

[34] Robinson, UK, p. 9; Boudou et al., France, p. 10.

Several countries have legal rules found in other areas, such as unfair competition law, that prohibit conduct similar to those prohibited by the competition rule on anticompetitive unilateral conduct. Provisions on unfair competition/trade practices are found in Belgium, Bulgaria, Japan, France (in the same legislation as that containing the prohibition of abuse of dominance),[35] Sweden, Spain, Ukraine, Poland, Switzerland, Austria, Germany, Hungary, Norway and the US.[36] In the US, Section 5 of the Federal Trade Commission (FTC) Act prohibits 'unfair or deceptive acts or practices in or affecting commerce'.[37] However, Section 5 of the FTC Act is different from most other unfair competition laws in other jurisdictions since it is used by the FTC to bring cases based on Sherman Act Section 2 antitrust principles (whereas Section 2 itself is used by the Department of Justice (DOJ) to bring cases).[38] In somewhat similar fashion to the US approach, following a landmark decision of the Belgian Supreme Court, conduct complying with competition rules may not be prohibited under unfair competition rules in Belgium if the conduct is only allegedly impeding the functioning of the free market.[39] It is, however, noteworthy that this finding presumably does not prevent conduct that harms competitors but not competition to be found in breach of unfair competition rules similar to the case in most other jurisdictions containing such rules.

Other than unfair competition rules, several jurisdictions also contain provisions concerning abuse of relative market power or abuse of economic dependency. These jurisdictions include Italy (limited to subcontracting in manufacturing), Hungary (limited to retail), France (in the same provision as that prohibiting abuse of dominance), Spain, Germany and Austria. In Japan, the abuse of 'superior bargaining power' is prohibited as an unfair trade practice.[40] For EU Member States, these provisions concerning economic dependency or relative market power represent stricter rules than that contained in Article 102 TFEU in the sense of Regulation 1/2003 Article 3(2). These provisions apply the restrictions of conduct applicable to only dominant undertakings under Article 102 TFEU also to undertakings that are not dominant but in a superior position to their contracting party.[41] Thus, even

[35]Sabbadini, Belgium, p. 5; Petrov, Bulgaria, p. 3; Itoh, Japan, p. 1; Boudou et al., France, pp. 3 et seq.

[36]Bergqvist, Sweden, p. 1; Cañadas Bouwen and Suderow, Spain, p. 3; Ivanytska, Ukraine, p. 6; Stawicki et al., Poland, p. 2; Cherpillod, Switzerland, p. 3; Fussenegger et al., Austria, p. 5; Hartmann-Rüppel, Germany, p. 6; Beeston and Geilmann, Netherlands, p. 2; Papp, Hungary, pp. 4-7; Kongsli, Norway, pp. 2-3; Baker et al, US, p. 11.

[37]15 USC § 45.

[38]Baker et al, US, pp. 12-13.

[39]Sabbadini, Belgium, p. 5.

[40]Itoh, Japan, p. 2.

[41]Council Regulation 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ 2003, L 1, p. 1, Article 3(2) stipulates that Member States shall not under this Regulation be precluded from adopting and applying on their territory stricter national laws which prohibit or sanction unilateral conduct engaged in by undertakings.

within the EU, the legal rules applicable to the similar behaviour of undertakings with some type of power in their markets differ across different Member States.

1.3.1 Definition of 'Abuse'

Some jurisdictions have introduced general definitions of the concept of 'abuse' in their legislation. These include Lithuania, Ukraine, Bulgaria, Switzerland and Hong Kong. These legislative definitions of 'abuse' are along the lines of any acts that restrict or may restrict competition, without due cause limit the possibilities of other undertakings to act in the market or violate the interests of consumers (Lithuania);[42] actions or omissions that have led or may lead to the exclusion, elimination or restriction of competition or infringe on the interests of other undertakings or consumers, which would not be possible under significant competition on the market (Ukraine);[43] conduct that may prevent, restrict or distort competition and impair consumers' interests (Bulgaria);[44] behaviour that hinders other undertakings from starting or continuing to compete or disadvantages trading partners (Switzerland).[45] Similarly, in Hong Kong, both the provisions found in the sectoral rules concerning broadcasting and telecommunications and also the rules in the forthcoming general Competition Ordinance are quite similar, defining abuse as conduct that has the purpose or effect of preventing, distorting or (substantially) restricting competition.[46] In Moldova, the legislation stipulates that abuse of a dominant position is prohibited 'to the extent it may affect competition or damage the collective interests of the final consumers on the relevant market'.[47]

Similar to the legislation found in the majority of jurisdictions under study, most competition authorities do not provide a definition of 'abuse' but seem to set out principles to determine abuse in their decisional practice or guidelines. These principles include the objective character of the abusive conduct (meaning that intent is not necessary), the requirement of adverse effects on competition and/or harm to consumers and the absence of objective justification.[48]

In some jurisdictions, the competition authority provides a definition of what makes conduct abusive on their website or in a decision. For example, according to the Dutch competition authority, '[a]buse occurs when an undertaking that holds a dominant position in the market causes damage to the competitive position of its competitors. The dominant undertaking excludes competitors from the market at the expense of consumers. Thereby the consumer has, for example, less choice'.[49]

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[42]Goldammer, Lithuania, p. 3.

[43]Ivanytska, Ukraine, p. 3.

[44]Petrov, Bulgaria, p. 7.

[45]Cherpillod, Switzerland, p. 5.

[46]Fournier, Hong Kong, pp. 2, 8, 15.

[47]Svetlicinii, Moldova, p. 5.

[48]See Petrov, Bulgaria, p. 7; Pallerosi, Brazil, p. 5; Robinson, UK, p. 12; Kongsli, Norway, p. 4.

[49]Beeston and Geilmann, Netherlands, p. 3.

Similarly, the Austrian authority explains on its website that '[a]busive practices by dominant companies may lead to disadvantage for other companies and customers that would not naturally occur or be possible in a setting of effective competition'.[50] The German authority's website notes that '[a]busive practices are actions that a dominant company can only pursue on account of its market power and that hinder or discriminate against other companies or their customers in a way that would not be possible if effective competition existed'.[51] The German competition authority also defined abuse as exclusionary abuse in its *Soda-Club* decision and noted that '[a]n abuse . . . exists in particular if a dominant undertaking as a supplier or a purchaser of a specific product or commercial service appreciably impairs the competitive opportunities of other undertakings without objectively justified reasons'.[52]

There is a notable difference in the reference or lack thereof to consumer harm in the authorities' explanations of what makes a conduct abusive. Some authorities do not refer to consumer harm in their discussions of abusive conduct (eg, Brazil, Norway),[53] whereas others refer to direct or indirect consumer harm (eg, Hungary, the UK, the Netherlands).[54] This will be discussed further in Sect. 1.4.3 when discussing the objectives of the prohibition of abuse of a dominant position.

In terms of the definition of abuse provided in the case law, due to most jurisdictions under study representing EU/EEA/EU neighbourhood policy countries, most of their national case law relies to a substantial extent on the EU jurisprudence. Some jurisdictions seem to rely on the basic concept of abuse as defined by the CJEU but also further develop this concept. For example, in Austrian case law, abuse has been defined as an undertaking that is economically superior in relation to other market participants influencing the market in a way that is likely to have negative effects on the market and competition or as conduct that is suspected to cause negative effects on the market and competition conditions.[55] Similarly, in Poland, Spain and Norway, courts have expanded on the EU definition of abuse by adding different concepts such as disproportionality of conduct (Poland), abuse of rights and anti-social exercise of exceptional economic freedom (Spain) and competition on the merits and on better performance (Norway).[56] Several jurisdictions also seem to contain national judgments that repeat almost in identical terms the definition of abuse provided by the CJEU in cases such as *Hoffmann-La Roche*. According to this definition, abuse relates to any behaviour of a dominant undertaking which is such as to influence the structure of the market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and that, through recourse to methods different from those that condition normal competition, has the effect of hindering the

[50] Fussenegger et al, Austria, p. 6.

[51] Hartmann-Rüppel, Germany, p. 7.

[52] Hartmann-Rüppel, Germany, p. 7.

[53] Pallerosi, Brazil, p. 5; Kongsli, Norway, pp. 3-4.

[54] Papp, Hungary, p. 8; Robinson, UK, p. 12; Beeston and Geilmann, Netherlands, p. 3.

[55] Fussenegger et al., Austria, p. 6.

[56] Stawicki et al., Poland, p. 3; Cañadas Bouwen and Suderow, Spain, p. 4; Kongsli, Norway, p. 5.

maintenance of the degree of competition still existing in the market or the growth of that competition.[57] Interestingly, despite being an EEA country, the Swiss case law contains a definition of abuse that is not related to the CJEU definition as that of all possible behaviours that have a damaging economic effect, as well as those behaviours that hinder the economic freedom of the concerned undertakings.[58]

In countries outside of the EU, such as Japan, Brazil and the US, no specific definition of anticompetitive unilateral conduct is provided. Having said that, in the US, for example, it is accepted that the offence of monopoly under Sherman Act Section 2 has two elements: first, the possession of monopoly power in the relevant market and, second, the wilful acquisition or maintenance of that power.[59] Thus, the case law does provide at least the constituent elements of the offence. Then again, for monopolisation, one of the required elements is that the defendant has engaged in predatory or anticompetitive conduct,[60] which takes one back to the question of what makes unilateral conduct 'anticompetitive'.

1.3.2 Exploitative Abuse and Exclusionary Abuse

Exclusionary abuse relates to the conduct of a dominant undertaking that impacts primarily on the competitive position of its rivals, whereas exploitative abuse relates to practices that directly disadvantage the customers/consumers of a dominant undertaking.[61] Most provisions concerning abuse of dominance do not expressly distinguish between exclusionary abuse and exploitative abuse but cover both types of practices.[62] However, notably, Sherman Act Section 2 only applies to exclusionary conduct. This results from the assumption in the US that when government control over monopoly is needed, this must be a task for a sectoral regulator.[63] This distinguishes the US from most other jurisdictions in the world and is driven by history and culture, as well as the central role played by private plaintiffs in the US combined with the open-ended nature of the provision of

[57] See *Hoffmann- La Roche*, para. 91.

[58] Cherpillod, Switzerland, p. 9.

[59] *United States of Grinnell Corp*, 384 US 563, 570-1 (1966) cited in Baker et al, US, p. 7.

[60] Baker et al, US, p. 5.

[61] For the distinction, see P. Akman, *The Concept of Abuse in EU Competition Law: Law and Economic Approaches* (Hart Publishing 2012), p. 6.

[62] See Svetlicinii, Moldova, p. 6; Camusso and De Cesero, Italy, p. 6; Sabbadini, Belgium, p. 6; Papp, Hungary, p. 10; Goldammer, Lithuania, p. 3; Ivanytska, Ukraine, p. 6; Stawicki et al., Poland, p. 4; Petrov, Bulgaria, p. 7; Bergqvist, Sweden, p. 2; Boudou et al., France, p. 7; Cañadas Bouwen and Suderow, Spain, p. 4; Robinson, UK, p. 15; Kongsli, Norway, p. 5; and Fussenegger et al., Austria, p. 7; Hartmann-Rüppel, Germany, p. 7. In the Netherlands, there is no express distinction in the provision, but the distinction exists in the explanatory memorandum to the Competition Act; Beeston and Geilmann, Netherlands, p. 3.

[63] Baker et al, US, p. 9.

Section 2.[64] Similar to the US and inspired by the Australian rules, no express distinction exists in Hong Kong either, but the provision only applies to exclusionary conduct.[65] The distinction is controversial in Brazil since in the old legislation exploitative abuse by excessive pricing was prohibited, whereas in the current legislation no such prohibition exists.[66] This followed many years of enforcement by the Authority that refused to recognise that excessive pricing could be unlawful and that the prohibition could not be enforced as a result of lack of parameters for defining what is excessive pricing.[67] Although in a judgment from 2010, the Authority recognised by a narrow majority that the provision could be enforced, the old Act containing the prohibition has been revoked in 2012 and the new Act does not contain such a prohibition.[68] Thus, it remains to be seen how the law will be applied in practice under the new Act to exploitative practices.

In contrast to other jurisdictions, the Swiss provision does distinguish between exclusionary abuse and exploitative abuse by its wording according to which behaviours that 'hinder other undertakings from starting or continuing to compete' (ie, exclusionary) and those that 'disadvantage trading partners' (ie, exploitative) are prohibited.[69] This distinction has been recognized since the redaction of the law and has been consistently applied ever since, becoming inherent to the definition of abusive behaviour in Switzerland.[70] Similarly, other Acts in different jurisdictions (some of which have been based on Article 102 TFEU) have also included explicit prohibitions of exclusion. For example, foreclosure of rivals as a result of predation and the hindrance, without justification, of market entry are listed as examples of abusive practices in the Hungarian prohibition.[71] In the same vein, creating entry or exit barriers for undertakings is listed as an abuse in Moldova,[72] whilst preventing the formation of conditions necessary for the emergence or development of competition is prohibited in Poland.[73] The Ukrainian legislation also makes explicit reference to the distinction between exclusionary and exploitative practices both in

[64]Baker et al, US, p. 9. To prove attempted monopolization, the plaintiff must demonstrate: i. that the defendant has engaged in predatory or anticompetitive conduct with ii. a specific intent to monopolize and iii. a dangerous probability of achieving monopoly power; *Spectrum Sports, Inc v McQuillan*, 506 US 447, 456 (1993) cited in Baker et al, US, p. 5. Conspiracy to monopolize requires proof of concerted action as in a cartel violation, and intent to achieve a monopoly; see *American Tobacco Co v United States,* 328 US 781 (1946) cited in Baker et al, US, p. 5.

[65]Fournier, Hong Kong, p. 14.

[66]Pallerosi, Brazil, p. 5.

[67]Pallerosi, Brazil, p. 5.

[68]Pallerosi, Brazil, p. 5. The new Act, however, does contain a prohibition of 'arbitrarily increasing profits'; Pallerosi, Brazil, p. Brazil 6.

[69]Cherpillod, Switzerland, p. 5.

[70]Cherpillod, Switzerland, p. 5.

[71]Papp, Hungary, p. 2.

[72]Svetlicinii, Moldova, p. 2

[73]Stawicki et al., Poland, p. 1.

the general prohibition of abuse and also in the specific examples of abuse.[74] In Japan, private monopolisation requires either 'exclusion' or 'control'[75] corresponding to exclusionary abuse and exploitative abuse, respectively. The distinction is particularly important in practice in Japan: the base rate to calculate the administrative fine is lower for exclusionary abuse than for exploitative abuse.[76] This is in sharp contrast with the situation in Hungary where according to the Fine Setting Notice, exploitative abuse is to be treated more leniently than exclusionary abuse.[77] This is noted to contradict the Authority's views on consumer welfare as the ultimate goal of competition law enforcement expressed elsewhere.[78]

In the jurisdictions where it is accepted that the prohibition of anticompetitive unilateral conduct covers both exploitative abuse and exclusionary abuse, even where such an explicit distinction does not exist in the legislation, it seems common for competition authorities to distinguish between these two types of abuse in explanatory documents or documents on enforcement priorities.[79] In its decisional practice, however, the competition authorities of quite a few countries do not seem to pay attention to an express distinction, although upon analysing the practice it would be possible to divide cases into categories (exploitative, exclusionary or mixed). For example, in Poland and Spain, the competition authorities (and courts) typically attempt to categorise conduct into a category.[80] In Norway, the competition authority recognised that conduct can be divided into the two categories in a decision,[81] similar to the Dutch and Belgian competition authorities that have also made a distinction between these two types of conduct in their decisions.[82] In Germany, the competition authority does not expressly differentiate in its decisions but does explain the distinction between the two categories on its website.[83] Some competition authorities also seem to prioritise and/or mostly handle cases on exclusionary abuse such as those in Moldova, Sweden, Norway and Poland.[84]

[74] See Ivanytska, Ukraine, pp. 3, 5-6.

[75] 'Exclusion' is understood to cover activity that has an artificial character which exceeds the normal competition measures in the sense that it could create, maintain and strengthen its own market power, and such activity has an effect to make it extremely difficult for a competitor to enter into (or continue competition in) the relevant market; whilst 'control' is understood to refer to restricting the counterparty in some way and to deprive it of the freedom to make its own decision; Itoh, Japan, p. 3.

[76] Itoh, Japan, p. 3.

[77] Papp, Hungary, pp. 9-10.

[78] Papp, Hungary, p. 9.

[79] See eg Svetlicinii, Moldova, p. 6; Beeston and Geilmann, Netherlands, p. 3; Papp, Hungary p. 12; Petrov, Bulgaria, p. 7.

[80] Stawicki et al., Poland, p. 4; Cañadas Bouwen and Suderow, Spain, p. 5.

[81] Kongsli, Norway, p. 5.

[82] Beeston and Geilmann, Netherlands, p. 4; Sabbadini, Belgium, p. 7.

[83] Hartmann-Rüppel, Germany, p. 8.

[84] Svetlicinii, Moldova, p. 6; Bergqvist, Sweden, p. 2; Kongsli, Norway, p. 6; Stawicki et al., Poland p. 4.

As for the case law of the national courts, in most jurisdictions, the courts do not seem to expressly distinguish between the two in all their cases.[85] In some of these countries, there have been cases that adopt and/or explain the distinction,[86] but this is not a common occurrence. Indeed, the Swiss report notes that the distinction is purely heuristic and legally irrelevant: what matters is that the abusive dimension—including the harm to competition—is determined on a case-by-case basis.[87]

When one considers the practice of the national competition authorities, it appears that exclusionary abuse cases are the most common cases, although in the jurisdictions where exploitative abuse is also covered, there are certainly some cases concerning exploitation as well.[88] Thus, although exclusion makes up most of the authorities' and courts' decisional practice, the national authorities and courts do not categorically shy away from using the prohibition of unilateral conduct to sanction exploitative conduct either. In fact, for example, over a 10-year period, there have been more exploitative abuse cases in Hungary than exclusionary abuse cases (despite the fact that it is vice versa by a small margin in a 5-year period).[89]

1.3.3 Price-Based Abuse and Non-price-Based Abuse

An interesting question is whether a distinction exists between price-based abuse and non-price-based abuse in the national legislation, decisional practice or case law, to ascertain, *inter alia*, the position of the European Commission's Guidance on enforcement priorities, which makes this distinction between two categories of abusive conduct central to the Guidance and adopts a general test for abuse for only one of the two categories of conduct (ie, price based). The Guidance's categorisation of conduct into these two types and adopting a particular, general test for price-based conduct without endorsing any similar test for non-price-based conduct were deemed to be worthy of investigation to see whether this distinction might have been transposed into the Guidance from the decisional practice of the national competition authorities or courts. The responses received from the National Reporters suggest that such an influence did not arise from the decisional

[85] See Hartmann-Rüppel, Germany, p. 8; Bergqvist, Sweden, p. 6; Beeston and Geilmann, Netherlands, p. 5; Goldammer, Lithuania, p. 4. The practice appears to be different in Poland, Spain and Austria where the courts use the categorisation in their judgments; Stawicki et al., Poland, p. 4; Cañadas Bouwen and Suderow, Spain, p. 5; Fussenegger et al., Austria, p. 7.

[86] See eg Beeston and Geilmann, Netherlands, pp. 4-5; Sabbadini, Belgium, p. 7; Bergqvist, Sweden, p. 3; Boudou et al., France, p. 8; Fussenegger et al., Austria, pp. 7-8.

[87] Cherpillod, Switzerland, p. 6.

[88] See Camusso and De Cesero, Italy, p. 14; Sabbadini, Belgium, p. 10; Itoh, Japan, p. 5; Bergqvist, Sweden, pp. 2-3; Cañadas Bouwen and Suderow, Spain, p. 8; Kongsli, Norway, p. 8; Stawicki et al., Poland, p. 4; Boudou et al., France, p. 17; Cherpillod, Switzerland, p. 5; Fussenegger et al., Austria, p. 11; Robinson, UK, pp. 29-30.

[89] See Papp, Hungary, p. 11.

practice of national competition authorities or courts. The distinction made in the Guidance appears to influence (rather than be influenced by) the practice in different jurisdictions depending on the emphasis placed on Commission's soft law in a particular jurisdiction.

In most jurisdictions studied, the legal provisions do not distinguish between price-based and non-price-based conduct as such but are deemed to cover both on the basis of the examples listed in the prohibition.[90] Having said that, most competition authorities do not expressly distinguish between the two types of conduct in their decisional practice,[91] but sometimes they do so in explanatory documents.[92] The Swiss report states that it may occur that distinctions are made, but it has no legal relevance as the same legal requirements will be applied.[93] In contrast, some other jurisdictions find the distinction useful in the analysis of conduct with the implication that different tests apply to these two types of conduct (eg, the as-efficient-competitor test applicable to price-based conduct).[94]

Similar to the competition authorities, most jurisdictions report that the courts do not make an express distinction between price-based and non-price-based conduct, whilst some reports from EU Member States also note that in line with some recent judgments of the CJEU, the courts apply the as-efficient-competitor test to price-based conduct such as predatory pricing and margin squeeze.[95] All in all, it appears that the distinction between price-based conduct and non-price-based conduct is not as common or as inherent as the distinction between exclusionary and exploitative conducts in the application of the prohibition of abuse of a dominant position.

1.4 Enforcement

1.4.1 Decision-Making Practice

There is a vast amount of difference in the number of decisions that different competition authorities around the world take on anticompetitive unilateral conduct. However, it must also be noted that there is also a vast amount of difference in the overall number of decisions taken by different competition authorities. In other words, some authorities

[90]Hartmann-Rüppel, Germany, p. 9; Camusso and De Cesero, Italy, p. 10; Sabbadini, Belgium, pp. 7–8; Pallerosi, Brazil, p. 6; Goldammer, Lithuania, p. 4; Itoh, Japan, p. 4; Kongsli, Norway, p. 6; Bergqvist, Sweden, p. 3; Cañadas Bouwen and Suderow, Spain, p. 5; Robinson, UK, p. 15; Svetlicinii, Moldova, p. 7; Beeston and Geilmann, Netherlands, pp. 5-6; Papp, Hungary, pp. 13-14; Fussenegger et al., Austria, p. 8; Cherpillod, Switzerland, p. 6; Stawicki et al., Poland, p. 5.

[91]See text around n. 80 and eg Boudou et al., France, pp. 8-9.

[92]As stated in the reports: Svetlicinii, Moldova, p. 7, Papp, Hungary, p. 14 and Petrov, Bulgaria, p. 9.

[93]Cherpillod, Switzerland, p. 6.

[94]Svetlicinii, Moldova, p. 7; Bergqvist, Sweden, p. 3; Pallerosi, Brazil, p. 6 (in the context of predatory pricing).

[95]See Hartmann-Rüppel, Germany, p. 9; Stawicki et al., Poland, p. 5; Bergqvist, Sweden, p. 3.

are much more active than others. In two of the countries studied, there are reportedly more decisions taken on unilateral conduct than anticompetitive agreements, and this is so by a large margin. In Poland, in a period of 5 years, 360 decisions were taken on unilateral conduct, whilst 121 decisions were taken on anticompetitive agreements.[96] In the Republic of Moldova, over 50 decisions were taken on unilateral conduct in a period of 5 years as opposed to 20 decisions on anticompetitive agreements.[97]

In some other jurisdictions, the proportion of unilateral cases in the workload of the competition authority is still significant despite being lower than that of cases concerning anticompetitive agreements. For example, in Germany, Hungary and Sweden, unilateral conduct cases make up around 35% of the case load, whereas in Ukraine and France unilateral conduct cases make up around 40% of the authority's case load.[98] In Italy, the percentage of unilateral conduct cases goes up to around 45% of the workload.[99] In other jurisdictions, unilateral conduct only makes up a small portion of the competition authority's decisional practice.[100] Finally, in two jurisdictions (UK and Norway), the number of decisions taken by the competition authority concerning both anticompetitive agreements and unilateral conduct is so low that it is not meaningful to examine the percentage of unilateral conduct decisions within the authority's workload.[101] As can be seen from this discussion, there is a great amount of divergence between different jurisdictions around the world regarding how active their competition authorities are in pursuing and/or finding infringements of competition law by unilateral conduct.

There also seems to be some divergence in terms of the case law of the courts on unilateral conduct, but this divergence appears less stark than that between the practices of the competition authorities.[102] Other than Sweden, where the courts have decided on more unilateral conduct cases than anticompetitive agreement cases in a 5-year period,[103] in most jurisdictions the courts deal with more cases

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[96]Stawicki et al., Poland, p. 6.

[97]Svetlicinii, Moldova, pp. 10-12.

[98]See Hartmann-Rüppel, Germany, p. 10; Papp, Hungary, p. 16; Bergqvist, Sweden, p. 4.

[99]See Camusso and De Cesero, Italy, pp. 13-14.

[100]See Beeston and Geilmann, Netherlands, pp. 6-9; Pallerosi, Brazil, p. 8; Itoh, Japan, pp. 4-7; Cherpillod, Switzerland, p. 7; Baker et al., US, pp. 4-5.

[101]In the UK, nine decisions concerning unilateral conduct and three decisions concerning agreements were taken in a 5 year period; Robinson, UK, pp. 29. In Norway, the competition authority has only ever intervened twice concerning unilateral conduct and twice concerning anticompetitive agreements since the introduction of the legislation in 2004; Kongsli, Norway, p. 7.

[102]Note that these reports did not discuss this question or did not have sufficient information to rely on concerning case law: Moldova, Italy, Brazil, Ukraine, Poland, Bulgaria, Spain and Germany.

[103]Bergqvist, Sweden, p. 5.

concerning anticompetitive agreements[104] or deal with roughly the same number of agreement and unilateral conduct cases.[105]

1.4.2 Competent Courts and Authorities

Only five out of 21 jurisdictions studied have specialist courts dealing with competition law infringements. These are Poland, Sweden, the United Kingdom, Austria and Hong Kong (under the forthcoming new legislation).[106] Some jurisdictions do not have specialist courts but rely on special working groups, economic experts within the court or chambers with specific knowledge (Netherlands, Belgium, Lithuania, Switzerland, France, Germany, Italy).[107] In many countries, the courts are only competent in appeals/judicial review proceedings against the decisions of the competition authority.[108]

The majority of the jurisdictions appear to be based on an administrative system where the competition authority can impose sanctions. In a few countries, the competition authority has to obtain a court order to impose fines for breach of competition law (Sweden, Austria (for personal sanctions), Lithuania).[109] In the US, neither the FTC nor a federal court (acting in a case brought by the DOJ) has the authority to levy civil fines for monopoly infringements, whilst the remainder of antitrust enforcement takes place before the US District Courts.[110]

Other than courts and competition authorities, some jurisdictions have sectoral regulators that can apply either the general competition rules directly or similar specific rules to their sector. In the majority of the jurisdictions studied, these regulators only act *ex ante*, so that there are no real concurrency powers (which would enable the regulators to apply the same rules in the same manner as the competition authorities).[111] The one jurisdiction where genuine concurrency exists is the UK.[112] For Lithuania, it is noted that the sectoral regulators mostly act ex ante, but

[104]Beeston and Geilmann, Netherlands, pp. 9-10; Papp, Hungary, pp. 16-17; Itoh, Japan, p. 5; Fussenegger et al., Austria, pp. 10-11; Cherpillod, Switzerland, pp. 8-10; Boudou et al., France, pp. 10-16.

[105]Sabbadini, Belgium, p. 9; Goldammer, Lithuania, pp. 5-8; Kongsli, Norway, p. 7.

[106]Stawicki et al., Poland, p. 7; Bergqvist, Sweden, p. 1; Robinson, UK, p. 5; Fussenegger et al., Austria, p. 12; Fournier, Hong Kong, p. 11.

[107]Beeston and Geilmann, Netherlands, p. 10; Sabbadini, Belgium, p. 9; Goldammer, Lithuania, p. 8; Cherpillod, Switzerland, p. 11; Hartmann-Rüppel, Germany, pp. 10-11; Camusso and De Cesero, Italy, pp. 14-15.

[108]See eg Itoh, Japan, p. 7; Ivanytska, Ukraine, pp. 8-9; Stawicki et al., Poland, pp. 6 -7.

[109]Bergqvist, Sweden, p. 1; Fussenegger et al., Austria, p. 12; Goldammer, Lithuania, p. 8.

[110]Baker et al, US, pp. 1; 14.

[111]Svetlicinii, Moldova, p. 13; Beeston and Geilmann, Netherlands, p. 11; Sabbadini, Belgium, p. 10; Ivanytska, Ukraine, p. 7; Stawicki et al., Poland, p. 7; Fussenegger et al., Austria, p. 12; Hartmann-Rüppel, Germany, p. 11.

[112]Robinson, UK, pp. 4-5.

also partially ex post, and that a clear delimitation between powers is not always apparent.[113] In Bulgaria and France, the regulators also have the competence to launch investigations into possible abusive practices in their sectors.[114] In the US, although sectoral regulators have authority to enforce the rule prohibiting anticompetitive mergers, they have seldom used this power.[115] The US regulators do not have the authority to enforce the monopolisation provisions of Sherman Act Section 2[116] with the implication that concurrency as in the case of the UK does not exist in the US either.

1.4.3 The Substantive Approach Followed by Competent Courts and Authorities

The national reporters were asked if they were able to identify in the competent courts' and authorities' decisional practice a particular approach and/or standard of harm regarding the interpretation of 'abuse'. In most jurisdictions, there does not seem to be such a discernible approach other than the fact that some jurisdictions indicate a tendency to mostly follow the approach at EU level (Netherlands, Belgium, Hungary, Spain, France, UK, Austria).[117]

It appears that in some jurisdictions, the approach is more based on economic analysis and effects of conduct than in other jurisdictions. For example, it is noted that the Dutch competition authority and courts adopt a high standard of proof of harm, based on economic analysis.[118] Similarly, the Swedish competition authority and courts have recently begun adopting an economic and effects-based approach, focussing on the risk of consumer harm and possible efficiencies.[119] In the same vein, in Brazil, although it is difficult to identify a particular approach, harm is considered as the negative effects on competition, which are not outweighed by gains in economic efficiency, which would also suggest an effects-based analysis.[120] For Switzerland, it is noted that the approach seems effects-based at first sight, but that the effects-based analysis is actually quite limited.[121]

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[113]Goldammer, Lithuania, pp. 9-10.

[114]Petrov, Bulgaria, p. 14; Boudou et al., France, p. 18.

[115]Baker et al, US, p. 15.

[116]Baker et al, US, p. 15.

[117]Beeston and Geilmann, Netherlands, pp. 3, 5, 11; Sabbadini, Belgium, p. 10; Papp, Hungary, p. 19; Cañadas Bouwen and Suderow, Spain, p. 14; Boudou et al., France, p. 8, 21; Robinson, UK, p. 13; Fussenegger et al., Austria, p. 13. In the UK, the Competition Act 1998 section 60 obliges the national courts to apply the domestic competition rules (having regard to any relevant differences between the provisions concerned) in a manner which is consistent with the application of those rules by the CJEU even where the EU competition rule are not applicable (ie there is no effect on trade between Member States).

[118]Beeston and Geilmann, Netherlands, p. 12.

[119]Bergqvist, Sweden, pp. 4, 7.

[120]Pallerosi, Brazil, pp. 7-8.

[121]Cherpillod, Switzerland, p. 13.

Some jurisdictions operate on the basis of 'consumer harm' as the main criterion, whereas others focus more on effects on competition. For instance, in Hungary, despite there being no specific approach, it is arguably indispensable that the conduct is likely to result in consumer harm.[122] In Italy, on the contrary, consumer harm will not be considered in the assessment of harm, only in assessing the existence of the violation as such.[123] In Japan, the focus is noted to be on 'normal competition'.[124]

Similar to the question on approach, when asked whether there was a claimed objective of the prohibition of anticompetitive unilateral conduct adopted by the competition authority and/or the courts, the national reports struggled to identify precise objectives pursued by the relevant authorities. In general, EU/EEA countries state that they mostly follow the EU approach. Interestingly, they often refer to consumer welfare as a result or aim of the protection of competition despite the fact that the role of 'consumer welfare' is not quite clear-cut in the approach of the EU Commission and certainly in the case law of the CJEU.[125] For example, in Belgium, the objective is expressed in terms of 'avoiding foreclosure of competitors and harming consumers', as well as ensuring that a 'favorable environment for sustainable investments is maintained' and maintaining 'competition on the merits in order to avoid causing harm to consumers'.[126] In the Netherlands, the aim of the authority is to protect the competitive process in order to prevent harm to consumers.[127] Indeed, benefit of consumers and/or consumer welfare is accepted as an/the objective in many, if not most, of the jurisdictions.[128] The one notable exception to this is Germany, where the protection of the interests of consumers (or of competitors) is not deemed to be the main objective, which is instead the 'protection of competition as such'.[129] In contrast, in the US, since the '80s, government enforcers and courts

[122]Papp, Hungary, p. 19.

[123]Camusso and De Cesero, Italy, p. 16.

[124]Itoh, Japan, pp. 7-8.

[125]On the role of consumer welfare in EU case law and decisional practice on Article 102 TFEU, see eg P. Akman, '"Consumer Welfare" and Article 82 EC: Practice and Rhetoric', (2009) 32 (1) World Competition 71.

[126]Sabbadini, Belgium, p. 11.

[127]Beeston and Geilmann, Netherlands, p. 15.

[128]These include Papp, Hungary, p. 17 ('protect competition in the interest of long-term consumer welfare'); Goldammer, Lithuania, p. 10 ('ensure effective and free competition and thus consumer welfare'); Bergqvist, Sweden, p. 4 ('promote effective competition in the private and the public sector to the benefit of consumers'); Stawicki et al., Poland, p. 7 ('competition enforcement, i.e. protection of competition, is seen as a mechanism to ensure the efficiency of business processes and the optimal allocation of resources, on the one hand, and the means of safeguarding public interest of consumers, on the other'); Petrov, Bulgaria, p. 17 ('to ensure that market players can operate within an environment which allows them to innovate and operate efficiently, based on the assumption that the ultimate beneficiary of normal competitive processes are consumers'); Pallerosi, Brazil, p. 8 ('protection of consumers' welfare'); Kongsli, Norway, p. 9 (special consideration of the interests of consumers).

[129]Hartmann-Rüppel, Germany, p. 12.

have increasingly relied on the so-called Chicago School of economics, which assumes that the goal of antitrust is to promote allocative efficiency in the society as a whole.[130] Finally, in Switzerland and Austria, maintaining open markets or terminating market disturbance is identified as the objective of enforcement.[131]

It is not common for the competition authorities to issue enforcement guidelines or guidance concerning their approach to the prohibition of unilateral conduct. Several jurisdictions contain no guidelines concerning the application of the prohibition of abuse of dominance.[132] There are, however, some jurisdictions where documents explaining the authority's interpretation of and/or approach to the rule have been published.[133] In some jurisdictions, there are sector-specific guidelines issued by sectoral regulators.[134]

Similar to this divergence across jurisdictions concerning the existence of guidelines, the effect of the European Commission's Guidance on enforcement priorities in applying Article 102 TFEU to exclusionary conduct is also not consistent across jurisdictions. For example, in some jurisdictions, the competition authorities and/or courts refer to or rely on the Guidance.[135] In contrast, in some EU Member States, the impact of the Guidance has been limited or difficult to assess.[136] Finally, at least in one jurisdiction (Germany), the Guidance has been outright rejected as having no binding effect and for having focussed on consumer protection.[137]

1.4.4 Criticism of the Decisional Practice of the Competition Authorities/Courts

The national reports do not offer lengthy criticisms of the decisional practices of the competition authorities or courts in their respective jurisdictions. In some jurisdictions, this could be due to the fact that the amount of decisions is rather

[130]Baker et al, US, p. 19.

[131]Cherpillod, Switzerland, pp. 13-14; Fussenegger et al., Austria, p. 13.

[132]See eg Sabbadini, Belgium, p. 10; Goldammer, Lithuania, p. 10; Cañadas Bouwen and Suderow, Spain, p. 13; Cherpillod, Switzerland, p. 12; Fussenegger et al., Austria, p. 12; Boudou et al., France, p. 22; Papp, Hungary, p. 19.

[133]See eg Beeston and Geilmann, Netherlands, pp. 3, 11 (a brochure mostly relying on the Commission Guidance); Kongsli, Norway, p. 8 (a fact sheet); Svetlicinii, Moldova, pp. 16 (Regulation on determination of dominant position and assessment of abuse of dominant position); Hartmann-Rüppel, Germany, pp. 11-12 (one predatory pricing and one sectoral guideline).

[134]Robinson, UK, pp. 5 and 13; Fournier, Hong Kong, pp. 1, 7.

[135]Papp, Hungary, p. 20; Ivanytska, Ukraine, p. 1 (n. 2) (practitioner reliance on the Guidance); Kongsli, Norway, p. 9; Svetlicinii, Moldova, p. 16; Bergqvist, Sweden, p. 8 (more the authority rather than the courts); Beeston and Geilmann, Netherlands, p. 17.

[136]Camusso and De Cesero, Italy, p. 14; Goldammer, Lithuania, p. 10; Petrov, Bulgaria, p. 17.

[137]Hartmann-Rüppel, Germany, pp. 12-13.

limited and, thus, there is little that can be evaluated. In particular, in response to the question whether there are too many restrictions on legal rights and business opportunities, the overwhelming majority of the jurisdictions studied do not report there to be too many restrictions on legal rights and business opportunities. The issue of not unduly restricting business rights and opportunities most clearly comes across as a factor in enforcement in the US. The US has far fewer antitrust-imposed restrictions on business opportunities of dominant firms due to its narrower approach to dominance, enforcement caution by agencies and a high bar for private suits.[138] Thus, the restrictions on business opportunities are more aptly considered to be potential barriers to entry in local markets due to a *lack* of antitrust enforcement rather than because of antitrust enforcement.[139] Other than the US, the possibility of over-regulation is also discussed in Japan as a possible consequence of most cases being dealt with as 'unfair trade practices', which has a lower threshold than 'private monopolisation'.[140] Similarly, the enforcement of the Hungarian rules has also been criticised for protecting competitors rather than competition.[141]

In contrast, in some jurisdictions, criticism is directed towards the competition authorities/courts for not being sufficiently active in the enforcement of the prohibition of anticompetitive unilateral conduct.[142] One jurisdiction (Netherlands) has been called the 'paradise for abuse' due to the extremely low number of decisions enforcing the prohibition.[143] In some jurisdictions, there is a demand for more guidance from the competition authority concerning the approach to the prohibition since stakeholders are not sufficiently certain regarding competition law liability.[144]

In Germany, the criticism focusses on the provision on the abuse of 'relative market power', which the OECD criticises as a way to protect SMEs.[145] Another point of criticism is by the competition authority itself and the Monopoly Commission, who are concerned that sectors providing services of general interest fall out of the scope of the competition provisions.[146] Criticism by businesses also exists concerning too narrow market definitions, the presumption of market dominance and special provisions applicable to certain industries.[147]

[138] Baker et al, US, p. 2.

[139] See Baker et al, US, p. 3.

[140] Itoh, Japan, p. 8.

[141] Papp, Hungary, p. 18.

[142] Bergqvist, Sweden, p. 5; Beeston and Geilmann, Netherlands, p. 18.

[143] Beeston and Geilmann, Netherlands, p. 18.

[144] Sabbadini, Belgium, p. 11; Boudou et al., France, p. 23.

[145] Hartmann-Rüppel, Germany, p. 13.

[146] Hartmann-Rüppel, Germany, p. 13.

[147] Hartmann-Rüppel, Germany, p. 13.

In some jurisdictions, the length of the proceedings is a point of criticism, as well as the lack of resources of the competition authority.[148] Lack of sufficient economic analysis is also an issue that raises concern in some jurisdictions.[149] 'Market engineering' through settlements/commitments on the part of the competition authority is also an area of dissatisfaction for one jurisdiction.[150]

1.5 Conclusions

The comparative study of the prohibition of anticompetitive unilateral conduct in 21 jurisdictions reveals that there are as many similarities as differences between the approaches of these different jurisdictions. Some of the similarities relate to the fact that many jurisdictions either have statutes concerning exclusively competition law or include provisions concerning fair competition/fair trade/consumer protection. Similarly, most provisions prohibiting abuse of dominance contain indicative lists of practices that are prohibited. There is only one jurisdiction with an exhaustive list, ie the unfair trade practices in the Japanese provision. There are also some prohibitions with no list of prohibited practices at all.

An important commonality across jurisdictions is that there are mostly no extensive and detailed definitions of 'abuse' in the legislation and no conclusive definitions of 'abuse' provided by the competition authorities. In terms of what type of conduct is covered by the prohibition, although a very small number of jurisdictions only prohibit exclusionary conduct, most of the jurisdictions have legislation that either expressly prohibits or is interpreted to prohibit both exploitative and exclusionary conduct. In fact, most provisions studied make no express distinction between exclusionary abuse and exploitative abuse but cover both. The competition authorities are more inclined to make an express distinction in explanatory documents than in decisional practice. Similar to the authorities, courts also seem to shy away from express categorisation. The one jurisdiction where the difference between exclusionary and exploitative conducts makes a significant difference for a given case is Japan since the categorisation directly affects the calculation of the administrative fine (which is higher for exploitative conduct). In practice, in the vast majority of jurisdictions, the majority of decisions and cases seem to concern exclusionary abuse, although there are certainly exceptions to this. In the same vein, in the vast majority of jurisdictions studied, anticompetitive agreement cases take up more of the authorities'/courts' workload than unilateral conduct.

A significant point of divergence across different jurisdictions is their treatment of dominance. The approaches range from not requiring dominance at all to presumptions of dominance at substantially different market share thresholds.

[148]Sabbadini, Belgium, p. 11; Fussenegger et al., Austria, p. 14; Pallerosi, Brazil, p. 8.

[149]Kongsli, Norway, p. 10; Ivanytska, Ukraine, pp. 1-2 and 8- 9.

[150]Cherpillod, Switzerland, p. 14.

One obvious consequence of this is that the same undertaking with the same market share will be potentially subject to different approaches in different jurisdictions across the world, sometimes even within the EU. This divergent approach clearly adds to the costs of running a global business and also raises the question of how modern the systems of competition law in these jurisdictions are, given that economic principles suggest that it is ‘market power’ and not ‘market share’ of a given undertaking that matters for the effects of conduct on competition.

Particularly interestingly for the EU, despite the fact that the European Commission’s Guidance on Article 102 TFEU is based on a distinction between price-based and non-price-based conduct, such an express distinction does not seem to exist in the national practice of competition law in different EU Member States or elsewhere. Considering enforcement priorities and applicable tests of abuse, this suggests that this categorisation will possibly be transposed from EU level to the national level as the decisional practice develops and it seems almost certain that it has not been inspired by practice at the national level. However, the transposition of the distinction between price-based and non-price-based conduct into national practice depends to a degree on the approach of the national authorities and courts to the Commission Guidance itself. This approach is not consistent across different jurisdictions since some of them have been more open to adopting the concepts and methodology of the Guidance, whilst some have been less so, to the point of even rejecting the relevance of the Guidance in some cases.

Few of the jurisdictions studied have specialist competition courts, but some others do rely on experts, specific chambers or specialised judges in dealing with competition-related cases. There is genuine concurrency in only one jurisdiction studied (UK), but in several other jurisdictions, regulators seem to play some role—albeit limited—in sanctioning abusive behaviour in specific sectors.

When it comes to the substantive approach of the competition authorities/courts to the issue of ‘abuse’ and to the question of the objective of the prohibition of abuse of dominance, many mention consumer welfare or related consumer concerns as an/the objective of enforcement. However, this is certainly not universal and is outright rejected in at least one jurisdiction (Germany). Having said that, even for jurisdictions that use consumer welfare as the guiding principle, one would need to examine in detail the decisional practice and policy setting to establish what the actual role of such a principle is. Moreover, many jurisdictions refer to consumer welfare and avoiding consumer harm alongside other objectives such as effective access to markets and protecting competition.

When several objectives are so adopted, it is inherently difficult to identify the role of any particular objective, not least when so many of them, including consumer harm, are concepts that require interpretation and many of them can also conflict with one another in practice. What comes across quite clearly from the reports is that the EU Member States (or states with EU affiliations) tend to follow the approach at EU level even when applying their domestic law to cases that do not affect trade between Member States. Having said that, the immediate effect of the Commission’s Guidance seems to have been rather limited, perhaps due to a lack of endorsement on the part of the CJEU of the Guidance.

Going back to the question of whether there are too many restrictions on the rights and opportunities of businesses, although in some jurisdictions this is recognised to be an actual or potential problem, there are also at least as many jurisdictions that complain of the *lack* of enforcement of the rule prohibiting abuse of dominance rather than the enforcement of it. What remains to be the case, however, is that in many important aspects, the rules on anticompetitive unilateral conduct diverge across jurisdictions with the implication that the same undertaking can easily be subject to significantly different approaches concerning a given practice. Bearing in mind that many of the large undertakings that may fall within the scope of the rule prohibiting abuse of a dominant position are global companies with global operations, reducing such divergence across different jurisdictions would reduce the cost of doing business, which might in turn allow for these cost savings to be used for the benefit of consumers in terms of investments, innovation, etc. The current position that displays divergence not only in the details but also in the fundamentals such as the aims and objectives of the prohibition of abuse of a dominant position negatively impacts on business and legal certainty and leaves much to be desired for a global, harmonised approach to unilateral conduct under competition law.

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Austria

2

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2.1 Introduction

2.1.1 Legal Regulation in the Austrian Cartel Act

The Austrian Cartel Act 2005 (hereinafter "Cartel Act")[1] contains a general prohibition of the abuse of a dominant position. Section 5 Cartel Act reads as follows:

> *Section 5. (1) The abuse of a market-dominant position shall be prohibited. Such an abuse may, in particular, consist in the following:*
> *1. claim for purchase or selling prices or other terms and conditions which differ from those which would highly likely arise if effective competition existed, whereby, in particular, the behavior of undertakings in comparable markets, with effective competition, shall be taken into account,*
> *2. limiting production, markets or technical development to the prejudice of consumers,*
> *3. disadvantaging of contractual partners in the competition by applying dissimilar conditions to equivalent transactions,*
> *4. making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts,*

[1]Federal Law against Cartels and other Restraints of Competition, Kartellgesetz 2005, KartG, BGBl. I No. 61/2005 as last amended by BGBl. I No. 13/2013.

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5. sale of goods below cost price without objective justification.

(2) In the case of (1) No. 5, the dominant undertaking bears the burden of proof for the rebuttal of the appearance of a sale below cost price, as well as for the objective justification for such a sale.

This provision prohibiting the abuse of a market-dominant position thus can be found in a statute exclusively concerning competition law. For similar provisions in other Austrian laws, see Sect. 2.1.4 below.[2]

Due to the context of its introduction (see Sect. 2.1.3), Section 5 Cartel Act is virtually identical to Article 102 TFEU, which—on an European level—bans the abuse of a market-dominant position within the internal market or in a substantial part of it by one or more undertakings if it may affect trade between Member States. It has been impliedly confirmed by the extension of the definition of a dominant position in Section 4 (1a) and (2a) Cartel Act (joint dominance) by the last amendment to the Cartel Act in 2013 that Section 5 Cartel Act shall—likewise Article 102 TFEU—also apply to collaborative abusive behaviour by two or more undertakings.[3]

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[2]The ban on abusive practices in Section 5 Cartel Act is complemented by a ban on retaliatory measures in Section 6 Cartel Act: Proceedings in order to terminate an abuse of a market-dominant position [. . .] may not be taken as a reason by the dominant undertaking to exclude the undertaking directly affected by the abuse from further supply or demand on reasonable conditions.

[3]The Cartel Act provides for a specific definition of market-dominance in Section 4 (which goes back to the historical registration obligation for market-dominant undertakings and is also relevant for merger control):

Section 4. (1) An undertaking shall be regarded as market-dominant for the purpose of this Federal Act, who, as a supplier or demander

1. is not exposed to any or only negligible competition or

2. has a superior market position compared to the other competitors; thereby considering, in particular, the financial strength, the relations to other undertakings, the access possibilities to the procurement and sales markets as well as the circumstances that limit market access for other undertakings.

(1a) Two or more undertakings shall be regarded as market-dominant, if there is no substantial competition between them and if they, in their entirety, fulfil the conditions of (1).

(2) If an undertaking as a supplier or demander on the relevant market

1. has a market share of at least 30 % or

2. has a market share of more than 5 % and is exposed to the competition by not more than two undertakings or

3. has a market share of more than 5 % and belongs to the four biggest undertakings on this market, which together have a market share of at least 80 %, then it bears the burden of proof, that the conditions of (1) are not fulfilled.

(2a) If an entirety of undertakings as suppliers or demanders on the relevant market

1. has a market share of at least 50 % and consists of three or fewer undertakings or

2. has a market share of at least two-thirds and consists of five or fewer undertakings, the undertakings involved bear the burden of proof, that the conditions of (1a) are not fulfilled.

(3) An undertaking shall also be regarded as market-dominant, if it has a superior market position in relation to its demanders and suppliers; such position is, in particular, deemed to exist, if those are dependent on maintaining the business relationship to avoid severe economic disadvantages.

2.1.2 Indicative List of Abusive Behaviour

Section 5 (1) Cartel Act contains an indicative list of abusive behaviour. The abusive practices listed as examples of offence in Section 5 (1) No. 2 (*limiting production, markets or technical development to the prejudice of consumers*), No. 3 (*disadvantaging of contractual partners in the competition by applying dissimilar conditions to equivalent transactions*) and No. 4 (*making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts*) correspond to the practices listed in Article 102 paragraphs (b) to (d) TFEU.

The first difference between the list of abusive behaviour in the Austrian Cartel Act and the list in the TFEU arises from the fact that, since the last amendment to the Cartel Act in 2013, Section 5 (1) No.1 Cartel Act no longer refers to *"directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions"* but—according to the model of the German Act Against Restraints of Competition (GWB)—to "*claim for purchase or selling prices or other terms and conditions which differ from those which would highly likely arise if effective competition existed, whereby*, *in particular, the* behaviour *of undertakings in comparable markets*, *with effective competition, shall be taken into account*". This amendment suggests a competitive-based assessment by using a comparable market concept. According to legislation materials, this rewording should allow a more severe prosecution of price abuse.[4]

Another difference to the indicative list of abusive practices in Article 102 TFEU is that Section 5 (1) No. 5 Cartel Act additionally specifies the *"sale of goods below cost price without objective justification"* as an example for unlawful conduct. Pursuant to Section 5 (2) Cartel Act, the dominant undertaking bears the burden of proof for the rebuttal of the appearance of a sale below cost price, as well as for the objective justification for such a sale. The behaviour indicated in this point can be seen as a subcategory of, in general, not cost-covering sales. The jurisdiction so far did not call on this provision very often but did more likely refer to the more differentiated and sophisticated criteria for predatory pricing developed by ECJ case law along the general clause of price abuse stated in Article 102 (a) TFEU.

2.1.3 Historical Development and Amendments to the Statutory Regulations

Since the Cartel Act of 1972, which came into force on 1 January 1973, the Austrian antitrust law contains a regulation concerning the abuse of a dominant position. According to Section 46 Cartel Act 1972, the Cartel Court, at the request of a party,

[4]Erläuternde Bemerkungen (Explanatory remarks) RV (Regierungsvorlage, government bill) 1804 BlgNR (SupplementsNo.) 24. GP.

had to interdict the abuse of a dominant position. The listed examples of abusive behaviour were almost literally agreed with those of EU competition law. This was because the main reason for issuing the Cartel Act 1972 was the conclusion of free trade agreements between Austria and the European Communities on 22 July 1972. Because the relevant provisions of this free trade agreement were aligned with Article 86 EEC Treaty (later Article 82 EC Treaty, respectively Article 102 TFEU), the Austrian legislators decided to establish a control of abusive practices based on this model, however, without introducing an ex lege prohibition of abuse related to this EEC provision.

The ban on abuse of a dominant market position in Section 46 Cartel Act 1972 was transposed unchanged to Section 35 Cartel Act 1988.[5] The amendment to the Cartel Act in 1993 brought a further harmonisation with Community law: to enable the Cartel Court to order also an active conduct, like, for example, the conclusion of a contract, the provision was reworded insofar as the Cartel Court, on request, *had to order* cessation of the abusive behaviour.

By the amendment to the Cartel Act in 1999, the list was extended to the sale of goods below cost price without objective justification. This did not mean any fundamental change to the legal situation since such conduct could be subsumed under the general clause of price abuse in Section 35 (1) Cartel Act 1988, and like it had already been done by jurisdiction.[6] Furthermore, by this amendment to the Cartel Act, the wording of the prohibition of unfair trading conditions in Section 35 (1) No. 1 Cartel Act 1988 was supplemented by the words *"as, in particular, inappropriate terms of payment and default interests"*.

The amendment to the Cartel Act in 2002 brought a rewording of Section 35 (1) first sentence Cartel Act 1988: from that time on an abuse of a market-dominant position could not only be interdicted or prohibited (by order of cessation) by the Cartel Court on request but was immediately deemed as illegal by the law. This new wording aimed to make clear that any behaviour contrary to this provision would be, by itself, an immediate breach of the law not requiring any previous order or injunction by the Cartel Court.

Without any substantive change, this provision subsequently was converted into Section 5 Cartel Act 2005.[7] As described above, since 2013, Section 5 (1) No. 1 Cartel Act no longer refers to *"directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions"* but to *"claim for purchase or selling prices or other terms and conditions which differ from those which would highly likely arise if effective competition existed, whereby, in particular, the*

[5]Which came into force on 1 January 1989.

[6]However, see the provision concerning the reversal of the burden of proof to the detriment of the dominant undertaking, which has been introduced in the law together with this additional example in 1999.

[7]The Cartel Act 2005, which entered into force at 1 January 2006, is still the current Austrian Cartel Act.

behavior of undertakings in comparable markets, with effective competition, shall be taken into account".

2.1.4 Other Statutory Provisions

In addition to the antitrust law regulations concerning the abuse of a dominant position, the Austrian Act on Local Supply (hereinafter "Act on Local Supply")[8] includes provisions on "good business behaviour" (*Kaufmännisches Wohlverhalten*) that indirectly refer to an abuse of market power. According to the general clause in Section 1 (1) Act on Local Supply, business practices between any undertakings among each other (thus, despite the title of the Act, not only undertakings involved in local supply) can be prohibited by the Cartel Court if they are likely to threaten the performance-related competition (*Leistungswettbewerb*).

Section 1 (2) Act on Local Supply mentions particularly the *"offering or requesting, granting or accepting of money or other benefits, also of discounts or special conditions, among suppliers and retailers that are not objectively justified, especially if the additional benefits are not offset by appropriate compensation"*. This provision was created primarily to counteract the "tapping" of suppliers by companies with significant market power on the demand side. It can be seen as a supplement of the antitrust law-prohibition of abuse and does not require the establishment of a dominant position.

Section 2 Act on Local Supply provides for a ban on discrimination similar to Section 5 (1) No. 3 Cartel Act (*"disadvantaging of contractual partners in the competition by applying dissimilar conditions to equivalent transactions"*, which corresponds to Article 102 TFEU), whereby market dominance, again, is not required: *"(1) Who, in spite of the same conditions prevailing as a supplier grants or offers different conditions to authorized resellers without objective justification, can be claimed for cease-and-desist. (2) In the same way also a reseller can be claimed for requesting or accepting objectively unjustified conditions from suppliers."* In this context, "condition" actually stands for "price" (including the granting of discounts) and so judicial practice so far has focused on unjustified price discrimination.

Another notable provision is Section 4 (1) Act on Local Supply, which refers to refusal to deal: according to this provision, undertakings that usually deliver to final sellers may be obliged to conclude a contract if the non-supply would threaten the local supply or would significantly affect the competitiveness of the final seller on the market of the type of goods not supplied.[9]

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[8]Federal Law on Improvement of Local Supply and Competitive Conditions, Nahversorgungsgesetz, NahVersG, BGBl. No. 392/1977 as last amended by BGBl. I No. 50/2012.

[9]See also Section 3 Act on Local Supply (which corresponds to Section 6 Cartel Act), which provides that proceedings pursuant to Sections 1 and 2 Act on Local Supply may not be taken as a reason by the defendant to exclude the undertaking affected, by a conduct as defined by those provisions, from further supply or demand on reasonable conditions.

The Austrian Act Against Unfair Competition,[10] constituting the substantial regulation of the Austrian law on unfair practices, does not include any provision that would expressly refer to the exercise of market power or the abuse of a dominant position, like what the ban on abuse does in the Cartel Act. However, as can be seen from case law, under certain circumstances, abusive exercise of market power may well constitute a violation but of this law since various conducts of market powerful companies such as tapping of suppliers, discriminative practices, refusal to supply and certain exclusivity obligations have been repeatedly considered as unfair business practice within the meaning of the general clause of Section 1 Act Against Unfair Competition or Section 1a Act Against Unfair Competition (aggressive commercial practices). The market position of the company concerned, in particular, is also taken into account when assessing the lawfulness of tying agreements, such as package deals, or the granting of gifts. Furthermore, according to the case law pertaining to the "breach of law", an infringement of the prohibition of the abuse of a market-dominant position stipulated in Section 5 Cartel Act can also be considered as "other unfair practice" within the sense of Section 1 (1) No. 1 Act Against Unfair Competition. Pursuant to Section 2 (1) No. 7 Competition Act,[11] the Austrian Federal Competition Authority[12] is entitled to claim for injunctive relief under the Act Against Unfair Competition.

The Austrian Telecommunications Act[13] includes provisions relating to "undertakings with significant market power".[14] These articles state that under specific conditions, such undertakings can be obliged by the regulatory authority to stop certain practices, as there are in particular[15] excessive pricing, hampering the entry of new market participants, predatory pricing to eliminate competition, inappropriately preferring certain end users or unjustifiably bundling services.

[10]Bundesgesetz gegen den unlauteren Wettbewerb 1984, UWG, BGBl. No. 448/1984 as last amended by BGBl. I No. 49/2015.

[11]Federal Law on the Establishment of a Federal Competition Authority, Bundesgesetz über die Einrichtung einer Bundeswettbewerbsbehörde (Wettbewerbsgesetz—WettbG), BGBl. (Federal Law Gazette) I No. 62/2002 as last amended by BGBl. I No. 129/2013.

[12]Bundeswettbewerbsbehörde (BWB).

[13]Telekommunikationsgesetz 2003—TKG, BGBl. (Federal Law Gazette) I No. 70/2003 as last amended by BGBl I No. 44/2014.

[14]Pursuant to Section 35 (1) Telecommunications Act an undertaking is considered having a significant market power, if this undertaking either alone or together with other undertakings holds such a strong economically position, that it has the possibility of acting, to a considerable extent, independently of its competitors, its customers and ultimately the consumers.

[15]See Section 43 (2) Austrian Telecommunications Act.

2.2 Definition of the Abuse of Market Power

2.2.1 Cartel Act

The Austrian Cartel Act does not provide for any definition of the term “abuse”. Concerning its content and interpretation, the wording “abuse of a market-dominant position” provided here is just defined by an indicative list of abusive behaviour. The legislative materials to Section 46 (1) Cartel Act 1972,[16] by which provision the control of abusive practices was introduced into Austrian law, merely note that the definition of “abuse” corresponds to Article 86 EEC Treaty.

2.2.2 Definition by the Competition Authority

The BWB determines the term “abuse of market power” on its website[17] as follows: *“Abusive practices by dominant companies may lead to disadvantage for other companies and customers that would not naturally occur or be possible in a setting of effective competition. Abusive practices include: imposing unfair prices, restriction of sales, deprivation of certain contractors, and selling goods below cost.”* Any additional, explicit definition of the term “abuse” by the BWB cannot be seen yet.

2.2.3 Definition by Case Law

In accordance with the definition of the term “abuse of a dominant position” by the European Court of Justice, this term is defined as follows:

> *Any behavior of an undertaking in a dominant position, which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse to methods different from those which condition normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition, is considered as abusive.*[18]

Furthermore, the Courts have defined the term of “abuse” as follows:

> "*It is an abuse of a market-dominant position, if an undertaking economically superior in relation to the other market participants takes influence on the market in a way, which is*

[16] Erläuternde Bemerkungen (Explanatory remarks), RV (Regierungsvorlage, government bill) 473 BlgNr. (SupplementsNo.) XIII. GP, 36.

[17] See www.bwb.gv.at; english version.

[18] Decision of the Cartel Supreme Court (“Kartellobergericht”, KOG), 11 October 2012, 16 Ok 1/12—*ÖBB/Westbahn II*; see also Cartel Supreme Court, 19 January 2009, 16 Ok 13/08—*Telekom “KombiPaket”*; for further evidence see *Gruber*, Österreichisches Kartellrecht[2], § 5 KartG E 31.

likely to evolve negative effects on the market and competition conditions"[19] *or "... is suspected to cause negative effects on the market and competitive conditions"*.[20]

Any behavior of a market-dominant undertaking that tends and is likely to threaten the structure of a market by non-performance-related means in competition should be considered as abusive, irrespective of whether the competitors are able to withstand this behavior.[21]

– *An infringement of the law does not require any wilful intention of the market-dominant entrepreneur to affect the competition conditions in a negative way*; *the objective ability of the conduct in question to lead to this result is sufficient to infringe the law*.[22]

Consequently, the central element of "abuse of a dominant position" is the ban of non-performance-related means in competition by a dominant undertaking if this behaviour, from an objective point of view, is likely to affect the competition conditions on the market already dominated.

2.3 The Distinction Between Exploitative Abuse and Exclusionary Abuse

2.3.1 Legal Basis

As in Article 102 TFEU, the categories of exploitative and exclusionary abuses are not defined in the text of the provision. However, it is undisputed that Section 5 Cartel Act covers both categories of abuse.

The indicative list of examples of abusive behaviour in Section 5 Cartel Act contains both types of abusive behaviour:

According to Section 5 (1) No. 1 Cartel Act it is abusive for a dominant undertaking to impose purchase or selling prices or other trading conditions, which differ from those that would likely arise under effective competition. On the other hand, Section 5 (1) No. 5 Cartel Act covers predatory prices as an example of an exclusionary abuse. Section 5 (1) No. 2 Cartel Act corresponds with Article 102 (b) TFEU by declaring the limitation of production, markets or technical development to the prejudice of consumers as abusive covering both exclusionary and exploitative practices.

[19]Cartel Supreme Court, 16 July2008, 16 Ok 6/08—*Asterix bei den Olympischen Spielen*, with further references.

[20]Cartel Supreme Court, 19 January 2009, 16 Ok 13/08—*Telekom "KombiPaket"*, with further references.

[21]Cartel Supreme Court, 17 October 2005, 16 Ok 43/05—*Die NEUE Zeitung für Tirol*.

[22]Cartel Supreme Court, 19 January 2009, 16 Ok 13/08—*Telekom "KombiPaket"*; with further references.

2.3.2 Decisional Practice

The Competition Authority follows the distinction described above in its application of Section 5 Cartel Act. Its decisions are based on European case law and the practice of the European Commission, which incorporate the distinction.

The Austrian Supreme Court has expressly recognised the two different categories of abuse and follows the distinction in its decisional practice. The Supreme Court has held:

> Jurisprudence and Doctrine distinguish between two general forms of abuse: The impediment of chances of competitors and along with it the impairment of competition (market structure) on the one hand and acting to the detriment of customers (suppliers) on the other hand. This distinction has been recognized under the terms of 'exclusionary abuse' and 'exploitative abuse'[23]

Exclusionary and exploitative practices are recognised as independent forms of abuse.[24] In addition, the courts have also recognised that the two types of abuse are not isolated from each other and that behaviour by a dominant undertaking can fall under both categories.[25]

2.4 Treatment of Price-Based and Non-price-Based Abuse and Stricter Rules Compared to Article 102 TFEU

2.4.1 Price-Based and Non-price-Based Abuse

Section 5 Cartel Act does not distinguish between price-based and non-price-based abuses. Both forms of abuse are covered by the prohibition. As in Article 102 TFEU, Section 5 prohibits the abuse of a dominant position regardless of the form of behaviour.

The indicative list of abusive practices in Section 5 Cartel Act includes price-based and non-price-based types of abuses. Section 5 (1) No. 1 Cartel Act covers unfair prices and trading conditions and treats them in the same manner. Section 5 (1) No. 2 Cartel Act prohibits the limitation of production, markets or technical development to the prejudice of consumers regardless of whether price or non-price elements are part of the practice. Section 5 (1) No. 3 Cartel Act prohibits unjustified discrimination regardless of whether the discriminatory practice concerns prices or

[23] In German: "Rechtsprechung und Lehre unterscheiden zwei grundsätzliche Missbrauchsvarianten: Die Beeinträchtigung von Wettbewerbschancen und damit Gefährdung von Wettbewerb (Marktstrukturen) einerseits und die davon unabhängige Übervorteilung von Abnehmern (Lieferanten) andererseits. Für die Unterscheidungen haben sich die Bezeichnungen "Behinderungsmissbrauch" und "Ausbeutungsmissbrauch" durchgesetzt", e.g. Supreme Court ("Oberster Gerichtshof", OGH), 28 January 2009, 9 Ob 66/07g—*Donaukreuzfahrten*.

[24] See e.g. Cartel Supreme Court, 5 September 2001, 16 Ok 3/01 for exclusionary abuse and Cartel Supreme Court, 14 June 1993, Okt 3/93 for exploitative abuse.

[25] E.g. Supreme Court, 30 June 1998, 4 Ob 165/98p—*Reparatur von Leasingfahrzeugen*.

other trading conditions. The same applies to tying and bundled rebates under Section 5 (1) No. 4 Cartel Act as price-based and non-price-based forms of abuse.

The Competition Authority and the courts also do not distinguish between price-based and non-price-based forms of abuse. They base their decisions on the principles adopted by the European Courts and the European Commission.

2.4.2 Stricter Rules for Unilateral Conduct than Article 102 TFEU?

2.4.2.1 No Stricter Rules in Respect to Abusive Behaviour

As outlined above, Section 5 Cartel Act is based on Article 102 TFEU. In respect to the definition of abuse and the practices covered, the prohibition is interpreted in line with the case law of the European Courts.[26] Therefore, Section 5 Cartel Act does not contain stricter rules for unilateral behaviour than Article 102 TFEU.

2.4.2.2 Definition and Presumption of Dominance

Austrian law contains stricter rules in respect to the existence of a dominant position, broadening the applicability of the prohibition of abusive behaviour. In addition, there are several presumptions of dominance shifting the burden of proof to the undertakings concerned.

Dominance in Relation to Customers or Suppliers

According to Section 4 (3) Cartel Act, an undertaking is dominant if it holds a preeminent position in respect to its customer or suppliers. Such a position exists if customers or suppliers are dependent on the ongoing supply relationship with the undertaking concerned. This so-called relative dominance broadens the applicability of the prohibition of abusive behaviour and includes undertakings that would not be considered dominant under a conventional dominance standard.

Presumption of Dominance

In addition to the general definition of a dominant position, Section 4 Cartel Act contains several presumptions of dominance shifting the burden of proof to the undertaking concerned. Different presumptions apply to single dominance and collective dominance.

Pursuant to Section 4 (2) Cartel Act, an undertaking is deemed to be dominant if

- it has a market share of 30% or more,
- it has a market share of more than 5% and has only two competitors in the market, or
- it has a market share of more than 5% and is one of four competitors in the market holding a combined market share of 80% or more.

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[26]See e.g. Cartel Supreme Court, 9 October 2000, 16 Ok 6/00—*Abonnementpreise*; Cartel Supreme Court, 11 October 2012, 16 Ok 1/12—*ÖBB/Westbahn II*; Cartel Supreme Court, 19 January 2009, 16 Ok 13/08—*Telekom "KombiPaket"*.

If one of these presumptions applies, the undertaking concerned has to prove that it does not hold a dominant position.

Section 4 (2a) Cartel Act was introduced in 2013 and contains additional presumptions of dominance for a collective dominant position. Undertakings are deemed to hold a collective dominant position if

- three or less undertakings hold a combined market share of 50% or more, or
- five or less undertakings hold a market share of 2/3 or more.

If one of these presumptions applies, the undertakings concerned have to prove that they do not hold a collective dominant position.[27]

The provisions lead to a broader application of the prohibition of abusive behaviour since the burden of proof shifts to the undertakings concerned. In the light of modern economic theory, the thresholds can be criticised in two respects. First, it can be argued that market shares are not a conclusive indicator for market power, and therefore strict thresholds are not a suitable tool for measuring dominance. Second, the market share threshold seems to be too low as a signal for market power, leading to a risk of over-enforcement of the prohibition of abusive behaviour without establishing market power.

Conclusion
Austrian law on the prohibition of the abuse of a dominant position does not contain stricter rules in respect to abusive behaviour but extends the applicability of the prohibition by the concept of relative dominance and presumptions of dominance linked to market share thresholds.

2.5 Enforcement

2.5.1 Decision-Making Practice

2.5.1.1 Proceedings and Decisions in the Last Five Years

In the last 5 years, there had been one decision of the Cartel Court[28] where the Court found that an undertaking had abused its market dominance:

Westbahn, a private railway company, which provides passenger transport connections between Vienna and Salzburg, claimed that *ÖBB*, the state owned Austrian railway operator, abused its dominance on the Austrian railway market by rejecting to include the travelling times of *Westbahn* in its time schedule publications.

[27]Notably the amendment was not based on European Law but was modelled after the German provision Section 19 GWB, which has been criticized for containing strict formal criteria not in line with European practice, e.g. F. J. Säcker, G. M. Gosse, M. Wolf in: Münchener Kommentar Kartellrecht (2008) § 19 GWB para 39; on consequences see F. Schuhmacher, G. Muntean, Die Kartellgesetznovelle 2013 – Eine Beurteilung der wesentlichen materiell-rechtlichen Änderungen, wbl 2013, 181 (187).

[28]In Austrian antitrust law, it is the Cartel Court and not the Federal Competition authority which rules on antitrust infringements—for details, reference is made to Chapter 5.2.

The Cartel Court followed the arguments of the claimant. In the Court's view, *ÖBB* was dominant on the market for time schedule media (based on the fact that *ÖBB* had an outstanding and therefore dominant market position on the market for railway passenger transport in Austria).

In the Cartel Court's view, *ÖBB*, by rejecting to include *Westbahn's* travelling times, hereby infringed the principle of equal treatment (as, e.g., the travelling times of *Deutsche Bahn* were included in *ÖBB's* publications).

Based on both, the specific non-discrimination clause of Article 102 c TFEU (and Section 5 (1) No. 3 Cartel Act) and the general prohibition to abuse clause of Article 102 TFEU (and Section 5 (1) Cartel Act), the Cartel Court obliged *ÖBB* by interim injunction to include the travelling times of the incumbent *Westbahn* in its published timetables (e.g., on *ÖBB's* website and also on printed publications).[29]

On appeal, the Cartel Supreme Court confirmed the outcome of the judgment of the court of first instance.[30] However, the Cartel Supreme Court overruled the court of first instance in so far as potential customers of the dominant undertaking are not covered by the specific non-discrimination clause of Article 102 c TFEU but by the general clause of Article 102 TFEU only. The Cartel Supreme Court hereby referred to EU case law,[31] following which the customer must be already in a business relationship with the dominant undertaking in order to apply Article 102 c TFEU.

In another proceeding, based on Section 27 Cartel Act, the Cartel Court declared in 2011 commitments legally binding, following which *Constantin* (film distribution) was obliged to provide, if requested, each movie operator in Austria with copies of its film premieres. These commitments were based on various abuse-of-dominance proceedings in the past (inter alia in 2008).[32] Following the outcome of the latter, *Constantin* had abused its market dominance by not providing a sufficient number of copies of its blockbusters to all interested movie operators in Austria.

In further eight proceedings (as far as known in public[33]), the claimants (either private parties or the Austrian Competition Authorities) did not get through with

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[29] Cartel Court, 28 November 2011, 26 Kt 70-72/11-21—*ÖBB-Westbahn II*.

[30] Cartel Supreme Court, 11 October 2012, 16 Ok 1/12—*ÖBB/Westbahn II*.

[31] ECJ, 26 November 1998, C-7/97—*Bronner/Mediaprint*, para 30.

[32] See, e.g., Cartel Supreme Court, 16 July 2008, 16 Ok 6/08—*Constantin Filmverleih*.

[33] Until March 2013, only decisions of the Cartel Supreme Court were published in an anonymous version, while decisions of the Cartel Court (as court of first instance) were in general not disclosed. With the reform of the Cartel Act in 2013, summaries of legally binding rulings of the Cartel Court have to be published (cf. Section 37 Cartel Act). However, e.g., if parties agree on settlements in a private enforcement proceeding (i.e., the claim of abuse of dominance was submitted at the Cartel Court by a private party and not the BWB), or if a claim is withdrawn, there is no obligation to publish. Furthermore, pursuant to Section 37 Cartel Act, decisions of the Cartel Court are only published when the Court actually finds an infringement of competition law. Consequently, a rejection of a claim is not reflected in the summary of decisions of the Cartel Court, but only, on anonymous basis, if the Cartel Supreme Court on appeal decides so.

their claim against the respective defendant concerning alleged abuse of dominance practices. These cases encompass different business areas such as sportswear,[34] liquefied petroleum gas (LPG; the first collective dominance case in Austria, currently on appeal),[35] the court's commercial register[36] or waste disposal.[37]

Concerning Cartels, i.e. infringements of Article 101 TFEU (and Section 1 Cartel Act as the national equivalent), there had been approximately 40 proceedings at the Cartel (Supreme) Court in the last 5 years, whereby in approximately 30 cases a fine was imposed. The majority of these cases was linked to agreements and concerted practices on vertical price-fixing in the grocery sector. Almost all of these proceedings were closed by settlement.

2.5.1.2 The Proportion of Exploitative and Exclusionary Abuses

Based on the 10 cases of abuse of dominance mentioned above, there had been nine exclusionary and three exploitative abuses. These figures take into account that some of the alleged abuses encompass both exploitative and exclusionary aspects. For instance, in the LPG case, the BWB argued that five established providers of LPG for heating purposes had abused their collective dominance by requesting exploitative fees based on long-term contracts from their customers. In the BWB'S view, the LPG providers hereby also excluded competitors from the market. As mentioned, the Cartel Court came to the conclusion that the LPG providers concerned did hold neither single nor collective dominance on the market. Consequently, the request of the BWB was rejected.

2.5.2 Competent Courts and Authorities

2.5.2.1 Courts and Authorities Dealing with Competition Infringements

Austrian antitrust law provides for a strict separation of powers between investigatory and decision-making authorities. The BWB has broad investigatory powers. In particular, it can request information and the production of documents, hear witnesses, and conduct dawn raids (though for the latter it must obtain a court warrant). Upon conclusion of its investigation, the BWB may bring proceedings in the Cartel Court, and request the imposition of a fine on the members of an alleged cartel.

In addition, the Federal Cartel Prosecutor ("Bundeskartellanwalt", BKA), which reports to the Minister of Justice, also has the power to request fines. However,

[34]Cartel Supreme Court, 26 June 2014, 16 Ok 12/13—*Sports Direct/Adidas*.

[35]Cartel Court (in first instance), 28 October 2014, 27 Kt 23, 24/09—*LPG*.

[36]Cartel Supreme Court, 28 February 2011, 16 Ok 4/10—*Firmenbuch*.

[37]Cartel Supreme Court, 26 June 2014, 16 Ok 10/13—*Reclay/Altstoff Recycling*.

unlike the BWB, he does not have proper investigatory powers. The BWB and the BKA together form the so-called official parties.

All substantive decisions in competition matters, from cease-and-desist orders to the imposition of fines for infringements of the antitrust rules, are exclusively dealt by the Cartel Court and the Cartel Supreme Court on appeal. However, the Cartel Court must not impose a fine that is higher than the amount requested by the BWB or BKA.

2.5.2.2 Regulators Enforcing Competition Rules?

Specialised regulators are "authorities established by federal law for the purpose of regulation of specific sectors" (Section 36 (4) No. 2 and Section 46 Cartel Act). Regulators were set up for Energy ("E-control"), Broadcasting and Telecommunications (RTR – "Rundfunk & Telekom Regulierungs-GmbH"), Railway Transport (SCG—"Schienenkontroll GmbH") and Banking and Insurance (FMA—"Finanzmarktaufsicht").

These authorities have mainly regulatory powers. Within their respective sectors, the regulators' competences do not effect or limit the competences of the Cartel Court or of the BWB (principle of parallel applicability of regulatory and antitrust provisions). In 2003, for instance, the Cartel Court found that an Austrian Telecommunication operator had abused its market dominance with regard to its tariffs invoiced to competitors for the use of its network infrastructure, although the RTR had approved the tariffs before.[38]

These specialised authorities are therefore not entitled to enforce competition law;

also within their respective sector, they may not impose a fine based on an infringement of antitrust law. However, in general antitrust proceedings, the regulators have certain rights of requests (e.g., to request a cease-and-desists order) and may submit opinions.

2.5.2.3 Guidelines Concerning the Enforcement or Interpretation of the Prohibition?

The BWB so far did not provide any guidelines with regard to its approach of Article 102 TFEU.

However, the legal doctrine accepts that even in cases where trade between Member States is not affected and where therefore Article 102 TFEU will not apply the Commission's vertical Block Exemption Regulations apply "de facto".[39]

Therefore, it seems arguable that in antitrust proceedings in Austria, reference, at least in analogy, can be made to the European Commission's "Guidance on enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings".[40] To the authors' knowledge, the

[38] Cartel Supreme Court, 11 October 2004, 16 Ok 11/04—*Telekom Austria Minimumtarif*.

[39] Reidlinger/Hartung, Das österreichische Kartellrecht^2, p. 85.

[40] EC 2009/C 45/02.

Cartel Court itself so far did not clarify whether such a reference to the Commission's Article 82 guidance will be accepted.

2.5.3 Approach Followed by Competent Courts and Authorities

2.5.3.1 EU Approach to the Interpretation of 'Abuse'

In the above-mentioned rail operator decision, the Cartel Supreme Court defined abuse as "all behavior of an undertaking in a dominant position, which may influence the structure of a market, where competition is already weakened by the presence of that dominant undertaking and where the maintenance or growth of the remaining competition on that market is hindered by the dominant undertakings with methods different from those which are normally applied on a competitive product or service market". [41]

It has to be further noted that Austrian Cartel Courts in general follow the case law of the EU Courts in Luxembourg. In the cited rail operator decision, the Cartel Supreme Court explicitly states that also with regard to the application of national antitrust law, the case law of EU Courts concerning abuse of dominance under Article 102 TFEU must be taken into account.

2.5.3.2 Aim of the Prohibition of Anticompetitive Unilateral Conduct

Based on the law and case law, the objective is to reject "behaviour of an economic superior undertaking, which influences market conditions in a way which enables it to have a negative impact on the market and competition conditions".[42] The aim of abuse supervision is to "terminate market disturbance of the dominant undertaking".[43]

2.5.3.3 Effect of the Commission's Guidance on Enforcement Priorities

See above; in the authors' view, the Commission's Guidance might be applied, at least in analogy. However, apparently the Cartel Court so far did not explicitly refer to it.

2.5.3.4 Criticisms Directed Towards the Decisional, Lack of Case Law, Only One Instance Deciding on Factual Circumstances

As outlined above, there have been a limited number of abuse-of-dominance proceedings in Austria within the last 5 years. The Cartel Court only once confirmed an abuse, while in various other cases the request of private parties or the BWB for a cease-and-desist order and/or for a fine was rejected.

However, in the authors' view, this small output is rather based on the complex economic concept of an abuse of dominance than on the Austrian antitrust

[41] Cartel Supreme Court, 11 October 2012, 16 Ok 1/12—*ÖBB/Westbahn II*.

[42] Cartel Supreme Court, 16 July 2008, 16 Ok 6/08—*Constantin Filmverleih*.

[43] Cartel Supreme Court, 16 December 2002, 16 Ok 10/02—*Wintertarif*.

enforcement and the Cartel Court's approach. Of minor importance might also be the fact that an abuse of dominance is not covered by the Austrian concept of leniency. Last, the limited number of cases could be also connected with the BWB's focus on vertical infringements in the last years, resulting in a record number of decisions and fines imposed, often by settlement.

In substance, one of BWB's general points of criticism on antitrust procedural law especially affects abuse-of-dominance proceedings:

The BWB's criticism is based on the fact that Austrian cartel law proceedings consist of a two-step approach: once the Cartel Court decides, only one appeal can be made to the Cartel Supreme Court. The right of appeal is hereby strictly limited on points of law; i.e., the Cartel Court as court of first instance is the only instance that decides on the factual circumstances of a case.

The essential point of abuse of dominance proceedings is that the findings of the Cartel Court very often rely on an opinion of a court expert, who investigates whether the undertaking(s) concerned is (are) dominant on the respective market. Based on the concept that an appeal is only possible on points of law, challenging an expert opinion as such on appeal is essentially limited:

The Cartel Supreme Court in this regard confirmed that "*findings of an expert opinion can be checked only within narrow limits*". The expert opinion related to market definition (as the essential tool in abuse of dominance proceedings) chosen by an expert, the Cartel Court is hereby limited to check the overall suitability of a particular method of defining the respective market definition. In contrast, the result of applying a suitable method cannot be reviewed by the Supreme Cartel Court.[44]

Therefore, if the expert complies with the legally prescribed investigation principles but, for example, bases his statement on a too small number of respondents, this is considered as a question of evidence, on which the Supreme Cartel Court may not rule upon. The same applies, for instance, with regard to an alleged inadequate methodological basis in applying the SSNIP test.

In the BWB's view, such "declaration of incompetence" of the Cartel Supreme Court is difficult and might hinder efficient implementation also with regard to abuse-of-dominance proceedings.[45]

From a practitioner's side, on the one side, the BWB's "lack of implementation" argument is well understood under fair trial principles. This lack of implementation may also affect the non-authority side: if the defendant is fined in first instance based on a court opinion or, in private enforcement, if a private party's claim is rejected based on an expert opinion.

On the other side, one main argument against a second instance that might also review facts and therefore opinions is the time factor. In the above-mentioned LPG proceedings, the BWB's request to the Cartel Court, which initiated the proceedings, dated from August 2009. Only in March 2015, based on an orally delivered judgment in a hearing in October 2014, the court of first instance

[44]Cartel Supreme Court, 12 December 2011, 16 Ok 8/10—*Radiusklausel IV*.

[45]See Annual Report („Tätigkeitsbericht") BWB, 2011, p. 45.

submitted its written rejection of the BWB's claim. Needless to say, such delay does not only essentially affect the respective undertakings in a financial way, but also hinders them in their daily business development, because current and new strategies are under the threat to be considered as an abuse and may result in a fine imposed. Furthermore, procedural law guarantees a certain "standard of quality" also with regard to facts. The Cartel Supreme Court might refer the case back to the Cartel Court if substantial procedural violation of the court of first instance (e.g., if further facts need to be established) requests a renewed taking of evidence. Last, the Cartel Supreme Court, under fair trial principles, bears some responsibility not to limit its competence with regard to the review of "points of law" to the last extreme. Also with regard to expert opinions, there seems to be some possibility to extend the Cartel Supreme Court's right of review, also based on points of law.

Therefore, in the author's view, the current two-instance approach as explained above should be maintained.

Another actual point of criticism on antitrust procedural law, which also affects abuse of dominance proceedings, is based on the unclear legal concept of "access to file"/"protection of business secrets" in antitrust proceedings.

Austrian national law (Section 39 (2) Cartel Act) hereby essentially limits the "access to file" in antitrust proceedings by stating: 'Persons, who are not parties to the procedure, may gain access to the files of the Cartel Court only with the consent of the parties.'

However, this concept was rejected by the European Court of Justice: in C-536/11, 6 June 2013—*Donau Chemie*—the Court ruled that European Union law precludes a provision where access to file is made subject solely to the consent of all the parties to those proceedings, without leaving any possibility for the national courts of weighing up the interests involved.

Recently, the Cartel Supreme Court followed this approach also with regard to proceedings that are based on national antitrust law only (cf. 16 Ok 9/14f, 28 November 2014). This approach is not only in contradiction to the wording of Section 39(2) Cartel Act; based on these rulings, it also remains unclear whether and to what extent business secrets included in the court's files may be protected towards third parties. A simple reference to the "weighing of interests" seems to be insufficient.

2.6 Summary

Since the Cartel Act of 1972, the Austrian law had contained a general prohibition of the abuse of a market-dominant position. The relevant provision (Section 5 Cartel Act) is virtually identical to Article 102 TFEU and contains an indicative list of abusive behaviour corresponding to the practices listed in the EU regulation. Some difference arises from the fact that the wording of the Austrian list suggests a competitive-based review of price abuses and additionally refers to unjustified sales below cost price.

Other statutory provisions concerning the abuse of market power can be found in the Act on Local Supply and in the Telecommunications Act. The Act Against Unfair Competition does not expressly refer to the abuse of market power; however, as can be seen from case law, such conduct may well constitute a violation of this law.

The Cartel Act does not provide for any definition of the term “abuse”. There is also no explicit definition of this term by the Austrian Competition Authority. In Austrian case law, the term “abuse of a dominant position” is defined in accordance with the case law of the European Court of Justice.

The distinction between exclusionary and exploitative abuses forms an essential part of the prohibition of the abuse of a dominant position. The prohibition contained in Section 5 Cartel Act is in line with decisional practice under Article 102 TFEU.

Section 5 Cartel Act does not distinguish between price-based and non-price-based abuse. Also, the Competition Authority and the courts do not refer to this distinction.

Austrian law on the prohibition of the abuse of a dominant position does not contain stricter rules in respect to abusive behaviour but extends the applicability of the prohibition by the concept of relative dominance and presumptions of dominance linked to market share thresholds.

In the last 5 years, there had been just one decision of the Cartel Court where the Court found that an undertaking had abused its market dominance. In further eight proceedings, the claimants did not get through with their claim. Concerning cartels, there had been approximately 40 proceedings at the Cartel Court in the last 5 years whereby in about 30 cases a fine was imposed.

There is a strict separation of powers between investigatory (Competition Authority) and decision-making (Cartel Court and Cartel Supreme Court) authorities. The specialised regulators do not effect or limit the competences of those authorities and are not entitled to enforce competition law.

The small output of abuse-of-dominance proceedings in Austria seems to be rather based on the complex economic concept of an abuse of market dominance than on the Austrian antitrust law enforcement and the Cartel Court’s approach. It has been criticised that the Cartel Court is the only instance to decide on the factual circumstances of a case, and there is no way to review, e.g., the court expert opinion determining the market position of an undertaking. However, considering the time factor and procedural law guarantees for accurate fact finding, the current two-instance approach should be maintained. Concerning the protection of business secrets and access of file, a clear national legal concept would be highly appreciated.

Belgium

3

Pierre M. Sabbadini

3.1 Brief History of the Prohibition Against Unilateral Conduct in Belgium

In the 1960s, a fledgling prohibition against abuse of economic power was adopted in Belgium following the 1957 Treaty of Rome.[1] According to scholarly works, the Treaty of Rome significantly sped up the process of enacting a prohibition against "monopolies" in Belgium.[2] The concept of "economic power" was defined in Article 1 of the 1960 Act as "the power enjoyed by an individual or a legal entity, acting alone or acting together as a group, on the territory of Belgium, through industrial, commercial, agricultural or financial activities, to exercise a decisive influence on supply of the market for goods or capital, on the price or the quality of a specific good or service".

The concept of "abuse" was defined in Article 2 of the 1960 Act as "where one or more persons, holding economic power, harm the general interest through practices that hinder or impede the normal functioning of competition or hamper the economic freedom of producers, distributors or consumers, or the development of production or trade".

A new Act on the Protection of Economic Competition was adopted in 1991 and came into force in 1993 in order to bring competition law more in line with rules

[1] Act against an abuse of economic power of 27 May 1960, published in the *Belgian Official Gazette* on 22 June 1960, p. 4674.

[2] R. Dehem, La protection contre l'abus de puissance économique, Bulletin de l'Institut de Recherches Économiques et Sociales, 26e Année, No. 6 (September 1960), pp. 497-522.

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and principles applicable at European level.[3] The concepts of a "dominant position" and "abuse" were defined in Articles 1(b) and 3, respectively, using wording similar to the currently applicable provisions.[4]

The 1991 Act was amended in the course of 1999 and a codified version was published.[5] A few years later, on 1 October 2006, a new act came in to reform the structure of the BCA and further align the substantive provisions with European law.[6]

Finally, on 3 April 2013, as part of the modernisation of Belgium's economic legislation, Parliament enacted Book IV of the CEL, also referred to as the Competition Act of 3 April 2013, which incorporated the relevant competition provisions into the CEL.[7] As such, Book IV of the CEL only contains provisions on competition law enforcement. However, the CEL includes various parts dealing with issues ranging from protection of the freedom of establishment and freedom to provide services (Book III), through price controls (Book V), to consumer protection (Book IV), etc.

3.2 Current Sources of the Prohibition

3.2.1 Legal Definition

The definition of a dominant position is given in Article I.6 of Book I of the CEL as "the position enjoyed by an undertaking that enables it to prevent effective competition being maintained by affording it the power to behave to an appreciable extent independently of its competitors, customers or suppliers". The prohibition against abuse of a dominant position is currently laid down in Article IV.2 of the CEL, which provides:

> Without the need for a prior decision to that effect, abuse by one or more undertakings of a dominant position in the relevant Belgian market or in a substantial part of that market is prohibited. Such abuse may in particular consist of:

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[3]Act on the Protection of Economic Competition of 5 August 1991, published in the *Belgian Official Gazette* on 11 October 1991, p. 22493.

[4]For an overview of the changes made by the act to the institutional framework and early cases involving application of the prohibition of abuse of a dominant position, see the first annual report of the BCA, available at http://statbel.fgov.be/fr/binaries/report_competition_fr_001_tcm326-31172.pdf. Accessed on 10 April 2014.

[5]See the 2000 Annual report of the Belgian Competition Authority, p. 9, available at http://economie.fgov.be/fr/binaries/report_competition_2000_fr_tcm326-36145.pdf. Accessed on 10 April 2015.

[6]Act on the Protection of Economic Competition (APEC), consolidated on 15 September 2006, published in the *Belgian Official Gazette* on 29 September 2006, p. 50613, and amended by the Act of 6 May 2009, published in the *Belgian Official Gazette* on 19 May 2009, p. 37860.

[7]The code was enacted one book after another and each came into force on a different date. Most provisions of the book dedicated to competition law came in on 6 September 2013 (Competition Act of 3 April 2013, inserting Books IV and V, published in the *Belgian Official Gazette* on 26 April 2013, p. 25216, and Act of 3 April 2013, published in the *Belgian Official Gazette* on 26 April 2013, p. 25248).

1) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;

2) limiting production, markets or technical development to the prejudice of consumers;

3) applying, with regard to business partners, unequal conditions for equivalent services, thus putting them at a competitive disadvantage;

4) making the conclusion of contracts subject to acceptance by the parties of additional services that, by their nature or according to commercial usage, have no connection with the subject of such contracts.[8]

3.2.2 Guidance by the BCA

No specific definition of abuse is provided by the BCA. Instead, it relies on the definition of abuse of a dominant position in Article IV.2 CEL or its legacy provisions and on European Institutions. Unlike the European Commission, which has provided further indications of its views on exclusionary abuse in its Guidance Paper,[9] the BCA has not issued any specific guidance on the concept of abuse of a dominant position.

3.2.3 Case Law

Belgian courts rely on the definition of abuse of a dominant position provided by (1) Article IV.2 CEL or its legacy provisions and (2) European Institutions. For example, in a recent case involving abuse of a dominant position in the telecommunications sector, Brussels Court of Appeal relied on the definition of a dominant position in the United Brands case as being "a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and, ultimately, its consumers".[10]

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[8]This is an excerpt from an unofficial English translation of the official Dutch and French versions of the act provided by the BCA for information purposes only. Only the texts published in the *Belgian Official Gazette* are binding. The full English version of the act is available at http://economie.fgov.be/en/binaries/Book_IV_of_the_Code_of_Economic_Law-The_Act_english_translation_tcm327-241692.pdf. Accessed 15 April 2015.

[9]Communication from the Commission—Guidance on its enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, C-45, 24 February 2009, pp. 7-20.

[10]Brussels Court of Appeal, 9th Division, *Belgacom v. Base and Mobistar*, 26 February 2015, para. 45, referring to the ECJ, case C-27/76, *United Brands*, 1978 ECR 207, point 65. The electronic version of the judgment is available on the BCA's website at http://economie.fgov.be/fr/binaries/20150226_CAB_2012AR1_Belgacom_v_Base_Mobistar_tcm326-264381.pdf. Accessed on 15 April 2015.

The list of forms of abuse in Article IV.2 CEL is interpreted as being non-exhaustive and merely providing indications of potential abuse, as reflected in the legal writings[11] and in accordance with the case law of the Court of Justice.[12]

3.3 Potential Cumulative of the Law on Unfair Competition and the Prohibition Against Anticompetitive Unilateral Conduct

The relationship between the prohibitions against anticompetitive conduct and those against unfair commercial practices was dealt with by the Belgian Court of Cassation back in the mid-1960s.[13] It is clear that an infringement of European or Belgian competition rules falls under the prohibition against unfair commercial practices and constitutes a ground for a cease-and-desist action under Article XVII.1 CEL.[14] However, according to a 2000 landmark case in the Belgian Court of Cassation, if conduct falls short of constituting an infringement of competition law because of one missing factual or legal element, it will not be possible to hold that the conduct is illegal on the basis of the prohibition against unfair commercial practices.[15] This "mirror effect"[16] scholarly writing thus provides that, in principle, save for the case of abuse of a party's right, conduct complying with the competition rules may not be prohibited under the law against unfair commercial practices if it only allegedly impedes the functioning of the free market.

3.4 Distinction Between Exploitative and Exclusionary Forms of Abuse

3.4.1 Distinction in the Legal Provisions

Exploitative abuse is conduct directly targeting or "exploiting" consumers, e.g. charging excessive prices, whereas exclusionary conducts aim at harming competitors of the dominant undertaking by excluding them from the market.

In order to assess the existence of abuse of a dominant position, the BCA and Belgian courts rely on Article IV.2 CEL or its legacy provisions and on European Institutions.

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[11] See D. Grisay, Introduction au droit belge de la concurrence, Brussels, Larcier, 2009, p. 158. See also Dirk Vandermeersch, De Medingingswet, Mechelen, Kluwer, 2007, p. 208.

[12] See CJEU, C-95/04, *British Airways v. Commission*, ECR [2007 I-2331], paras. 57-58 and cited case law.

[13] Cass. 18 February 1965, Pas., 1965, I, p. 621. See J. Ligot, F. Vanbossele and Olivia Battard, Les pratiques loyales, Brussels, Larcier, 2012, pp. 186-192 and cited case law.

[14] See Dirk Vandermeersch, De Medingingswet, Mechelen, Kluwer, 2007, p. 507.

[15] Cass., 7 January 2000, *Multipharma Groep v. Louis Widmer*, RCJB 2001, p. 255, commented on by J. Stuyck; RDC, 2000, p. 369, commented on by D. Vandermeersch.

[16] See Ghent Court of Appeal, 1 March 2010 (*NV Cinecom v. NV Independent Film Distributie),* TBM/RCB, 2010.

As with Article 102 TFEU, there is no clear mention of exploitative or exclusionary abuse within the categories of abuse listed in Article IV.2 CEL.[17] Therefore, the distinction established between the two categories in the framework of Article 102 TFEU is applicable, *mutatis mutandis*, to Article IV.2 CEL, as follows.

The category listed under Article IV.2 CEL, 1°, regarding types of behaviour consisting of "directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions" constitutes exploitative abuse.

The category listed under Article IV.2 CEL, 2°, regarding types of behaviour consisting of "limiting production, markets or technical development to the prejudice of consumers" constitutes exclusionary abuse.

With the category listed under Article IV.2 CEL, 3°, regarding behaviour consisting of "applying, with regard to business partners, unequal conditions for equivalent services, thus putting them at a competitive disadvantage", as with Article 102 TFUE, there is a lack of clarity allowing exclusionary conduct to be separated from exploitative conduct. Indeed, a dominant undertaking can discriminate against its rivals so that the conduct constitutes an exclusionary abuse, or the discrimination can target undertakings that are its customers, potentially forming exploitative abuse.[18]

As for the category listed under Article IV.2 CEL, 4°, regarding behaviour consisting of "making the conclusion of contracts subject to acceptance by the parties of additional services that, by their nature or according to commercial usage, have no connection with the subject of such contract", it can constitute exclusionary abuse, leading to exclusion of competitors, or exploitative abuse, leading to price discrimination and higher prices.

3.4.2 Distinction in the Decision-Making Practice of the BCA

Enforcement of the prohibition against anticompetitive unilateral conduct by the BCA relies on the case law of the Court of Justice and the decisional practice of the European Commission, both of which apply this distinction. For example, in the Electrabel case, the BCA dealt with the analysis of exploitative abuse of a dominant position[19] and drew a clear distinction from exclusionary abuse.[20]

3.4.3 Case Law

Just as in the case of the BCA, the courts in Belgium also draw on Court of Justice cases and Commission decisions, which both refer to this distinction, in enforcing

[17] See R. O'Donoghue and J. Padilla, The Law and Economics of Article 102 TFEU, London, Hart Publishing, 2013, pp. 190 *et seq*.

[18] *Idem*, pp. 201 *et seq*.

[19] Case CONC-I/O-09-0015, wholesale electricity markets, 18 July 2014, para 135, available at http://economie.fgov.be/fr/binaries/ABC-2014-IO-15_Electrabel%20PUB_tcm326-253790.pdf. Accessed on 15 April 2015, para. 162.

[20] *Idem*. Accessed on 15 April 2015, paras. 96-98.

the prohibition against anticompetitive unilateral conduct. For example, in the Belgacom case, the Court of Appeal clearly states the difference between the concepts of exploitative abuse and exclusionary abuse.[21]

3.5 Distinction Between Price-Based and Non-price-Based Abuse

3.5.1 Legal Provisions

Both exclusionary and exploitative forms of unilateral conduct may be price based or non-price based. Since Article IV.2 CEL mirrors the wording of Article 102 TFEU, the same distinction applies.

3.5.2 Decisional Practice of the BCA

Enforcement of the prohibition against anticompetitive unilateral conduct by the BCA relies on the case law of the Court of Justice and the decisional practice of the European Commission, which both apply this distinction. For example, in the bpost case, the BCA held that there was price-based abuse of a dominant position established in the form of a grant of rebates.[22] In De Beers, the BCA granted interim measures in light of prima facie non-price-based abuse of a dominant position consisting of a refusal to supply.[23]

3.5.3 Case Law

Just as in the case of the BCA, the courts in Belgium also draw on Court of Justice cases and Commission decisions, which both refer to this distinction, in enforcing the prohibition against anticompetitive unilateral conduct. For example, in the Belgacom case, the BCA found there to be price-based abuse of a dominant position in the form of a margin squeeze.[24] In the Magyar Telekom v. Kapitol case, the Court of Appeal had to deal with non-price-based abuse consisting of a refusal to supply.[25]

[21] *Belgacom v. Base and Mobistar*, paras. 196 and 145. Accessed on 15 April 2015.

[22] Cases CONC-P/K-05/0067, CONC-P/K-09/0017 and CONC-P/K-10/0016, decision no. 2012-P/K-32, *bpost*, 10 December 2012, available at http://economie.fgov.be/en/binaries/32_2012PK32_VERSION_PUBLIQUE_F_tcm327-210746.pdf. Accessed on 15 April 2015.

[23] Case MEDE-P/K-09/0019, *Diamanthandel A. Spira BVBA v. De Beers UK Limited*, 15 October 2014, available at http://economie.fgov.be/fr/binaries/BMA-2014-PK-22-AUD_PUB_SITE_tcm326-259076.pdf. Accessed on 15 April 2015.

[24] *Belgacom v. Base and Mobistar*. Accessed on 15 April 2015.

[25] Brussels Court of Appeal, *Magyar Telekom v. Kapitol*, 8 March 2012, available on www.tbm-rcb.be. Accessed on 15 April 2015.

3.5.4 Absence of Stricter Rules in Belgium than Those Contained in Article 102 TFEU Within the Meaning of Regulation 1/2003 Article 3(2)

Article 3(2) of Regulation 1/2003 notably provides that "Member States shall not under this Regulation be precluded from adopting and applying on their territory stricter national laws which prohibit or sanction unilateral conduct engaged in by undertaking".[26] The Belgian rules most likely to overlap with the prohibition against unilateral conduct while imposing conditions stricter than those under the competition rules were to be found in the prohibition against unfair commercial practices, such as that laid down, subject to certain conditions, by Article VI.116 against sales at loss, i.e. where the product's sale price is less than that originally paid to acquire it.[27] In Belgium, this question was dealt with by the Court of Cassation from the viewpoint of the relationship between the prohibitions against anticompetitive conduct and unfair commercial practices.[28] According to the mirror effect doctrine developed by the Court of Cassation, save for the case of abuse of a party's right, it is not possible to prohibit conduct complying with competition rules under the law against unfair commercial practices if that conduct only allegedly impedes the functioning of the free market. Therefore, under the Belgian unfair commercial practice rules, there are no stricter rules within the meaning of Article 3 (2) of Regulation 1/2003.

3.6 Enforcement

3.6.1 BCA Cases Concerning the Prohibition Against Anticompetitive Unilateral Conduct

Over the last 5 years, a total of ten BCA decisions have dealt with the prohibition against abuse of a dominant position, compared to a total of 30 decisions regarding the prohibition against cartels (Table 3.1).[29]

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[26]Council Regulation (EC) No.1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ L-1, 4 January2003, pp. 1-25.

[27]See also in this respect Case C-343/12, *Euronics Belgium CVBA v. Kamera Express BV and Kamera Express Belgium BVBA,* ECR [2013], p. 0, where the Court of Justice ruled that Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market must be interpreted as precluding a national provision, such as that at issue in the main proceedings, that provides for a general prohibition against offering for sale or selling at a loss in so far as that provision pursues objectives relating to consumer protection.

[28]See question 4, above.

[29]Decisions regarding the application of Article IV.2 CEL, or the former Article 3 of the 2006 Competition Act, concerning interim measures, closure of investigations for lack of interest, for reasons linked to internal priorities of the BCA or related to the statute of limitations are not included in the count due to the lack of relevance to the questions analysed in this chapter.

Table 3.1 BCA: count of decisions per field and per year (period January 2010 to April 2015)[30]

Year/ area	Abuse of a dominant position	Agreements, decisions, concerted practices	Total number of cases per year
2015[31]	1	3	4
2014	4	1	5
2013	1	5	6
2012	3	4	7
2011	1	17	18

3.6.2 Court Cases Concerning the Prohibition Against Anticompetitive Unilateral Conduct

During the period 2011–2015, 24 decisions involving prohibition of anticompetitive unilateral conducts have been identified.[32] Since most of those decisions also include factors related to application of the prohibition against anticompetitive agreements, the two sets of decisions are in the same approximate range.

3.6.3 Existence of Specialised Courts in Belgium Dealing with Competition Infringements

Two situations need to be distinguished. On the one hand, Article IV.79 § 1 CEL provides that appeal lies against BCA decisions only to Brussels Court of Appeal. Regarding the internal organisation of that court, efforts are made to assign competition law cases to specific judges and/or divisions. In that sense, there is a court that is specifically in charge of reviewing decisions by the BCA.[33]

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[30]The data set is constituted by the information published on the website of the BCA at http://economie.fgov.be/fr/entreprises/concurrence/decisions/autorite/decisions_pratiques_restrictives_concurrence (accessed on 15 April 2015) and in the BCA's annual reports, available at http://economie.fgov.be/fr/entreprises/concurrence/publications/rapports_annuels (accessed on 15 April 2015).

[31]For 2015, the count is based on decisions by the BCA in the period 1 January 2015 to 26 April 2015.

[32]The analysis is based on information regarding judicial case law published on the website of the BCA at http://economie.fgov.be/fr/entreprises/concurrence/jurisprudence/Decisions_juridictions_belges (accessed on 15 April 2015) and on information available via Juridat (http://jure.juridat.just.fgov.be) and Jura (www.jura.be). Under Article IV.78 CEL, courts are especially supposed to send the BCA copies of judgments involving assessment of conduct under the competition rules. There has been significant improvement in this practice since modernisation of the BCA in 2013.

[33]During the 2013 modernisation process, the possibility of creating and dedicating a special administrative "Market Court" ("*Cour du Marché*"—"*Markthof*") was discussed but later abandoned, mainly due to potential breaches of the Belgian Constitution that creating such a court would entail. Therefore, review of the BCA's decisions remains within the jurisdiction of Brussels Court of Appeal. In this respect, see the Opinion of the Belgian Competition Commission,

On the other hand, where the question relating to the existence of abuse of a dominant position is raised in the context of a civil or a commercial court dispute, common rules of procedure based on the amount of the claim and the locus of the court apply to identify whether it is possible to appeal a decision at first instance. In those cases, whether at first instance or on appeal, the BCA can intervene as amicus curiae, submitting written observations to the court and making an oral presentation with the court's approval, pursuant to Article VI.77 CEL.

In both cases, regarding questions of interpretation of the rules laid down in Book IV CEL, Article IV.75 CEL provides that the courts can make a reference for a preliminary ruling to the Belgian Court of Cassation.

3.6.4 Existence of Regulators with Concurrent Powers

In Belgium as in other Member States, some sectors such as telecommunications and energy are subject to ex ante oversight by a national regulatory authority (NRA). Regarding telecommunications, the Belgian Institute for Postal services and Telecommunications (BIPT) is notably in charge of monitoring prices and costs. As part of its remit, it may impose specific obligations on undertakings that enjoy significant market power (SMP).[34] In this context, the NRA defines the market and assesses whether undertakings enjoy SMP. Although assessments by the BCA and BIPT are ex post and ex ante, respectively, because the two authorities focus on different issues, they both in principle use the same principles in terms of defining the market.[35] However, regarding the concepts of enjoying SMP and dominance, a determination by the NRA that an undertaking enjoys SMP in a given market does not automatically imply that it is dominant for the purpose of the competition rules. The NRA's findings mean only that, in the short to medium term, the undertaking structurally has and will have SMP on the relevant market to appreciably behave independently of competitors, customers and, ultimately, consumers.[36]

3.6.5 Proportion of Cases of Exploitative and Exclusionary Abuses

Based on the foregoing, the proportion is estimated at 60% of exclusionary abuses and 40% of exploitative abuses.

14 September 2009, CCE 2012-0963, available online at http://www.ccecrb.fgov.be/txt/fr/doc12-963.pdf. Accessed on 13 April 2015.

[34]Commission guidelines on market analysis and the assessment of significant market power under the Community regulatory framework for electronic communications networks and services, OJ C-165, 11 July 2002, pp. 6-31.

[35]*Idem*, para. 24.

[36]*Idem*, para 30.

3.6.6 Existence of Guidelines Adopted by the BCA

Unlike the European Commission, which provided further indications of its views on exclusionary abuse in its Guidance Paper,[37] the BCA has not issued any specific guidance on the concept of abuse of a dominant position. However, as with many other competition authorities, the BCA does provide guidance to stakeholders regarding its enforcement priorities by specifying which sector/industry or type of competition infringement it will focus its action on.[38]

3.6.7 Standard of Harm Identifiable in the Decisional Practice of the BCA or the Case Law

In assessing the existence of abuse of a dominant position, the BCA and Belgian courts rely on Article IV.2 CEL or its legacy provisions and on the decisional practice of European institutions such as the European Commission and the European Court of Justice. Therefore, the approach and standard of harm relied upon in the decisional practice of the BCA and the case law regarding the interpretation of the concept of "abuse" are in line with European competition law.

3.6.8 Objective of the Prohibition Against Anticompetitive Unilateral Conduct

Based on a review of the decisional practice of the BCA and the case law of Belgium's courts, the underlying objectives of the prohibition against unilateral conducts consist of avoiding exclusion of competitors and harming consumers.

For example, in the Belgacom case, the objective stated by the Court of Appeal is to maintain competition on the merits in order to avoid causing harm to consumers.[39] In addition to the objectives of protecting direct and indirect consumers, the BCA recently indicated in the Electrabel case that, in the framework of its enforcement of the prohibition against forms of anticompetitive unilateral conduct, it ensures that a favourable environment is maintained for sustainable investment.[40]

[37] Communication from the Commission—Guidance on its enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ C-45, 24 February 2009, pp. 7-20.

[38] See the document containing the policy priorities of the BCA for 2015, available on the BCA's website at http://economie.fgov.be/fr/binaries/2015_Note_Politique_Priorites_%20ABC_tcm326-266107.pdf. Accessed on 2 May 2015.

[39] *Belgacom v. Base and Mobistar*, para. 96.

[40] Case CONC-I/O-09-0015, wholesale electricity markets, *op. cit*.

3.6.9 Effect of the Commission's Guidance on Enforcement Priorities on the Approach of the BCA and Courts in Belgium

Enforcement of the prohibition against anticompetitive unilateral conduct by the BCA relies on the case law of the Court of Justice, the decisional practice of the European Commission and the many soft law instruments published by the European Commission, notably regarding market definition. For example, regarding the Commission's priorities in the field of exclusionary abuse, the BCA refers to DG Competition's discussion paper on the application of Article 82 of the Treaty to exclusionary abuse.[41]

In the Belgacom case, the Court of Appeal clearly stated that the Guidance paper is not suited to stating the applicable law.[42] The Court further explained that priorities guiding the action of the European Commission or any other discussion paper do not constitute binding European law. However, the Court does have to comply with legal instruments as interpreted by the Court of Justice or with the Treaty.[43]

Criticism of the BCA does not as such focus on application of the prohibition against unilateral conduct but rather on its lack of resources and the length of its proceedings. The recent process of modernising Belgium's economic legislation, including the amendments made to the institutional framework and material provisions regarding the enforcement of competition law, was mainly designed to improve the functioning of the BCA.[44] However, stakeholders usually lack guidance regarding the application of the prohibition against unilateral conduct due to the limited number of cases involving Articles IV.2 CEL and/or 102 TFEU.

3.7 Conclusion

In order to assess the existence of abuse of a dominant position, the BCA and Belgian courts rely on Article IV.2 CEL or its legacy provisions and on European Institutions. Therefore, the approach and standard of harm relied on in the decisional practice of the BCA and the case law in interpreting the concept of "abuse", the distinction between price-based and non-price-based abuses and the distinction between exclusionary and exploitative abuses are in line with European competition law. However, stakeholders usually lack guidance regarding the application of

[41] Case MEDE-PK-11/0027, *NV Handling Co. v. NV Sony Pictures Releasing, BVBA The Walt Disney Company (Benelux), NV Universal Pictures International Belgium, NV Twentieth Century Fox Film Belge en Warner Bros. Studios Leavesden Limited*, 2 December 2014.

[42] *Belgacom v. Base and Mobistar*, para. 53.

[43] *Belgacom v. Base and Mobistar*, para. 72.

[44] See the Opinion of the Belgian Competition Commission, 14 September 2009, CCE 2012-0963, available online at http://www.ccecrb.fgov.be/txt/fr/doc12-963.pdf. Accessed on 13 April 2015. This document duly summarises the views of stakeholders on this issue.

the prohibition against unilateral conduct due to the limited number of cases involving Articles IV.2 CEL and/or 102 TFEU.

Regarding the question of whether there are excessive restrictions on legal rights and business opportunities, this chapter highlights that, in the recent Electrabel case, the BCA said that it is important, in the framework of enforcing the prohibition against anticompetitive unilateral conduct, for it to ensure that a favourable environment for sustainable investment is maintained. This allows for the conclusion that competition law imposes restrictions on business by prohibiting abuse of a dominant position in as much as that is necessary to prevent the exclusion of competitors or exploitation of consumers while aiming at fostering a favourable environment for businesses.

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Bulgaria

4

Anton Petrov

4.1 Introduction

The principal statutory instrument governing competition law in Bulgaria is the Protection of Competition Act[1] (hereinafter PCA). The PCA comprises the substantive rules on restrictive horizontal and vertical agreements, abuse of dominance and monopoly, merger control, sector enquiries, compliance review of legislation and administrative acts, and unfair competition. In other words, the PCA regulates both restraints of competition (Chapters III and IV) and unfair competition (Chapter VII).

The PCA also sets the framework of operation of the national competition authority—the Commission on Protection of Competition (hereinafter CPC)—by providing the procedural rules for investigations, sector inquiries and enforcement and imposition of penalties for breaches of the applicable regulations. There are separate procedural routes for the implementation of the various substantive rules: Chapter IX is dedicated to antitrust enforcement, and Chapter XII deals with unfair competition.

Unilateral anticompetitive behaviour is regulated in Chapter IV PCA (Arts. 19–21). Article 21 aims to prohibit actions and behaviour of undertakings enjoying monopoly or dominant position, as well as the conduct of two or more undertakings enjoying a collective dominant position that may prevent, restrict or distort competition and thereby adversely affect the interests of consumers.[2] The prohibition of

[1]Promulgated in State Gazette no. 102/28 November 2008, in force as of 2 December 2008.

[2]Art. 21 PCA reads, as follows: "Prohibition against Abuse of Monopoly or Dominant Position. The conduct of undertakings enjoying monopoly or dominant position, as well as the conduct of two or more undertakings enjoying a collective dominant position that may prevent, restrict or distort competition and impair consumers' interests, shall be prohibited, such as those which:

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Art. 21 PCA applies to unilateral behaviour that has actual or potential adverse effect on competition while at the same time it requires actual or potential adverse effect on the interests of consumers. In this respect, the national rule confirms completely with the requirements of Art. 102 TFEU.

According to the statutory definition provided in Art. 19 PCA, the position of an undertaking would be considered a monopoly where the law has endowed it with the exclusive right to carry out a specific type of economic activity.[3] In accordance with the provisions of the Bulgarian Constitution, exclusivity may arise in case of concession over exclusive public property, such as the sea coast and beaches, national road infrastructure, ground and surface waters, forests and parks of national importance, the continental shelf and exclusive off-shore economic zone.[4] Furthermore, a monopoly position can be granted by law for a limited number of activities of strategic importance, including railway transport, the national postal and telecommunications networks, use of nuclear energy and manufacturing of radioactive products, armaments, explosive and toxic substances.[5] The conditions and procedure by which the State may grant concessions over units of exclusive public property and licences for the strategic activities is established in the relevant sector-specific legislation.

"Dominance", on its turn, is defined as a position of market strength enjoyed by an undertaking, which with the view of its market share, financial resources, access to markets, level of technological development and business relation to other undertakings is independent from its competitors, suppliers and customers and may hinder competition on the relevant market.[6]

The PCA also recognises the notion of "collective dominance", although it does not set clear criteria for its assessment. In its official guidelines, the CPC states that two or more undertakings on a specific relevant market taken together may be regarded as

1. impose directly or indirectly purchase or sale prices or other unfair trading conditions; 2. limit production, trade and technical development to the prejudice of consumers; 3. apply to certain partners dissimilar conditions for equivalent transactions, thereby placing them at a competitive disadvantage; 4. make the conclusion of contracts subject to acceptance by the other party of supplementary obligations or to the conclusion of additional contracts which, by their nature or according to common commercial usage, have no connection with the object of the main contract or with its performance; 5. unjustified refusal to supply goods or to provide services to actual or potential customers in order to impede their economic activity."

[3] Art. 19 PCA reads as follows: "Monopoly Position. (l) The position of an undertaking which by law has the exclusive right to carry out a certain type of economic activity shall be monopolistic. (2) A monopoly position may be granted only by law in the cases provided for in Article 18, paragraph (4) of the Constitution of the Republic of Bulgaria. (3) Any other kind of granting of monopoly position apart from the cases under paragraph (2) shall be null and void."

[4] Art. 18 (1) Constitution of the Republic of Bulgaria.

[5] Art. 18 (4) Constitution of the Republic of Bulgaria.

[6] Art. 20 PCA read as follows: "Dominant Position. Dominant shall be the position of an undertaking which, in view of its market share, financial resources, possibilities for market access, level of technology and economic relations with other undertakings may hinder competition on the relevant market, as it is independent of its competitors, suppliers or customers."

dominant, even if none of them individually could enjoy sufficient degree of independence from the other market participants, as long as the undertakings concerned are interrelated to such a degree or in such a way that they act in identical manner (consistently or in specific situations) and have a common market conduct.[7] Collective dominance may arise when, from the point of view of the specifics of the relevant market, it is established that each of the undertakings concerned considers it possible and economically rational to adopt a common market policy with the other. Considering the CPC case practice, collective dominance may be found due to close relations between undertakings resulting from (1) the oligopoly market structure,[8] (2) contractual arrangements for mutual representation[9] or (3) other forms of interdependence,[10] as a result of which the undertakings concerned were able to align their economic activities and market conduct.

Dominant position is most often found to exist in those sectors of the economy that were until recently almost entirely controlled by state enterprises or unique provider monopolies, such as telecommunications, electricity and water distribution, or rail transport.

Apart from the rules designed specifically to combat unilateral abusive practices by dominant undertakings, some of the rules against *unfair competition* (Chapter VII PCA) could also cover specific instances of unilateral anticompetitive behaviour. Pursuant to the statutory definition, "unfair competition" is any act or omission to act in the course of business activity that is inconsistent with fair business practices and harms or may harm the interests of competitors.[11] The PCA further defines and prohibits in its Chapter VII the following specific forms of unfair competition: (1) prejudicing the trade reputation and good will of competitors; (2) misrepresentation with respect to goods or services; (3) misleading and prohibited comparative advertising; (4) imitations related to product appearance, trade names, trademarks or distinctive symbols, domain names or webpage design; (5) unfair solicitation of clients (such as promotional games with high rewards); and (6) use or disclosure of trade secrets in a way that is inconsistent with fair business practices.

Unfair competition is a form of commercial tort, which is subject to the presence of the following prerequisites, applicable to all forms of unfair competition, envisaged in Chapter VII of the PCA: (1) an act or omission to act within the course of business, (2) the act or omission to act is inconsistent with fair business practices,[12] (3) the parties involved are competitors on the relevant market and

[7] http://cpc.bg/Competence/AbuseOfDominanceDescription.aspx.

[8] CPC decision no. 623/2009, upheld on appeal by decision no. 15031/2011 on case no. 10995/2009, SAC 7th Chamber.

[9] CPC decision no. 331/2006, upheld on appeal by decision no. 8079/2007 on case no. 2408/2007, SAC 5th Chamber.

[10] CPC decision no. 218/2004.

[11] Art. 29 PCA.

[12] According the statutory definition (Sec. 1, para. 2 of the Supplementary Provisions of the PCA), "fair business practices" means the rules regulating market behaviour, which originate from laws and common commercial usages and do not infringe the accepted principles of morality.

(4) the act or omission to act has harmed or may harm the legitimate interests of competitors. The general prohibition is regarded as subsidiary to the specific rules, but according to court interpretations, a violation of the latter must exhibit the general features of the former.[13] Thus, even if a particular case does not qualify under one of the specific forms of unfair competition (Arts. 30–37 PCA), it may still fall within the scope of the general unfair competition tort (Art. 29 PCA).

The primary aim of the Bulgarian unfair competition rules is to protect the individual interests of market players from such instances of unilateral behaviour of their competitors, which are regarded as inconsistent with good morals and fair trading practices. Therefore, some types of behaviour, such as predatory pricing, could in theory fall within the regulatory scope of both the antitrust provisions of Art. 21 and the unfair competition rule of Art. 36 Sec. 4 PCA.[14] There is no explicit CPC or court guidance on how such conflict could be avoided. Judging from existing case practice, the CPC usually confirms with the scope of the original complaint, and where the petitioner has limited their pleadings to unfair competition, the issue of dominance was simply never analysed.

From the point of view of the applicable sanctions, it should be noted that the PCA introduces a *uniform regime for all types of violations* falling within its regulatory scope: coordinated practices, abuse of dominant position or unfair competition. The fines for commercial companies and other legal entities may reach up to 10% of their annual turnover in Bulgaria, while fines for individuals are within the range of BGN 500–50,000 (approx. EUR 256–25,565). Indeed, according to CPC practice, the fines for unfair competition violations are comparatively lower than those in antitrust cases. Nevertheless, according to the Methodology on Sanctions[15] adopted by the CPC, the authority may impose fines up to the statutory limit of 10% of annual turnover even in unfair competition cases.

At first glance, unfair practices between undertakings operating on different levels of the supply chain seem to be left outside the scope of Chapter VII PCA. However, examples from case practice indicate that some types of unfair conduct between non-competitors (e.g., abuse of reputation and goodwill,[16] abuse of confidential information,[17] etc.) may also qualify as administrative violation under Art. 29 PCA. Moreover, the CPC has held explicitly that where proceedings are initiated

[13]Decision of the Supreme Administrative Court no. 7966/2006 on case no. 3345/2006, 2nd Grand Chamber.

[14]Art. 36, Sec 4 PCA reads as follows: "The sale to the domestic market of significant quantities of goods over an extended period of time at prices lower than the costs of their production and marketing, with the purpose to unfairly solicit clients, shall be prohibited."

[15]Which is more-or-less based on the Guidelines of the European Commission on the method of setting fines imposed pursuant to Article 23(2)(a) of Regulation 1/2003, at least as far as antitrust violations are concerned.

[16]CPC decision no. 846/2009.

[17]Decision of the Supreme Administrative Court no. 8730/2008 on case no. 5489/2008, 2nd Grand Chamber.

without a petitioner (*sua sponte*), there is no need to analyse competitive relations in order to establish the existence of unfair competition.[18]

Notwithstanding the above, it should be noted that the rules of Chapter VII PCA aim to prevent "unfair competition", and therefore they act primarily in the interests of "competitors", while the interest of consumers come second, if they are analysed at all. For this reason, there is a marked difference between enforcement of the two sets of substantive rules (against abuse of dominance and against unfair competition). Moreover, unfair competition rules are not interested in the actual position of the alleged perpetrator on the relevant market or the general market structure. For this reason, they will not be included in the outline provided herein below, except where necessary to provide examples of peculiar or contradictory enforcement outcomes.

4.2 New Rules against Abuse of Economic Dependence

The PCA currently in force, adopted in 2008, is the third instalment of Bulgarian regulation aiming to protect competition.[19] Bulgaria introduced competition legislation for the first time in 1991 with the adoption of the first PCA.[20] The regulatory scope of the first PCA was limited to unfair competition only. For this reason, it was soon revised in 1998 in line with modern EU competition law doctrine, which served as basis for the development of national antitrust and merger control rules.[21] The rules on unilateral conduct in PCA 1998 were based on the respective provisions of Art. 82 of the EC Treaty; thus, the substantive content of the regulation on national level has not changed significantly since its original introduction. Following Bulgaria's accession to the EU on 1 January 2007, the new PCA aimed to further harmonise Bulgaria's competition regime with EU law in line with the changes that were introduced with Regulation 1/2003 and Regulation 139/2004. The most significant change that came about with the revision in 2008 was related to enforcement procedure. First, the new legislation abolished the system of negative clearance in favour of self-assessment and ex post review. Second, compliance with due process requirements in CPC investigations was enhanced with the introduction of the intermediary stage of statement of objections (hereinafter SoO)—prior to 2008, there was no procedural requirement for the CPC to inform the investigated undertakings about the nature of the charges brought against them before they face a final penalties decision.

[18]See e.g. CPC decision no. 345/210 and CPC decision no. 375/2010.

[19]PCA 2008 was drafted with the assistance of the Italian competition authority (Autorità garante della concorrenza e del mercato) and EU financial support under the PHARE programme.

[20]Promulgated in State Gazette no. 39/17 May 1991, in force as of 20 May 1991.

[21]Promulgated in State Gazette no. 52/8 May 1998, in force as of 11 May 1998, repealed as of 2 December 2008.

The PCA in its current version does not prohibit abuse of market power or dependency outside the scope of dominance. However, in the last years, several draft bills for PCA amendment were discussed by the Bulgarian legislators with the stated purpose of countering unfair B2B practices in the retail supply chain resulting from "buyer power" and inequality of bargaining power.

In September 2012, a draft bill for PCA amendment was submitted to Parliament by the right-centre GERB party (in power at the time) with the idea to introduce the concept of "significant market power" (hereinafter SMP) as a new category of market position, distinct from monopoly and dominance, that may support anti-competitive behaviour. According to the originally proposed definition, SMP is attributable to an undertaking that does not have a dominant position, which nevertheless may distort competition on the relevant market due to the fact that its suppliers or customers depend on it. But despite the fact that SMP was differentiated from dominance, the 2012 draft bill did not envisage specific rules for it. The intention was to expand the scope of Art. 21 PCA to cover both abuse of dominance and abuse of SMP. In addition, it was proposed to add to the current list of potential abuses (such as price fixing, output limitation, tying and refusal to deal) "behaviour in violation of good faith commercial practices, which harms or may harm the interests of competitors". In short, the idea of the legislator was to impose on both dominant and SMP undertakings the obligation to refrain from unfair practices, thus raising unfair competition to the level of antitrust violations.

The 2012 bill did not progress to actual legislation and died with the dissolution of the 41st National Assembly in May 2013. Following the elections that took place the same month, under its new composition the legislative body was striving to cover a lot of diverse hot topics and the idea for amendment in the PCA disappeared until March 2014, when a new revised draft was presented by the Bulgarian Socialist Party (part of the majority coalition at the time), thus resuming discussions.

The new draft from 2014 contemplated the introduction of enhanced control over grocery retail, the declared purpose being the eradication of unfair business practices by commercial chains. The bill itself was publicised in the media as the "Act against Commercial Chains". The public campaign mounted by various business organisations was not sufficient to discourage the former majority coalition from proceeding with the plan, though between first and second readings, significant changes were introduced in the text. The final version, as adopted by the 42nd National Assembly on 18 June 2014, contained the following three new types of rules: (1) prohibition against abuse of superior bargaining position, defined as a form of unfair competition; (2) administrative oversight over general terms of large retailers; and (3) specific requirements and limitations for contracts concluded by large retailers.

The original idea to regulate abuses of SMP as a form of antitrust violation was replaced by new rules on unfair competition, introducing the regulatory category of "superior bargaining position" (hereinafter SBP). According to the proposed definition for a new Art. 27a PCA, an undertaking would be deemed to have SBP where its commercial partners are dependent on it due to the characteristics of the relevant market, the specific relations between the undertakings concerned, the type of their activities and difference in their scale of business. The new regulation aimed to prohibit any act or omission of an undertaking with SBP, which contradicts good faith commercial practices and harms or may harm the interests of the weaker contractual party.

On 30 June 2014, the President imposed a partial veto, motivated by concerns that the contemplated regulation neglects consumer welfare for the benefit of selected businesses, while at the same time lack of precise legislative definitions providing broad authority for the CPC to issue implementing regulations was regarded as violation of the principle of separation of powers. The bill was discussed again in the Parliament on 11 July 2014, but sufficient majority was not present to overcome the presidential veto.[22] Following dissolution of the 42nd National Assembly in the summer of 2014 and the subsequent return to power of the right-centre GERB party in the October 2014 elections, this legislative initiative also entered into oblivion.

Continuing political turmoil in Bulgaria did not result in the complete death of the idea to amend existing competition legislation. In March 2015, a new bill for PCA amendment was submitted to Parliament by the Socialist Party, again pushing forward the idea for SMP regulation in parallel with existing rules against abuse of dominance. The draft was an exact replica of the document introduced in March 2014, almost to the last letter; the only innovation was the proposal to expand the exemplary list of abuses under Art. 21 PCA by a new prohibition against "unreasonable direct or indirect influence over an undertaking, having the object or effect of its elimination from the relevant market". Initially, it was opposed by the present majority coalition, and both supervising parliamentary commissions (on economy and on agriculture) issued negative opinions. Surprisingly, however, on 30 April 2015 the bill was passed on first reading, which indicated a change of heart in the majority coalition.

On 9 July 2015, the Parliament adopted a package of measures, allegedly designed to combat unfair business-to-business trading practices in the retail supply chain, where in parallel to modifications in food distribution regulations, the legislators also approved an amendment to the PCA, introducing a new Chapter VIIa with rules prohibiting "abuse of superior bargaining position".[23]

[22] According to the Bulgarian Constitution, an absolute majority of all MPs is required to overcome a presidential veto.

[23] The new Art. 37a PCA reads as follows: "(a) Any act or failure to act of an undertaking with superior bargaining position, which contradicts good faith business practices and harms or threatens the legitimate interests of the weaker contractual party and the consumers shall be prohibited. Actions or failure to act shall be deemed in bad faith in the absence of objective economic justification, such as unjustified refusal to supply or purchase goods or services, subjecting a contractual partner to unjustified or discriminatory obligations or trading conditions, and unjustified severance of established business relations.

(2) The existence of a superior bargaining position should be established upon assessment of the structure of the relevant market and the specific relations between the undertakings concerned, taking into account the nature of their activities and difference in scale of operations, the availability of alternative business partners, including presence of alternative sources of supply, distribution channels and/or customers."

Internal parliamentary deliberations before second reading did bring significant changes in the draft law, so the final version was closer to the failed proposal from the summer of 2014. The new rules on abuse of SBP mirror existing regulations dealing with unfair competition and (to some extent) rules on unfair terms in consumer contracts. The rationale behind the newly introduced provisions is to expand the scope of the existing "fair play" rules to cover also vertical B2B relationships. According to the adopted amendment, a violation would be present where the following requirements are satisfied cumulatively: (1) existence of a contractual relationship between two independent undertakings; (2) imbalance in bargaining positions; (3) conduct of the party with SBP, which is inconsistent with good faith business practices; (4) potential or effective harm for the weaker party, which in the long run is likely to result in consumer harm; and (5) absence of adequate alternatives for the weaker party. The main difference between the currently effective rules and the old version that was scrapped after the presidential veto in 2014 comes from the additional requirement that the abusive actions should have negative impact on consumer welfare and not only on the weaker contractual party.

All forms of "unfair coercive" conduct without economically objective justification are now prohibited, including in particular unjustified refusal to supply or purchase goods or services, subjecting a contractual partner to unjustified or discriminatory obligations or trading conditions and unjustified severance of established business relations. The assessment of "fairness" should be made on a case-by-case basis, taking into account the context and history of relations between the specific parties.

Existence of SBP should be determined by analysing the structure of the relevant market and the specific relationship between the undertakings concerned. Indicative factors include, among others, the degree of dependence between the two undertakings, the nature and difference in their scale of business operations, the existence of alternative supply/distribution channels and probability of finding an alternative trading partner. The criteria for SBP analysis and precision of the forms of abusive behaviour are to be devised by the CPC in a special methodology. [24] In case of violation, the competition authority may impose on the undertakings concerned fines starting at BGN 10,000 (approx. EUR 5,000), up to 10% of their aggregate annual sales in the affected product group for the preceding year (or up to BGN 50,000 in the absence of a turnover).

[24] According to the provisional rules of the law, the CPC should develop specific criteria for SBP analysis in a special methodology that had to be adopted within 3 months as of entry into force of the amendment. The latter entered into force on 28 July 2015, so the methodology was expected by 28 October 2015. However, as of the date of the final revision of this national report there was no official publication.

4.3 Relevant Market and Dominance Criteria

Determination of dominance, as well as any analysis of market power, depends in the first place on the definition of the relevant market. In Bulgaria, the criteria for market definition are set out in the Market Assessment Methodology[25] adopted by the CPC and are further developed in its case practice. The relevant product market is defined by reference to substitutability of products and services from the point of view of consumers, as well as by the pressure exercised by competitors. In its practice on relevant product market definition, the CPC traditionally places the focus of the analysis on demand side substitutability, which is assessed by reference to consumer preference, intended use of the affected products/services, their prices and characteristics. Consumer preference is usually given significant weight in the assessment of demand side substitutability, as well as intended use and characteristics of the product. Price sensitivity of consumers is not always considered in length, although the CPC occasionally applies the SSNIP test in its analysis.

Supply-side elasticity is assessed by reference to the ability of market participants to switch production to substitute products within a short period of time without incurring substantial cost. In that respect, the CPC considers various barriers to entry or expansion, which are usually categorised as structural, strategic, administrative and legal, where the first two are usually given more weight in the assessment.

The relevant geographic market comprises the area where the undertaking concerned is active in the supply or demand of the products and where the conditions of competition are similar with the view of the existing market structure, legal and administrative requirements to entry and operation, and consumer habits and preferences. In most cases, the CPC confines the relevant geographic market to a particular region (if the ability of the product to travel is limited or due to regional licensing regimes or other legal or administrative requirements) or to national borders (in the absence of legal or logistic limitations).

The test of dominance under the PCA is effects based[26] and requires in-depth investigation of the market power of the undertaking under review, the market structure, and the position of competitors and other market participants. The PCA itself does not provide for market share thresholds, but in CPC practice market shares are a key element in the assessment of market position. According to the Market Assessment Methodology, existence of dominance is unlikely where the market share does not exceed 40%.[27] A market share exceeding this threshold may be indicative of dominance, but the CPC would still analyse the market shares in view of the conditions on the relevant markets and, in particular, the dynamics of the market and the extent to which products are differentiated.

[25] Adopted by CPC decision no. 393/2009.

[26] In contrast, the abolished 1998 CPA relied on a rebuttable presumption for the existence of dominance where the market share on the relevant market was 35% of more.

[27] Para. 3.2 Market Assessment Methodology.

In addition to market shares, the CPC has considered a number of factors, which taken alone or in conjunction suggest the existence of a dominant position. Such indicators include, among others: (1) substantial financial resources of the undertaking; (2) vertical integration and access to own supply from the upstream market; (3) strong position on neighbouring markets, which may reinforce the position of the same undertaking on the market under review; (4) access to downstream markets either because of the existence of own distribution network with deep penetration in downstream markets or existence of exclusive distribution arrangement that bars competitors from ready access to distribution; (5) de facto control over an essential facility; (6) existence of high barriers to entry that impede new entries on the market.

4.4 Definition of 'Abuse'

Art. 21 PCA provides a general open-ended definition of "abuse", referring to "conduct that may prevent, restrict or distort competition and thereby adversely affect the interests of consumers". The law further highlights some of the most common forms of abuse, but the list is not exhaustive:

(i) direct or indirect imposition of unfair prices, or other unfair trading conditions;
(ii) limitation of production, marketing, and technical development to the detriment of consumers;
(iii) application of dissimilar conditions to equivalent transactions with different trading parties thereby placing them at a competitive disadvantage;
(iv) making the conclusion of an agreement conditional upon an undertaking by the other party of additional obligations or entering into other agreements that – by their nature or according to the settled trade practice – have no link to the main agreement or its performance;
(v) refusal to sell goods or provide services to an actual or a potential customer and thus hindering the activities carried out by the customer, which may prevent, distort, or eliminate competition.

The statutory prohibition does not apply to situations where the dominant undertaking acted (or refused to act) as a result of objective external circumstances, preventing it from adhering to its commitments. In other words, the PCA permits "objective justification" defences, and the CPC in its practice has agreed that certain efficiency considerations, such as economies of scale and consumer benefits, can exonerate conduct that formally runs contrary to the law.[28]

[28]CPC decision no. 1133/2007, *Gedeon Richter*.

4.5 Exploitative Abuse and Exclusionary Abuse

Apart from the non-exhaustive list of specific forms of abuse, the PCA does not provide a clear classification and does not differentiate between exploitative and exclusionary conducts. The CPC, however, does distinguish[29] two basic types of abuse—exploitative and structural.

Exploitative practices are related to conduct through which large profits are derived without justification due to the absence of effective competition on the relevant market. Usually, this happens when the dominant undertaking is imposing unjustifiably high prices on its customers. In most of the cases, such abuses can be observed in markets characterised by the presence of natural monopoly, such as supply of heating and electricity. According to the CPC, exploitative abuse harms primarily end customers and undertakings active on adjacent downstream or upstream markets—customers and suppliers, direct trade partners of the dominant undertaking. Moreover, since market entry could be hindered because trade partners become tied to the dominant undertaking, exploitative abuses can create additional structural problems to competition.

Structural (exclusionary) abuses, on the other hand, are not aimed at gaining direct profit but at using a dominant position to eliminate competitors and push them out of the market. According to the CPC, structural abuse is not aimed directly at customers and suppliers and it harms primarily undertakings active on the same relevant market—i.e., competitors of the dominant undertaking.

A dominant undertaking would be liable for exploitative abuse if it imposes unilaterally prices and other trading conditions that have no objective economic justification. The CPC guidelines indicate only one form of exploitative abuse—imposition of prices (aka "abusive pricing") and other trade conditions, but according to jurisprudence, discriminatory pricing and (some cases of) tying and bundling could also fall within the same category.

4.5.1 Imposition of Prices and Other Terms

The most common examples of exploitative abuse from CPC decisional practice are situations where the dominant undertaking forces prices upon its trading partners by negotiation techniques that leave them with no bargaining options,[30] implements uniform standard terms without attention to the peculiarities of the specific commercial relationship[31] or sets prices that do not reflect the actual value of the offered goods or services.[32] The CPC has indicated on a couple of occasions that existing

[29]See the basic guidance to private parties, published on the CPC website at: http://cpc.bg/Competence/AbuseOfDominanceDescription.aspx.

[30]CPC decision no. 628/2007, Kremikovtsi Trade, *confirmed on appeal by d*ecision no. 10980/2008 on case 9451/2007, SAC 5th Chamber.

[31]*CPC decision no. 641/2014, Sofia Heating.*

[32]CPC decision no. 820/2007 *Pleven Transport.*

price regulations (e.g., in the telecom and energy sectors) would normally prevent the analysis of price setting schemes that are considered acceptable by the relevant sector regulator.[33] However, where existing regulations leave the dominant undertaking with sufficient manoeuvring space for its pricing policies, its conduct would be susceptible to competition law scrutiny.[34]

Generally, the CPC has the burden to prove that prices imposed by the dominant undertaking are not cost oriented. Still, if such prices were determined (1) without the application of clear and transparent cost-oriented criteria, (2) the price is not subject to negotiation and (3) customers are forced to pay the price because they do not have any alternative source of supply, the CPC would not undertake an in-depth economic analysis and would simply assume that prices are unjustified or excessive. The burden of proof then shifts to the dominant undertaking to justify the level of prices it charges and to show that such prices are cost oriented or that such prices are comparable to the prices on neighbouring geographic or product markets.

Exploitative abuse with respect to other commercial terms (unrelated to price) can take many forms, such as export prohibitions and restrictive selling conditions, found most often in the sectors of gas[35], electric and heat distribution, or auto transport.[36] Application of the so-called "Most Favoured Customer clause" is also regarded as suspect. It refers to the situation where a dominant undertaking requires a customer to report all "better" offers that the customer may receive from a competitor and permits the customer to accept such an offer only when the dominant undertaking cannot match it.[37] The presumption is that MFC clauses have the same effect as exclusivity clauses since the dominant undertaking will only have to reduce its prices in case it faces substantial risk of losing customers. According to the CPC, the same situation would exist if a supplier is obliged to extend to a dominant buyer any better procurement condition offered to a competitor.[38]

4.5.2 Discrimination

Discriminatory pricing exists where a dominant undertaking applies dissimilar prices to similar transactions, and discriminatory application of trading conditions exists where a dominant undertaking treats differently its customers as a result of which customers are placed at a competitive disadvantage.[39] However, price differentiation among customers would not be regarded as discriminatory if it is

[33]Nikolov, P. et al. The New Regulation of Protection of competition (Trud & Pravo, 2009), p. 223.

[34]CPC decision no. 1398/2014, *Steneto waters*.

[35]CPC decision no. 1054/2014, *Bulgargas*.

[36]CPC decision no. 470/2013, Pleven transport.

[37]Nikolov, P. et al, p. 244.

[38]CPC decision no. 121/2011, *Retail chains*.

[39]CPC decision no. 628/2007, *Kremikovtsi Trade* and CPC decision no 280/2014, *Bus transport*.

based on objective criteria and such criteria are equally applied to all customers of the dominant undertaking. For example, in an investigation of the discount scheme applied by a dominant distributor of audio records, the CPC held that transparent and uniformly applied volume rebates do not amount to price discrimination.[40] Application of different prices and other terms to different customer categories is also permissible, as long as customer differentiation is not arbitrary. For example, in a case involving distribution of video games, the CPC ruled that a refusal to apply a more beneficial dealer price to a company that had lost its dealer status due to its own refusal to prolong the relevant agreement was not a form of discrimination.[41]

4.5.3 Tying and Bundling

The last form of abuse that falls (partially) in the exploitative category—tying—is explicitly mentioned in Art. 21 PCA. The prohibition covers all attempts to make an agreement conditional on assumption of additional obligations by the other party or entering into other agreements, which by their nature are not related to the main agreement and its performance. Tying violations would be deemed present in any case where there is no reason of technical, technological or other nature, which requires the joint sale of products or services.[42] Tying exists where products or services are provided to customers only together, or even if provided separately their bundled price is lower than the sum of their individual prices. In this latter case, however, bundling would be in breach of competition regulations only if it has foreclosure effects.[43]

4.6 Price-Based Abuse and Non-price-Based Abuse

According to the CPC guidelines, the distinction between price-based and non-price-based abuses is applicable primarily to structural (exclusionary) violations—depending on the way of pushing competitors out of the market.[44] (However, indicia from CPC case practice prove that this theoretical distinction cuts across all forms of conduct.) The most common non-pricing exclusionary abuses are tying and bundling, refusal to deal and refusal of access to an essential facility, while examples of pricing exclusionary abuses are predatory pricing, margin squeeze and loyalty rebates.

[40] CPC decision no. 268/2008, *NMC*.

[41] CPC decision no. 623/2008, *Pulsar*.

[42] See e.g. CPC decision no. 1023/2007, *BTC ADSL*.

[43] CPC decision no. 1201/2008, *BTC*.

[44] http://cpc.bg/Competence/AbuseOfDominanceDescription.aspx#4.

4.6.1 Tying and Bundling

The exclusionary effects of tying and bundling practices are observed in situations where a dominant undertaking tries to leverage its market power in one product by demanding from customers to also purchase other products, with respect to which it is not a market leader and faces strong competition. As a result of the tying in order to acquire the desired product (which is not available from other reasonable sources), customers are forced to buy the tied product from the same supplier; thus, their choice is restricted artificially despite the presence of sufficient alternatives.[45] Formal evidence of tying offers without objective justification would be sufficient for the CPC to find a violation without entering into detailed effect analysis.

4.6.2 Refusal to Deal

The second type of exclusionary violation, refusal to deal, in most of the cases boils down to a refusal to continue to supply goods to an existing customer,[46] with or without termination of contract, or refusal to enter into contractual relations with a potential customer.[47] Refusal by a dominant undertaking to deal with a partner would be abusive only where (1) there is no justification of objective nature about the refusal, (2) the refusal to deal is long lasting and not temporary and (3) the refusal has foreclosure effect for the partner.[48] Refusal to deal may be justified where it is a result of transparent policy of the dominant undertaking, equally applied to all its counterparties.[49] However, if there is evidence that the refusal to supply or threat of termination of relations serves as an instrument for enforcement of other commercial conditions, the CPC would not engage in effects analysis and the defendant would face a much higher burden to prove the presence of an objective justification.[50]

4.6.3 Essential Facility

Refusal of access to an essential facility can be regarded as a variation of the general refusal to deal. The PCA does not refer to the concept of “essential facility”, but in its guidelines the CPC indicates that within its scope fall various types of tangible and intangible assets, located on an upstream market (often a wholesale market), which are used by the customers of the asset owner in order to supply goods or

[45] CPC decision no. 1023/2007, *BTC ADSL*.

[46] CPC decision no. 506/2013, *EnergoPro Sales*.

[47] CPC decision no. 1576/2013, *Haos Invest*.

[48] CPC decision no. 189/2014*, BTV Media*.and CPC decision no. 926/2014, *EVN*.

[49] CPC decision no. 1133/2007, *Gedeon Richter* and CPC decision no. 926/2014, *EVN*.

[50] CPC decision no. 28/2000, *Gypsum*.

services on the related downstream (retail) market.[51] The CPC has a comparatively rich case practice concerning different types of assets that can be regarded as indispensable, including waste disposal facilities,[52] transport hubs,[53] telecom networks[54] or intellectual property.[55] The refusal of access as such may take the form of an explicit or tacit rejection—e.g., in the form of tacit rejection or inaction,[56] stalling negotiations or setting cumbersome conditions for accessing or using the facilities.[57]

CPC case practice indicates a three-prong test for the assessment of suspect behaviour, which requires the following: (1) control over an essential facility, (2) competitors on a secondary market do not have access to alternative facilities and lack of access would prevent or distort competition and (3) the owner of the facility refuses to grant access or use of the facility.[58] Access should be granted on equal and non-discriminatory terms[59] and should be effective and not hindered by the owner (including by way of failure to act).

The facilities are regarded as indispensable if no viable alternative in terms of primary features, use and application exists. If using other facilities is possible but less cost-efficient, they still represent a viable alternative.[60] The refusal must eliminate competition on the downstream market, but it is not necessary that the dominant company competes on that market with the undertaking requesting access. The refusal may only be justified by objective limitations of technical or legal nature[61] and by economic efficiency considerations.[62]

Finally, it should be noted that in its practice, the CPC also discussed *the interplay between trademarks and the notion of "essential facility"*.[63] The case saga, which is exemplary in this respect, was triggered by a complaint against the refusal of Ecopack Bulgaria ("Ecopack"), an undertaking providing collective waste recycling management services and a registered licensee of the "Green Dot" (Der Grüne Punkt) trademark in Bulgaria, to sub-license the use of the

[51] Nikolov, P. et al, p. 276.

[52] CPC decision no. 54/2008, *Dionysius Varna*.

[53] CPC decision no. 139/2006, *Albena Autotrans*, and CPC decision no. 740/2014, *Sofia Airport*.

[54] CPC decision no. 510/2007, *NetPlus*.

[55] CPC decision no.147/2005, *ABRO* and CPC decision no. 331/2006, *MusicAutor*, confirmed on appeal by decision no. 8079/2007 on case 2408/2007, SAC 5th Chamber.

[56] *CPC decision no. 177/2013, PMU/Toplo*.

[57] *CPC decision no*. 64/2014, *EnergoPro*.

[58] *See*, e.g. CPC decision no. 54/2008, *Dionysius Varna*.

[59] CPC decision no. 500/2008, *Poligrafsnab*.

[60] CPC decision no. 500/2008, *Poligrafsnab*.

[61] CPC decision no. 926/2014, *EVN*.

[62] CPC decision no. 1133/2007, *Gedeon Richter*.

[63] CPC decision no. 16/2006, quashed in part on appeal by decision no. 8397/2006 on case 1884/2006, SAC 5th Chamber, quashed entirely on cassation by decision no. 1402/2007 on case 10025/2006, SAC 2nd Grand Chamber.

trademark to other undertakings providing collective waste recycling services. In its decision, the CPC suggested that under certain circumstances objects of IP protection could be regarded as "essential facility" provided that (1) they are not substitutable from the demand side and (2) competitors/consumers do not have other viable alternatives. In light of the specific facts of the case, however, the authority concluded that the Green Dot mark could not be qualified as an essential facility—the sign had a purely symbolic function and neither obliged customers to dispose of specific waste only in containers managed by Ecopack nor permitted Ecopack to refuse to manage waste not bearing the Green Dot mark once it was placed in its containers. Nevertheless, the CPC held that Ecopack had committed (1) exploitative abuse by obliging importers of products in packages bearing the Green Dot mark to use Ecopack's own waste management services by threating with IP enforcement and (2) exclusionary abuse by refusing to sub-license the Green Dot mark to other waste management organisations. This decision was partially overruled on appeal as the Supreme Administrative Court (SAC) held that the Green Dot sign lacked distinctiveness and, therefore, could not be subject to protection and exclusive use. Accordingly, all interested parties could use the Green Dot sign freely and since a sub-licence was not needed, the refusal to grant it could not have detrimental effect on competition. In the subsequent cassation appeal, the SAC grand chamber quashed the CPC decision in its entirety ruling that the use of any form of contestable IP rights cannot qualify as abuse under competition law and such disputes should be resolved by means of IP litigation.

4.6.4 Predatory Pricing and Dumping

With respect to price-based exclusionary abuse, the practice that is most often prosecuted (though rarely proven) seem*s to be predatory pricing*. According to the definition supported by the CPC, predatory pricing is a case where for a short period of time the respective goods or services are sold at a loss, with the aim of pushing competition out of the market or discouraging other competitors from entering the market.[64] The rationale behind this conduct is to achieve higher profits through a sudden price increase once competitive pressure is removed.

Predatory pricing is presumed to exist where a dominant undertaking tries to drive competitors out of the market by charging prices under production cost for a significant period of time. In its practice, the CPC has distinguished between (1) predatory pricing where the predator was selling below the variable cost of production and (2) predatory pricing where the predator was selling above the variable cost but below the total production cost.[65] In the first case, the

[64]See the basic guidance to private parties, published on the CPC website at: http://cpc.bg/Competence/AbuseOfDominanceDescription.aspx.

[65]*See e.g* CPC decision no. 88/2005, *Simid Group*; CPC decision no. 806/2009, *BTC*; CPC decision no. 1088/2008, *BTC/BTC Mobile*.

anticompetitive purpose of the practice could be presumed. In the second case, predatory pricing would be found to exist only where the pricing policy of the dominant undertaking was part of a plan to drive competitors out of the market—in other words, evidence of subjective intent also needs to be evaluated. Predatory prices should be applied for such a period of time, which is sufficient to cause adverse effects on competition and competitors. The time period may be different depending on the specific market and circumstances.

It should be noted that *dumping sales are also prohibited as a form of unfair competition*.[66] "Dumping" is deemed to exist where the following requirements are satisfied: (1) goods or services are offered at prices lower than prime cost—i.e., below production and marketing cost; (2) sales continue for a long term and (3) must concern significant quantities—according to CPC practice, the relative share of goods dumped on the relevant market must account for more than one-third of the overall turnover (but for high-value goods, over 10% may suffice), (4) for the purpose of unfair solicitation of customers.

On the objective side, sales below prime cost must be maintained for a significant period of time and the overall quantities must be sufficient to "capture" customers. On the subjective side, the law requires that the seller acts with the intention to drive competition out of the market. However, the violation does not require evidence of injury to competitors—i.e., the CPC does not investigate the result. It is deemed that maintaining unreasonably low prices, which do not cover the relevant production and marketing costs, is a form of bad faith behaviour in itself, unless an objective economic justification can be provided.

From a substantive point of view, the two violations seem almost identical. According to the CPC, the main difference between predatory pricing, as a form of abuse of dominant position, and dumping sales, as a form of unfair competition, is in the market position of the infringer and the degree of impact on competition.[67] In other words, if dumping behaviour is exhibited by a dominant undertaking, it would qualify as predatory pricing. There are almost no published decisions where both violations were argued simultaneously, but it seems that due to the different procedural routes that are applied for antitrust investigations and for review of unfair competition complaints, the CPC would not prosecute them in parallel unless a petitioner expressly requests so (and pays the applicable fees).

4.6.5 Margin Squeeze

The CPC has dealt with margin squeeze in situations where a vertically integrated dominant undertaking operates on both the upstream and downstream market. In order for a margin squeeze to exist, the test established by the competition authority

[66] Art. 36, Sec. 4 PCA.

[67] See the basic guidance to private parties, published on the CPC website at: http://cpc.bg/Competence/AbuseOfDominanceDescription.aspx.

requires that the level of the price at which the dominant undertaking sells to customers on the downstream market is lower than the level of price at which the dominant undertaking sells to its competitors. Price squeeze would exist even if the level of price at which the dominant undertaking sells to its customers is not lower but does not allow competitors to meaningfully compete with the dominant undertaking on the downstream market.[68]

In a case involving a company operating exhibition facilities (essential facility operator), the CPC found the existence of margin squeeze with respect to a secondary downstream market for construction services within the exhibition area (on which both the essential facility operator and other companies were active). The decision was based on evidence that the price that competitors had to pay for access was such that it did not allow them to effectively compete on the secondary market with the essential facility operator.[69]

4.6.6 Loyalty Rebates

The application of rebates and discounts by a dominant undertaking is generally in compliance with competition law where they are not aimed to achieve a loyalty (binding) effect. Loyalty effects would likely be associated with rebates, which are selective, linear (rather than quantitative) or based on past purchase volumes or sales targets.[70] In one of its rare decisions on loyalty rebates, the CPC held that target volume discounts offered by a gypsum manufacturer are abusive where customers are effectively prevented from working with alternative suppliers due to the large quantities they are obliged to keep on stock even in periods of traditionally low demand (such as the winter months).[71]

4.7 Enforcement

4.7.1 Decision-Making Practice

Summary data on enforcement procedures with respect to unilateral abusive conduct during the last 5 years is provided in Fig. 4.1.

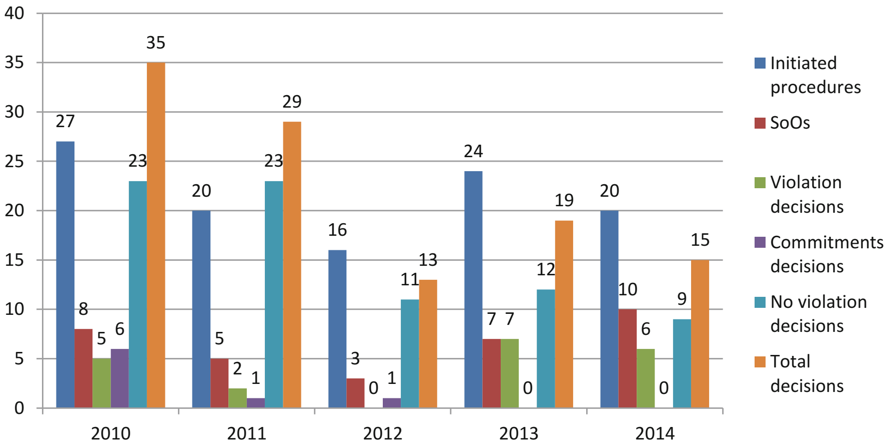
For the purposes of comparison, Table 4.1 presents a summary of the overall workload of the authority during the same period.

[68] CPC decision no. 624/2009, CPC decision no. 135/2006, CPC decision no. 210/2006 (all three decisions involve the Bulgarian Telecommunications Company—the incumbent fixed lines telecom operator).

[69] CPC decision no. 858/2008, *Plovdiv International Fair*.

[70] CPC decision no. 49/2005, *BNT/bTV*.

[71] CPC decision no. 28/2000, *Gypsum*.



Source: CPC Annual Reports 2010 - 2014.

Fig. 4.1 Abuse of dominance enforcement statistics

Table 4.1 Public enforcement statistics

Year		2010	2011	2012	2013	2014
Coordinated practices	Initiated	4	10	9	9	3
	Closed	7	7	9	7	7
	SoOs	2	4	2	3	0
Abuse of dominance	Initiated	27	20	16	24	20
	Closed	35	29	13	19	15
	SoOs	8	5	3	7	10
Merger control	Initiated	37	51	24	36	46
	Phase 1	35	43	28	35	43
	Phase 2	0	0	0	1	0
Sectoral enquiries	Initiated	4	4	0	0	1
	Closed	1	2	3	2	1
Unfair competition	Initiated	93	94	61	59	73
	Closed	108	104	70	65	82
Competition advocacy	Initiated	39	37	31	29	28
	Closed	38	42	32	32	32
Public procurement	Initiated	936	1250	1155	1394	1102
	Closed	774	1004	998	1147	995

Source: CPC Annual Reports 2010–2014

4.7.2 Competent Courts and Authorities

The principal mode of antitrust enforcement in Bulgaria is ex post review. At least on theory, there should be two procedural routes available for defence against restraints of competition and forms of unfair competition: (1) administrative review (by investigation conducted by and before the CPC) and (2) civil litigation (before a court or administrative tribunal). However, as a standard practice in Bulgaria, aggrieved parties prefer to file complaints for alleged violations of the various PCA rules before the CPC for administrative review. The principal reason for this preference is the evidentiary burden. Under the standard rules of civil litigation, the plaintiff must prove all elements of their case (tortious conduct, damage and causal link) bearing unilaterally the evidentiary burden. Since in most cases the defendant is in possession of all evidence with respect to the infringing behaviour, it is difficult for the plaintiff to build a successful case. In administrative proceedings, however, a CPC case team conducts an independent investigation of the facts and collects independently the necessary evidence not only from the principal parties (petitioner and respondent) but also from any third party that may be in possession of relevant information. This represents a significant relief for the petitioner as they can simply file a complaint and after that adopt a passive position relying on the efforts (and compelling power) of the competition authority.

Besides the CPC, several other public authorities in Bulgaria have sector-specific competence to launch ex officio investigations to pursue abusive practices. For example, the Commission on Regulation of Communication exercises control over telecom operators and enforces the rules designed to prevent abuses by undertakings with significant market power,[72] while the State Commission on Energy and Waters monitors the behaviour of utility companies.

Private enforcement in Bulgaria did not progress beyond embryonic stage and was completely stalled by a recent ruling of the Supreme Court of Cassation (the SCC), which in practice prevents all stand-alone litigation of claims for damages for antitrust violations.[73] The SCC simply stated that the civil courts should deny hearing a case for antitrust damages unless it was already examined by the CPC and the competition authority has issued a decision confirming that a violation of competition law was committed. *The effect of this ruling is to bestow upon the CPC complete exclusivity in enforcing the rules of competition law in Bulgaria.*

The Bulgarian judicial system does not follow the doctrine of *stare decisis* and in general the decisions of the SCC are not immediately binding on all courts. However, in practice they have such strong persuasive authority that lower courts rarely take their chances to support a contradicting position. This is even less probable in abuse of dominance cases since in all decisions encountered, so far civil judges shy away from competition law matters. Thus, in the presence of this specific SCC ruling, it is highly unlikely that a breakthrough would be possible.

[72]In line with Art. 16 (4) Framework Directive, the Bulgarian Electronic Communications Act defines "significant market power" as a position equivalent to dominance, i.e., a position of economic strength vesting in a single undertaking (or a group of undertakings) the power to behave to an appreciable extent independently of competitors, users and end users.

[73]Ruling no. 520/2014 on case 4004/2013, SCC 2nd Commercial Chamber.

4.7.3 Public Enforcement

The common framework for antitrust investigations—covering both alleged prohibited agreements and abuse of dominant position—is set forth in PCA Chapter IX, while proceedings for review of complaints alleging unfair competition violations are governed by Chapter XII. The most important difference is that in antitrust investigations, the CPC acts both as a public prosecutor and as a deciding authority and has complete control over the case—it cannot be terminated by the private parties even where the original petitioner and respondent, alleged perpetrator, reach a settlement with respect to all disputed issues. Proceedings under an unfair competition complaint, on the other hand, have adversarial character and follow closely standard civil action procedure. Two distinct sides are formed: (1) petitioner, the aggrieved party, and (2) respondent, the alleged perpetrator, while the CPC's function is limited to independent verification of the factual allegations of the disputing parties (i.e., it acts as a quasi-judiciary tribunal). The petitioner may withdraw the complaint at any time without stating any grounds, causing automatic termination of the proceedings.[74]

All CPC investigations—under both antitrust and unfair competition laws—are initiated (1) upon the complaint of a private party with legitimate interest (supplier, client or competitor), (2) upon the request of a public prosecutor, (3) on the basis of a leniency application or (4) on self-approach by the authority (*sua sponte*).

The complaint should be in writing and must clearly identify the petitioner, respondent, essential facts of the case and the requested remedy. The complaint may be supplemented by relevant written evidence, but there are no actual restrictions to provide documents and information at a later stage of the proceedings. Furthermore, a state fee of BGN 500 (approx. EUR 256) is due. Anonymous complaints are not possible, but they can be treated as "signals" that may trigger preliminary review by the authority and serve as a ground for self-approach in antitrust cases or even for some forms of unfair competition (e.g., misleading advertising, prohibited promotional activities, etc.).

Standing before the CPC is restricted to business entities (without limitation on the legal form—commercial companies, sole traders or individual professionals) that can prove that their legitimate interests are infringed or endangered by behaviour in violation of the substantive provision of the PCA. Consumers may not be party to CPC proceedings, but a complaint from a consumer may serve as sufficient ground for, or trigger preliminary investigation that would ultimately result in, self-approach.

Once a decision to open a case has been adopted (whether in response to a valid complaint or ex officio), a case supervisor (rapporteur) and a case team are designated to conduct the investigation. The case rapporteur is a CPC commissioner, who is primarily responsible for the respective case. In practice, the investigation is moved forward by a case team from the CPC administration, which in

[74]Art. 98 (1), para 4 PCA.

exceptional circumstances may be assisted by external experts and specialists. By authorisation from the case rapporteur or head of respective unit, the investigators may collect (1) written or oral testimonies from petitioner, respondent, third interested parties and any other market players, as well as from officials in any government or local authority; (2) copies of private and official documents; and (3) opinions from public authorities and private experts.[75] As a guarantee for that broad competence, the law entitled the CPC to impose penalties on individuals who obstruct the investigation by either not cooperating with the authority or by providing false information.

The PCA prescribes that investigations on unfair competition cases should be completed within two (two) months.[76] By decision of the CPC, in cases of factual and legal complexity, the time limit may be extended by additional 30 (thirty) days. However, no time frame is prescribed for antitrust investigations, which in practice so far span from several months to a couple of years. Upon completion of the investigation, the case team prepares a report, which is submitted to the rapporteur for review. If the rapporteur approves the report, she is obliged to inform the CPC Chairman.

In unfair competition cases, the CPC Chairman schedules a public hearing within 2 weeks as of completion of the investigation, for which respondent, petitioner and any other interested parties are dully summoned in accordance with standard rules of administrative procedure. The parties are provided with an opportunity to get acquainted with the materials collected on the case, in order to prepare for their final pleadings.

The final stages of antitrust proceedings differ significantly from unfair competition review. First, within 2 weeks as of completion of the investigation, the CPC Chairman schedules a closed internal session, on which following deliberation upon the case report, the CPC can either (1) resolve that no violation was committed or (2) bring formal charges against the respective undertakings by adopting a “statement of objections” in the form of a ruling.

Where a statement of objections is issued, the undertakings concerned (now defendants) and the complainant (if any) would be given not less than 30 (thirty) days to review all collected evidence and submit statement of defence and/or objections in writing. The undertakings concerned may also offer specific

[75]The PCA further empowers the CPC in antitrust investigations only (i.e. not for the purposes of unfair competition review) to conduct site inspections (dawn raids) on the basis of a court warrant. The warrant is issued by a judge from the Administrative Court-Sofia, upon the request of the CPC Chairperson. During site inspections CPC officials are entitled to search premises, means of transport and other locations used by the undertakings, which are listed or otherwise identified in the warrant. The law does not explicitly empower the CPC to conduct inspections in private premises or to search individual persons. Within the scope of the inspection, CPC officials may examine all documents and records, related to the activity of the undertakings concerned, irrespective of the medium on which they are stored, and may seize or obtain electronic, digital and forensic evidence, as well as traffic data, from all types of computer data media, computer systems and other information media as well as seize the devices for transmission of information.

[76]Art. 96 PCA.

commitments—e.g., to adopt a behaviour that would be in compliance with the law. If the commitments are approved and accepted, the CPC would close the investigation without imposing penalties or sanctions.[77] Upon acceptance, the commitments become binding contractual obligations, compliance with which is controlled by the authority. If the undertakings concerned fail to perform as promised, or if the CPC discovers that the commitments were accepted on the basis of incomplete or misleading information, it can reopen the original investigation. Where no commitments are offered or accepted, the procedure usually (upon request of at least one of the defendants) continues with a public hearing, for which the defendants, as well as all other parties in the proceedings (e.g., complainants), are duly summoned.

The public hearing (for both unfair competition and antitrust cases) is modelled according to the rules of procedure applied by the courts for judicial review of administrative decisions: each of the parties summoned may present and request the admission of additional evidence[78] and is entitled to plead orally or present additional arguments in writing. The case team can also attend, and theoretically they may also ask or respond to questions (however, in reality, they almost never intervene, or even appear at the hearing). After the hearing, the CPC adopts a decision in a closed session.

The decision would be valid if at least four (out of seven) of the members of the CPC were present, but in all cases a majority is formed by at least four members voting in favour. If the CPC confirms that a violation of the law has been committed, it can (1) impose fines in a lump sum and/or as periodic payments and (2) order the undertakings concerned to bring to an end the illicit behaviour and, where necessary, (3) impose any behavioural or structural remedies, which are proportionate to the infringement committed and are necessary to restore competition on the relevant market,[79] or (4) withdraw the benefit of a block exemption (where the case concerns a collusive practice).

All CPC decisions can be challenged before the Supreme Administrative Court (SAC) by any of the parties involved in the administrative proceedings, as well as by a third party that may show loss of present or foreseeable benefits as a result of that decision. The appeal should be lodged within 14 days as of service of notification that the decision and the reasoning thereto have been issued (for the parties to the proceedings) or the date of publication of the decision on the CPC website (for third parties).

The SAC reviews the appeal in a panel of three judges (a “Chamber”) and can (1) affirm the CPC decision, (2) affirm and revise in part the CPC decision (e.g.,

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[77] Art. 75 (2) PCA.

[78] In practice however, the CPC would reject the admission of additional evidence at that stage, unless it clearly refutes the conclusions made during the investigation.

[79] The CPC may impose structural remedies only where there are no equivalent behavioural remedies, or where such behavioural remedy would be more burdensome to the respective undertaking.

revise the amount of the sanctions imposed) or (3) quash the CPC decision and remand the case to the CPC for de novo proceedings with instructions for further review. The court rarely embarks on re-evaluation of the economic analysis part of the administrative decision, although on some rare occasions the judges did amend the original market definition. Case practice shows that the court would prefer to rule on legal issues, such as whether the test for establishing an infringement has been correctly applied and whether the evidence collected is relevant and sufficient.

The decision of the Chamber is subject to further appeal on points of law before a SAC panel of five judges (a "Grand Chamber"). The Grand Chamber has the same powers as in a first instance review, and it cannot collect new evidence and re-examine the facts of the case. If it quashes the judgment of the Chamber, it must decide the case on the merits, unless a manifest breach of the rules of procedure has been committed or additional facts need to be established, for which written evidence is not sufficient. The decision of the Grand Chamber is final and is not subject to further appeal.

4.7.4 Approach Followed by Competent Courts and Authorities

Neither the CPC nor the SAC has ever stated preference for a uniform approach or standard of harm towards analysis of abuse of dominance cases. Nevertheless, it was noted that a presence of intention to act in violation of existing obligations is not an element of the statutory hypothesis; thus, no evidence of subjective set-up is required to establish that a dominant undertaking has abused its market power.[80] Liability under Art. 21 PCA seems to be strict—it will arise irrespective of whether the dominant undertaking has aimed at a specific anticompetitive result or even anticipated that such a result could arise as a side effect. The only requirement is that there is a causal relationship between the conduct of a dominant undertaking and effective or imminent adverse effect on competition and consumers.

In this respect, it should be noted that the stated objective of the PCA (as per its Art. 1) is to ensure protection and conditions for the promotion of competition and free economic initiative. However, the task of the CPC is not simply to guard and promote competition as an abstract concept but to ensure that market players can operate within an environment that allows them to innovate and operate efficiently based on the assumption that the ultimate beneficiaries of normal competitive processes are consumers. Following this approach, the PCA (similarly to TFEU) contains a number of exemptions for conduct, which though prima facie anticompetitive would result in positive consumer welfare effects that could outweigh any negative impact on market structure and relations.[81]

[80] Nikolov, P. et al., p. 208.

[81] See e.g. Art. 17 PCA specifying the conditions for exemption from the general prohibition, similar to Art. 101 (3) TFEU.

Similar to other legislative instruments, there are several categories of objectives pursued by the PCA. As its name suggests, protection of the legitimate interests of competitors is one of the main goals of the legislation, but due attention is also paid to other market players (operating on neighbouring markets—i.e., suppliers or customers).[82] Nevertheless, consumers are considered the principal beneficiaries of loyal competition and their interests should be examined with due consideration in all cases. Specifically with respect to unilateral abusive conduct, the rule of Art. 21 PCA clearly states that a violation of the law would exist where the suspect conduct may not only prevent, restrict or distort competition but also harm the interests of consumers. Therefore, efficiency defences will be accepted to the extent there is evidence of pass-on of welfare benefits to end users.

There is no clear evidence that the CPC follows the guidance of the European Commission on enforcement priorities. Indeed, on many occasions, investigations in Bulgaria were opened as a follow-up on EC cases that were broadly publicised.[83] Nevertheless, the enforcement priorities of the CPC exhibit much stronger affiliation to topics of enhanced local sensitivity. As with all Bulgarian public institutions, the CPC is not immune to political influences, and in the turbulent political environment of Bulgaria enforcement priorities are changed so often that it is very difficult to establish permanent enforcement focus or objectives that are followed consistently. This, as can be expected, diminishes the preventive effect of public enforcement since despite the severity of the fines imposed in individual cases, in the absence of consistency market players do not feel actual threat from prosecution and may often dare to disregard the rules.

[82]The interests of suppliers are not differentiated as a separate object of protection and they would come in the focus of CPC enforcement only as part of the general obligation of the authority to protect the competitive relations along the supply chain from deformations that in the long term may affect end-users.

[83]The most recent example seems to be the investigation of Bulgargaz following the SoO of the European Commission against BEH (the Bulgarian Energy Holding).

France

5

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5.1 Introduction

5.1.1 Provisions Prohibiting Anticompetitive Unilateral Conduct Under the French law

Article L. 420-2 of the Commercial Code includes two provisions aiming to punish abuse of dominance. The aforesaid Article is located in Title II named *Des pratiques anticoncurrentielles*[1] of Book IV entitled *De la liberté des prix et de la concurrence*.[2]

[1]"About anticompetitive conducts".

[2]"About freedom of prices and of competition".

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Paragraph 1 of the Article prohibits the abuse of a dominant position. It is necessary to clarify that, on this matter, the French current practice follows the jurisprudence of the Court. Furthermore, referring to the statistic's data brings further. The vast majority of the decisions in which Article L 420-2 of the Commercial Code has been applied are about the abuse of dominant position and in a large proportion are made a parallel application of Article 102 TFEU and of the French provision.

As a reminder, Article L. 420-1 of the Commercial Code specifies that the practice that can be punished under competition law are the ones that "where they have the aim or may have the effect of preventing, restricting or distorting the free competition in a market."

Paragraph 2, as for it, prohibits the abuse of economic dependency.

This conduct, peculiar of French law, is characterized when a firm, and only a firm facing another firm,[3] takes advantage of the situation of dependency in which a commercial partner finds itself, to withdraw undue advantages while the latter does not have any alternative solutions.[4]

The existence of a state/position of economic dependency is appreciated in accordance with a certain number of criteria such as the fame of the trademark, the part of the market that the firm has on the considered market, the importance of the role of a firm in the turnovers of the firm claiming the state of economic dependency from which ensues a situation of inequality,[5] or the difficulty for the latter firm to find an equivalent solution.[6]

However, the proof of a state of economic dependency is practically difficult to bring in, particularly for two reasons: (1) the importance of the turnover realized by a firm in a situation of strength results more often from a choice of commercial strategy of the firm in a position of economic dependency, and (2) in the majority of cases, the victim can change quickly his commercial partner without huge costs. This might also be connected to the choice, not literally stated within the text but done at the moment of the implementation, to retain a very strict interpretation of the text even though the legislator while modifying the aforesaid text intended to allow a less restrictive application of it.

Consequently, most of the requests based on Article L. 420-2 paragraph 2 of the Commercial Code are rejected, without considering the abusive, or not, character of the conduct. So there are only a few recent illustrations concerning conducts susceptible to be qualified as abusive.

From an analysis of the case law from 2008 to 2014,[7] it is possible to deduct that, from one side, the characterization of a state of economic dependency remains

[3]Commercial Chamber of the Court of Cassation, 2 December 2008, n° 08-10.731.

[4]Commercial Chamber of the Court of Cassation, 20 May 2014, n° 12-26.705; Court of Appeal of Paris, 30 June 2011, n° 09/10289.

[5]Court of Appeal of Versailles, 8 April 2010, n° 07/07662.

[6]Commercial Chamber of the Court of Cassation, 10 December 1996, n° 94-16.192; Court of Appeal of Nancy, 12 march 2014, n° 646/14.

[7]See Sect. 5.5.1.

extremely rare and, from the other side, the abusive exploitation of such a state of dependence, up to now, was never punished by a jurisdiction.

Generally, when a state of economic dependency is characterized, the abusive exploitation is not proven, misdemeanor, a breach of the free competition on the market,[8] not being possible to deduct the existence of an abusive behavior only from the existence of a competition clause[9] or from eventual difficulties of supply.[10] Additionally, a firm that deliberately positioned itself in a state of economic dependency will no longer be able to claim the application of Article L 420-2 of the Commercial Code.[11] The aforesaid restrictive interpretation of Article L. 420-2 of the Commercial Code aims to protect the market and not the contracting partner in a position of economic dependence.

However, in the particular sector of the mass-market alimentary retailing, the Competition Authority has just proposed an analysis aiming at a softening of the conditions of characterization of a state of economic dependency, which might eventually lead to concrete developments.[12] Indeed, within the framework of the investigation leading to the aforesaid analysis, the Authority has been questioned by many economic players regarding the ineffectiveness of the current system, for acknowledgement, in the context of strengthening of the purchasing power of the distributors, and the abusive conducts implemented by the latter in their relations with their suppliers.

Acknowledging the cumulative application of the currently very strict conditions needed for the characterization of the state of economic dependency, the Authority proposed a redefinition of the state of economic dependency that implies a new formulation of Article L. 420-2 of the Commercial Code, focused particularly on a criterion that sticks to the capacity of the economic player to implement a replacing solution within a reasonable delay.

Furthermore, besides the prohibition of the abuse of dominant position and economic dependency, French competition law prohibits the conduct of below-cost prices/"excessively low" prices.

Article L. 420-5 of the Commercial Code bans a conduct based on a selling price imposed on the consumers that is "excessively low" compared to the production, transformation, and commercialization costs once the conduct has or may have as its effect to eliminate a market or to prevent access to a market by a firm or by one of its products.

The application of the provisions concerning excessively low prices is not limited to the conduct of a firm in a dominant position, contrary to the provisions

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[8]For an example: Court of Appeal of Montpellier, 25 October 2011, n° 10/0848.

[9]Court of Appeal of Paris, 23 February 2012, n° 08/15137.

[10]Court of Appeal of Nancy, 12 March 2014, n° 646/14.

[11]Court of Appeal of Paris, 4 December 2008, n° 05/23983.

[12]Competition Authority, Opinion n°15-A-06 of 31 March 2015, "relatif au rapprochement des centrales d'achat et de référencement dans le secteur de la grande distribution".

of Article L. 420-2.[13] However, the aforesaid Article has a very limited scope since it only aims at the selling of a good produced or transformed by the seller bound to the consumer. The evaluation of the abusive character is made in relation to the same calculation method used to track down predatory pricing.

5.1.2 List of Prohibited Practices in the Provision

Article L. 420-2 of the Commercial Code provides an indicative list of the practices likely to constitute an abuse of dominant position and/or of economic dependency.

At this regard are quoted the refusal to sell, a tie-in of sales (tying agreement) or discriminatory terms of sale, as well as the termination of established commercial relationships, for the sole reason that the partner is refusing to accept unjustified commercial terms or product range agreements. The aforesaid list is not restrictive; the Competition Authority and the court exercising jurisdiction can appreciate the constituent elements of the abuse.

In practice, the Competition Authority exercises broadly her faculty of judgement concerning the qualification of conducts likely to constitute an abuse of economic dependency and/or of dominant position.

5.1.3 History Concerning the Adoption of the Rule

Under French law, the abuse of a dominant position has been forbidden for 50 years.

Indeed, Article L. 420-2 of the Commercial Code finds its origins from Law n°63-628 of 2 of July 1963, which incorporated into the French law a regulation of the dominant position inspired by Article 86 of the CEE Treaty, nowadays codified in Article 102 of the Treaty on the Functioning of the European Union.

The term "abuse " of dominant position, created by practice, results from merger with the aforesaid European treaty.

The introduction has been done by the addition of a paragraph to the provisions inserted in Ordinance n°45-1483 of 30 June 1945 regarding the illegal agreements.

Ordinance n°86-1243 of 1 December 1986 about freedom of pricing and of competition amends completely the French competition law system, decriminalizing abuse of dominant position and adding the offense of abuse of economic dependence.

Article L. 420-2 of the Commercial Code has not been modified since Law n°2005-882 of 2 August 2005.

[13]See in particular, Competition Council, Decision n° 04-D-10 of the 1st\of April 2004, "relative à des pratiques de la société UGC Ciné-Cité mises en œuvre dans le secteur de l'exploitation des salles de cinéma".

5.1.4 Other Legal Rules Found in Other Areas

5.1.4.1 The Practices Restrictive of Competition of Article L. 442-6 of the Commercial Code: The French Cultural Exception

A number of practices likely to constitute an abuse of dominant position and/or economic dependency are equally forbidden *per se* by French regulation against practices restrictive of competition. So Article L. 442-6 of the Commercial Code draws up a list of abusive practices that involve the civil liability of their author without being necessary to research the anticompetitive object or effect of those practices on the market.

The notion of restrictive practices, peculiar of French law, is ambiguous insofar as the list has for its object to punish the commercial practices between commercial partners while being considered as a protection of the economic public order.

The introduction of the restrictive practices of Article L.442-6 of the Commercial Code ensues from the different abuses that were able to bear following the integration into French law of the ban of the resale at low costs/at a loss. The creation and the development of the text is also, and especially, the result of the ineffectiveness of the ban of the abuse of economic dependence. Furthermore, the combined intervention by the legislator on the double ground PAC and PCR modified the abuse of economic dependency and added in 1996 three texts concerning the abuses.

Indeed, in 1996, the law "Galland" established a loss leading threshold, below which the retailers could not sell their products.[14]

The threshold, represented by the price set out on the invoice, had a purely legal nature, and it did not take into account the economic reality of the commercial negotiations.

During the year 2000, the public authorities tried to remedy the practice called the retro-commission fees *marges arrière* by the distributors encouraged by the loss leading threshold.

So the law was introduced to lower the loss leading threshold and to include partially the retro-commission fees *marges arrières* on the calculation of the loss leading threshold and to strengthen the formalism on the relation between the suppliers and the distributors.[15]

However, the law did not have the expected results, and this is why law "Châtel" n° 2008-3 of 3 January 2008 lowered the loss leading threshold.[16]

Finally, the law of modernization of the economy of 4 August 2008 (called LME)[17] strived towards the objective of the law "Châtel" repealing the old Article L. 442-6 I 2° b) of the Commercial Code, which punished abuse of a relation of dependence and of purchasing and selling power, which assumed to characterize

[14]Law "Galland", n°96-588 of the 1st July 1996.

[15]Law "Dutreil", n°2005-882 of the 2 August 2005.

[16]Law "Chatel", n°2008-3 of the 3 January 2008.

[17]Law "LME", n°2008-776 of the 4 August 2008.

beforehand the position of the purchasing and selling power of the author of the suspicious practice on the market and the ban of the abusive discrimination under the old Article L. 442-6 I 1°, liberalizing also the negotiations between suppliers and distributors.

However, the largest freedom left to the economic actors was offset by the introduction of new commercial practices restrictive of the competition.

Between the most emblematic restrictive practices, there are as follows:

– *Obligations that create a significant imbalance in the rights and obligations of the parties (2°)*

Paragraph 2° of Article L. 442-6 of the Commercial Code engages the liability of his author and obliges him to repair the caused prejudice of the fact of "Subjecting or seeking to subject a trading partner to obligations that create a significant imbalance in the rights and obligations of the parties."

This new notion borrowed from consumer's law was added to Article L. 442-6 by the LME, aiming to punish the existence of an imbalanced relation of economic strength between the parties.

The Constitutional Council recognized the constitutional validity of Article L. 442-6 I. 2° of the Commercial Code, reminding that the notion of "significant imbalance" had been precised by judges, particularly by the European ones, and that it sufficiently made reference to the jurisprudence concerning consumer law to award to the notion a definition sufficiently clear and precise aiming to not misjudge Article 8 of the Declaration of rights of man and of the citizens.[18]

The imbalance is evaluated considering the general economy of the contract and its effects on the parties.

However, it was admitted that some clauses characterizing an imbalance, established by the absence of reciprocity or by the disproportion between the obligations of the parties, may be considered illicit independently from their effects.[19]

Consequently, it will not be necessary to demonstrate that the clause was effectively applied and/or that the aforesaid clause effectively has harmed one of the two parties to claim the liability of its author.

The definition of the outlining of this recent notion is still going on. At the time, what was punished only was the situation in which a commercial partner has deliberately implemented a contractual imbalanced relation in which it has taken advantage of the situation of legal or economic weakness. Moreover, the imbalance must be permanent, manifest, and indisputable,[20] and the sanction "has to be excluded only if the analysis of one clause, considered independently from the

[18]Constitutional Council, Decision of the 13 January, n° 2010-85 QPC, DARTY.

[19]Court of Appeal of Paris, 1st October 2014.

[20]Court of Appeal of Paris, 23 May 2013, n° 12/01166.

contract that contains it, allows concluding the existence of a significant imbalance."[21]

For example,[22]clauses imposed only for the benefit of one of the commercial partners that were written in general terms and without any limitation on their implementation were not allowed,[23] as well as termination clauses.[24]

– *Abruptly breaking off an established business relationship (5°)*

Article L. 442-6 I, 5°, of the Commercial Code bans the fact of "Abruptly breaking off an established business relationship, even partially, without prior written notice commensurate with the duration of the business relationship and consistent with the minimum notice period determined by the multi-sector agreements in line with standard commercial practices."

The text of Article L. 442-6 I, 5°, of the Commercial Code retains only the criteria of the duration of the business relationship for the evaluation of the "abruptly" character or not of the breaking, but the jurisprudence takes also into account other criteria such as the following:

- the importance of the business volume exchanged;
- the existence of an exclusivity agreement between the author of the breaking and the victim;
- the necessary time for the reconversion as a remedy for the disorganization resulting from the breaking;
- the regular progression of the turnovers;
- the state of economic dependency of the victim in relation to the author of the breaking.

The state of economic dependency of the victim of the breaking is consequently not a condition for the application of Article L. 442-6 I, 5°, of the Commercial Code but may be taken into consideration for appreciating the delay of a reasonable notice that should have been agreed upon.[25]

The notion of "abruptly" may ensue from the absence of a written notice or from the inadequacy of the given notice. Furthermore, the absence of motivation of the breaking is independent of the appreciation of the abruptly character or not of the

[21]Commercial Court of Évry, 7 February 2013, n° 2009/F00727, Min. de l'Économie, de l'Industrie et de l'Emploi c/ SNC SPAL Boissons.

[22]See also few recent Decisions: Commercial Chamber of Court of Cassation. 3 March 2015, Ministre de l'Economie c/PROVERA France et Ministre de l'économie c/Eurachan.

[23]Commercial Court of Paris, 20 May 2014, n° 2013/070793.

[24]Court of Appeal of Paris, 7 June 2013, n° 11/08674; Court of Appeal of Rouen, 12 December 2012, n° 12/01200.

[25]Court of Appeal of Paris, 17 May 2002, n°2000-21198.

breaking, except in the case of fault or of nonfulfillment by the other parties of their obligations.

However, a constituted abrupt breaking of business relationships may be charged to the author of the breaking itself even if he respects the delay of the standard commercial practices. The judges must analyze if the delay of the notice of breaking of established business relationships is sufficient for avoiding considering the breaking as “abruptly,” and if not, they must order the author to compensate the prejudice caused to the excluded society.

Finally, regarding the prejudice suffered by the victim of the breaking, the judges multiply mostly the medium gross margin for the number of months of notice not covered.[26]

5.1.4.2 The Structural Injunction

The LME of 4 August 2008 confided to the French Competition Authority the power to order structural injunction on the sector of the retail trade.[27]

Law n°2012-1270 of 20 November 2012 concerning overseas economic regulation was released and completed the powers of the French Competition Authority, following the example of the British Competition Authority allowing the Authority to deliver structural injunctions.

However, the aforesaid measures provided by Article L. 752-27 of the Commercial Code are applicable only to the overseas communities and departments.

The project of law for growth, activity, and equality of economic chances, called “Loi Macron”, suggests extending the power of structural injunction to the entirety of the French territory.

At the time of the present report, Article 11 of the project of Law Macron is not yet adopted.

5.1.4.3 Anticompetitive Local Practices

The Minister of Economy, through the officers of the DIRECCTE, has, since the regulation of 13 November 2008, carrying the modernization of the regulation of competition,[28] the power to deliver structural injunctions for anticompetitive practices with a local dimension. In this case, the qualifications are the same; it is the implementation that differs.

The procedure regards anticompetitive practices of all kinds, affecting one or more markets of local dimension and committed by a firm of which the individual turnover is less than EUR 50 million and less than EUR 200 million for the whole of liable firms and when the practices are not falling under Articles 101 and 102 of TFEU and only when the Competition Authority does not refer itself to the case.[29]

[26] Court of Appeal of Paris, 12 September 2012, RG n° 10/04096.

[27] Article L 752-26 of the French Commercial Code.

[28] Articles L.464-9 et R.464-9-1 à R.464-9-3 of the French Commercial Code.

[29] Amount resulting from the law of 17 March 2014.

Since 2008, 34 affairs had been concluded by transactions/injunctions pronounced by the Minister of Economy (62 transactions and 80 injunctions) for an individual maximum amount of the transaction on the rise (approximately EUR 30,000 between 2010 and 2012, EUR 47,000 between 2013 and 2014, and of EUR 75,000 between 2014 and 2015). The decisions pronounced concern firms, interest groupings, trade unions, and professional's associations, mainly in the presence of an exchange of information between competitors.

The amounts of the sanctions depend, according to the Administration, on the degree of implication and equally on the benefit obtained by the firm, author of the practice.[30]

The instructions of this file and the connections with the Competition Authority have been précised by Decree of 10 February 2009.[31]

5.2 Definition of "Abuse" Under the French Law

There does not exist a legal definition of abuse in French law. However, the definition of "abuse" accepted by the Competition Authority and by the French's supervision jurisdictions is the same one as that resulting from the constant jurisprudence of the European Courts. The notion of "abusive exploitation" is an objective notion that concerns the behaviors of an undertaking in a dominant position likely to influence the structure of the market.[32]

5.3 Exploitative Abuse and Exclusionary Abuse

There does not exist under the provisions of French law a distinction between exclusionary and exploitative abuses. Before, to establish a distinction between exclusionary and exploitative abuses, the French Competition Authority opposed the structural abuse (conduct of a firm in a dominant position harming the structure of competition) in the abuse of behavior (conduct of a firm that takes benefits from its dominant position). Now, the Competition Authority as the French supervision entity distinguished exclusionary and exploitative abuses for evaluating the abusive

[30]For a presentation of the assessement of the mentioned procedure see: Réactus of AFEC (Association Française d'Etude de la Concurrence) of 13 March 2014, "Actualité du droit des pratiques anticoncurrentielles de dimension locale", André Marie, Chef du bureau politique de la concurrence à la DGCCRF, www.afec.asso.fr.

[31]Decree n° 2009-140 of the 10 February 2009, concerning the application of the article L. 464-9 of the Commercial Code.

[32]ECJ, case 85/76, *Hoffmann-La Roche/Commission*, ECR 1979-461, pt 91; ECJ, case C-62/86, *AKZO/Commission*, ECR *1991 I-3359,* pt 69; ECJ, case C-52/07, *Kanal 5 et TV 4*, ECR *2008 I-9275,* pt 25; CJEU, case C-52/09, *TeliaSonera Sverige*, ECR *2011 I-527,* pt 27; CJEU, case C-457/10 P, *AstraZeneca AB/Commission*, pt 74.

nature, referring to the decisions pronounced by the European courts.[33] The Competition Authority précised, through the advice of 14 December 2010, the criteria to distinguish between the exclusionary and exploitative abuses.[34]

Firstly, concerning exclusionary abuses, the Authority considered that these were ranked: “This category traditionally includes strategies that a company in a dominant position pursues to try to discourage, delay or eliminate competitors through methods other than competition on merit: raising artificial barriers to entry, coupling products or services put on the market, predatory pricing, excessive customer retention policy, lock-in, exclusivities, etc.”[35]

Secondly, the Competition Authority added: “In addition to these so-called crowding-out practices, which competition authorities examine as a priority, so-called abuses of operation also contravene competition law; these consist in a company disrupting the operation of other markets through exorbitant conduct (excessive prices, unjustified discrimination, etc.).”[36]

The ranking of the abuse of dominant position by type of abuse, exposed at Sect. 5.5.1 Table 5.8, based on the decisions of punishment pronounced by the Competition Authority during the last 5 years, demonstrates that not one decision of punishment was pronounced concerning the notion of exploitative abuse.

The national courts align themselves with the jurisprudence of the Competition Authority and of the European ones concerning the distinction between exclusionary and exploitative abuses.[37]

5.4 Price-Based Abuse and Non-price-Based Abuse

Without establishing an automatic distinction between price-based and non-price-based abuses (essentially a doctrinal distinction), the Competition Authority bans different abusive price-based practices of a firm in dominant position:

- excessive pricing;[38]
- price-fixing agreement;[39]

[33]See for an example: Competition Authority, Opinion n° 14-D-02 of the 20 February 2014 about “des pratiques mises en œuvre dans le secteur de la presse d’information sportive”, pt. 114.

[34]Competition Authority, Opinion n° 10-A-29 of the 14 December 2010, about “le fonctionnement concurrentiel de la publicité en ligne”.

[35]Competition Authority, Opinion n° 10-A-29 of the 14 December 2010, about “le fonctionnement concurrentiel de la publicité en ligne”, pt. 299.

[36]Competition Authority, Opinion n° 10-A-29 of the 14 December 2010, about “le fonctionnement concurrentiel de la publicité en ligne”, pt. 331.

[37]For an example: Court of Appeal of Paris, 18 December 2014.

[38]Competition Council, décision n° 07-D-13 of the 6 of April 2007 about “de nouvelles demandes de mesures conservatoires dans le secteur du transport maritime entre la Corse et le continent”.

[39]Competition Council, décision n°99-D-45 of the 30 of June 1999 about “des pratiques constatées dans le secteur du jouet”.

- price discrimination;[40]
- margin squeeze;[41]
- below-cost pricing/excessively low prices;[42]
- fidelity rebate;[43]
- predatory pricing.[44]

Beyond these types of practices strictly identified by the competition authorities, the French Competition Authority punishes equally some abusive price-based conducts that do not match those categories. So the Authority punished in 2012 two operators of mobile phones for having implemented practices of "price discrimination" that ensued from the commercialization of unlimited call offers of the clients of those operators toward many numbers of their own network.[45] Considering that the two operators hold a dominant position on their own market of call termination, the Competition Authority judged that this differentiation between *on-net* and *off-net* calls had the potential effect to create networks and "snowballing" effects likely to exclude the competitors on the market. The national jurisdictions follow the decisional practice of the Competition Authority concerning the price-based and non-price-based abuses of an undertaking in a dominant position and especially for the practices strictly identified by the ADCL.[46]

Stricter rules than those contained in Article 102 TFEU in the sense of Regulation 1/2003 Article 3(2) exist.

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[40]Competition Council, décision n°09-D-04 of the 27 of January 2009 about "des saisines de la société les Messageries Lyonnaises de Presse à l'encontre de pratiques mises en œuvre par le groupe des Nouvelles Messageries de la Presse Parisienne dans le secteur de la distribution de la presse".

[41]Competition Authority, décision 09-D-24 of the 28 of July 2009 about "des pratiques mises en œuvre par France Télécom sur différents marchés de services de communications électroniques fixes dans les DOM".

[42]Competition Authority, décision n°14-D-02 of the 20 February 2014, about "des pratiques mises en œuvre dans le secteur de la presse d'information sportive".

[43]Competition Council, décision n°07-D-08 of the 12 of March 2007 about "des pratiques mises en œuvre dans le secteur de l'approvisionnement et de la distribution du ciment en Corse (montants des sanctions réformé par la Cour d'appel de Paris)".

[44]Competition Council, décision n°04-D-17 of the 11of May 2004, about "la saisine et à la demande de mesures conservatoires présentées par les sociétés AOL France SNC et AOL Europe SA".

[45]Competition Council, décision n°12-D-24 of the 13 December 2012, about "des pratiques mises en œuvre dans le secteur de la téléphonie mobile à destination de la clientèle résidentielle en France métropolitaine". This Decision was appealed to the Court of Appeal of Paris (Court of Appeal of Paris, 19 Hune 2014, No 2013/01006) that stayed the proceeding and asked the European Commission for an opinion.

[46]For an example: Commercial Chamber of the Court of Cassation, 3 March 2009 – n° 08-14.435, n° 08-14.464; Court of Appeal of Paris, 20 December 2012, n° 2011/05667 Court of Appeal of Paris, 20 December 2012, n° 2011/05667; Commercial Chamber of the Court of Cassation, 6 January 2015, 13-21.305 13-22.477 (Orange Caraïbe); Court of Cassation, 9 March 2009, n°08-14.435.

Article L. 420-2 paragraph 2 of the Commercial Code punishes the abusive exploitation of a state of economic dependency, which cannot be considered as a rule stricter than the ones concerning the abuse of dominant position.

Indeed, this anticompetitive practice, particularly in French law, needs the demonstration of difficult conditions for its implementation and may be claimed at the same time as the abuse of dominant position.

Finally, contrary to European law, Article L.420-4 of the Commercial Code contemplates the conditions under which a firm may be exempted from an abuse of dominant position.

The Article specifies particularly practices that are not included in the provisions of Article L.420-2 of the Commercial Code (1) that result from the implementation of a statute or regulation adopted in application thereof or (2) for which the authors can prove that they have the effect of ensuring economic progress. However, this provision is barely implemented due to its almost systematic rejection by the Competition Authority. In addition, even if it is not applied, Article L 420-5 of the Commercial Code previously mentioned is also a matter of the right of the PAC.

5.5 Enforcement

5.5.1 Decision-Making Practice[47]

5.5.1.1 Analysis of the Decisions of the Competition Authority Regarding Unilateral Abuse of Dominant Position

The prohibition of the anticompetitive conducts called “unilateral” calls to the notion of abuse of dominant position of Article L. 420-2 of the Commercial Code, assuming that a firm in a situation of dominance on the relevant market abuses alone of this position. This assumption is distinguished from the case of an abuse of dominant position called “collective.”

It is here going to be analyzed, from the source, the decisions pronounced by the Competition Authority (below the “Authority”)—public enforcement—and more particularly, where it is possible, the cases of unilateral abuse of a dominant position. We will compare these data with those of other anticompetitive practices (below PAC) that we already picked out.

Table 5.1 and Fig. 5.1 present quantitatively the cases submitted to the evaluation of the Competition Authority, according to the cited anticompetitive conducts during the last 5 years.

Interestingly, as a preliminary point, it is remarkable that not all the practices alleged result in an investigation on the merits, reason why the total amount of the

[47]The whole statistic study, both concerning chart and graphics, was realised on one side using quantified data, available for consultation on the Reports of the Competition Authority, and on the other side analysing the judgements published on the Official journal of Competition, of Consumption and of Repression of frauds, if not otherwise explicitly stated.

Table 5.1 Number of affairs resulting in a decision of the Competition Authority in relation to the number of affairs conducted on a judgment on the merits

Years	Abuse of dominant position	Anticompetitive agreements	Abuse of economic dependency	Excessively low prices	Total of affairs conducted on the merits
2014	9	10	5	1	20
2013	12	14	7	1	23
2012	13	19	6	2	29
2011	5	14	5	0	20
2010	19	22	8	0	39

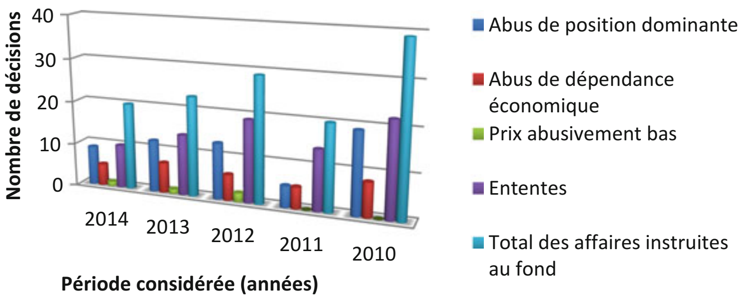

Fig. 5.1 Graph representing the number of affairs resulting in a decision of the Authority in relation to the number of affairs conducted on a judgment on the merits

four mentioned practices (abuse of dominant position, abuse of economic dependence, excessively low prices, and anticompetitive agreements) is not equal to the number of affairs conducted.

The first statement that can be made is that a decreasing number of cases seem to be conducted by the Authority. On the whole, the proportion of each anticompetitive practice remains globally stable, except for the abuse of economic dependency of which the numbers stay approximately constant despite the decreasing number of cases. The decisions questioning a pretended anticompetitive agreement (on purple) are quantitatively the most important compared to other practices for each one of the years considered. The legal foundation of the prohibition of the anticompetitive agreements is also more often cited than the abuse of dominant position, either unilateral or collective. We remark that furthermore during 2010, the activity of the Authority was particularly important, and this might be explained by the will of the Authority to discharge the stock of the oldest files.

Once the basis of the PAC is cited, it can be determined under what proportions the Competition Authority pronounces a sanction. We can try to estimate this by using Table 5.2.

Statistically, a firm striving towards the realization of an abuse of dominant position is more likely to benefit from a nonpunishing decision than a firm suspected to have been involved in an anticompetitive agreement: the risk is almost three times

Table 5.2 Proportion of cases effectively sanctioned by the Competition Authority according to the cited PAC

Years	Abuse of dominant position (%)	Anticompetitive agreements (%)	Abuse of economic dependency (%)	Excessively low prices (%)
2014	11.1	30.0	0.0	0.0
2013	33.3	35.7	0.0	0.0
2012	23.1	42.1	0.0	0.0
2011	0.0	42.9	0.0	0.0
2010	5.3	50.0	0.0	0.0
Average	14.6	40.1	0.0	0.0

Table 5.3 Comparison between unilateral and collective abuse of a dominant position, cited in front of the Competition Authority, followed by an estimation on percentage (in %)

Years	Unilateral abuse of a dominant position claimed	Unilateral abuse of a dominant position sanctioned	Percentage of the abuse of dominant position sanctioned (%)	Collective abuse of a dominant position claimed	Collective abuse of a dominant position sanctioned	Percentage of the collective abuse of a dominant position sanctioned (%)
2014	5	0	***0.0***	4	1	***25.0***
2013	9	2	***22.2***	3	2	***66.7***
2012	12	2	***16.7***	1	1	***100.0***
2011	5	0	***0.0***	0	0	***0.0***
2010	17	1	***5.9***	2	0	***0.0***

more important. Interestingly, not any judgment regarding the abuse of economic dependency or the prices excessively low was rendered under the considered period.

Specifically, through Table 5.3, we can evaluate the treatment of the abuse of dominance distinguishing the case in which they are evaluated individually or collectively.

The unilateral abuses of dominant position are more often cited than the collective abuses (for each year) but proportionally less punished.

5.5.1.2 Analysis of the Court Ruling Regarding Unilateral Abuse of Dominant Position

In France, the civil, commercial, and administrative courts (*cf.* Sect. 5.2) have competence regarding competition law in many ways, but not having official data concerning each one of the competent courts, the present analysis would be reduced to the study of the appeals in front of the Appeal Court of Paris (Chambers 5–7) in *public enforcement* based on Article R. 420-5 of the Commercial Code (section "Analysis of the Court Ruling Regarding Unilateral Abuse of Dominant Position"), of the appeals to the *Cour de cassation* regarding those decisions (section "Analysis of the Supreme Court Judgments Ruled in Public Enforcement"), and finally of the claims started in front of the civil and commercial jurisdictions on *private enforcement* according to Articles L. 420-7, R. 420-3 and -4 of the Commercial Code (section "Analysis of the Judgments Ruled in Private Enforcement").

Analysis of the Court of Appeal of Paris's Judgments Ruled in Public Enforcement

Table 5.4 and Fig. 5.2 illustrate the quantity of pronounced judgments by Chamber 7 of Pole 5 of the Court of Appeal of Paris against a judgment of the Authority during the last 5 years.

Overall, the number of the judgments pronounced by the Court of Appeal of Paris regarding the claims against the judgments of the Authority was stable during the considered 5 years, and this even if the volume of cases treated by the Authority in the same period was decreasing. So we can deduce that there is an intensification of the appeals aiming to question the decisions of the Authority from 2013. Instead, it is remarkable the weakening of the appeals during the years 2011 and 2012, which is in part explained by the fall of the number of affairs of 2011 claimed in front of the Authority.

Moreover, it seems that the volume of judgment concerning the unilateral abuse of a dominant position (on red) is always less than or equal to the volume of judgments pronounced regarding anticompetitive agreements (on blue). On average, the volume of affairs treated in front of the Court of Appeal concerning

Table 5.4 Number of judgments of the Court of Appeal of Paris on *public enforcement*

Years	Judgments concerning an anticompetitive agreement	Judgments concerning a unilateral abuse of dominant position	Judgments concerning a unilateral abuse of dominant position	Judgments concerning other types of conducts
2014	7	7	1	0
2013	9	4	0	1
2012	5	1	0	0
2011	5	2	0	0
2010	12	7	1	0

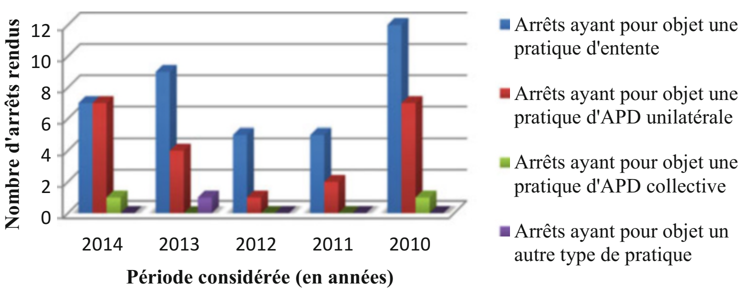

Fig. 5.2 The graph represents the judgments of the Court of Appeal of Paris regarding *public enforcement*

anticompetitive agreements gets closer to the number of affairs concerning the abuse of dominant position.

Analysis of the Supreme Court Judgments Ruled in Public Enforcement

Table 5.5 and Fig. 5.3 illustrate the number of judgments pronounced by the Cour de cassation concerning a decision against a judgment of Chamber 7 of Pole 5 of the Court of Appeal of Paris, pronounced on an appeal against a decision of the Competition Authority during the last 5 years.

In an overall analysis, the volume and the proportion of considered PAC stay stable during those 5 years, with two exceptions: in 2011, there is a peak of judgments of the *Cour de cassation* regarding anticompetitive agreements, and in 2014 even not one judgment of the *Cour de cassation* was pronounced regarding the abuse of dominant position. The peak of judgments concerning anticompetitive agreements in 2011 (on blue) is very likely to be the consequence of the peak that was recorded in 2010, Fig. 5.1 (d) concerning the judgments pronounced by the Court of Appeal of Paris. The number of judgments pronounced by the *Cour de cassation* concerning the unilateral abuse of a dominant position was also relatively stable but only between 2010 and 2013 (between 2 and 4 affairs) because no judgement was pronounced on this subject in 2014. Concerning the collective abuse of dominant position, only one decision was pronounced in 2013.

Table 5.5 Number of powers resulted on a judgment of the Supreme Court about *public enforcement*

Years	Judgments concerning an anticompetitive agreement	Judgments concerning a unilateral abuse of dominant position	Judgments concerning a unilateral abuse of dominant position	Judgments concerning other types of conducts
2014	4	0	0	0
2013	4	2	0	1
2012	3	2	0	0
2011	9	2	1	0
2010	6	4	0	0

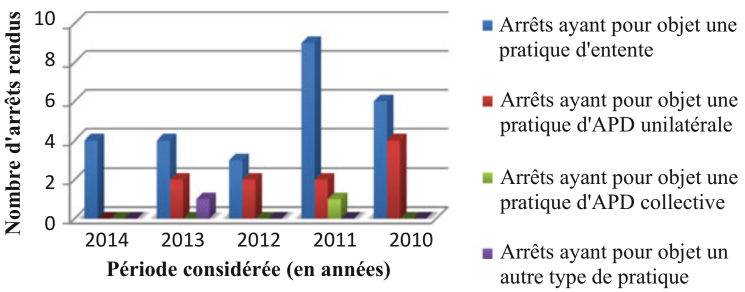

Fig. 5.3 Graph representing the number of judgment of the Cour de cassation regarding *public enforcement*

Table 5.6 Proportion of judgments pronounced concerning *private enforcement*

Years	Judgments concerning an anticompetitive agreement (%)	Judgments concerning an abuse of dominant position (%)	Judgments concerning an abuse of economic dependence (%)	Other types of judgments (procedure, competence, applicability, etc.) (%)
2013	50	50	0	0
2012	0	25	38	38
2011	29	29	14	29
2010	50	0	0	50
2009	0	50	33	17

Source: Study realized by "AFEC Jeunes" in 2014[48]

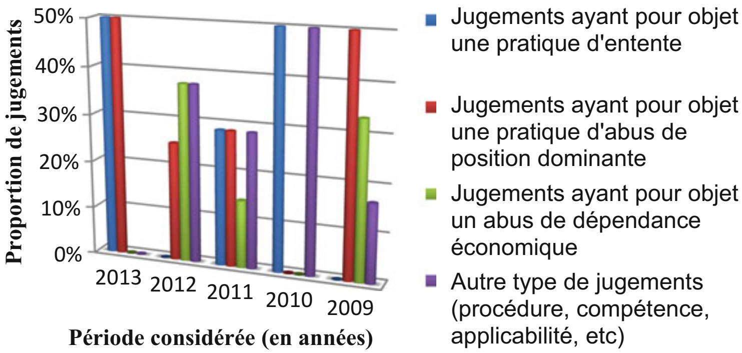

Fig. 5.4 Graph representing the proportion of judgment pronounced on *private enforcement*. *Source*: Study realized by "AFEC Jeunes" in 2014

Analysis of the Judgments Ruled in Private Enforcement

Table 5.6 and Fig. 5.4 illustrate the proportion of judgments pronounced by the jurisdictions of first degree (*Tribunaux de Grande Instance and Tribunaux de Commerce*) during the last 5 years. There is no official database available in France on this matter, and that is why we had to use a private study, which is not exhaustive.

The first remark that could be made regarding those data is the very weak quantity of judgments available (while, as it would be shown at the following point, the judgments of the Court of Appeal are more numerous). For this reason,

[48]Disclaimer: Those quantified data are the result of an empiric study realised in 2014 by the "Association Française d'Etude de la Concurrence Jeunes", based on the judgements published and available on the web site of the main French legal editors. This empiric study doesn't claim to be comprehensive and to represent the whole of the judgements given by French jurisdiction about anticompetitive conducts. However, we believe that the data of the study, might be a first base for a future reflection.

Table 5.7 Number of judgments pronounced by the Court of Appeal on *private enforcement*

Years	Judgments concerning an anticompetitive agreement	Judgments concerning an abuse of dominant position	Judgments concerning an abuse of economic dependence	Other types of judgments (procedure, competence, applicability, etc.)
2013	29	6	1	10
2012	15	5	6	4
2011	10	8	5	4
2010	4	4	6	4
2009	22	5	6	3

Source: Study realized by "AFEC Jeunes" in 2014

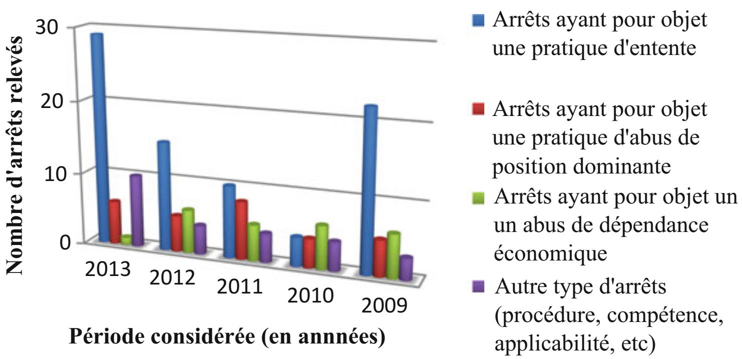

Fig. 5.5 Graph representing the number of the judgments pronounced by the Court of Appeal on *private enforcement*. *Source*: Study realized by "AFEC Jeunes" in 2014

the representative value of this data being weak, we chose to represent them in percentage.

Overall, the anticompetitive agreements and the abuse of dominant position are more often in conjunction with the affairs concerning the abuse of economic dependence, which seems to be expressed more in front of the courts of first degree than in front of the Authority. Likewise, the affairs concerning anticompetitive agreements (on blue) and of abuse of dominant position (on red) are more frequent in an equal proportion.

The analysis continues with the study of Table 5.7 and of Fig. 5.5, which point out the judgments pronounced by the Court of Appeal on *private enforcement*.

At first sight, two peaks appear clearly, in 2009 and 2013, representing the cases cited in front of the Court of Appeal concerning anticompetitive agreements. This observation tends to put into perspective the previous comments (concerning Table 5.6 and Fig. 5.4) as, once again, the conducts of anticompetitive agreements are more frequently cited than the ones of abuse of dominant position.

For the rest, it might be remarked that the conducts of economic dependency are sufficiently regularly cited within the claims of the parties, affairs of 2009 and 2012 (and a little less in 2013), which correspond approximately to the cases collected in front of the Competition Authority (cf. Table 5.1 and Fig. 5.1).

The study realized by "AFEC Jeunes" does not present a sufficient number of judgments of the *Cour de cassation* concerning the PAC, so the point will not be tackled in our analysis.

5.5.1.3 Proportion of Exploitative and Exclusionary Abuses in the Cases Decided by Competition Authority and the Courts

The distinction between exploitative and exclusionary abuses, as clarified above (*cf. 3. Exploitative Abuse and Exclusionary Abuse)*, is not easy to qualify in practice, insofar as there does not exist a detailed study on the subject realized in France.

Aiming to answer this question, we analyzed the types of conducts of abuse of a dominant position punished by the Authority during the last 5 years (cf. Table 5.8).

Preliminarily, it is interesting to notice that the terms might be misleading on the decision of the Competition Authority. The Authority recalls often, if not automatically, the definition of abuse stated by the judgment *Hoffmann-La Roche* (mentioned above), which mentions an "abusive exploitation" of the position for which the firm is incriminated. However, it does not necessarily concern the exploitative abuse intended *stricto sensu*. Instead, in certain respects, the Authority qualifies and makes precise the case where the abuse is likely to be an abuse leading, or potentially leading, to exclusionary effects.

Generally, it is more difficult to track down the exploitative abuse in the decisions of the Authority. For example, in Decision n°13-D-20 of 17 December 2013 concerning the conducts of EDF on the sector of services intended for the production of photovoltaic electricity, the Authority evaluated that the subsidiary of EDF exploited the trademark and the notoriety of EDF, guaranteeing to itself a consistent advantage on competition. However, the Authority does not clearly state that this conduct constitutes an exploitative abuse. Instead, according to the Authority, the support given by EDF to its subsidiary society leads to a risk of exclusionary effects, of marginalization or distortion of the competition game: this conduct was qualified as an abuse of dominant position.

Table 5.8 Ranking of the abuses of dominant position by type of abuse based on the decisions of punishment of the Competition Authority

Years	Decision of the Authority	Exploitative abuse	Exclusionary abuse
2014	14-D-08	Ø	14-D-08
2013	13-D-21	Ø	13-D-21
2013	13-D-20	Ø	13-D-20
2013	13-D-11	Ø	13-D-11
2013	13-D-06	Ø	13-D-06
2012	12-D-25	Ø	12-D-25
2012	12-D-24	Ø	12-D-24
2012	12-D-06	Ø	12-D-06
2011	Ø	Ø	Ø
2010	10-D-39	Ø	10-D-39

In accordance with Table 5.8, clearly the Authority did not pronounce any judgment concerning the exploitative abuse during the last 5 years; meanwhile, in each one of those decisions was characterized an exclusionary abuse. For those reasons, it does not seem possible to truly identify the exclusionary and the exploitative abuses in France. The exclusionary abuse is the priority for the competition Authorities.

5.5.2 Competent Courts and Authorities

The French legislator assigns the litigation concerning Article L. 420-2 or L.442-6 to special courts or authorities. The prohibitions on resale at a loss and imposed resale prices are meanwhile within the jurisdiction of the criminal courts of general jurisdiction.

Article L.420-2 of the Commercial Code states:

> It is proper to distinguish the sanction contemplated for the abuse of dominant position and the one of the abuse economic dependency under the civil litigation.

The Competition Authority (ADLC) is an administrative and independent authority that has the power to record a competition "infringement" and to sanction or exempt it. The General Direction of competition, consumption, and repression of frauds conducts also competition investigations. The ADLC can pronounce injunctions and fines that cannot exceed the 10% of the amount of turnovers of the exercise preceding the one during which the conducts were implemented, and the fine has to be proportional to the gravity of the alleged facts, to the importance of the damage caused to the economy and to the situation of the firm or organism punished, or of the group from which the firm comes from, and to the potential reiteration of the conduct. These sanctions are determined individually for each firm or organism sanctioned, and each one is motivated. The Authority can also adopt conservative measures or even decision giving mandatory effects to the engagements signed by the firms.

Concerning the so-called *PAC locales,*[49] the Ministry of Economy can commend to the firms to put a term to the recorded anticompetitive conducts and to pay to the State an amount that may rise to EUR 150,000 within the limit of 5% of their turnovers in France. If the firm refuses to obey to the injunctions and/or transactions, the case is transmitted to the Competition Authority.

According to Article L.420-6 of the Commercial Code, a criminal court can also be referred and can punish any physical person that would have taken a personal and determinant part into the conception, the organization, or the implementation of the conducts relevant under Article L. 420-2. However, these provisions are not

[49] In reason of the peculiarity of those practises, see above.

applied to abusive practices. No transmission of a case has occurred to date according to our information.

Sectoral regulators such as the *Autorité de régulation des communications é lectroniques et des postes*, the *Commission de régulation de l'énergie*, the *Conseil supérieur de l'audiovisuel* have the power to sanction in a situation that sometimes might concern the abuse of dominant position or of economic dependence. The risks of having contradictory decisions delivered by the Authority or by the sector-based authorities are limited through the existence of bridges provided by the legislator (procedures of reciprocal consultations).

Moreover, the Council of State[50] estimated that it "Must be respected, during the procedure of punishment in front of a regulator authority, the guarantees imposed by the Article 6 of the European convention for the protection of human rights and fundamental freedoms that aim to guarantee, from the beginning of the procedure, its equitable character, by the respect of the contradictory debate."[51]

The Constitutional Council clarified the conditions within which the Authorities of regulation can exercise the power of sanction, in respect of the principle of impartiality.[52]

The decisions of the Authority can be subjected, within a period of 1 month, to an appeal for quashing or reforming it, in front of the Court of Appeal of Paris.[53] The appeals do not have suspensive effects. However, the first president of Court of Appeal of Paris can order a stay of execution if the decisions lead to excessive consequences or if a new fact intervenes.

The judgments of the Court of Appeal can be the subject of the power of cassation within a period of 1 month following their notification. The power has no suspensory effects. Article *L. 464-8* allows the president of the Competition Authority to form an appeal in the face of the *Cour of cassation* against the judgment of the Court of Appeal of Paris, which quashed or reformed a decision of the Authority.

If the Authority is referred to in a claim on protective measures, its decision can be the subject of an appeal within a maximum period of 10 days after the notification.[54] The Court of Appeal of Paris decides then within a period of 1 month.

The ADLC is not competent to judge claims for quashing administrative acts, as are competent the administrative courts, as for the claims of damages and interests or the claim of annulment of contract of private law, that are submitted to the civil courts.

The conduct mentioned by Article L. 420-2 can be the object of an action for compensation or injunction/cessation by the victim. The private action can be started in the presence of a definitive decision by the competition authority who verifies the violation/infringement of competition law (*follow-on* action) or in the same time then the public action (parallel actions) or even without that any

[50]"Conseil d'État".

[51]Council of State, 27 October 2006, M. Parent n°276069 n°277198 and n°277460.

[52]Constitutional Council, 2013-331, QPC of 05 July 2013.

[53]Commercial Code, art. L. 464-8.

[54]Commercial Code, art. L. 464-7.

competition authority pronounced a previous decision concerning the conducts or, conversely, before any decision of that kind intervened. (*stand-alone* action).

Article L. 420-7 of the Commercial Code stated that the specialized court of civil law is engaged to know of the "disputes relating to application of the rules laid down in Article s L. 420-1 to L. 420-5 and Article s 81 and 82 of the Founding Treaty of the European Community, and those in which the said provisions are invoked." Additionally, eight courts of appeal and eight commercial courts (Bordeaux, Fort-de-France, Lille, Lyon, Marseille, Nancy, Paris, Rennes) have gained since the 1st of January 2006 an exclusive competence concerning anticompetitive conducts. The Court of Appeal of Paris is the only court invested with the power to decide on the appeals formed against the judgments concerning litigation on the enforcement of competition law.

In French law, the judgments pronounced by the Competition Authority do not benefit any force and effect or "res judicata" from the judgment of the civil or administrative jurisdictions. However, an exception concerning class action is exists.

From the law "Hamon" of 17 March 2014, Article L. 423-1 of the Consumer Code stated: "An association for the defence of consumers that is representative at the national level and approved in accordance with Article L. 211-1 may bring an action before a civil jurisdiction in order to obtain redress for individual damage suffered by consumers placed in an identical or similar situation and having as its cause a failure by one or the same professionals to comply with their legal and contractual obligations: With respect to the sale of gods or the supply of services; Or when such damages result from anticompetitive practices as defined in Title II of Book IV of the Commercial Code or Article s 101 and 102 of the Treaty on the Functioning of the European Union."

According to Article L. 423-17 of the Consumer Code, "the professional's liability can only be held within the framework of the action mentioned at the Article L 423-1 that on the basis of a decision delivered against the professional by the national of European competent authorities or court, acknowledging the infringements and no longer likely to be the subject of an appeal on the part relating to the finding of the infringements. In this case the infringements of the professional are considered indisputable established for the application of the Article L 423-3."

The law establishes also the *follow-on* action, subjecting it to the exhaustion of the legal remedies, as well as the primacy of *public enforcement*. This primacy does not prevent, however, the introduction of a class action before a decision of the Competition Authority becomes definite, and the referred judge must only stay to decide, as long as the decision of the Competition Authority is not definitive. Furthermore, the appeals blocking the judgment on the liability are the ones that are based on the "establishment of an infringement" and not the one that, for example, would be based only on the determination of the sanctions in case of nonobjection of the grievance.

Article L.442-6

The entry into force on 1 December 2009 of Decree n° 2009-1384 of 11 November 2009[55] codified in Article D.442-3 of the Commercial Code confers the litigations concerning Article L.442-6 of the Commercial Code upon the same specialized courts as those in regard to anticompetitive conducts. The specialized courts have an exclusive competence at the moment where the plaintiff based his demand, even subsidiary, on the provisions of Article L.442-6 of the same code; the Court of Cassation considered that "the determination of the competent Court is not subjected to the test of the legitimacy *of the claims*."[56]

Voidance/nullity, refund, and amendment/redress are civil sanctions that may be claimed by the victims. The victims may rather appeal to the MARL, and particularly to the arbitration. The *Cour de cassation* clearly stated that Article L.442-6-I-5° of the Commercial Code does not foil the application of an arbitration[57] or of a mediation clause at the condition, however, that it would stay within the framework of its object.[58]

To compensate the encouragement of the latter, the legislator allowed the intervention of the public authorities.

Article L.442-6 III confers upon the Ministry of Economy, the state prosecutor, and the president of the Competition Authority[59] the power to act in front of the tribunal to stop the conducts restrictive of competition, record the nullity of illicit clauses or contracts, order refund of the undue payments done in application of void clauses or repair the damages that resulted from this, and pronounce a civil fine against the author of the aforesaid conducts.

The Court of Cassation[60] and then the Constitutional Council[61] and the European Court of Human Rights[62] ruled that the Ministry exercises an independent action and not a representative action.

So the Ministry can seek the payment of the amounts on behalf of the contractors that do not, or do not want to, claim them. These amounts do not belong to him.

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[55] Official Journal, 15 November 2009, p. 19761.

[56] Chambre Commerciale of the Court of Cassation, 26 March 2013, n°12-12685.

[57] 1st Civil Chamber of the Court of Cassation, 8 July 2010, n° 09-67013, Sté Doga c/ Sté HTC; 1st Civil Chamber of the Court of Cassation, 25 June 2014, n° 13-23669.

[58] Chambre Commerciale of the Court of Cassation, 12 June 2012, n°11-18852.

[59] In the case, it gave rise to an action of the president of the Competition Authority based on the article L. 442-6 of the Commercial Code and in which intervened the Ministry of Economy, being contested the faculty of the President of the Competition Authority to lodge the appeal. It was judged that, in reason of the fact that the President of the Competition Authority can behave on the basis of the article L. 442-6 III of the Commercial Code, he can use the legal remedies as the one stated on the article R. 442-1, and consequently lodge the appeal, in spite of the fact the second paragraph of the article L. 442-6 III, that enumerates the request that can be formulated, applies only to the Ministry and to the State Prosecutor (Court of Appeal of Caen, 1st Civil Chamber, 26 mars 2013, Président de l'ADLC c/ société ..., RG 11/03883, appeal formed against this judgement).

[60] Chambre Commerciale of the Court of Cassation, 8 July 2008, n° 07-16761.

[61] Court of Cassation, 13 May 2011, n°2011-126 QPC.

[62] ECHR, 17 January 2012, n° 51255/08, Galec contre France.

They are delivered to an account of the Public Treasure, and the victims can claim them from there.[63]

The Constitutional Council, however, introduced a reservation: it is necessary that the victim is being informed of the introduction of the action.[64] This reservation is not accepted by the CEDH. The judge of merits applies the reservation of the judges of the Constitutional Council in a strict way, searching each time if the information was acknowledged by the third party hurt.[65]

To the aforesaid action granted to the Minister of Economy, it must be added the power conferred upon the agents appointed under the conditions stated in paragraph II of Article L. 450-1 of the Commercial Code to research and to record the violations or the breaches of obligations stated in Title IV of Book IV and to order, after a contradictory procedure, all professionals, giving them a reasonable period, to comply with their obligations and to stop all illicit actions and remove all illicit clauses. By virtue of paragraph II of Article L. 465-1, when the professional did not defer under the given period an injunction that was notified to him by reason of a violation or a breach that is liable to be punished with an administrative fine, the administrative Authority charged of competition and consummation might pronounce on behalf of him an administrative fine, which amount cannot exceed EUR 3,000 for a physical person and EUR 15,000 for a legal entity. Furthermore, the law *Hamon* submits numerous breaches stated in Title IV of Book IV of this new administrative fine, allowing each time a maximum amount of EUR 75,000 for a physical person and of EUR 375,000 for legal entities; those fines might be cumulative with the ones pronounced for not having respected the injunction.

Finally, it is desirable to notice the particular role of the Commission in examining the commercial conducts (CEPC). Even if it does not have a power of punishment under the strict sense of the term, the Commission created by Law of 15 May 2001 aims to give advice and recommendations concerning the questions, the commercial or public documents, and the conducts concerning business relationships between producers, suppliers, and resellers that are submitted to it.

The Commission can also decide to adopt guidelines regarding the question based particularly on the development of the good commercial conducts. It has a role of regular observation of these practices.

5.5.3 Approach Followed by Competent Courts and Authorities

The ADLC does not publish guiding lines for the evaluation of the abuse or even of the anticompetitive conducts in general. In fact, the *document cadre pour soutenir*

[63]Court of Cassation, 13 May 2011, n°2011-126 QPC; TC Paris, 14 May 2013, Société ... c/ Ministre, RG n°12/12993 (appeal formed against this judgement).

[64]Court of Cassation, 13 May 2011, already mentioned.

[65]Court of Appeal of Nîmes, 26 January 2012, RG 09-05026; Court of Appeal of Paris, 20 November 2013.

les programmes de conformité dans les entreprises does not concern the notion of the abuse but only its sanction.

The thematic study elaborated by the ADLC concerning local market, included in the report of 2013, contemplates many cases of abuse of dominant position in this particular context.

Furthermore, it might be noticed that the French courts do deviate scarcely from their evaluation of the conducts referred to by Article L.420-2 of the Commercial Code, "Communication from the Commission—Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings" published by the European Commission on 24 February 2009. However, contrarily to European law, French law stipulates exemptions for the abuse of dominant position.

Article L.420-4 of the Commercial Code enforces a system of exemption identical for all the anticompetitive conducts. The aforesaid Article states that "The following practices are not subject to the provisions of Article s L.420-1 and L.420-2: 1° Those that result from the implementation of a statute or regulation adopted in application thereof."

The aforesaid exemption is rarely accepted, and it is applied only if the recorded conducts are the direct and necessary consequence of the cited text.[66]

Article L. 420-4, I, 2o, exempts only the conducts "for which the authors can prove that they have the effect of ensuring economic progress, including by creating or maintaining jobs," and under Article L. L. 420-4,II, "Certain categories of agreement or certain agreements, in particular when they are intended to improve the management of small or medium sized undertakings, may be recognized as meeting these conditions by a decree adopted following a favourable opinion from the Competition Authority." However, it should be noted that this last possibility of exemption was applied with parsimony.

It would be desirable, within a concern of foreseeable solutions and legal security, certitude that the Competition Authority would publish such types of guidelines for the evaluation of the anticompetitive practices.

Nevertheless, aiming to clarify the approach of the abuse on the market, it is necessary to revise the organization of the French law, particularly the articulation between Articles L.420-2 and L.442-6 of the Commercial Code and complementarily between civil law of obligations and competition law. As an example of this tendency, the recent project of law reforming the general asset of contract law, and also the proofs of the obligations, generalizes the abusive clause with the faculty for the judges to remove the clause in case of significant imbalance between the parties (new Art. 1169).[67]

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[66] Avis n°03-A-21 of the 31 December 2003, Décision n°03-D-03 of the 16 January 2003; Décision n°08-D-06 of the 2 April 2008.

[67] Web site of French Ministry of Justice, Pubblications. Link: http://www.justice.gouv.fr/publication/j21_projet_ord_reforme_contrats_2015.pdf.

6 Germany

Marco Hartmann-Rüppel

6.1 Introduction

Firstly, this contribution provides an overview of the legal framework concerning the abuse of a dominant market position in Germany with special attention to its historical development. It will secondly focus on providing a more detailed view of the German understanding of "abuse" and will thirdly show the enforcement practice. Finally, it will deal with some criticism on the German approach.

6.2 Legal Background

6.2.1 The German Act Against Restraints of Competition (ARC)

In Germany, the provisions prohibiting anticompetitive unilateral conduct are laid down in the German Act against Restraints of Competition (ARC[1]). The ARC contains on the one hand competition law provisions and on the other hand the German public procurement provisions.

[1] "Gesetz gegen Wettbewerbsbeschränkungen", aws.

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The provisions prohibiting anticompetitive unilateral conduct, including the definition of a dominant market position, are laid down in Sections 18–20 ARC.[2]

[2] Section 18 ARC

(1) An undertaking is dominant where, as a supplier or purchaser of certain kinds of goods or commercial services on the relevant product and geographic market, it:

1. has no competitors,
2. is not exposed to any substantial competition, or
3. has a paramount market position in relation to its competitors.

(2) The relevant geographic market within the meaning of this Act may be broader than the scope of application of this Act.

(3) When analysing the market position of an undertaking in relation to its competitors the following criteria have to be considered in particular:

1. its market share,
2. its financial power,
3. its access to supplies or markets,
4. its links with other undertakings,
5. legal or factual barriers to market entry by other undertakings,
6. actual or potential competition by undertakings established within or without the scope of application of this Act,
7. its ability to shift its supply or demand to other goods or commercial services, as well as
8. the ability of the opposite market side to resort to other undertakings.

(4) An undertaking is presumed to be dominant if it has a market share of at least 40 percent.

(5) Two or more undertakings are dominant insofar as

1. no substantial competition exists between them with respect to certain kinds of goods or commercial services and
2. they jointly satisfy the conditions of sentence 1.

(6) A number of undertakings is presumed to be dominant if it:

1. consists of three or fewer undertakings reaching a combined market share of 50 percent, or
2. consists of five or fewer undertakings reaching a combined market share of two thirds.

(7) The assumption of paragraph 6 can be rebutted if the undertakings demonstrate that

1. the conditions of competition may be expected to maintain substantial competition between them, or
2. that the number of undertakings has no paramount market position in relation to the remaining competitors.

Section 19 ARC

(1) The abusive exploitation of a dominant position by one or several undertakings is prohibited.

(2) An abuse exists in particular if a dominant undertaking as a supplier or purchaser of certain kinds of goods or commercial services:

1. directly or indirectly hinders in an unfair manner another undertaking in business activities or directly or indirectly treats it differently from similar undertakings without any objective justification,
2. demands payments or other business terms which differ from those which would very likely arise if effective competition existed; in this context, particularly the conduct of undertakings in comparable market where effective competition prevails shall be taken into account,
3. demands less favourable payment or other business terms than the dominant undertaking itself demands from similar purchasers in comparable markets, unless there is an objective justification for such differentiation,
4. refuses to allow another undertaking access to its own networks or other infrastructure facilities against adequate remuneration, provided that without such concurrent use the

The lists of examples of abuses provided in Section 19 para. 2 ARC and in Section 20 para. 3 ARC are not exhaustive but merely a specification of the general clause in Section 19 para. 1 ARC.[3]

other undertaking is unable for legal or factual reasons to operate as a competitor of the dominant undertaking on the upstream or downstream market; this shall not apply if the dominant undertaking demonstrates that for operational or other reasons such concurrent use is impossible or cannot reasonably be expected,

5. uses its market position to invite or to cause other undertakings in business activities to grant him advantages without any objective justification.

Section 20 ARC

(1) Section 19 paragraph 1 in conjunction with paragraph 2 no. 1 shall also apply to undertakings and associations of undertakings insofar as small or medium-sized enterprises as suppliers or purchasers of certain kinds of goods or commercial services depend on them in such a way that sufficient and reasonable possibilities of resorting to other undertakings do not exist (relative market power). A supplier of certain kind of goods or commercial services shall be presumed to depend on a purchaser within the meaning of sentence 1 if this purchaser regularly obtains from this supplier, in addition to discounts customary in the trade or other remuneration, special benefits which are not granted to similar purchasers.

(2) Section 19 paragraph 1 in conjunction with paragraph 2 no. 5 shall also apply to undertakings and associations of undertakings in relation to the undertakings which depend on them.

(3) Undertakings with a superior market power in relation to small and medium-sized competitors shall not use their market position directly or indirectly to hinder such competitors in an unfair manner. An unfair hindrance within the meaning of sentence 1 exists in particular if an undertaking

1. offers food in the meaning of Section 2 paragraph 2 of the German Food and Feed Code below its cost price, or
2. offers other goods or commercial services not merely occasionally below its cost price, or
3. demands from small or medium-sized undertakings with which it competes on the downstream market in the distribution of goods or commercial services a price for the delivery of such goods and services which is higher than the price it itself offers on such market, unless there is, in each case, an objective justification for this. The offer of food below cost price is objectively justified if such offer is suitable to prevent the deterioration or the imminent unsaleability of the goods at the dealer's premises by a timely sale, as well as in similarly severe cases. The donation of food to charity organisations for utilisation within the scope of their responsibilities shall not constitute an unfair hindrance.

(4) If on the basis of specific facts and in the light of general experience it appears that an undertaking has used its market power within the meaning of paragraph 3, it shall be incumbent upon this undertaking to disprove the appearance and to clarify such circumstances in its field of business on which legal action may be based, which cannot be clarified by the competitor concerned or by an association referred to in Section 33 paragraph 2, but which can be easily clarified, and may reasonably be expected to be clarified, by the undertaking against which action is taken.

(5) Trade and industry associations or professional organisations as well as quality mark associations shall not refuse to admit an undertaking if such refusal constitutes an objectively unjustified unequal treatment and would place the undertaking at an unfair competitive disadvantage.

[3]See Fuchs, In: Immenga, Mestmäcker (eds), Wettbewerbsrecht, Bd. 2 GWB/Teil 1, 5. Auflage, § 19 textnote 8.

6.2.2 Historical Development

The first provision in Germany that i.a. prohibited anticompetitive unilateral conduct was the "Regulation against the abuse of economic dominant positions" dated 2 November 1923.[4] Section 10 of this Regulation authorised the cartel court, on the application of the Economics Minister of the German Reich, to order that parties of a contract with which an economic dominant undertaking abused his market position had a right to withdraw from this contract.

This Regulation has been superseded by the "Act governing the establishment of compulsory cartels"[5] dated 1933. During the period of the National Socialist Regime, the Government was authorised to oblige undertakings to reduce their production capacities and investments, to restructure their undertakings, to reduce the use of machines, etc. Furthermore, the Government was authorised to oblige undertakings to establish or to take part in cartels. In total, the time period between 1933 and 1945 has been characterised by a high amount of state influence on the economy.[6]

After the end of the Second World War, the Allies enacted antitrust laws in West Germany that were based on the US Sherman Act dated 1890.

On 1 January 1958, the ARC (1958)[7] went into effect. This first version of the ARC contained two sections dealing with the abuse of a dominant market position. With Section 22 et seq., the Federal Cartel Office has been authorised to prohibit abusive conduct by dominant undertakings and to declare respective contracts void. According to Section 22 para. 3 ARC (1958), this right applied to two forms of abusive conduct:

1. A dominant undertaking takes advantage of its market position when it demands or offers prices or designs other business terms.
2. A dominant undertaking takes advantage of its market position by making a conclusion of a delivery contract conditional on the acceptance of the purchase of objectively not related goods or commercial services.

Furthermore, Section 26 ARC (1958) addressed undertakings with a dominant market position and prohibited any form of exclusionary abuse, as well as the discrimination of undertakings.

With the first amendment of the ARC in 1965,[8] the restricted applicability of the provision in Section 22 para. 3 ARC (1965) has been extended and changed into a general clause. Based on this provision, the FCO could intervene in all cases in

[4]"Verordnung gegen den Mißbrauch wirtschaftlicher Machtstellungen" vom 2. November 1923, RGBl. I page 1067.

[5]"Gesetz über Errichtung von Zwangskartellen", RGBl. I page 488.

[6]Bunte, In: Langen, Bunte (eds.), Kartellrecht, Bd. 1, Deutsches Kartellrecht, 12. Auflage, Einleitung zum GWB, textnote 1 et seq.

[7]BGBl. I 1957, pages 1081 et seq.

[8]BGBl. I 1965, pages 1363 et seq.

which a dominant undertaking abused its market position in an exploitative form irrespective of the affected product or service market.

With the second amendment of the ARC in 1973,[9] the applicability of Section 26 ARC has been extended. The new Section 26 ARC (1973) addressed not only undertakings with a dominant market position but also undertakings with a superior market power insofar as enterprises as suppliers or purchasers of certain kinds of goods or commercial services depend on them in such a way that sufficient and reasonable possibilities of resorting to other undertakings do not exist.

Another relevant change of the provisions has been undertaken with the sixth amendment of the ARC in 1998[10] with which the provisions in general have been aligned with (the former) Article 82 EC. Against this background, the provisions have been changed insofar as the abusive conduct was directly prohibited by law.

With the eighth amendment of the ARC in 2013,[11] the ARC has become its current wording.

6.2.3 Other Regulations

In the ARC itself, as well as in other specific regulatory acts, similar provisions prohibiting anticompetitive unilateral conduct are contained.

For example, the ARC contains specific provisions with regard to electricity and gas suppliers in Section 29 ARC and with regard to water suppliers in Section 31 paras 3–5 ARC. Furthermore, the Energy Industry Law[12] in Section 30 (with regard to operators of energy supply systems) and Section 46 (with regard to municipalities that provide rights of way for operators of energy supply systems), the Telecommunication Act in Sections 28 and 42 with regard to telecommunications service providers, as well as the Postal Law[13] with regard to undertakings that have a dominant market position on the German market for postal services, contain specific clauses prohibiting anticompetitive unilateral conduct. Additionally, Section 14 of the General Railways Act[14] adopts similar provisions with regard to undertakings operating railway infrastructure. Section 4 no. 4 Act against Unfair Competition[15] prohibits the unfair hindrance of competitors.

[9] BGBl. I 1973, pages 917 et seq.

[10] BGBl. I 1998, pages 2546 et seq.

[11] BGBl. I, No. 32, pages 1750 et seq.

[12] ”Energiewirtschaftsgesetz”.

[13] ”Postgesetz”.

[14] “Allgemeines Eisenbahngesetz”.

[15] “Gesetz gegen unlauteren Wettbewerb“.

6.3 The Abuse of Dominant Positions

6.3.1 Definition of 'Abuse'

There is no legal definition of "abuse" in the legislation. However, with the examples in Section 19 para. 2 ARC, the legislator has substantiated the general provision. Also, the FCO did not provide a specific definition of "abuse", but on its Internet portal the FCO has published an explanation of this term:

> Abusive practices are actions that a dominant company can only pursue on account of its market power and that hinder or discriminate against other companies or their customers in a way that would not be possible if effective competition existed.
>
> Irrespective of their market position, all companies are prohibited from inducing other companies to engage in anti-competitive conduct or to call for a boycott of third companies.

Furthermore, in its decision *Soda-Club*[16], the FCO has defined the term "abusive" in the form of exclusionary abuse according to Section 19 para. 4 no. 1 ARC (old version, currently this provision is regulated in Section 19 para. 2 no. 1 ARC) as follows:

> An abuse according to Section 19 para. 4 no. 1 ARC [*old version*] exists in particular if a dominant undertaking as a supplier or a purchaser of a specific product or commercial service appreciably impairs the competitive opportunities of other undertakings without objectively justified reasons.

A definition of 'abuse' was also not provided by case law. The German courts have not yet published an own definition of the legal term "abuse". In its decisions, the German Federal Court of Justice has cited the definition of the Court of Justice of the European Union, e.g. in its decision *Soda-Club II*:[17]

> According to the consistent case-law of the Court of Justice of the European Union the term abuse is an objective criterion. It relates to the behaviour of an undertaking in a dominant position which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse of methods different from those which condition normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition.

[16] FCO, Decision of 9 February 2006, file no. B3-39/03.

[17] FCJ, Decision of 4 March 2008, file no. KVR 21/07.

6.3.2 Exploitative and Exclusionary Abuse

Regarding the legal framework, there is no distinction between exploitative and exclusionary abuses in Section 19 para. 1 ARC. As a general provision, Section 19 para. 1 ARC covers all forms of abuse, the exploitative abuse, the exclusionary abuse and the unjustified unequal treatment of business partners. However, the examples in Section 19 para. 2 ARC differentiate insofar as nos. 1 and 4 cover the exclusionary abuse and the examples in Section 19 para. 2 nos. 2, 3 and 5 the exploitative abuse.

In its decisional practice, the FCO has not clearly differentiated between exploitive and exclusionary forms of abuse since the general provision of Section 19 para. 1 ARC covers both forms. On the other hand, the FCO explains on its Internet portal the exploitive and the exclusionary abuses as follows:

> An abusive hindrance or so-called exclusionary abuse exists, for example, where a dominant company uses its superior position to deny its competitors access to its networks, pipelines, ports, etc. or other facilities essential for competitive activities.
>
> Exclusionary abuse can also exist where a dominant company tries to squeeze its competitor out of the market by means of a cut price strategy.
>
> It can also be considered abusive if a company with a dominant position in the supply of certain products makes the purchase of these products subject to the purchase of other products of little market significance. This can be a case of compulsory bundling but can also imply a tying strategy implemented by means of price incentives.
>
> An exploitative abuse can exist if a dominant company demands unreasonable prices or terms and conditions from its customers or suppliers. In such cases the Federal Cartel Office, for example, achieved considerable price adjustments and reimbursements for gas, electric heating and water customers in the general public services sector. To ascertain whether a certain conduct is abusive the Federal Cartel Office applies the so-called "comparative market concept". Possibly excessive prices are compared with prices that have developed in structurally comparable but competitive markets.

As the FCO, also the German courts usually do not explicitly classify an abusive conduct as an exploitive or an exclusionary abuse.

6.3.3 Price-Based and Non-Price-Based Abuse

The general clause in Section 19 para. 1 ARC applies to price-based and non-price-based forms of abuse, but neither the general clause nor the examples in Section 19 para. 2 ARC distinguish between price-based and non-price-based forms of abuse. Because the enforcement of the prohibition of anticompetitive unilateral conduct of the competition authorities as well as the enforcement of the courts rely on the provisions of the ARC, which do not differentiate between price-based and non-price-based forms of abuse, there is also no distinction in their respective decisional practice.

6.3.4 Comparison of German Law and Article 102 TFEU

Especially with Section 20 ARC, the German abuse control is stricter than Article 102 TFEU because not only undertakings with a dominant market position are addressed but also undertakings with a so-called relative market power or with a superior market power (cp. Section 20 ARC). A further stricter rule is Section 19 para. 2 no. 1 ARC in comparison with Article 102 sentence 2 lit. c TFEU (the applicability of the ban on discrimination in the ARC is more general than the one in the TFEU).

Especially these German provisions were the reason why Article 3(2) of Regulation 1/2003—called “the German clause”—has been implemented.

6.4 Enforcement

6.4.1 Decision-Making Practice

In the period 2010 till 2014, the German competition authorities (FCO and the state competition authorities) have decided 65 cases regarding the prohibition on anticompetitive unilateral conduct (Sections 18–20 ARC and sector-specific rules) (FCO 21 and state competition authorities 44). These decisions included decisions on fines, prohibition decisions, orders to bring a specific infringing conduct to an end, decisions with commitments and the closure of proceedings because there has been no reason to investigate. In the same time period, the German competition authorities have decided 120 cases with regard to other competition rules (Section 1 et seq. ARC and Section 21 ARC) (FCO 83 and state competition authorities 37). With regard to the court decisions concerning competition law cases, no statistics are published. However, there have been at least a number of cases where, for instance, a distributor or dealer has claimed for non-discriminatory behaviour, for example, by being delivered like other distributors/dealers depending on an alleged abuse of a dominant position or of a relative market power.

In civil cases in general, the jurisdiction of the courts depends on the value of the matter. Whereas local courts[18] in general have jurisdiction in civil actions with a value of the matter of up to EUR 5000, the regional courts[19] are competent for civil actions with a value of the matter of more than that. In contrast to these general rules on jurisdiction, the ARC provides specific provisions for civil actions concerning competition provisions. According to Section 87 ARC, the regional courts have exclusive jurisdiction for such civil actions regardless of the value of the matter in dispute.

Furthermore, Section 89 ARC authorises the state governments in Germany to centralise the civil actions concerning competition provisions geographically to one or more specific regional courts. The majority of state governments have made use

[18] Amtsgerichte.

[19] Landgerichte.

of this provision. Within all regional courts, the civil actions concerning competition provisions are allocated to the special Chambers for Commercial Affairs except for antitrust damages claims for which the Civil Chambers (with three professional judges) are competent.

In all cases, the specific Cartel Senates at the Higher Regional Courts are competent for appeals against decisions of the regional courts in civil actions concerning competition provisions.

In administrative matters, the respective local competent Higher Regional Court has jurisdiction over appeals against decisions of the competition authorities (and not the administrative courts). Since most administrative matters are proceedings for which the FCO is exclusively competent (quite often merger control matters), in most cases the Higher Regional Court in Düsseldorf (being locally competent for appeals against FCO decisions) is competent also for these administrative matters.

With regard to antitrust fine proceedings (a violation of the cartel prohibition clause or of the provision prohibiting anticompetitive unilateral conduct constitutes an administrative offence), the general procedural rules for administrative offences are applicable (which again refer to the general procedural rules of criminal law). Based on these procedural rules, the addressee of such an antitrust fine decision can appeal against this decision. In contrast to the general procedural rules, according to Section 83 para. 1 ARC, the Higher Regional Court, insofar as, in most cases, the Cartel Senate of the Higher Regional Court in Düsseldorf is concerned, is competent (and not the general competent local courts). The decision of the Higher Regional Court is subject to an appeal to the Federal Court of Justice.

In Germany, there are no other regulators that can enforce the same competition rules as the competition authorities. However, several regulators like the Federal Grid Agency or the Federal Railways Office are competent to enforce similar but industry-specific competition rules.

6.4.2 Guidelines by the Competition Authority

So far, the FCO has published two guidelines that deal with the provisions prohibiting anticompetitive unilateral conduct: on the one hand, an older publication dealing with Section 20 para. 4 sentence 4 ARC (1998) (*offers of goods or commercial services below their cost price)* from 2003 (this publication is currently under revision) and, on the other hand, guidelines concerning the award of electricity and gas concessions from 2015. The last ones have been published in cooperation with the Federal Grid Agency and provide guidance on how to grant electricity and gas concessions without violating competition law provisions (especially Sections 18 et seq. ARC and Section 46 Energy Industry Law) and procurement law.

The enforcement of the prohibition of anticompetitive unilateral conduct of the competition authorities and the courts rely on the provisions of the ARC. There is no specific approach or standard of harm that can be identified in the decisional practice of the competition authorities or the courts.

As far as we can evaluate, the Commission's Guidance on enforcement priorities had only a very limited effect on the decision practice of the German competition authorities and courts. With regard to the courts, no publication or case law is known to us that the court has dealt with this guidance in detail. With regard to the competition authorities, only the FCO has communicated the publication of this guidance in its Activity Report 2007/2008.[20] In this report, the FCO has commented this paper and declared that it is of the opinion that this guidance has no binding effect on the decision-making practice of the FCO. So far, the FCO has accepted this paper only as an important further contribution to the discussion about the interpretation of the former Article 82 EC. Furthermore, the FCO has criticised the approach to focus the abuse control on consumer protection because this would complicate the possibilities of the competition authorities to intervene in cases of abusive conduct.

6.4.3 Objectives of the Prohibition of Anticompetitive Unilateral Conduct

The FCO is of the opinion that the objective of abuse control is the protection of competition as such and not the protection of competitors, other market participants or the end consumers.

In a similar way, the District Court in Berlin has formulated the objective in two older decisions:

> The objective of abuse control is the prevention of the exploitation of the leeway of dominant undertakings which they have because of the lack of competitive pressure.[21]
>
> Interests of the common welfare are affected if a dominant undertaking abuses its market power to restrict or distort competition.[22]

6.5 Some Criticism on the German Approach

Criticism has been raised against the legal provisions prohibiting anticompetitive unilateral conduct by undertakings with (only) relative market power as such. For example, already in 2006, the OECD has criticised that the German abuse control particularly protects small and medium-sized undertakings with Section 20 ARC

[20]Cp. FCO, Die Wettbewerbsaufsicht des Bundeskartellamtes—Schwerpunkte 2007/2008, www.bundeskartellamt.de/SharedDocs/Publikation/DE/Taetigkeitsberichte/Bundeskartellamt%20-%20T%C3%A4tigkeitsbericht%202008_KURZ.pdf?__blob=publicationFile&v=2. Accessed 8 March 2016.

[21]Regional Court Berlin, Decision of 19 March 1975, file no. Kart. 26/74—*Vitamin B 12,* WuW/E OLG 1599, 1607.

[22]Regional Court Berlin, Decision of 18 February 1969, file no. Kart. V 34/67—*Handpreisauszeichner,* WuW/E OLG 995, 1000.

and does not restrict its abuse control to the protection of the competitive process as such.[23]

A different criticism with regard to the legal provisions is currently upraised by the FCO itself, as well as by the German Monopoly Commission.[24]. Based on the fact that several sectors of the economy providing services of general interest (water and energy suppliers, waste disposal, etc.) become re-municipalised, their pricing conditions often fall outside the scope of the German competition law (if the prices are set in forms of fees subject to public law). So far, the FCO and the Monopoly Commission criticise that such fees do not fall under the abuse control.

Of course, there have also been further criticisms that, however, might have been driven quite often by respective business interests. Thereby, criticisms refer to the assumption of a too narrow market definition, to the (rebuttable) presumption of market dominance ($\geq$ 40% market share) and, for example, to Section 20 para. 3 no. 1 providing a special provision for the food industry.

[23]OECD, Wirtschaftsberichte Deutschland, V. 2006/08, 123.

[24]"Monopolkommission".

Japan

7

Takahiko Itoh

7.1 Introduction

Unilateral conducts, which are prohibited under Japanese Anti-Monopoly Act (the AMA), can be categorised in two types: (1) private monopolisation (Articles 3 and 2-5 of the AMA) and (2) unfair trade practices (Articles 9 and 2-9 of the AMA).

Private monopolisation was based on Section 2 of the Sherman Act of the United States and has been prohibited under the AMA since its establishment in 1947.

Unfair trade practices were originally incorporated into the AMA by the amendment in 1953. The related provisions were further amended in 1982 and in 2009. Unfair trade practices are said to have their origin in Section 5 of the FTC Act of the United States.

In addition to the AMA, the Sub-contract Law, which was established in 1956, prohibits business operators to conduct certain listed activities that are deemed to be an exercise of their superior bargaining power against their sub-contractors. The sub-contract law regulates specific aspects of abuse of superior bargaining power under the unfair trade practices.[1]

The opinion contained in this report is the personal view of the author and nothing to do with the opinion of the firm or other organisations to which the author belongs.

[1]In addition to the Sub-contract Law, the statutes which regulate specific industry sectors, such as the Telecommunications Business Law, the Electricity Business Law and the Gas Business Law impose obligation to business operators e.g. to allow access to essential facilities. These statutes could be also categorised as one of the special rules to the AMA, but we do not go into detail in this report.

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7.1.1 Private Monopolisation

Private monopolisation is defined as "business activities, by which any enterprise, individually or by combination or conspiracy with other enterprises, or by any other manner, excludes or controls the business activities of other enterprises, thereby causing, contrary to the public interest, a substantial restraint of competition in any particular field of trade" (Article 2-5 of the AMA). Private monopolisation is therefore broadly defined. However, the Japan Fair Trade Commission (the JFTC) has issued "Exclusionary Private Monopolisation Guideline" under which four conducts (i.e., (1) below-cost pricing, (2) exclusive dealing, (3) tying and (4) refusal to supply and discriminatory treatment) are indicated as typical exclusionary conducts. Unlike the regulation in the EU, prohibition of unilateral conducts in Japan does not take the form of "abuse of a dominant position". Therefore, there is no definition of "abuse" in such context whether in legislation, guidelines of the JFTC or case law.

7.1.2 Unfair Trade Practices

Unfair trade practices, which are prohibited under the AMA, are listed in Article 2-9 and General Designation.[2] The list covers various conducts, including unilateral conducts: (1) joint refusal to supply (Article 2-9-1), (2) price discrimination (Article 2-9-2), (3) below-cost pricing (Article 2-9-3), (4) resale price maintenance (Article 2-9-4), (5) abuse of superior bargaining power (Article 2-9-5), (6) joint refusal to deal (General Designation 1), (7) other refusal to deal (General Designation 2), (8) price and other discrimination (General Designation 3, 4 and 5, excluding the conduct under Article 2-9-2), (9) below-cost pricing (General Designation 6, excluding the conduct under Article 2-9-3), (10) purchase in excessive price (General Designation 7), (11) solicitation by misrepresenting quality or benefit of goods/services (General Designation 8), (12) solicitation by providing unjustifiable benefit (General Designation 9), (13) tying (General Designation 10), (14) exclusive dealing (General Designation 11), (15) trading on restrictive terms (General Designation 12, excluding conduct under Article 2-9-4 and General Designation 11), (16) abuse of superior bargaining power on appointment of directors/officers (General Designation 13), (17) unfair interruption of the trade by a competitor (General Designation 14) and (18) unfair interference in connection with the internal matters of a competitor (General Designation 15). The list of unfair trade practices is an exhaustive list. However, some of the conducts on the list are broadly defined to cover a wide range of conducts as catch-all provisions.

As explained in Sect. 7.1.2 above, unfair trade practices have a category of activities called abuse of superior bargaining power (Article 2-9-5 of the AMA and

[2]Article 2-9-6 delegates the power to the JFTC to issue a list of prohibited conducts as General Designation.

General Designation 13). These are unique regulation in Japan that prohibits a party to "unfairly impose disadvantages to the counter party by taking advantage of its own position" ("Abuse of Superior Bargaining Power Guideline" issued by the JFTC). Whether or not a party is in superior position is determined relative to the position of the counterparty.

However, there is no definition of "abuse" in the legislation, guidelines of the JFTC or case law. This is because the conducts prohibited are specifically identified. For example, Article 2-9-5 of the AMA prohibits a party to unfairly conduct the following activities by taking advantage of its superior bargaining position: (1) force the counterparty in continuing a relationship to purchase goods/services that are not subject of the trade; (2) force the counterparty in continuing relationship to supply cash, service or other economic benefit to the party with which it has a continuous trade; or (3) reject or return the goods, delay the payment, reduce the payment amount, or set or change the trade terms or implement the trade in a manner disadvantageous to the counterparty.

7.2 Exploitative and Exclusionary Conducts

Both exploitative and exclusionary conducts are covered by private monopolisation and unfair trade practices.

7.2.1 Private Monopolisation

Article 2-5, which defines private monopolisation, requires "exclusion" or "control" by the business operator. "Exclusion" corresponds to exclusionary conduct, and "control" would correspond to exploitative conduct.

Whether or not a certain activity is regarded as "exclusion" is determined by whether or not such activity has an artificial character that exceeds the normal competition measures in the sense that it could create, maintain and strengthen its own market power and such activity has an effect to make it extremely difficult for a competitor to enter into (or continue competition in) the relevant market.[3]

On the other hand, "control" means, in principle, to restrict the counterparty in some way and to deprive it of the freedom to make its own decision.[4]

As explained above in Sect. 7.1.1, the JFTC has issued Exclusionary Private Monopolisation Guideline. According to the JFTC, these guidelines were established to keep the transparency of the enforcement of the law and to increase the predictability by the business operators because it tends to be difficult to distinguish whether a competitor is excluded as a result of fair competition or by

[3]*JASRAC case*, Supreme Court of Japan, 28 April 2015; *NTT East case*, Supreme Court of Japan, 17 December 2010.

[4]*Noda Soy Sauce* case, Tokyo High Court, 25 December 1957.

illegal activity. Four conducts (i.e., (1) below-cost pricing, (2) exclusive dealing, (3) tying and (4) refusal to supply and discriminatory treatment) are indicated as typical exclusionary conducts by the Exclusionary Private Monopolisation Guideline.

Because the base rates used to calculate administrative surcharge are different for exclusionary (6%) and exploitative conduct (10%), it is necessary to distinguish between two types of conducts. If a conduct has both the exploitative and exclusive nature at the same time, the rate for the exploitative conduct (10%) will be applied.

In addition to "exclusion" or "control", "substantial restraint of trade" is required for private monopolisation. "Substantial restraint of trade" is defined as creation, maintenance or strengthening of circumstance to dominate the relevant market.[5]

7.2.2 Unfair Trade Practices

List of unfair trade practices under Article 2-9 of the AMA and General Designation includes both exclusionary and exploitative conducts.

Because types of conducts listed in the Exclusionary Private Monopolisation Guidelines also overlap with types of conducts listed as unfair trade practices, the guidelines are useful to understand the positions taken by the JFTC with respect to (1) below-cost pricing, (2) exclusive dealing, (3) tying and (4) refusal to supply and discriminatory treatment. In addition, the Distribution Guidelines issued by the JFTC cover various vertical restraints included in the list of unfair trade practices.

Distinction between exclusionary and exploitative conducts is less important for unfair trade practices than private monopolisation, but the JFTC has to specify the provision(s) that it applies to certain conduct.

Conducts listed as unfair trade practices become illegal if they have "tendency to impede competition". It is a prevailing view in Japan that "tendency to impede competition" requires a lower degree of restriction on competition compared to "substantial restraint of trade", which is required for private monopolisation.

7.3 Price-Based and Non-price-Based Conducts

Distinction between price-based and non-price-based conducts is less important for private monopolisation and unfair trade practices for the reasons explained below.

[5] *NTT East case*, Supreme Court of Japan, 17 December 2010. Please also note that the Supreme Court of Japan recently defined that "substantial restraint of trade" means that the market loses the competitive function, although it was in a bid-rigging case (*Tama Bid-rigging case*, Supreme Court of Japan, 20 February 2012).

7.3.1 Private Monopolisation

Although not specifically mentioned as such and distinguished in the provision of the AMA, private monopolisation covers both price-based and non-price-based conducts. For example, the Exclusionary Private Monopolisation Guidelines lists below-cost pricing as one of the examples of price-based conduct. On the other hand, tying is basically a non-price-based conduct. Exclusive dealing and refusal to supply/discriminatory treatment can be either price based or non-price based or both.

Unlike the distinction between exploitative and exclusionary conducts, it is not necessary for the JFTC to distinguish between price-based and non-price-based conducts in practice, so long as other requirements for private monopolisation are met.

There is no distinction between price-based or non-price-based conduct with respect to the consequences/sanctions, and we do not have a case law that decided with respect to such distinction.

7.3.2 Unfair Trade Practices

Some of the conducts listed as unfair trade practice under Article 2-9 of the AMA or the General Designation are clearly tied with price.

The JFTC has to specify the provision(s) that it applies to certain conduct, and as a result, price-based and non-price-based conducts are distinguished.

There is no case law that distinguishes price-based and non-price-based conducts beyond what is provided in the statute.

7.4 Enforcement

7.4.1 Decision-Making Practice

7.4.1.1 Cease and Desist Order by the JFTC

Please see Table 7.1 for the numbers of cease and desist order issued by the JFTC in the past 5 years. As you see, the number of orders issued in connection with unfair trade practices is far less than that of cartel/bid rigging. The JFTC has not issued any cease and desist order on private monopolisation case in recent years.

7.4.1.2 Court Decisions

There is no official statistics regarding the number of antitrust cases decided by the court, and it is difficult to calculate a precise number of cases decided by the court in the past 5 years. However, the JFTC Annual Report (FY2013) provides for the number of antitrust administrative cases pending in the courts. According to the JFTC Annual Report (FY2013), 21 antitrust administrative cases were pending

Table 7.1 Cease and desist order by the JFTC (FY2009–FY2013)

Types of conducts		FY2009	FY2010	FY2011	FY2012	FY2013	Total
Private monopolisation		0	0	0	0	0	0
Unfair trade practices	Resale price maintenance	0	0	1	0	0	1
	Restrictive/ excusive dealing	2	1	0	0	0	3
	Interference of trade	0	0	1	0	0	1
	Abuse of superior bargaining power	2	1	3	0	1	7
Unilateral conduct Total		4	2	5	0	1	12
Cartel/bid rigging		22	10	17	20	17	98

Source: JFTC Annual Report (FY2013)

during FY2013, and most of them (20 cases) were cartel/bid-rigging cases. The remaining one case was on private monopolisation (*JASRAC case*).

7.4.1.3 Private Monopolisation Cases

There have been only 11 private monopolisation cases since 1996 in Japan (Table 7.2). Among those, eight cases are exclusionary conducts and three cases are exploitative conducts.

7.4.1.4 Unfair Trade Practice Cases

Some of the unfair trade practice cases listed in Table 7.3 could have been able to be characterised as private monopolisation, but the JFTC did not do so. In our view, this is partly attributable to a prevailing view in Japan that "tendency to impede competition" requires a lower degree of restriction on competition compared to "substantial restraint of trade", which is required for private monopolisation. In addition, before private monopolisation became subject to the administrative surcharges order (in 2006 with respect to "control" and in 2010 with respect to "exclusion"), it was not possible to impose administrative surcharges order on private monopolisation and there was no difference in sanctions between private monopolisation and unfair trade practices. If conducts can be categorised as one of the conducts listed as unfair trade practices, then it is easier for the JFTC to first consider the application of unfair trade practices than private monopolisation.

7.4.2 Competent Courts and Authorities

In Japan, the JFTC is the only regulatory body that can enforce the AMA.[6] In relation to the unilateral conducts, the JFTC has issued "Exclusionary Private

[6]Public prosecutors can bring criminal proceedings to the court subject to the JFTC's accusation.

Table 7.2 Private monopolisation cases in Japan (since 1996)

Case name	Date of decisions	Types of conduct
Japan Medical Food Association case	JFTC Decision, 8 May 1996	Exclusionary and exploitative
Pachinko Patent Pool case	JFTC Decision, 6 August 1997	Exclusionary (refusal to supply and discriminatory treatment)
Paramount Bed case	JFTC Decision, 31 March 1998	Exploitative
Nordion case	JFTC Decision, 3 September 1998	Exclusionary (exclusive dealing)
Hokkaido News Paper case	JFTC Decision, 28 February 2000	Exclusionary
Usen Broad Networks case	JFTC Decision, 13 October 2004	Exclusionary
Intel case	JFTC Decision, 13 April 2005	Exclusionary (exclusive dealing)
Nipro case	JFTC Decision, 5 June 2006	Exclusionary (exclusive dealing)
NTT East case	JFTC Decision, 26 March 2007 Tokyo High Court Judgment, 29 May 2009 (Dismissal of appeal) Supreme Court Judgment, 17 December 2010 (Dismissal of appeal)	Exclusionary (refusal to supply and discriminatory treatment)
JASRAC Case	JFTC Cease and Desist Order, 27 February 2009 JFTC Decision, 12 June 2012 (Revocation of JFCT Cease and Desist Order) Tokyo High Court Judgement, 1 November 2013 (Revocation of JFTC Decision) Supreme Court Judgment, 28 April 2015 (Dismissal of Appeal)	Exclusionary (Exclusive Dealing)
Fukui-ken Keizairen Case	JFTC Cease and Desist Order, 16 January 2015	Exploitative

Monopolization Guidelines" and "Distribution Guidelines" to keep the transparency of the enforcement of the law and to increase the predictability by the business operators.

The JFTC has power to investigate the competition issues and issue a cease and desist order and/or an administrative surcharge order if it finds breach of the AMA. As for the criminal sanction, the JFTC must first make an accusation to the Public Prosecutors' Office and the Public Prosecutors' Office can initiate the criminal proceedings against the accused.

Business operators that are not happy with the cease and desist order and/or the administrative surcharges order can challenge the order(s). Effective as of 1 April

Table 7.3 Unfair trade practices cases similar to private monopolisation

Case name	Date of decisions	Types of conduct
Chaku-Uta case	JFTC Decision, 24 July 2008	Joint refusal to deal
Microsoft NAP case	JFTC Decision, 16 September 2008	Trading on restrictive terms
Daiichikosho case	JFTC Decision, 16 February 2009	Unfair interruption of a trade by a competitor
Qualcomm case	JFTC Cease and Desist Order, 28 September 2009 (JFTC Hearing still pending)	Trading on restrictive terms
DeNA case	JFTC Cease and Desist Order, 9 June 2011	Unfair interruption of a trade by a competitor

2015, administrative hearing procedure at the JFTC was abolished and all the business operators that want to challenge the cease and desist order/the administrative surcharge order issued thereafter must bring an action for revocation to the Tokyo District Court. The parties can further appeal the case to Tokyo High Court and the Supreme Court of Japan depending on the outcome in the lower courts.

7.5 Consideration

7.5.1 Harmonisation with Global Approach

Unlike the EU regulation, the AMA does not use the concept of "abuse of dominant position" to regulate unilateral conducts. Instead, it regulates the unilateral conducts by private monopolisation and unfair trade practices as already explained above.

However, it seems that both the EU and Japan share the common concern to distinguish whether a competitor is excluded as a result of fair competition or by illegal activity. Otherwise, the business activities may be over-regulated and have a chilling effect that may result in the diminishing of fair competition and innovation. This way of thinking can be seen in the court decisions regarding "abuse" in the EU and "exclusion" in Japan.

"Abuse is an objective concept relating to the behaviour of an undertaking in a dominant position which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened, and that, *through recourse to methods different from those that condition normal competition in products or services on the basis of the transactions of commercial operations,* has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition."[7]

[7]ECJ, case 85/76 Hoffmann-La Roche &. Co. AG v Commission, ECR 1979 46 (emphasis added).

"Whether or not a certain activity is regarded as "exclusion" is determined by whether or not *such activity has an artificial character which exceeds the normal competition measures in the sense that it could create, maintain and strengthen its own market power,* and such activity has an effect to make it extremely difficult for a competitor to enter into the relevant market."[8]

Both the ECJ and the Supreme Court of Japan are trying to narrow down the concept of "abuse" and "exclusion", respectively, by reviewing whether methods used by the party exceeds those to be used in the normal competition. This similarity is not just a coincidence but is one evidence that Japanese antitrust practice has developed in a way that has harmonisation with the global approach, regardless of the terms in the statute that does not use the concept of "abuse".[9]

7.5.2 Over- or Under-Intervention

Given the small number of private monopolisation and unfair trade practice cases in Japan, it is probably correct to say in general that unilateral conducts are not overly regulated in Japan.

It should be noted, however, that the JFTC seems to apply provisions of unfair trade practices (which require lower degree of restriction than private monopolisation) to cases that could have to be brought as private monopolisation case, absent regulation under unfair trade practices.

If that is the case, some of the unilateral conducts in Japan may have been overly regulated. In particular, if the issue is whether exercise of IP rights is regarded as exclusionary conduct (e.g., *Microsoft NAP case* and *Qualcomm case*), it casts a difficult question whether a holder of IP rights are overly restricted from seeking its own business opportunities using IP rights that it has developed.

The factors to be considered to answer such question are probably very similar to the factors to be considered when the application of "abuse of dominant position" to huge IT companies is argued in the EU.

[8] *JSARAC case*, Supreme Court of Japan, 28 April 2015 (emphasis added).

[9] Nevertheless, "abuse" probably has broader meaning than "exclusion" or "control" in nature.

Lithuania

8

Yvonne Goldammer

8.1 Introduction

Like most post-Soviet states, Lithuania, in changing its economic system to a market economy, had to create an accompanying legal system that took account of the new situation in the market and the challenges to free competition caused to undertakings and consumers. As early as 1992, only 2 years after Lithuania regained its independence, the first Law on Competition was adopted,[1] and a public authority, the Lithuanian Competition Council at the State Council for Prices and Competition, was entrusted with monitoring. Although the wording of the provision prohibiting abuse of a dominant position has been amended several times, and the 1992 Law had only few short definitions, the essence and goal of the provision have always been similar to the present one. In the same year, the Competition Council took a decision enumerating 116 dominant undertakings in specific sectors and proposing that the Ministries responsible for the respective spheres of business should monitor the behaviour of those undertakings, their financial situation and prices on the market.[2] The first market research on dominance in the meat and dairy product markets and possible abuse was undertaken by the State Council for Prices and Competition.[3]

[1]Law on Competition, Official Gazette 1992, No. 29-841.

[2]Decision No. 2a *Concerning the Definition of the List of Dominant Undertakings* of 29 December 1992.

[3]Decision No. 2 *Concerning the Market Study on the Market for Meat and Dairy* of 29 December 1992.

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After the first amendment to the Law on Competition in 1999, Art. 1(3) referred to harmonisation of competition law with European Union law.[4] Based on this provision, the Lithuanian Competition Council took a quite progressive approach towards the application of EU law principles even in purely national cases. It referred to arguments and principles contained in decisions of the European courts and the European Commission while deciding cases on abuse of dominance under the Lithuanian Law on Competition. The argumentation at this time was very brief, but little attention was devoted to legal reasoning. The grounds for reasoning on European practice by the Lithuanian Competition Council were more or less repeated in a pragmatic standardised way, whereas the Lithuanian courts, mostly upholding the decisions of the Competition Council, neither mentioned the EU-law-related arguments of the Competition Council in their written reasoning, nor did they take these arguments into account.[5] This has changed very much over the years, so that today's picture is quite different.

In Lithuania today, the central prohibition of anticompetitive unilateral conduct by undertakings is contained in Art. 7 of the Law on Competition.[6] However, Art. 46 of the Lithuanian Constitution prohibits monopolisation of production and markets and guarantees free competition.[7]

Article 7. Prohibition to Abuse a Dominant Position

It shall be prohibited to abuse a dominant position within a relevant market by performing any acts that restrict or may restrict competition; limit, without due cause, the possibilities of other economic entities to act in the market; or violate the interests of consumers, including:

1. direct or indirect imposition of unfair prices or other conditions of purchase or sale;
2. restriction of trade, production or technical development to the prejudice of consumers;
3. application of dissimilar (discriminating) conditions to equivalent contracts with certain economic entities, thereby placing them at a competitive disadvantage;
4. conclusion of a contract subject to acceptance by the other party of supplementary obligations that, according to their commercial nature or purpose, have no direct connection with the subject of such contract.

The Law on Competition forms the key legislation. It provides definitions of "undertakings" and "groups of undertakings", "dominant position" and "relevant market". Examples of different conducts amounting to abuse are included in Art.

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[4] Law on Competition, Official Gazette 1999, No. 30-856.

[5] E.g. Decision of the Lithuanian Competition Council No. 5/b in the case *Concerning actions of AB "Klaipėdos jūrų krovinių kompanija" corresponding with the requirements of Article 9 Para. 3 of the Law on Competition* of 11 April 2002, and corresponding decision of the Vilnius District Administrative Court No. I12-1028/2002 of 21 June.

[6] Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567.

[7] Constitution of the Republic of Lithuania, Official Gazette 1992, No. 33-1014.

7 as an indicative list. The main aim of the Law on Competition is to protect economic interests. Article 1 expressly provides that it aims to protect the freedom of fair competition in Lithuania. However, non-economic goals such as protection of consumer interests, as well as those of small and medium-sized enterprises, are also aimed for. Apart from the Law on Competition, the Lithuanian Competition Council has issued legal acts on Explanations concerning Establishment of a Dominant Position[8] and Explanations on the Definition of the Relevant Market.[9] Principles applicable to the imposition of fines and setting their amounts are provided in the Rules on the Establishment of the Amount of Fines Imposed for Infringements of the Law on Competition adopted by the Lithuanian Government.[10]

Besides these general applicable rules, some sector-specific regulation exists, e.g. in the field of retail and electronic communications, natural gas and electric energy.

In 2009, the Law on Prohibition of Unfair Practices by Retail Companies was adopted to respond to the behaviour of dominant retail undertakings in the market.[11] The law aims to preserve the balance of interests between suppliers and retail chains in the food, beverage or tobacco retail markets having significant market power by possessing not less than 20 stores with at least 400 m^2 retail premises and an aggregate yearly turnover in Lithuania of at least EUR 115,848,008.[12] Thus, companies with significant market power, although not meeting the requirements for dominance as established in the Law on Competition, have to comply with the prohibitions and requirements established in the Law on the Prohibition of Unfair Acts of Retail Companies. According to Art. 14 of the law, the Lithuanian Competition Council is obliged to provide annual monitoring reports assessing whether the goals of the law were reached, on negative consequences, and whether the law needs to be amended or can be abolished.

The Law on Electronic Communications contains rules in its third chapter for undertakings possessing significant power in the electronic communications market and thus equating to dominant undertakings.[13] Complementing the Law on

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[8]Decision of the Lithuanian Competition Council on *Explanations concerning the Establishment of a Dominant Position*, Official Gazette 2000, No. 19-487 with amendments in the Official Gazette 2013, No. 37-1830.

[9]Decision of the Lithuanian Competition Council on *Explanations concerning the Definition of the Relevant Market*, Official Gazette 2000, No. 24-363 with amendments in the Official Gazette 2005, No. 20-684 and 2013, No. 37-1834.

[10]Decision of the Government of the Republic of Lithuania on *Rules on the Establishment of the Amount of Fines Imposed for Infringements of the Law on Competition*, Official Gazette 2012, No. 12-511.

[11]Law on Prohibition of Unfair Practices of Retail Companies, Official Gazette 2010, No. 1-31 with amendments at the Registry for Legal Acts TAR 2014, No. 14287.

[12]The Competition Council indicated in its annual monitoring report in March 2015 that four retail chains with significant market power are at present active in Lithuania. Annual Report on the Monitoring of the Law on Prohibition of Unfair Practices of Retail Companies in the Republic of Lithuania. http://kt.gov.lt/mp/pazymos/pazyma_2015-03-02.pdf. Accessed 1 May 2015.

[13]Law on Electronic Communications, Official Gazette 2004, No. 69-2382 with its last amendments at the Registry for Legal Acts TAR 2014, No. 14859.

Competition, the Law on Electronic Communications contains obligations for special transparency, non-discrimination, separation of accounting, obligations to provide access, obligations of price control and cost accounting, obligation for functional separation and special obligations for the provision of services to end users in order to prevent abuse based upon their significant market power. Differently from other laws, it is not the Lithuanian Competition Council but the Lithuanian Communications Regulatory Authority that is responsible for monitoring the application of the Law on Electronic Communications. Notwithstanding, the Competition Council decides upon cases connected with undertakings in the electronic communications sector that stem from Art. 7 of the Lithuanian Competition Law or the corresponding EU law. Similar provisions are also included in the Laws on Natural Gas and Electric Energy, which provide for specific regulation and specific obligations for undertakings possessing significant market power in both sectors.[14] Competence for monitoring here is shared between the National Commission for Energy Control and Prices and the Lithuanian Competition Council, in the same way as in the telecommunications sector.

8.2 Definition of 'Abuse'

In the same way as under EU law, solely holding a dominant position does not in itself amount to abuse under Lithuanian legislation. An undertaking has to commit some additional act by which it restricts or may restrict competition.

No separate definition of dominance is contained in the Law on Competition. However, Art. 7 defines abuse as performance by a dominant undertaking[15] of any acts that restrict or may restrict competition and without due cause limit the possibilities of other undertakings to act in the market or violate the interests of consumers. An indicative list includes the following examples of abuse: direct or indirect unfair prices or purchase/sale conditions, restriction of trade, production or technical development to the prejudice of consumers, application of dissimilar discriminatory conditions to equivalent transactions thereby causing different conditions for competition and making conclusion of an agreement dependent upon additional conditions that have no direct connection to the subject of the agreement.

[14] Law on Natural Gas of the Republic of Lithuania, Official Gazette 2010, No. 89-2743 with its last amendments at the Registry for Legal Acts TAR 2014, No. 21324; Law on Electric Energy of the Republic of Lithuania, Official Gazette 2010, No. 66-1984 with its last amendments at the Registry for Legal Acts TAR 2015, No. 7656.

[15] Art. 3 para. 2 of the Law on Competition defines dominance as a position in the market where no direct competition is faced or which allows unilateral decisive influence on the market by restricting competition. It is assumed that an undertaking with at least 40% market share is in a dominant position. It is further assumed that each undertaking in a group of three or fewer undertakings enjoys dominance if they collectively hold at least 70% of market share and have the largest shares in the market.

Taking into regard the specific legislation on retailers,[16] unfair acts are described as any acts contrary to fair business practices, whereby the operational risk of retailers with significant market power is transferred to suppliers or supplementary obligations are imposed upon them, or acts that limit the possibilities of suppliers to freely operate in the market and that are expressed as requirements for the supplier.[17] A list follows, which contains fees for inclusion in a retailer's list of suppliers; compensation for a lower turnover than expected from products of the supplier; compensation of operational costs for renovation of old stores or equipment of new ones; obligations upon the supplier to acquire goods, services or property from third parties specified by the retailer; promises to apply lower prices than for other buyers; amending essential procedures for supply or specifications of products without notifying the supplier within the time limit specified in the agreement, which may not be shorter than 10 days; obligation to take back unsold food products, except for non-perishable packaged food products if they are safe and of high quality and at least one-third of the time before their expiration date remains or they have no expiration date and there is prior agreement in relation to their return; obligation to cover the costs of sales promotion carried out by the retailer, except for cases where there is a written agreement between the retailer and the supplier regarding the amount of costs to be paidand sales promotion activities to be applied; obligation to compensate expenses caused by consumer complaints if these were not caused by justified complaints about the products of the supplier or exceed the actual expenses of the retailer; obligation to pay for the arrangement of goods, except for cases where there is a written agreement to that effect between the retailer and the supplier.

Special cases were decided where undertakings abused their dominance in one market to receive competitive advantages in another. In 2007, the Lithuanian Competition Council was confronted with a situation where the Lithuanian postal service employed its monopoly position in one market to apply much lower prices than competitors were able to offer during a tender for services in another market because competitors had to purchase the services of the Lithuanian postal service for higher prices. The Competition Council decided that the Lithuanian postal service had abused its monopoly in one market for its benefit in another related market.[18]

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[16]Notwithstanding the additional Law on Prohibition of Unfair Practices of Retail Companies, Art. 3 para. 2 of the Law on Competition already applies a stricter assumption for dominance in the retail field, where undertakings with a market share of 30%, and each undertaking in a group of three or fewer undertakings with a collective market share of 55% are to be seen as in a dominant position.

[17]Art. 3 of the Law on Prohibition of Unfair Practices of Retail Companies, Official Gazette 2010, No. 1-31 with amendments at the Registry for Legal Acts TAR 2014, No. 14287.

[18]Decision of the Lithuanian Competition Council No. 2S-20, *Concerning actions of AB "Lietuvos Pastas" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 27 August 2007. A similar situation had already been decided as abusive in 2002, when Lithuanian Telecom used its legal monopoly in the cable voice telephony market to refuse access to its facilities for internet voice telephony providers. Decision of the Lithuanian Competition Council No. 2/b, *Concerning actions of AB "Lietuvos Telekomas" corresponding with the requirements of Article 9 Para. 2 of the Law on Competition of the Republic of Lithuania* of 21 February 2002.

8.3 Exploitative Abuse and Exclusionary Abuse

The concept of abuse under Lithuanian law includes both types of infringement. The Lithuanian Law on Competition does not distinguish expressly between exploitative and exclusionary abuses, nor does the Competition Council do so generally in its practice or case law. The indicative list of Art. 7 of the Law on Competition includes examples of both exploitative and exclusionary practices. Although in one of its decisions the Competition Council elaborated on the two different types of abuse and stated that imposing unfair prices upon other undertakings due to the market power inherent in a dominant position is a typical example of exploitative abuse,[19] this is rather to be seen as an exception. Different cases have been decided on exclusionary actions by undertakings holding essential facilities, such as the airport or the telecommunications provider. Usually, in those cases, access to essential facilities had been either totally refused or unfairly limited without objective reasons.[20] In 2003, the Lithuanian Competition Council decided that bundling, by offering one service only if other products are bought from the same undertaking, too, infringes consumer interests and amounts to abuse of a dominant position.[21]

8.4 Price-Based and Non-price-Based Abuse

Price-based and non-price-based acts both form grounds for abuse of a dominant position. An express distinction between them is to be found neither in the laws nor in the practice of the Lithuanian Competition Council. The indicative list provides price-based as well as non-price-based examples and decisions based upon this prohibition containing both types of abuse without really making a distinction between them. Quite a number of cases have been initiated concerning price-based action. In 2000, a heat supplier and the most important gasoline and diesel fuel supplier in Lithuania were fined for applying discriminatory prices and

[19]Decision of the Lithuanian Competition Council No. 2S-11, *Concerning actions of UAB "Vilniaus Energija" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 6 May 2010.

[20]E.g. decision of the Lithuanian Competition Council No. 2S-1, *Concerning actions of the state company "International Vilnius Airport" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania and Art. 102 of the Treaty on the Functioning of the European Union* of 21 January 2010 and decision of the Lithuanian Competition Council No. 16/b *Concerning actions of AB "Lietuvos telekomas" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 22 December 2000.

[21]Decision of the Lithuanian Competition Council No. 2S-8, *Concerning actions of the service and trade company of A. Jankauskas corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 8 May 2003.

conditions for establishing those prices.[22] Two more recent decisions in this field were adopted in 2010. One decision again concerns a gasoline and diesel fuel supplier, which, *inter alia*, was fined for applying discriminatory prices and a non-transparent discount system.[23] The other decision of the Lithuanian Competition Council in the field of price discrimination/excessive pricing was adopted in a case where Vilnius Energy was fined for exploitative lease prices of communication tunnels.[24] The Competition Council tried to establish the excessiveness of and discrimination in the prices applied to different undertakings, including the dominant undertaking itself. It experienced various difficulties because insufficient separate bookkeeping of the dominant undertaking existed, and it was not possible to compare the lease prices applied with prices for similar services of other undertakings. The Competition Council then tried to apply other methods to prove the excessiveness of prices basing its methods mainly on the *United Brands* and *British Leyland* cases of the European Court of Justice.[25] Nevertheless, the court found the argumentation of the Lithuanian Competition Council to be not objective and not sufficiently founded. As a consequence, it annulled the decision.[26] Several other cases, e.g. in the telecommunications and transportation sectors, were initiated based upon the suspicion of competitors that dominant undertakings were engaging in predatory pricing. However, those cases often show that predatory pricing cannot be confirmed because of objective reasons for the low prices applied.[27]

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[22]Decision of the Lithuanian Competition Council No. 8/*b Concerning violation of Article 9(1) of the Law on Competition of the Republic of Lithuania by SP AB "Utenos silumos tinklai"* of 15 June 2000 and decision of the Lithuanian Competition Council No. *11/b, Concerning violation of Article 9(1(3)) of the Law on Competition of the Republic of Lithuania* by AB "Mazeikiu nafta" of 10 July 2000.

[23]Decision of the Lithuanian Competition Council No. 2S-31, *Concerning actions of AB "Orlen Lietuva" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania and Article 102 of the Treaty on the Functioning of the European Union* of 16 December 2010.

[24]Decision of the Lithuanian Competition Council No. 2S-11, *Concerning actions of UAB "Vilniaus energija" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 6 May 2010.

[25]*See for further reading on the case:* Working Party No. 2 on Competition and Regulation. Excessive Prices. Lithuania 2011, p.3-5. http://kt.gov.lt/naujienos/docs_oecd/wp_2_2011_01.pdf. Accessed 20 May 2015; ECJ, case 27/76, *United Brands Company and United Brands Continentaal BV v Commission of the European Communities*, ECR 1978 207. ECJ, case 226/84, *British Leyland Public Limited Company v Commission of the European Communities*, ECR 1986 3263.

[26]Decision of the Vilnius Administrative District Court in case No. 1-3681-562/2011 of 24 October 2011 and decision of the Supreme Administrative Court in the case A858-1516/2012 of 13 August 2012.

[27]E.g. decision of the Lithuanian Competition Council No. 1S-30, *Concerning the termination of investigations based on actions of AB "LEO LT" during the provision of services in the field of cable telephony corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 1 March 2012 and decision of the Lithuanian Competition Council No. 1S-184, *Concerning the termination of investigations based on actions of AB "Lietuvos Gelezinkeliai" corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 5 September 2011.

8.5 Enforcement

General competition law may be enforced either by the Lithuanian Competition Council or upon a claim by national courts. Although the Law on Commercial Arbitration included a prohibition on accepting cases on competition issues for arbitration,[28] in 2012 the law was amended.[29] In the amended version, a prohibition to arbitrate administrative law matters exists, but an explicit prohibition for competition-related issues that could also be decided by the competent civil courts is no longer included in the text. Thus, in cases where the parties have agreed upon an arbitration clause, it should also be possible to bring civil law claims such as for compensation of damages based on abuse of a dominant position before an arbitration institution.

8.5.1 Decision-Making Practice

Comparing the decision-making in the years 2010–2015, it can be observed that decisions on abuse of dominance are rather rare compared with decisions in other antitrust matters. The Competition Council adopted only three decisions where infringements were determined. All three decisions were adopted in 2010. Usually, decisions by the Competition Council are echoed by appeals to the competent administrative courts, which can be observed for all three decisions adopted. The Lithuanian courts upheld only one decision.[30] One decision was annulled due to insufficient grounds for its motivation.[31] One decision was partly annulled, and the fine was decreased.[32]

Within the last 4 years, no abuse has been established. In the media sector, one case ended with a commitment decision in 2011.[33] It is interesting to note that the Lithuanian Supreme Administrative Court (SAC), upon the arguments of a third party submitting an appeal against this decision, declared the 2011 decision annulled and ordered the Lithuanian Competition Council to reconsider the obligations undertaken by the abusing undertaking in relation to its infringements.[34]

[28]The Law on Commercial Arbitration of the Republic of Lithuania, Official Gazette 1996, No. 39-961.

[29]The Law on Commercial Arbitration of the Republic of Lithuania, Official Gazette 1996, No. 39-961 with its last amendments in the Official Gazette 2012, No. 76-3932.

[30]Decision of the Vilnius Administrative District Court in case No. I-1220-142/10 of 7 June 2010.

[31]Decision of the Vilnius Administrative District Court in case No. 1-3681-562/2011 of 24 October 2011 and decision of the Supreme Administrative Court in case A858-1516/2012 of 13 August 2012.

[32]Decision of the Supreme Administrative Court in case A502-801/2013 of 21 January 2013.

[33]Decision of the Lithuanian Competition Council No. 1S-233 *Concerning activities of VIASAT WORLD LIMITED AND VIASAT AS corresponding with the requirements of the Article 9 of the Law on Competition of the Republic of Lithuania and Article 102 of the Treaty on the Functioning of the European Union* of 22 November 2011.

[34]Decision of the Lithuanian Supreme Administrative Court in case No. A502-706/2013 of 5 March 2013.

The court reasoned that when adopting a commitment decision the Competition Council in principle has to follow the same requirements that apply to the European Commission when taking a decision under Article 9 of Council Regulation 1/2003.[35] The SAC further stated that following the principles and provisions of Lithuanian legal acts regulating competition law, the Competition Council has to make sure that by adopting a decision the problem existing for free competition is solved. Thus, a commitment decision can only be adopted in cases where the Competition Council is convinced that this decision abolishes the infringement and creates conditions to avoid such an infringement in future. Although the Competition Council does not have to conduct a full examination in such a case, nevertheless it has to investigate the case as deeply as necessary to establish whether the commitments are sufficient and suitable for the problems to be solved. The court was not convinced that the existing problem for free competition was really solved by establishing an infringement in the market for multichannel pay-TV services and confirming commitments that would solve a possible infringement in the other, narrower, market of multichannel digital pay-TV services.[36] It especially criticised the missing explanation in the decision for interrelating both markets in the chosen way. As a result of the judgment, the Competition Council adopted a decision in 2014 to fully terminate the investigation because it did not conform to the enforcement priorities of the Competition Council as established in 2012. It argued that because of changes in customer percentages in the analogue and digital pay-TV markets, the price differences between services provided in both markets no longer had an effective influence on consumer welfare and did not have an influence on effective competition in the market.[37]

Fifteen cases were terminated either because abuse was not evident or because undertakings undertook commitments to cease the infringement. Twelve decisions on termination were taken in the period 2010–2012. In a further 25 cases, investigations were not opened, whereas 66% of refusals were issued in the years 2010–2012.

It seems that developments in the field of prohibited agreements went vice versa. In the period 2010–2015, prohibited agreements or collusive practices were established in 18 decisions. Twenty cases were terminated, and only in three cases did the Competition Council refuse to initiate investigations.

When either refusing to open a procedure or terminating ongoing investigations, the Competition Council in several instances refers to its Enforcement Priorities,

[35]Council Regulation 1/2003 of 16 December 2002 on implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ 2003, L 1, p. 1.

[36]Decision of the Lithuanian Supreme Administrative Court in case No. A502-706/2013 of 5 March 2013.

[37]Decision of the Lithuanian Competition Council No. 1S-93/2014 *Concerning the termination of investigations on the activities of VIASAT WORLD LIMITED AND VIASAT AS corresponding with the requirements of the Article 9 of the Law on Competition of the Republic of Lithuania and Article 102 of the Treaty on the Functioning of the European Union* of 19 June 2014.

which were defined by the Competition Council in 2012.[38] Those Priorities contain discretion as to whether to start investigations by taking three factors into regard: the rational allocation of available resources of the Competition Council so as to achieve better protection of effective competition and thus more effective protection of consumer welfare and the strategic importance of a possible investigation.[39] In 2013 and 2014, for example, opening of investigations was refused against the Lithuanian Postal service[40] arguing that a claim with the same objectives had been submitted to the Commission for Dispute Settlement/the competent court and that the expected results of an investigation by the Competition Council could be achieved in the same way by a decision of the Commission/the court. Thus, complying with the request for investigations would mean an irrational usage of resources and would not have any strategic importance.[41] This argumentation was fully upheld by the court.[42] The same argumentation was used in a big case in 2012 against three of the main banks in Lithuania and a company providing security services. In the case on agreements concerning debt collection services, the Lithuanian Competition Council decided to finally examine the case only in the light of prohibited agreements since an investigation of abuse of a dominant position would have the same result—the obligation to terminate infringing actions and imposition of a fine upon the undertaking—and thus would not correspond to the defined enforcement priorities of the Competition Council.[43]

Since the Law on the Prohibition of Unfair Practices of Retail Companies came into force, the retail sector has seen four decisions establishing infringements.

[38]Decision of the Lithuanian Competition Council No. 1S-89 *Concerning the Enforcement Priorities of the Competition Council of the Republic of Lithuania* of 2 July 2012.

[39]Points 5, 6 and 8 of the Decision of the Lithuanian Competition Council No. 1S-89 *Concerning the Enforcement Priorities of the Competition Council of the Republic of Lithuania* of 2 July 2012.

[40]Decision of the Lithuanian Competition Council No. 1S-99 *Concerning the refusal to open investigations based upon actions of AB "Lietuvos pastas" corresponding with the requirements of the Article 7 of the Law on Competition of the Republic of Lithuania* of 17 July 2013 and Decision of the Lithuanian Competition Council No. 1S-87/2014 *Concerning the refusal to open investigations based upon actions of AB "Lietuvos pastas" corresponding with the requirements of the Articles 7 and 15 of the Law on Competition of the Republic of Lithuania* of 5 June 2014.

[41]Point 12 of the Decision of the Lithuanian Competition Council No. 1S-89 *Concerning the Enforcement Priorities of the Competition Council of the Republic of Lithuania* of 2 July 2012 foresees the right to evaluate the possibilities of other institutions to decide the case effectively and Point 14 refers to the rational use of resources in proportion to the expected results of the investigation.

[42]Decision of the Vilnius Administrative District Court in case No. I-0926-189/2014 of 3 March 2014.

[43]Decision of the Lithuanian Competition Council No. 2S-15 *Concerning actions of AB "SEB bankas", AB "Swedbank", AB "DNB bankas", UAB "First data Lietuva" und UAB "G4S Lietuva" corresponding with the requirements of Article 5 of the Law on Competition of the Republic of Lithuania and Article 101 of the Treaty on the Functioning of the European Union* as well as *actions of UAB "G4S Lietuva" corresponding with the requirements of Article 7 of the Law on Competition of the Republic of Lithuania and Article 102 of the Treaty on the Functioning of the European Union* of 20 December 2012.

So far, each of the four retail chains with significant market power in Lithuania has been covered by one decision.

Reviewing court practice over the last 5 years, the picture does not differ dramatically. It seems that overall, approximately 20 decisions on abuse of a dominant position were adopted by the Lithuanian courts;[44] however, this includes appeals against decisions of the Lithuanian Competition Council. Only six decisions were reached where courts decided on Art. 9 of the Lithuanian Law on Competition, based upon private claims either for compensation of damage or recognition of agreements or results of public tenders as not valid/void. Four cases were solely concerned with public tenders and infringements of the Law on Public Procurement. Among other arguments, parties alleged that undertakings, either participating with a very low price or not conforming to other conditions of the tender, had abused their dominant position. Parties mostly provided no motivation for their arguments, and the courts usually paid only minor attention to competition law and decided the case under the Law on Public Procurement.[45] In one more interesting decision from 2014, the court, referring to the opinion of the Lithuanian Competition Council, stated that there was not enough proof to confirm a dominant position and that dominance could only be established by engaging in extensive market analysis.[46] The other interesting case, decided in 2010, contained a request to compensate damages in the amount of EUR 10,601,876 against a company that had been fined before by the Lithuanian Competition Council for abuse of a dominant position for applying discriminatory prices and conditions upon the claimant. The Supreme Court of Lithuania decided in the highest instance that in evaluating the circumstances in the case, a causal link could not be established between the damages asked for in the claim and actual abuse of a dominant position. An examination by the court showed that loss of profit and net turnover was not caused by price discrimination but by the financial situation and the administration of the company.[47]

Comparing court practice on abuse of a dominant position with that on prohibited agreements and practices, no big difference exists. Overall, approximately 20 cases were decided during the last 5 years under the head of prohibited agreements,[48] although this included only five cases that were independent from appeals against decisions of the Lithuanian Competition Council.

As can be seen from the analysis, procedures and cases in the field of abuse of a dominant position have not been very successful in Lithuania, either at the

[44]Not including decisions on procedural issues.

[45]E.g. decision of the Lithuanian Court of Appeal in case No. 2A-1019/2012 of 18 January 2012 and decision of the Lithuanian Court of Appeal in case No. 2-7488-302/2011 of 14 December 2011.

[46]Decision of the Lithuanian Supreme Court in case No. 3K-3-152/2014 of 12 March 2014.

[47]Decision of the Lithuanian Supreme Court in case No. 3K-3-207/2010 of 17 May 2010.

[48]Not including decisions on procedural issues and on declarations during public procurement procedures.

administrative stage with the Lithuanian Competition Council or before the courts. Does this mean that there are no dominant undertakings active in the Lithuanian market? Or do all dominant undertakings behave so fairly and in a customer/competitor/consumer friendly way that abuse does not exist? Probably not. The rather disillusioning result seems to be caused by, on the one hand, a necessity to engage in a highly difficult cost- and time-consuming analysis of dominance in the respective market and, on the other hand, the fact that parties that rely on the argument of abuse of dominance before the courts are either not prepared to submit sufficient evidence or are not even in a position to do so owing to not possessing such evidence.

Thus, should we, based on the above, draw the conclusion that claims and procedures in the field of abuse of a dominant position are generally not very promising in Lithuania? Although the temptation might be to say "Yes", such a conclusion would likely not be objective. Even considering the tendency of the last 5 years and the number of refusals to start an investigation and also taking into account its enforcement priorities, it is difficult to predict the future position of the Lithuanian Competition Council towards procedures based on abuse of dominance. The overall policy of the Competition Council seems to show that other areas need more attention at the moment and of course resources are limited.[49] But this might change. In cases of choice between dominance and prohibited agreements and practices, the Competition Council has treated cases rather under prohibition of restrictive agreements.[50] From the perspective of competition law, this of course grants the freedom to attribute responsibility for infringements committed to more than just the dominant undertaking. Relevant court practice on private enforcement in the last 5 years leaves the impression that parties simply try to use as many arguments as possible based on different legal grounds, among others the argument of abusing a dominant position. Of course, parties will always be confronted with the challenge of difficult evidence on dominance, the respective markets and concrete damage suffered. However, as court practice shows, courts are seriously considering arguments of the parties in enforcement cases and are not prejudiced against private enforcement, especially if based on a decision of the Competition Council. Thus, private enforcement based on abuse of dominance in Lithuania should not be connected with more difficulties than based on other grounds in competition law.

[49]During recent years one priority seems to be proceedings under Article 4 of the Law on Competition against entities in public administration adopting legal acts or decisions restricting free competition.

[50]E.g. Decision of the Lithuanian Competition Council No. 2S-15 *Concerning actions of AB "SEB bankas", AB "Swedbank", AB "DNB bankas", UAB "First data Lietuva" und UAB "G4S Lietuva" corresponding with the requirements of Article 5 of the Law on Competition of the Republic of Lithuania and Article 101 of the Treaty on the Functioning of the European Union* as well as *actions of UAB "G4S Lietuva" corresponding with the requirements of Article 7 of the Law on Competition of the Republic of Lithuania and Article 102 of the Treaty on the Functioning of the European Union* of 20 December 2012.

8.5.2 Competent Courts and Authorities

Competition law cases are decided either by general administrative courts or by general civil courts. Special courts or departments in courts do not exist. Under Lithuanian law, courts apply competition law on three occasions. Either decisions of the Lithuanian Competition Council are appealed,[51] the Lithuanian Competition Council wants to impose sanctions upon the manager of an undertaking or applies for authorization of economic restrictions if sanctions are not complied with,[52] or a party submits a claim either for compensation of damage or termination of infringements.[53]

All appeals on decisions of the Lithuanian Competition Council, which prevent any further investigative process on infringements of the Law on Competition, have to be directed to the Vilnius District Administrative Court. Appeals can be brought by any person whose rights contained in the Law on Competition might be infringed by those decisions.[54] If not satisfied with decisions of the Vilnius District Administrative Court, parties might appeal further to the Lithuanian Supreme Administrative Court.[55] The Law on Competition includes the possibility to impose economic restrictions[56] in those cases where undertakings do not comply with sanctions imposed by the Competition Council. However, those restrictions have in each case first to be authorized by the Vilnius District Administrative Court. The 2012 amendments to the Law on Competition introduced the possibility to impose sanctions for infringements not solely upon the undertaking as a legal entity but also upon the manager of the undertaking if additional requirements are satisfied. These sanctions include a prohibition to act as manager or member of the board of a private company or a public body and imposition of an additional fine.[57] It is worth noting that these sanctions are administrative in their nature since no criminal liability

[51] Art. 33 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567 and Art. 10 of the Law on Prohibition of Unfair Practices of Retail Companies, Official Gazette 2010, No. 1-31 with amendments at the Registry for Legal Acts TAR 2014, No. 14287.

[52] Arts. 41 and 35 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567.

[53] Arts. 43 and 47 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567 and Art. 13 of the Law on the Prohibition of Unfair Practices of Retail Companies, Official Gazette 2010, No. 1-31 with amendments at the Registry for Legal Acts TAR 2014, No. 14287.

[54] Art. 33 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567.

[55] Art. 20 of the Law on Administrative Court Proceedings in the Republic of Lithuania, Official Gazette 2000, No. 85-2566 with its last amendments at the Registry for Legal Acts TAR 2014, No. 19929.

[56] As to e.g. preliminary suspension of licences, interrupting imports or exports as well as bank operations.

[57] Art. 41 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567.

is foreseen under Lithuanian law. In cases where the Competition Council intends to apply personal sanctions, it has to submit a motivated application to the Vilnius District Administrative Court, which then decides whether to impose additional sanctions upon the manager. No decision has been adopted so far since 2012.

Economic entities and legal and natural persons may claim compensation for damages or termination of illegal practices against other persons and thus privately enforce competition law according to the general rules foreseen for such actions in civil law.[58] In the frame of those actions, general civil courts are competent to hear cases, except for claims including the application of Art. 102 TFEU, that exclusively have to be submitted to the Vilnius District Court.[59]

Due to the fact that criteria regarding a dominant position and abuse of it are themselves economic in nature, both the Lithuanian Competition Council and the Lithuanian courts use economic experts for those cases. It can be seen that cases decided during the years 1999–2004 often include a very poor motivation on the grounds of the decisions. This has improved in recent years. A tendency to include more extensive and more comprehensive arguments and explanations on economic grounds can be observed in practice.

Besides the Competition Council and courts, several regulatory authorities are active in monitoring the competitiveness of the market. In specific sectors such as natural gas, electric energy and communications, the regulatory authorities possess the power to exercise *ex-ante* control and adopt *ex-ante* measures but partly also *ex-post* control measures in the sphere of competition law. A clear delimitation between the competences of those regulatory authorities and the Competition Council is not always apparent.

The National Commission for Energy Control and Prices operates in two markets: energy and natural gas. It is entrusted with monitoring competitiveness and the conditions in the Lithuanian market for natural gas resources and electrical energy and to create conditions so as to prevent abuse of significant power in the natural gas and electric energy markets. Additional conditions and requirements, such as to prove the costs on which prices are based and to introduce separate bookkeeping systems for separate products, might be imposed upon companies that have been characterised as having significant market power.[60] In order to fulfil its task, the Commission has to undergo regular market research, to publish prices for

[58] Art. 43 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567 and Art. 13 of the Law on Prohibition of Unfair Practices of Retail Companies, Official Gazette 2010, No. 1-31 with amendments at the Registry for Legal Acts TAR 2014, No. 14287; decision of the Lithuanian Supreme Court in case No. 3K-3-207/2010 of 17 May 2010.

[59] Art. 47 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567.

[60] Arts. 11 and 9 of the Law on Natural Gas of the Republic of Lithuania, Official Gazette 2010, No. 89-2743 with its last amendments at the Registry for Legal Acts TAR 2014, No. 21324; Arts. 65 and 68 of the Law on Electric Energy of the Republic of Lithuania, Official Gazette 2010, No. 66-1984 with its last amendments at the Registry for Legal Acts TAR 2015, No. 7656.

natural gas and electric energy and to provide them to the Competition Council.[61] In cases where it finds excessively high prices on the market because of non-existing effective competition, the Commission has to regulate the price for natural gas or to establish maximum prices for electrical energy.[62] The Law on Natural Gas as well as the Law on Electric Energy further stipulate without additional elaboration that supervision and monitoring in the field of natural gas and electric energy under the Law on Competition lies within the responsibility of the Competition Council.[63] Such unclear delimitation in connection with non-possession of the right to regulate prices was criticised by the Competition Council in one of its Working Papers for the OECD, especially in cases where it has to deal with excessive pricing since by applying *ex-post* remedies based upon excessive pricing the Competition Council would have to describe the level of non-excessive pricing.[64] This might be interpreted as price regulation. The Competition Council in its paper on excessive pricing further points to the difficulty of choosing the body being most suitable and effective to act but also avoiding double sanctions for the same infringement.

Difficulties in establishing the competent authority for a specific case, where parallel competences for regulatory authorities and the Competition Council are foreseen, are illustrated by two cases decided by the Supreme Administrative Court of Lithuania in 2009 and 2010 in the field of electronic communications.[65] As with the other laws mentioned above, the Law on Electronic Communications provides for the general competence of the Lithuanian Communications Regulatory Authority to ensure the competitiveness of the market, as well as to establish conditions that prevent undertakings with significant power in the market from abusing their influence. Additionally, it establishes the competence of the Lithuanian Competition Council to enforce competition law in the field of electronic communications.[66] Moreover, Art. 12 of the Law states that the Lithuanian Competition Council exchanges necessary information with and consults the Communications

[61] Art. 7 of the Law on Natural Gas of the Republic of Lithuania, Official Gazette 2010, No. 89-2743 with its last amendments at the Registry for Legal Acts TAR 2014, No. 21324; Arts. 64 and 65 of the Law on Electric Energy of the Republic of Lithuania, Official Gazette 2010, No. 66-1984 with its last amendments at the Registry for Legal Acts TAR 2015, No. 7656.

[62] Art. 9 of the Law on Natural Gas of the Republic of Lithuania, Official Gazette 2010, No. 89-2743 with its last amendments at the Registry for Legal Acts TAR 2014, No. 21324; Art. 68 of the Law on Electric Energy of the Republic of Lithuania, Official Gazette 2010, No. 66-1984 with its last amendments at the Registry for Legal Acts TAR 2015, No. 7656.

[63] Art. 10 of the Law on Natural Gas of the Republic of Lithuania, Official Gazette 2010, No. 89-2743 with its last amendments at the Registry for Legal Acts TAR 2014, No. 21324; Art. 65 para. 11 of the Law on Electric Energy of the Republic of Lithuania, Official Gazette 2010, No. 66-1984 with its last amendments at the Registry for Legal Acts TAR 2015, No. 7656.

[64] Working Party No. 2 on Competition and Regulation. Excessive Prices. Lithuania 2011, p.2-3. http://kt.gov.lt/naujienos/docs_oecd/wp_2_2011_01.pdf. Accessed 1 May 2015.

[65] Decision of the Lithuanian Supreme Administrative Court in case No. A^{858}-1309/2010 of 10 November 2010.

[66] Arts. 8 and 14 of the Law on Electronic Communications, Official Gazette 2004, No. 69-2382 with its last amendments at the Registry for Legal Acts TAR 2014, No. 14859.

Regulatory Authority in its task of monitoring the competitive situation in the market, and it cooperates with the Regulatory Authority in cases where it does not itself monitor competition in the field of electronic communications. In 2008 and 2009, the Competition Council refused to open investigations on abuse of a dominant position against the biggest telecommunications company in Lithuania at the time, referring to Art. 25 of the Lithuanian Competition Law.[67] The Council argued that it is the Communications Regulatory Authority that is mainly competent to decide conflicts that arise between different parties in the telecommunications sector. It should be noted that in both cases, the Communications Regulatory Authority had adopted decisions establishing special conditions for the company with significant market power. In addition, in the 2009 case, the Competition Council referred to the fact that the Communications Regulatory Authority had issued a decision based on a request by the applicant itself. Supervision of implementation of the decision thus lies within the competence of the Communications Regulatory Authority. The Supreme Administrative Court pointed to the difference between *ex-ante* and *ex-post* measures in the competences of both institutions.[68] It also elaborated on the possibility that both institutions can act, e.g. in specific legal situations, where both laws are to be applied. The Court referred to the principle that before refusing to open investigations, the Competition Council has to examine whether the special legal regulation does eliminate all infringements of competition law and ensures compliance with the Law on Competition.[69] The Court further stated that it would not be appropriate if both laws were applied to the same case and the same facts. Otherwise, a decision by the Competition Council might lead to *de facto* supervision of the Competition Council over measures taken by the Communications Regulatory Authority. The Competition Council, however, has not been granted any competences for such supervision.[70] According to the Law on Electronic Communications, the Communications Regulatory Authority also has a right to impose economic sanctions upon an undertaking that, e.g., does not act according to the conditions of the Law on Electronic Communications or is not following the obligations of the Regulatory

[67] Decision of the Lithuanian Competition Council No. 1S-14 *On the refusal to open investigations concerning activities of AB "TEO LT" connected with the provision of services in the field of cable telephony, corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 31 January 2008 and decision of the Lithuanian Competition Council No. 1S-51 *On the refusal to open investigations concerning activities of AB "TEO LT", corresponding with the requirements of Article 9 of the Law on Competition of the Republic of Lithuania* of 2 April 2009; Art. 25 para. 4 point 2 of the Law on Competition, Official Gazette 1999, No. 30-856.

[68] Decision of the Lithuanian Supreme Administrative Court in case No. A^{822}-538/2009 of 23 April 2009 and decision of the Lithuanian Supreme Administrative Court in case No. A^{858}-1309/2010 of 10 November 2010.

[69] Decision of the Lithuanian Supreme Administrative Court in case No. A^{822}-538/2009 of 23 April 2009.

[70] Decision of the Lithuanian Supreme Administrative Court in case No. A^{858}-1309/2010 of 10 November 2010.

Authority.[71] However, the maximum amount of fines is much less than the amount that could be imposed under the Law on Competition. The Communications Regulatory Authority also possesses a right to refuse open investigations, either if a decision is not within its competence or if the Communications Regulatory Authority, a court or an arbitration institution has decided or is in the process of deciding upon the same matter between the same parties.[72] Differently from proceedings before the Competition Council, parties have to pay a fee for conflict settlement procedures. The decisions of the Communications Regulatory Authority are binding upon the parties, if they are not appealed to the Vilnius District Court.[73]

No other guidelines than the considerations referred to above exist for the enforcement or substantive interpretation of the prohibition of abuse.

8.5.3 Approach Followed by Competent Courts and Authorities

Reviewing the decisional practice of the Competition Council and of the courts, no particular approach or standard towards harm or interpretation of abuse can be found. As repeatedly stated in cases and also in the enforcement priorities of the Competition Council,[74] prohibiting anticompetitive unilateral conduct should ensure effective and free competition and thus consumer welfare.[75]

Since the case law on abuse of a dominant position in Lithuania is very limited, it is not possible to gauge whether the Commission‘s Guidance on enforcement priorities[76] might have had any effect on the approach of the Competition Council and courts in Lithuania and, if so, what kind of effect.

Probably for the same reason of limited practice, publications and public reactions on decisions taken in the field of prohibiting abuse, which could be referred to, are few to non-existent in Lithuania.

[71] Arts. 72, 74, 75 of the Law on Electronic Communications, Official Gazette 2004, No. 69-2382 with its last amendments at the Registry for Legal Acts TAR 2014, No. 14859.

[72] Art. 28 of the Law on Electronic Communications, Official Gazette 2004, No. 69-2382 with its last amendments at the Registry for Legal Acts TAR 2014, No. 14859.

[73] Art. 28 of the Law on Electronic Communications, Official Gazette 2004, No. 69-2382 with its last amendments at the Registry for Legal Acts TAR 2014, No. 14859.

[74] Decision of the Lithuanian Competition Council No. 1S-89 *Concerning the Enforcement Priorities of the Competition Council of the Republic of Lithuania* of 2 July 2012.

[75] *See also* Art. 1 of the Law on Competition, Official Gazette 2012, No. 42-2041 with its last amendments at the Registry for Legal Acts TAR 2014, No. 13567.

[76] Communication from the Commission—Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings of 24 February 2009, OJ 2009, C 45, p. 7.

Moldova

9

Alexandr Svetlicinii

9.1 Introduction

The development of market competition and limitation of monopolistic activities have been declared as one of the major principles of the national economic policy even prior to the declaration of independence in 1991[1] and official recognition[2] of the Republic of Moldova as a sovereign state in 1992.[3] The urgent government measures preceding the adoption of the first competition law have ordered state authorities not to permit the undertakings with dominant position: (1) to limit or to suspend production of goods, including their withholding from the market in order to maintain the demand and provoke price increases; (2) to refuse the fulfilment of contracts for the provision of works or services when such undertakings have real possibility to fulfil the contracts; (3) to impose unfavourable contract terms or other conditions that are prejudicial to the interests of the trading party and are not related to the object of the contract (obligations to transfer raw materials, goods, residential buildings, apartments; unmotivated requests to transfer financial means, including foreign currency; or transfer of labour force).[4]

[1]See Law No. 691 of 27 August 1991 concerning the Declaration of independence of the Republic of Moldova, published in the Official Gazette of the Parliament No. 11 of 27 August 1991.

[2]See UN General Assembly Resolution A/RES/46/223 of 2 March 1992, Admission of the Republic of Moldova to membership in the United Nations.

[3]See Government Decision No. 2 of 4 January 1991 concerning urgent measures for de-monopolization of the national economy of the Soviet Socialist Republic of Moldova, published in the Official Gazette of the Parliament No. 000 on 4 January 1991.

[4]Government Decision No. 2 of 4 January 1991, para 2(1). During the transition period before the adoption of the first Competition Act, undertakings with market share exceeding 70% have been

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The first Competition Act[5] adopted in 1992 prohibited the following actions of the dominant undertaking[6] that were capable of causing prejudice to the interests of other undertakings or consumers: (1) imposing unfavourable contract terms or other conditions that are prejudicial to the interests of the trading party and are not related to the object of the contract (transfer of financial means, including foreign currency, raw materials, products, apartments, labour force, etc.); (2) imposing discriminatory contract terms that place the trading party at a disadvantage in relation to other undertakings; (3) imposing contract terms in relation to the goods, in which trading party (consumer) is not interested; (4) creating entry barriers for other undertakings; (5) violation of the price regulations as established by law.[7]

The government regulation implementing the provisions of the 1992 Competition Act has further specified the examples of the competition infringements: (1) removal of the goods from circulation in order to create or maintain market deficit or increase prices; (2) imposing unfavourable contract terms or other conditions that are prejudicial to the interests of the trading party and are not related to the object of the contract; (3) imposing discriminatory contract terms that place the trading party at a disadvantage in relation to other undertakings; (4) imposing the conclusion of the contract, in which trading party is not interested; (5) creating entry barriers for other undertakings; (6) market sharing; (7) exclusion from the market or preventing market entry for the undertakings acting as sellers or buyers of the goods; (8) limitation of the commercial activity of undertakings in certain sectors, unless authorised by law; (9) imposing restrictions on sale, purchase, exchange of goods; (10) requiring the undertakings to supply the goods to certain categories of buyers, unless authorised by law; (11) creating obstacles for the establishment of new undertakings in certain sectors, unless authorised by law; (12) according favourable fiscal or other treatment to certain undertakings, which places them at a competitive advantage vis-à-vis the competitors; (13) increase, reduction or maintenance of prices or tariffs, unless authorised by law; (14) spreading false or denigrating information to the prejudice of the goods or reputation of another undertaking; (15) misleading the consumers; (16) misleading comparison of the goods for advertising purposes; (17) unauthorised usage of the trademarks or other distinctive signs of another undertaking; (18) usage or disclosure of trade secrets without consent of the owner.[8] Since the above

viewed as dominant while market shares between 35% and 70% have been assessed on case-by-case basis.

[5]See Law No. 906 of 29 January 1992 concerning limitation of monopolistic activity and development of competition, published in the Official Gazette of the Parliament No. 2 of 1 March 1992.

[6]The law provided that an undertaking with a market share less than 35% could not be considered dominant. 1992 Competition Act, Article 3(2).

[7]1992 Competition Act, Article 3(1).

[8]Government Decision No. 619 of 5 October 1993 concerning implementation of the Law concerning limitation of monopolistic activity and development of competition, published in Official Gazette of the Parliament No. 10 of 30 October 1993, Annex 3 Regulation concerning the procedure for examination of competition infringements, para 2.

examples cover anti-competitive conduct of undertakings, acts of unfair competition and actions of state authorities, it is unclear which of the above refers to the unilateral anti-competitive conduct and whether the determination of dominance is required in order to establish such infringement.

The 1992 Competition Act was enforced by the Ministry of Economy,[9] which was authorised to issue prescriptions addressed to the undertakings found in violation of the specified competition rules.[10] In order to facilitate the monitoring of the activities of dominant undertakings, the government ordered the Ministry of Economy to establish and maintain a Registry of dominant undertakings, whose market share exceeded 35%.[11] The undertakings were included in the Registry on the basis of the information supplied by the State Department for Statistics or upon the results of the investigation carried out by the Ministry of Economy. Once included in the Registry, the dominant undertakings become the subject of the mandatory merger control—any purchase of a shareholding in the competing undertaking by an undertaking with market share exceeding 35%, as well as any purchase by any person of the shareholding in the dominant undertaking, had to obtain an *ex ante* approval by the Ministry of Economy.[12]

The second Competition Act,[13] adopted in 2000, contained a broader and more detailed prohibition of anti-competitive unilateral conduct where the abuse of dominance was defined as actions "that lead or may lead to restriction of competition and/or prejudice the interests of other undertakings or individuals".[14] The following actions were thereby prohibited: (1) imposing unfavourable contract terms or other conditions that are not related to the object of the contract (unmotivated obligations concerning transfer of financial means, goods or property rights); (2) conditioning the conclusion of the contract on purchase (sale) of certain other goods or obligation not to purchase certain goods from other undertakings or not to sell certain goods to other undertakings or consumers; (3) maintaining artificial shortage of goods on the market through deliberate reduction, limitation or interruption of production despite the existence of favourable conditions for production, as well as through removal of goods from circulation, accumulation of goods or through other means; (4) applying discriminatory conditions that place the trading party at a disadvantage in relation to other undertakings; (5) applying restrictions on

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[9]Ministerul Economiei, http://www.mec.gov.md/. Accessed 22 March 2015.

[10]1992 Competition Act, Article 13. See also Government Decision No. 619 of 5 October 1993, Annex 3.

[11]See Government Decision No. 619 of 5 October 1993, Annex 2 Regulation concerning the state registry of the dominant undertakings on the markets of the Republic of Moldova.

[12]1992 Competition Act, Article 9. See also Government Decision No. 619 of 5 October 1993, Annex 1 Regulation concerning examination of the notifications for creation and transformation of undertakings, undertakings with considerable foreign investments, and purchase of shareholdings in accordance with applicable law.

[13]Law No. 1103 of 30 June 2000 concerning protection of competition, published in the Official Gazette of the Republic of Moldova No. 166–168 of 31 December 2000.

[14]2000 Competition Act, Article 6.

resale price of the goods; (6) creating entry (or exit) barriers for other undertakings; (6) applying monopolistically low prices; (7) applying monopolistically high prices; (8) unjustified refusal to conclude a contract with certain purchasers when there is a possibility of production or supply of the respective goods.[15]

The 2000 Competition Act provided for the establishment of the independent national competition authority (NCA)—the National Agency for Protection of Competition (NAPC).[16] For various reasons, the NAPC has been effectively created only in 2007, 7 years after the adoption of the Competition Act, when the Parliament has appointed the president of the NAPC and ordered the government to undertake practical measures for the establishment of the NAPC.[17] Once established, the NAPC has continued the practice of the Ministry of Economy in building the registry of the dominant undertakings[18] as the 2000 Competition Act has preserved the system of *ex ante* merger control over corporate acquisitions in or by the dominant undertakings.[19] The determination of dominant undertakings has been the subject of the first decisions issued by the newly established NAPC.[20] The NAPC has established dominant positions of the undertakings active in the markets for air transport,[21] telecommunications,[22] district heating,[23] potable water and canalisation, natural gas, etc.[24] In two cases, the NAPC has established the existence of the collective dominance

[15]2000 Competition Act, Article 6(a)-(i).

[16]Agenţia Naţională pentru Protecţia Concurenţei, http://old.competition.md/. Accessed 22 March 2015.

[17]Decision of the Parliament No 21 of 16 February 2007 concerning measures for the establishment of the National Agency for Protection of Competition, published in the Official Gazette of the Republic of Moldova No. 29 of 2 March 2007.

[18]2000 Competition Act, Article 12(c).

[19]2000 Competition Act, Article 18(1).

[20]For the review of the NAPC's decisional practice during the first year of enforcement of the 2000 Competition Act, see A. Svetlicinii, Enforcement of competition law in the Republic of Moldova: one year on, 29(9) ECLR 2008, pp. 532–539.

[21]In 2009 the NAPC has established dominant position of the three airlines (Air Moldova, Moldavian Airlines and Tandem Aero) on the regulated routes operated by these companies on the basis of the code share agreements with foreign air carriers. See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – air transport 31(1) ECLR 2010, N3–4.

[22]See e.g. NAPC Decision No. 7 of 26 July 2007, published in the Official Gazette of the Republic of Moldova No. 112–116 on 3 August 2007; NAPC Decision No. 41 of 15 November 2007, published in the Official Gazette of the Republic of Moldova No. 188–191 on 7 December 2007; NAPC Decision No. 60 of 12 December 2007, published in the Official Gazette of the Republic of Moldova No. 14–15 on 22 January 2008.

[23]See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – heating services – dominance assessments, 30(7) ECLR 2009, N105–106.

[24]See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – thermal energy – natural gas – public regulation – exclusive licences – ex ante determination of dominance, 29 (12) ECLR 2008, N195–196.

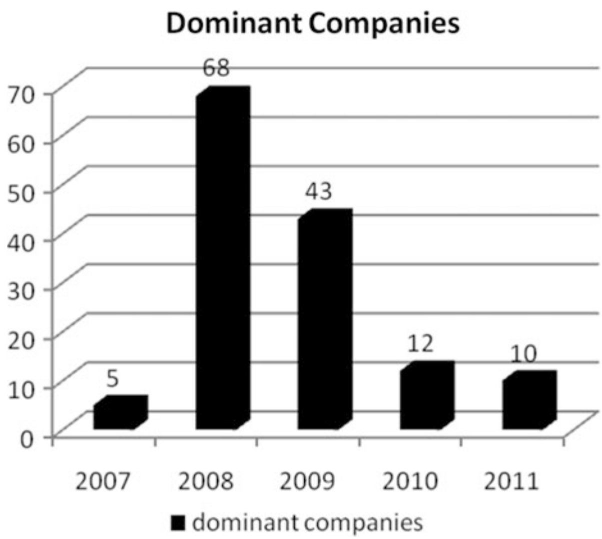

Fig. 9.1 Cases related to the finding of dominance 2007–2011

on the markets for wholesale distribution of cigarettes of medium price category (two undertakings)[25] and civil liability insurance "green card" (four undertakings).[26] Figure 9.1 represents the NAPC's caseload in relation to the determination of dominant companies during the period 2007–2011.[27]

The coverage of the 2000 Competition Act in relation to anti-competitive unilateral conduct was quite extensive as it included general formulations such as "creating entry (or exit) barriers for other undertakings".[28] The following example demonstrates the application of this broad category in the NAPC's enforcement practice. Veritrans Plus, a private undertaking licensed to provide various laboratory and metrology services, complained to the NCA that the National Institute for Standardization and Metrology (NISM)[29] has repeatedly refused to organise training and certification courses for certain metrology qualifications as requested by Veritrans Plus. As a result, Veritrans Plus was unable to provide the respective metrology services in the absence of certified metrology experts. The NISM was the sole state institution authorised to organise training and certification courses for the certified metrology experts. This monopolistic position allowed the NISM to leverage its market power on the related market of the metrology services, where it competed with private laboratories, which were required by law to employ

[25] NAPC Decision No. AA-16-10/21 of 17 March 2011.

[26] NAPC Decision No. DCC-49-09/79 of 24 March 2009.

[27] Source of the data: NAPC Activity Report for 2007–2011. http://old.competition.md/reports/Raport2011.pdf. Accessed 22 March 2015.

[28] 2000 Competition Act, Article 6(f).

[29] Institutul Național de Standardizare, http://www.standard.md/. Accessed 22 March 2015.

metrology experts trained and certified by the NISM. The NCA concluded that by refusing to organise the requested training and certification courses, as well as issuing two types of qualification certificates, the NISM has raised market entry barriers for Veritrans Plus in relation to certain metrology services where the complainant lacked certified metrology specialists.[30] That finding was made on the basis of the above-mentioned provision of the 2000 Competition Act containing the broad prohibition of creating entry barriers on the market.

The following case concerning "green card" insurance represents an instance where the NCA examined the abuse of dominance in the form of making the conclusion of contracts subject to acceptance by the trading party of supplementary obligations that, by their nature or according to commercial practice, had no connection with the subject of such contracts. In Moldova, the "green card" insurance scheme is administered by the National Bureau of Auto Insurers (NBAI). Only the members of the NBAI were certified to issue "green card" insurance policies in Moldova. When two insurance companies applied for the NBAI's membership, the current NBAI members agreed to condition their acceptance by a substantial financial contribution to the NBAI's assets. The NAPC established that such additional condition was not part of the formal criteria prescribed by law or the NBAI's statute and concluded that current NBAI members abused their collective dominant position on the relevant market by effectively excluding new entrants.[31]

The above examples from the NAPC's enforcement practice under the 2000 Competition Act demonstrate that broadly defined prohibition of anti-competitive unilateral conduct with non-exhaustive list of various forms of abusive behaviour allowed the NCA to intervene against various forms of unilateral conduct of dominant undertakings (both exclusionary and exploitative).

9.2 Definition of "Abuse"

The current Competition Act,[32] which entered into force on 14 September 2012,[33] defines the dominant position on the market as "position of economic power which allows the undertaking to prevent effective competition on the relevant market, giving the possibility to behave independently, to a considerable extent, of its

[30]CC Decision No. ASR-10 of 3 April 2014. See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – standards setting 35(10) ECLR 2014, N89–90.

[31]See A. Svetlicinii, The Moldovan Competition Authority finds the existence of cartel on the market for international motor insurance (Green Card), 3 March 2009, e-Competitions Bulletin March 2009, Art. N° 25690.

[32]Law No. 183 of 11 July 2012 on competition, published in the Official Gazette of the Republic of Moldova No. 193–197 of 14 September 2012.

[33]See V. Mircea, The Republic of Moldova adopts a new competition law: A step into the right direction, 1 January 2013, e-Competitions Bulletin January 2013, Art. N° 51099.

competitors, clients, and finally of its consumers".[34] The above definition covers both single dominance and collective dominance, where the latter is defined in the law as a situation where "two or more undertaking may jointly hold a dominant position (collective dominant position) where, even in the absence of any structural or other link between them, these operate on a market whose structure is considered favourable for the production of coordinated effects".[35] The 2012 Competition Act established a legal presumption of dominance in cases where market share of the undertaking(s) concerned exceeds 50% or the undertaking(s) concerned are vested with the exclusive rights.[36]

The reorganised competition authority—the Competition Council (CC)[37]—has further elaborated on the determination of dominance in its Regulation on determination of dominance and assessment of abuse of dominant position. The Regulation establishes a rebuttable presumption of the absence of dominant position in cases where market share of the undertaking(s) concerned is below 40%.[38] In relation to the finding of collective dominance, the Regulation provides the following criteria that have to be satisfied cumulatively: (1) there is no effective competition between undertakings concerned on the relevant market and (2) the undertakings concerned adopt uniform conduct and a common policy on the relevant market.[39] The Regulation also enumerates a number of factors that are taken into account when establishing collective dominance: market concentration, transparency, level of technology and innovation, stagnant or moderate growth of demand, low elasticity of demand, lack of customers' countervailing buying power, market maturity, product homogeneity, similarity of cost structures, similarity in market shares, high entry barriers, lack of excess capacities, lack of potential competitors, various types of informal links between the undertakings concerned, competitive pressure, lack of competition or reduced price competition, etc.[40]

The 2012 Competition Act contains the following provision prohibiting anti-competitive unilateral conduct:

> Any abusive use of the dominant position within the relevant market, to the extent it may affect competition or damage the collective interests of the final consumers on the relevant market, shall be prohibited. The abusive practices may consist in: (a) directly or indirectly imposing unfair purchase or selling prices, or other unfair trading conditions; (b) limiting production, distribution or technical development to the prejudice of consumers; (c) applying, in the relationship with trading partners, dissimilar conditions to equivalent transactions, thereby placing them at a competitive disadvantage; (d) making the

[34] 2012 Competition Act, Article 4.

[35] 2012 Competition Act, Article 10(2). See also Regulation on establishing dominant position on the market and assessing the abuse of dominant position, approved by CC Decision No. 16 of 30 August 2013, published in the Official Gazette of the Republic of Moldova No. 206–211 of 20 September 2013 (hereafter referred as "Regulation"), para 35.

[36] 2012 Competition Act, Articles 10(4), 10(5). See also Regulation, para 14.

[37] Consiliul Concurenței, http://www.competition.md/. Accessed 22 March 2015.

[38] Regulation, para 13.

[39] Regulation, para 36.

[40] These criteria are neither exhaustive nor cumulative. Regulation, paras 40–41.

> conclusion of contracts subject to acceptance by the partners of supplementary obligations which, by their nature or according to commercial practice, have no connection with the subject of such contracts; (e) charging excessive or predatory prices, with the aim of driving competitors out; (f) the unjustified refuse to contract with certain providers and/or supply to certain beneficiaries; (g) the cessation of a commercial relationship established previously on the relevant market for the single reason that the partner refuses to obey to some groundless commercial conditions.[41]

The specified provision of the 2012 Competition Act links the definition of an abuse of dominance to the effects of the actions of the dominant undertaking(s), which "may affect competition or damage the collective interests of the final consumers".[42] The law provides a non-exhaustive list of practices that may constitute an abuse of dominance if they lead to such effects. The CC's Regulation on determination of dominance and assessment of abuse of dominant position follows the format of the law and discusses the CC's assessment of particular forms of abuse without providing any general definition of the "abuse of dominance" concept.

The law also provides for an "efficiency defence" that can be invoked by the dominant undertaking with the aim to exempt its practices from the prohibition. In such case, the dominant undertaking has to demonstrate that its practices are objectively necessary or produce significant efficiencies, which compensate any anti-competitive effects on consumers, under the condition that the practices at issue are indispensable and proportionate in relation to the alleged objective pursued by the dominant undertaking.[43] When claiming the increase in efficiency, which is sufficient in order to guarantee there is no risk of causing a net prejudice to consumers, the dominant undertaking will have to prove with a high degree of probability and based on verifiable evidence that the following cumulative conditions are fulfilled: (1) the efficiency increase was implemented, or it is likely to be implemented, as a result of the respective practices, such as technical improvement of goods' quality or reducing the costs of production or distribution;

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[41] 2012 Competition Act, Article 11. The original text in Romanian language reads as follows: "Este interzisă folosirea unei poziţii dominante pe piaţa relevantă în măsura în care aceasta poate afecta concurenţa sau leza interesele colective ale consumatorilor finali. Practicile abuzive pot consta în special în: a) impunerea, în mod direct sau indirect, a unor preţuri inechitabile de vînzare ori de cumpărare sau a altor condiţii inechitabile de tranzacţionare; b) limitarea producţiei, comercializării sau dezvoltării tehnologice în dezavantajul consumatorilor; c) aplicarea în raporturile cu partenerii comerciali a unor condiţii inegale la prestaţii echivalente, creînd în acest fel unora din ei un dezavantaj concurenţial; d) condiţionarea încheierii contractelor de acceptare de către partenerii comerciali a unor prestaţii suplimentare care, prin natura lor sau conform uzanţelor comerciale, nu au legătură cu obiectul acestor contracte; e) practicarea unor preţuri excesive sau a unor preţuri de ruinare în scopul înlăturării concurenţilor; f) refuzul neîntemeiat de a contracta cu anumiţi furnizori sau de a face livrări către anumiţi beneficiari; g) ruperea unei relaţii contractuale stabilite anterior pe piaţa relevantă pentru singurul motiv că partenerul refuză să se supună unor condiţii comerciale nejustificate."

[42] 2012 Competition Act, Article 11(1).

[43] 2012 Competition Act, Article 11(5).

(2) the respective practices are indispensable for that efficiency increase: there are no less anti-competitive alternatives for these practices; (3) the likely efficiency increase determined by the respective practices compensates any likely negative effects on competition and consumer welfare on the affected markets; (4) the respective practices do not eliminate effective competition by suppressing of the majority of all the existent sources of effective or potential competition.[44] The exclusionary practices that maintain, create or enhance a market position that approaches monopoly may not be normally justified on the basis of the efficiency increase.[45] While the CC's Regulation on determination of dominance and assessment of abuse of dominant position elaborates on the assessment of particular forms of abuse, it does not provide any additional guidance on the application of the "efficiency defence" in such cases.[46]

9.3 Exploitative Abuses and Exclusionary Abuses

The legal prohibition of the abuse of dominant position embedded in the 2012 Competition Act refers to the situation where the usage of the dominant position "may affect competition or damage the collective interests of the final consumers".[47] Such definition covers impliedly both exploitative and exclusionary abuses since the two conditions are separated by the conjunction "or", which indicates that the two conditions are alternatives. At the same time, the Regulation on determination of dominance and assessment of abuse of dominant position adopted by the CC in 2013 provides that the CC shall enforce prohibition of unilateral anti-competitive conduct in cases where "on the basis of cogent and convincing evidence, if it is likely that the allegedly abusive conduct is likely to lead to anti-competitive foreclosure".[48] The same Regulation defines anti-competitive foreclosure as "a situation where effective access of actual or potential competitors to supplies or markets is hampered or eliminated as a result of the anti-competitive conduct of the dominant undertaking".[49] Since the purpose of the Regulation is to set the priorities that will guide the CC in enforcing prohibition of unilateral anti-competitive conduct,[50] it can be concluded that although the

[44] 2012 Competition Act, Article 11(7).

[45] 2012 Competition Act, Article 11(8).

[46] Regulation, paras 48–50.

[47] 2012 Competition Act, Article 11(1).

[48] Regulation, para 45.

[49] Regulation, para 4.

[50] Regulation, para 2. The preamble of the Regulation mentions that it partially transposes the Communication from the Commission—Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ C 45, 24.2.2009, p. 7–20. While the EU document indicates that it contains "the enforcement priorities that will guide the Commission's action in applying Article 82 to exclusionary conduct by dominant undertakings," the CC's Regulation refers to the "priorities that will guide the Competition Council in applying the Article 11 of the Law No. 183 on competition."

Competition Act does not exclude the exploitative abuses from the ambit of the prohibition, the CC will be less likely to intervene in cases of purely exploitative abuse without any exclusionary effect. Notably, the CC's Regulation partially transposes the EU Commission Guidance on enforcement priorities in applying Article 102 TFEU.[51]

The CC's enforcement practice supports the general understanding of the respective legal provision of the 2012 Competition Act distinguishing between exclusionary and exploitative abuses. For example, in relation to the substantive test for establishing abuse of dominant position in the form of applying predatory prices, the CC noted that the objective of predation consists in the elimination of competitors and increase in the market share of the dominant undertaking.[52] Thus, in the absence of exclusionary effects (i.e., reduction of the competitors' customer base), the CC has rejected allegations of predation even without clearly determining the dominance of the undertaking concerned.[53]

The prosecution of exploitative abuses has been common in the early enforcement practice of the Moldovan NCA, which has adopted a strong consumer protection stance. One of the first reported findings of an abuse dates back to 2008, when the NAPC has found that supplier of natural gas Nord Gaz Sîngerei has abused its exclusive rights by requiring its customers to purchase metres of the consumption of natural gas produced by a certain company. Consumers that refused to purchase the "recommended" brand of metres had to bear all installation expenses otherwise covered by Nord Gaz Sîngerei. In that case, the NAPC found both exploitative (limiting the choice of the consumers and offering its services on unfavourable conditions) and exclusionary (limiting competition on the market for natural gas metres by preventing new entry on this market) elements of the established abuse.[54]

The exclusionary abuses have been also addressed in the NAPC early enforcement practice. In 2008, the NAPC found that Chişinău International Airport by an exclusive agreement for provision of taxi services favoured a single provider, which was the single taxi operator allowed to use the parking facilities at the airport. The exclusive agreement resulted in a situation where competing taxi companies were artificially removed from the market and appeared at a competitive disadvantage, where they had to look for alternative ways to provide taxi services to arriving passengers. The NAPC has characterised the actions of the airport as an abuse of

[51]Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ 2009 C 45, p. 7.

[52]CC Decision No. APD-21 of 5 December 2013.

[53]See A. Svetlicinii, The Moldovan Competition Authority finds no dumping practices in the bundled packages on the telecommunications market (IM Sun Communications), 5 December 2013, e-Competitions Bulletin December 2013, Art. N° 64855.

[54]See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – natural gas 29 (10) ECLR 2008, N161.

dominance and ordered the latter to organise a public tender for the provision of taxi services, which would allow competition on the relevant market.[55]

9.4 Price-Based and Non-Price-Based Abuses

The current Competition Act contains the following price-related unilateral practices: (1) directly or indirectly imposing unfair purchase or selling prices; (2) charging excessive or predatory prices, with the aim of driving competitors out.[56] While the first example refers to the case of an exploitative abuse, the second example is an exclusionary abuse, which requires the showing of an anti-competitive objective. The CC has further elaborated on the issue of excessive pricing in its Regulation on determination of dominance and assessment of abuse of dominant position.[57] In order to establish the excessive pricing, the CC shall "compare production or purchasing costs with the price alleged excessive and/or compare production or purchasing costs with the similar product(s) price on a comparable competitive market, including those in other countries".[58] The determination of the excessive pricing has to meet the following cumulative criteria: (1) the difference between *de facto* product costs incurred and the *de facto* price charged shall not be excessive, and (2) if this difference is excessive, this price shall not be inequitable in itself or when compared to competing products.[59]

The assessment of the predatory pricing practices is also guided by the CC's Regulation on the determination of dominance and assessment of abuse of dominant position.[60] It provides that the CC "shall intervene where the price-based exclusionary practices restricted or may restrict competition from competitors considered as efficient as the dominant undertaking, in some circumstances, from hypothetical competitors, as efficient as the dominant undertaking".[61] The CC should be expected to intervene in cases where dominant undertaking is deliberately incurring losses (sacrifice) with the aim to exclude or to be able to exclude one or more of its current or potential competitors and thus to strengthen or maintain its market power.[62] The average variable cost is taken as the appropriate starting point for assessing whether the dominant undertaking incurred or is incurring avoidable losses. If a dominant undertaking charges a

[55]See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – taxi services 30 (4) ECLR 2009, N51–52.

[56]2012 Competition Act, Article 11(2).

[57]Regulation paras 51–55.

[58]Regulation, para 51.

[59]Regulation, para 52.

[60]Regulation, paras 83–97.

[61]Regulation, para 84.

[62]Regulation, para 89.

price below the average variable cost for all or part of its output, it is not recovering the variable costs: it is incurring a loss that could have been avoided. As a result, pricing below average variable cost will thus in most cases be viewed by the CC as a clear indication of sacrifice.[63]

In a recent case, the CC has investigated an alleged predatory pricing on the part of the incumbent telecom operator Moldtelecom.[64] In that case, the CC found that offering a 3G phone for the symbolic price of 1 MDL did not amount to predatory pricing as the cost of the phone was recovered by the company from the proceeds of the 24-month post-paid contract, which was a requisite condition for the specified promotion.[65] The recent enforcement practice indicates in cases of the alleged predatory pricing that the CC is likely to focus on the economic feasibility of the predation strategy and the actual exclusionary effects (or absence thereof). In 2014, the CC investigated the complaint lodged by Moldtelecom against another mobile operator—Orange-Moldova. Moldtelecom argued that a promotional campaign offering new prepaid customers a bonus of MDL 3000, which could be used for calls, SMS and MMS within Orange-Moldova network, amounted to predatory pricing and abuse of dominant position. Upon request of the CC, Orange-Moldova provided financial data demonstrating that due to the low costs of the services provided within own network, the promotional campaign allowed the company to realise certain profit margin. The CC also noted a continuous growth in the customer base of all mobile operators. In the absence of anti-competitive effects on the relevant market, the CC concluded that Orange-Moldova was not abusing its dominant position.[66]

The CC has also examined the alleged predatory pricing in the context of bundled sales. In 2013, the competition authority investigated the marketing practices of the independent telecom provider Sun Communications, which was offering to its customers bundled packages of IPTV, fixed telephony and Internet services. While IPTV service was also offered as an unbundled service, fixed telephony and Internet access was provided by Sun Communications only in the bundled packages. The incumbent operator Moldtelecom argued before the CC that telecom services included in the bundled packages were offered below cost with the aim of recapturing customer base from the competitors. The NCA established that prices of bundled packages were always lower than the combination of the same services purchased by the consumers separately. The CC has also noted that Moldtelecom's customer base for IPTV and Internet services was constantly on the rise, while the Moldtelecom's falling share of fixed telephony market was a general industry trend

[63]Regulation, para 91.

[64]See A. Svetlicinii, The Moldovan Competition Authority investigates the pricing of post-paid mobile services by the incumbent operator (Moldtelecom), 6 March 2014, e-Competitions Bulletin March 2014, Art. N° 68484.

[65]CC Decision No. APD-5 of 6 March 2014.

[66]See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – telecommunications 35(6) ECLR 2014, N50–51.

where the incumbent still had more than 90% of the customer base. Thus, the absence of exclusionary effects prompted the CC to conclude that the bundled sales by Sun Communications did not constitute an abuse of dominant position.[67]

The CC may also prosecute predatory pricing applied by the dominant undertakings on secondary markets on which they are not yet dominant. In particular, the CC will be more likely to find such an abuse in sectors where activities are protected by a legal monopoly where the dominant might use the profits gained in the monopoly market to cross-subsidise its activities in another market and thereby threaten to eliminate effective competition in that other market.[68] The CC has followed this approach in a recent case involving the alleged predatory pricing on the mobile telecommunications market on the part of the incumbent telecom operator Moldtelecom.[69] In that case, the CC has examined the alleged exclusionary effects on the mobile telecom market in the view of the monopolistic position of Moldtelecom on fixed telecommunications market and the possibility to cross-subsidise its promotional campaigns for mobile services.[70] In another predatory pricing case, telecom operator Moldcell argued that Moldtelecom has abused its dominant position by applying predatory prices to its mobile telecom services. During the winter holidays season of 2011, Moldtelecom launched a promotional campaign offering the following conditions to the new post-paid customers: (1) free calls within Moldtelecom's mobile network for a period of 1 year; (2) free calls to any Moldtelecom number (both fixed and mobile); (3) unlimited and free mobile Internet; (4) 3G-supporting mobile phone for the price of 1 MDL. Even though Moldtelecom was not dominant on the mobile telecom market,[71] the CC has assessed the possible anti-competitive effects stemming from the specified promotional campaign. Taking into account that Moldtelecom's rivals have been increasing their customer base at a faster pace than Moldtelecom, the NCA concluded that in the absence of exclusionary effects, there was no abuse of dominance on the part of Moldtelecom.[72]

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[67] See A. Svetlicinii, (Case Comment) Moldova: abuse of dominant position – telecommunications 35(6) ECLR 2014, N47–48.

[68] Regulation, para 90.

[69] See A. Svetlicinii, The Moldovan Competition Authority investigates the alleged predatory pricing of mobile telecommunications services by the incumbent operator (Moldtelecom), 23 January 2014, e-Competitions Bulletin January 2014, Art. N° 68488.

[70] In that case, the evolution of customer base demonstrated that Moldtelecom's rivals were much more successful in attracting new customers than the incumbent. As a result, the CC concluded that in the absence of the dominant position and/or anti-competitive effects there was no evidence of an infringement of competition rules. CC Decision No. APD-3 of 23 January 2014.

[71] Based on the annual turnover figures from the annual report published by the telecom regulator, the National Regulatory Agency for Electronic Communications and Information Technology (NRAECIT), in 2011 the market shares of the mobile telecom companies were as follows: Moldtelecom (3, 59%), Moldcell (25, 57%), Orange Moldova (70, 84%). Based on the number of customers the NRAECIT reported the following data for 2011: Moldtelecom (6, 07%), Moldcell (36, 61%), Orange Moldova (57, 32%).

[72] See A. Svetlicinii (Case Comment) Moldova: abuse of dominant position – telecommunications 35(10) ECLR 2014, N87–88.

In cases of unfair pricing where the showing of exclusionary effect is not required, the NCA's assessment is relatively simple, with the primary focus on the "unfairness" of the price in relation to the customers or consumers of the dominant undertaking. For example, in 2009, the NAPC found that imposition of 4% charge on the bus tickets sold on international routes by the bus terminal operator in the capital of Chişinău was unfair because all costs related to the ticketing of the passengers were already included in the 10% margin applied by the bus terminal to all kinds of tickets regardless of the final destination.[73] The unfair charges levied by the bus terminal operators reappeared in the focus of the NAPC's investigation in 2011. The NCA has qualified the following charges as unfair: (1) "advance sale fee" formulated as a lump sum or a percentage of the ticket's price (the NCA held that these fees were unfair because the bus terminal did not incur any additional costs by selling the tickets in advance as opposed to selling them on the day of the departure); (2) parking fee levied on all vehicles entering the territory of the bus terminal (the NCA held that these fees were unfair because the bus terminals were not licensed to supply parking services and there was no other possibility for the passengers arriving by taxis or private vehicles to deliver the luggage to the bus terminal); (3) "contract fees" charged by bus terminal operator for concluding new and extending the existing contracts with bus operators (the NCA held that these fees were unfair on the sole ground that bus terminal operators were dominant and specified fees increased the costs of bus operators and therefore created additional market barriers).[74]

The 2012 Competition Act prohibits the following non-price-based abuses, further elaborated in the CC's Regulation on the determination of dominance and assessment of abuse of dominant position: (1) tying and bundling,[75] (2) refusal to supply,[76] (3) exclusive dealing.[77] The CC's Regulation distinguishes various forms of tying (technical and contractual) and bundling (pure and mixed). While tying in bundling are not viewed as competition infringements *per se*, they may be found in violation of the respective provision of the Competition Act when the following conditions are fulfilled cumulatively: (1) the undertaking is dominant on the tying market, though not necessarily dominant in the tied market; in bundling cases, the undertaking concerned should be dominant in one of the bundled markets; in case of tying in

[73] NAPC Decision No. 64 of 22 October 2009, published in the Official Gazette of the Republic of Moldova No. 163–164 of 13 November 2009.

[74] NAPC Decision No. APD-9-11/53 of 13 May 2011. See A. Svetlicinii, The Moldovan Competition Authority finds excessive tariffs charged by the bus terminal operators for their ticketing services (Auto Terminals and Stations), 13 May 2011, e-Competitions Bulletin May 2011, Art. N° 37383.

[75] 2012 Competition Act, Article 11(2)(d), Regulation, paras 56–68.

[76] Regulation, paras 69–82.

[77] Regulation, paras 98–115.

aftermarkets, the undertaking concerned should be dominant in the tying market and/or the tied aftermarket; (2) the tying and tied products are distinct products; and (3) the tying practice is likely to lead to anti-competitive foreclosure.[78] The CC's intervention could be warranted in cases where the price of the products included in the bundle is below average variable cost because in such cases, even an equally efficient competitor may be prevented from expanding or entering the relevant market.[79]

The abuse of refusal to supply covers a wide range of practices such as refusal to supply products to existing or new customers, refusal to license IP rights (under special circumstances such as when the licence is needed to provide interface information), refusal to grant access to the essential facility or a network, etc.[80] The CC's Regulation on abuse of dominant position refers to situations where the dominant undertakings competes on the "downstream market" with the undertakings it refuses to supply. The term "downstream market" is used to refer to the market for which the refused input is needed in order to manufacture a product or provide a service.[81] The refusal to supply shall be deemed an infringement of competition rules if the following cumulative conditions are fulfilled: (1) the refusal concerns the product that is objectively necessary for the undertakings to be able to compete effectively on the downstream market (the product concerned is indispensable, i.e. there are no current or potential substitutes); (2) the refusal is likely to lead to the elimination of effective competition on the downstream market; (3) the refusal is likely to lead to consumer harm.[82] The consumer harm may arise in situations where the foreclosed competitors are prevented from placing on the market innovative goods or services, where the competitors do not merely duplicate the goods or services already offered by the dominant company but intend to produce new or improved goods or services for which there is potential consumer demand or where they are likely to contribute to technological development.[83]

The concept of "exclusive dealing", as a form of an abuse, refers to situations where an exclusive purchasing obligation requires a customer to purchase exclusively or to a large extent only from the dominant undertaking.[84] The CC shall intervene in situations where there are many customers and the exclusive purchasing obligations have the effect of preventing the entry or expansion of competitors.[85] The CC's Regulation addresses the practice of conditional rebates where they induce the customers of the dominant undertaking not to switch a

[78] Regulation, para 61.
[79] Regulation, para 67.
[80] Regulation, para 70.
[81] Regulation, para 72.
[82] Regulation, para 75.
[83] Regulation, para 81.
[84] Regulation, para 101.
[85] Regulation, para 102.

portion of their demand to an alternative supplier.[86] When assessing the foreclosure effect of the conditional rebates, the CC will estimate what price a competitor would have to offer in order to compensate the customer for the loss of the conditional rebate if the latter will switch part of its demand away from the dominant undertaking.[87]

9.5 Enforcement

9.5.1 Decision-Making Practice

The quantitative assessment of the NCA's decision-making practice can be helpful in understanding the enforcement tendencies and priorities in a particular jurisdiction. Prior to the analysis of the CC's enforcement record, several clarifications should be made. Neither the 2000 Competition Act[88] nor the 2012 Competition Act[89] required the NCA to publish the individual infringement decisions. As a result, the information about the enforcement activity of the NCA can be derived from the NCA's annual reports and press releases. At the time of writing of the present review, the NCA has published its activity reports for the following periods: 2007, 2007–2008, 2009, 2007–2011 and 2012–2013.[90]

Figure 9.2 represents the caseload of the NAPC in relation to the prohibition of the anti-competitive unilateral conduct under the 2000 Competition Act.[91]

It is obvious that the number of investigations significantly exceeds the number of infringements found by the competition authority. This can be partly explained by the fact that 70% of the investigations were initiated upon individual complaints of the interested parties. Since the knowledge about competition law and the role of competition authority remained low, numerous ungrounded complaints (consumer driven or competitor driven) were lodged before the NAPC alleging the abuse of dominant position. Many of these cases were rejected due to the absence of the

[86] Regulation, para 108.

[87] Regulation, para 110.

[88] The 2000 Competition Act required the NAPC to publish in the Official Gazette of the Republic of Moldova only its annual reports and decisions of general public interest. As a result, the NAPC exercised an administrative discretion to decide which infringement decisions should be published. See 2000 Competition Act, Annex, paras 27–28.

[89] The 2012 Competition Act requires the CC to publish in the Official Gazette of the Republic of Moldova only its regulations, which is a type of secondary legislation of normative character. 2012 Competition Act, Article 45(6). The regulations concern the following: (a) organization and functioning of the CC; (b) organization, functioning and competences of the Council of Experts; (c) block exemption regulations for certain categories of agreements; (d) determination of dominant position and assessment of abuse of dominant position; (e) economic concentrations; (f) commitments; (g) implementation of the state aid regime. 2012 Competition Act, Article 46(6).

[90] The annual reports of the NAPC and CC are available at http://old.competition.md/reports/index.php and http://www.competition.md/publications/rapoarte-anuale.html. Accessed 22 March 2015.

[91] Based on: NAPC, the Activity Report for 2007–2011. http://old.competition.md/reports/Raport2011.pdf. Accessed 22 March 2015.

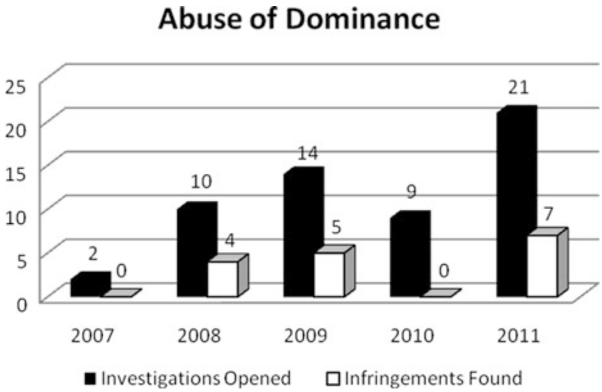

Fig. 9.2 Abuse of dominance cases 2007–2011

dominant position of the undertaking(s) concerned on the relevant market. It also demonstrates that the general public and business community often perceived the competition authority as a watchdog over monopolists and large companies without much regard to the scope of competition law and the functions of competition authority.

Figure 9.3 demonstrates the ratio of the abuse of dominance cases in the overall caseload (excluding merger control and state aid) of the NAPC under the 2000 Competition Act.[92]

The statistics for 2007–2011 indicates that the number of abuse of dominance cases per year is approximately equal to the number of cases concerning acts of unfair competition (approx. 11 cases per year). These two categories of cases (excluding merger control) share the first place in the workload of the NAPC under the 2000 Competition Act. These numbers stand in stark contrast to the number of cases concerning anti-competitive agreements, which remained at average four cases per year during 2008–2011. The quantitative gap between the two types of antitrust infringements became only wider in 2012–2013 following the adoption of the 2012 Competition Act. According to the CC's data, it has started the year of 2012 with two investigations concerning anti-competitive agreements.[93] During 2012–2013, the CC has opened six new investigations in this field.[94] The CC's work in the field of unilateral anti-competitive conduct has been much more voluminous. The competition authority commenced the year of 2012 with 33 cases; it has opened five new cases during 2012–2013 and

[92]Based on: NAPC, the Activity Report for 2007–2011. http://old.competition.md/reports/Raport2011.pdf. Accessed 22 March 2015.

[93]CC, the Activity Report for 2012–2013, p. 17.
http://www.competition.md/uploads/rapoarte_anuale/Raportul-privind_activitatea_%20Consiliului-Concurentei_2012-2013.pdf. Accessed 22 March 2015.

[94]Activity Report for 2012–2013, p. 18.

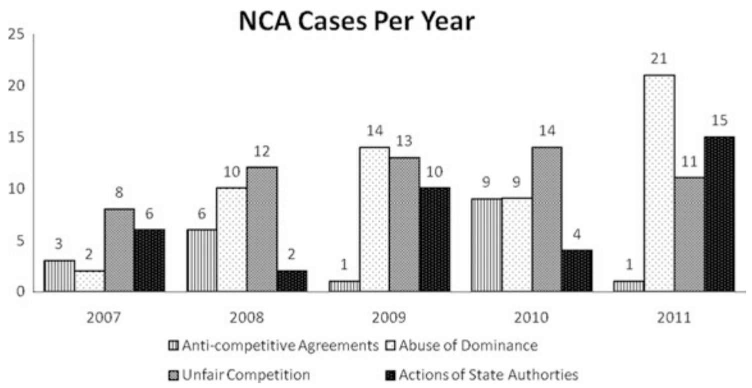

Fig. 9.3 Competition enforcement statistics 2007–2011

ended the year of 2013 with the 17 ongoing investigations concerning potential abuse of dominant position.[95] While at the time of writing the CC's statistics for 2014 has not been yet released, it can be noted that in 2014 the CC has published seven decisions concerning abuse of dominant position.[96] When it comes to the type of unilateral anti-competitive conduct targeted by the competition authority, it is problematic to provide a precise estimation of exclusionary and exploitative cases, especially since some cases include both elements. At the same time, certain economic sectors with little or no competition have seen NCA's interventions against exploitative practices. For example, a recent study of the NAPC's interventions in the regulated sectors such as utilities and energy indicates that in the majority of cases, the NCA has targeted exploitative abuses of dominant position.[97] The breakdown of the NCA's caseload throughout the years of its enforcement activity allows concluding that prosecution of the unilateral economic conduct has been a clear enforcement priority of the NCA from the early years of its existence, and it continues to occupy a significant portion of its caseload under the 2012 Competition Act. It could be expected, however, in the light of the improved cooperation between the CC and regulatory authorities and the CC's Guidelines on determination of dominance and assessment of the abuse of dominant position, that the nature of the CC's interventions could shift from exploitative towards exclusionary unilateral practices.

[95] Activity Report for 2012–2013, p. 20.

[96] CC Decisions Nos. APD-1 of 10 January 2014, APD-3 of 23 January 2014, APD-5 of 6 March 2014, APD-6 of 11 March 2014, APD-33 of 25 September 2014, APD-41 of 13 November 2014, APD-42 of 13 November 2014. http://competition.md/decizii/. Accessed 22 March 2015.

[97] See A. Svetlicinii and M. Botta, Enforcement of Competition Rules in Regulated Industries: Abuse of Dominance Practices in the New EU Member States, Candidate Countries and Potential Candidates in J. Drexl and F. Di Porto (eds.) Competition Law as Regulation, Edward Elgar, 2015.

9.5.2 Competent Courts and Authorities

The court system of the Republic of Moldova consists of the courts of general jurisdiction (the Supreme Court of Justice (SCJ),[98] the courts of appeal and the courts of first instance)[99] and specialised courts (economic court and military court).[100] Under the 2000 Competition Act, the courts have been actively involved in the antitrust enforcement due to the fact that the NAPC was not authorised to impose fines on undertakings found in violation of competition rules. The law authorised the NAPC to establish competition infringements and to issue prescriptions to the undertaking(s) concerned requiring the latter to modify their conduct and/or remedy anti-competitive effects of their prior conduct.[101] The NAPC's decisions could be challenged in court within 6 months from the date of adoption. The liability for the competition infringements was not regulated in the Competition Act and followed the general administrative procedure rules. Under those rules, an administrative authority (the NAPC) had to initiate an infringement procedure in court with request to impose financial penalties on undertaking(s) and individual(s) concerned. This legislative solution has increased the administrative burden of the newly established NCA and delayed the effective imposition of penalties on the offenders. Moreover, unlike the EU model of calculating the fine as a percentage of annual turnover, the administrative fines in Moldova are fixed, which determined a relatively low level of penalties for competition infringements.

The 2012 Competition Act has authorised the CC to impose fines calculated as a percentage of the annual turnover of the undertaking(s) concerned.[102] The new law has also introduced a leniency programme, which allows the CC to grant immunity or reduction of fines to the undertakings that have contributed to the investigation and the establishment of the infringement.[103] As a result, the courts are currently involved in the judicial review of the CC's infringement decisions and procedural acts (imposition of fines or periodic penalties, investigative actions, etc.) The rules on jurisdiction provide that the judicial review of the CC's decisions is exercised by the Chişinău Court of Appeals as a first instance court and by the SCJ (the Panel for civil, commercial and administrative cases) as a second and final instance court.[104]

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[98] Curtea Supremă de Justiţie, http://despre.csj.md/. Accessed 22 March 2015. See Law No. 789 of 26 March 1993 concerning the Supreme Court of Justice, published in the Official Gazette of the Republic of Moldova No. 15–17 on 22 January 2013.

[99] The interactive map of the courts of general jurisdictions is available at http://courts.justice.md/. Accessed 22 March 2015.

[100] Law No. 154 of 6 July 1995 concerning judicial organization, published in the Official Gazette of the Republic of Moldova No. 15–17 on 22 January 2013.

[101] 2000 Competition Act, Annex "Statute of the National Agency for Protection of Competition", Article 8.

[102] 2012 Competition Act, Articles 67–80.

[103] 2012 Competition Act, Articles 84–92.

[104] See Law No. 793 of 10 February 2000 concerning administrative procedure, published in the Official Gazette of the Republic of Moldova (special edition) of 3 October 2006, Articles 8–10.

The 2012 Competition Act grants the above-mentioned court the full judicial review powers in relation to the amount of fine imposed by the CC: the courts can reduce the fine, increase it or annul the CC's decision.[105] The victims of the competition infringements can lodge a follow-on action for compensation of damages before the courts of general jurisdictions within 1 year from the date when the CC's infringement decision becomes final and irrevocable.[106]

Besides the CC and the courts entrusted with the judicial review of the CC's infringement decisions, the protection and development of market competition can be found among the responsibilities of various NRAs with monitoring and regulatory powers in the specific sectors of the national economy. For example, the Energy Act directs the government to "stimulate competition and limit monopolistic activity in the energy sector" through the "creation of conditions for competition and liberalization of the energy markets".[107] Among the competences of the National Energy Regulatory Agency (NERA),[108] the law mentions promotion and protection of fair competition and efficiency of the energy markets.[109] The same objectives are proclaimed in the sector-specific regulations enforced by NERA concerning the market for petroleum products,[110] natural gas[111] and electricity.[112] In the field of telecommunications where the National Regulatory Agency for Electronic Communications and Information Technology (NRAECIT)[113] acts as an NRA, the development of effective, fair and equitable competition is mentioned among the regulatory objectives.[114] The NRAECIT is entrusted with the task to define the regulated markets with little or no competition, to determine the undertakings with the significant market power, to formulate specific regulatory obligations for the latter and to monitor their compliance. Even though the NRAs exercise their regulatory authority in relation to the dominant undertakings, the sector-specific legislation takes an *ex ante* approach by prescribing specific conduct to the dominant undertakings instead of prosecuting them *ex post* for the abuse of

[105] 2012 Competition Act, Article 78.

[106] 2012 Competition Act, Article 79.

[107] Law No. 1525 of 19 February 1998 on energy, published in the Official Gazette of the Republic of Moldova No. 50–51 of 4 June 1998, Articles 4(g) and 8(1)(a).

[108] Agenţia Naţională pentru Reglementare în Energetică, http://www.anre.md/. Accessed 22 March 2015.

[109] Law No. 1525 of 19 February 1998 on energy, Article 4 (2)(b).

[110] Law No. 461 of 30 July 2001 concerning the market for petroleum products, published in the Official Gazette of the Republic of Moldova No. 76 of 22 April 2003, Article 1(1).

[111] Law No. 123 of 23 December 2009 concerning natural gas, published in the Official Gazette of the Republic of Moldova No. 23–24 of 12 February 2010, Article 3(2)(c).

[112] Law No. 123 of 23 December 2009 concerning electricity, published in the Official Gazette of the Republic of Moldova No. 23–24 of 12 February 2010, Article 3(2)(c).

[113] Agenţia Naţională pentru Reglementare în Comunicaţii Electronice şi Tehnologia Informaţiei, http://www.anrceti.md/. Accessed 22 March 2015.

[114] Law No. 241 of 15 November 2007 on electronic communications, published in the Official Gazette of the Republic of Moldova No. 51–54 of 14 March 2008, Article 7(2)(c).

dominant position, which is the competence of the CC. The following section discusses the approach followed by the competent courts and the interaction between the CC and the NRAs concerning anti-competitive unilateral conduct.

9.5.3 Approach Followed by Competent Courts and Authorities

The following case represents an instance where the NAPC's enforcement actions against abuses of dominant position appeared in a conflict with the sector-specific regulation enforced by the NRA. In 2011, the NAPC established that RED Union Fenosa has abused its dominant position on the market for supply and distribution of electricity at regulated tariffs by including an automatic notice of disconnection in its monthly invoices sent to the consumers. The standard agreement for the supply of electricity to individual consumers provided for the supplier's right to disconnect the customers that failed to pay their monthly bills within 10 days from the payment date indicated on the invoice. The consumers were reminded about the supplier's right to disconnect the supply through a standard message inserted into their monthly electricity bills. NERA in its consumer guidelines required the electricity suppliers to include the following text on its monthly bills: "Attention! Notice on disconnection. We remind you that in case of non-payment of this bill until the due date indicated herein the consumption equipment will be disconnected from the electricity network without further notice". In compliance with NERA's regulation, RED Union Fenosa placed this message on all of its invoices sent to the customers without distinguishing between customers that paid their bills on time and those defaulting on their payments. The NAPC assessed this practice in light of the general requirement of the Civil Code, which in case of standard agreements requires the creditor to provide the debtor with the notice of default. The NAPC concluded that "automatic" notice on disconnection included in every electricity invoice did not fulfil the mandatory requirements of the Civil Code and represented an abuse of dominant position in the form of imposing unfavourable trading conditions.[115] In its decision, the NAPC also urged NERA to revise its regulations governing the supply and consumption of electricity and to oblige the electricity supplier to give express prior notices in cases of intended disconnection.

The NCA's interventions in the regulated markets based on the prohibition of the abuse of dominant position have been upheld by the judiciary. In a 2014 judgment, the Supreme Court of Justice affirmed the judgment of the first instance court and upheld the infringement decision of the CC against the dominant electricity supplier Red Union Fenosa.[116] The CC has qualified as an abuse of dominance the actions of Red Union Fenosa where the latter has imposed on the customer an obligation to

[115] NAPC Decision No. CNP-75/08/13 of 22 February 2011. See A. Svetlicinii, The Moldovan Competition Authority finds an exploitative abuse of dominant position in the invoicing practices of an electricity distributor (RED Union Fenosa), 22 February 2011, e-Competitions Bulletin February 2011, Art. N° 34942.

[116] SCJ, case 3ra-1056/14 of 29 October 2014 *Red Union Fenosa v Competition Council*.

transfer the ownership over certain infrastructure to the electricity supplier as a condition for the connection to the electricity network. In an earlier case, the SCJ has affirmed another intervention of the NCA against Red Union Fenosa based on the abuse of dominance prohibition.[117] In that case, the NCA found that the dominant electricity supplier was "recommending" the consumers to install the electricity consumption meters with LCD screens, which effectively foreclosed the retailers of the mechanic electricity meters from the significant portion of the relevant market. The Court upheld the NCA's interpretation of the 2000 Competition Act, which prohibited a range of actions of the dominant undertaking that lead to the limitation of competition and hamper the consumers' interests. In that case, the energy NRA has submitted that sector-specific regulation did not permit the electricity supplier to refuse the installation of the metering equipment that satisfied technical standards so that Red Union Fenosa could not impose any particular type or brand of metering equipment on its consumers.

In another case, the SCJ has upheld the CC's intervention in the market for potable water and canalisation services where the NCA found that the dominant undertaking Apă-Canal Chişinău has abused its dominant position by requiring certain residential consumers to install the consumption metering equipment at their own cost.[118] The NCA held that this discriminatory treatment of certain consumers violated the utility company's obligation to install and maintain the metering equipment at its own cost. The SCJ aligned with the NCA and noted that the dominant position of Apă-Canal Chişinău provided for "special responsibility" of the dominant company in its relations with the consumers.

The 2012 Competition Act has regulated the relations between the CC and sector regulators in the following way. The NRAs are required to notify the CC of any possible competition infringements in the regulated markets and to submit the drafts of the sector regulations that may affect competition on the regulated markets to the CC for review and opinion.[119] Sector-specific regulations provide for the possibility of the NRAs to consult the CC in cases where the former examine mandatory merger notifications in their respective fields[120] or determine the undertakings with significant market power.[121] In cases where the CC suspects

[117]SCJ, case 3ra-748/13 of 29 May 2013 *Red Union Fenosa v Competition Council*. See also SCJ Case 3rh-7/14 of 15 January 2014 *Red Union Fenosa v Competition Council*.

[118]SCJ, case 3ra-7/14 of 12 March 2014 *Apă-Canal Chişinău v Competition Council*. See also SCJ Case 3ra-1451/12 of 9 October 2013 *Apă-Canal Chişinău v Competition Council*.

[119]2012 Competition Act, Articles 34(2), 34(4). See also Law No. 1525, Article 4^1(5). The Law on energy requires NERA to cooperate with the CC especially in relation to information exchange, which is necessary for the enforcement of competition rules.

[120]See e.g. Law No. 123 of 23 December 2009 concerning natural gas, Article 21; Law No. 124 of 23 December 2009 concerning electricity, Article 21; Law No. 92 of 29 May 2014 concerning thermal energy and development of cogeneration, published in the Official Gazette of the Republic of Moldova No. 178–184 of 11 July 2014, Article 32.

[121]See Law No. 241 of 15 November 2007 on electronic communications, Articles 51–57.

competition infringements on the regulated market, it shall request the opinion of the respective sector regulator.[122] Generally, the legislator has divided the enforcement competences between the NCA and the NRAs in the following manner: the NRAs shall act *ex ante* in their respective sectors, while the NCA shall act *ex post* in order to safeguard competition in all economic sectors.[123] In some sectors, such as telecommunications, the cooperation between the CC and the NRA has been evolving successfully: the CC has been continuously consulting the NRAECIT in the line cases concerning alleged abuses of dominant position in the mobile telecommunications market.[124] In July 2014, the CC and the NRAECIT have formalised their relations by signing the inter-agency cooperation agreement.[125]

At the same time, as the preceding discussion demonstrates, the NCA's relations with the energy regulator have been far less "cooperative". The NCA on several occasions has intervened in the energy markets where it found that NERA's regulations have not prevented the dominant undertakings from engaging in exploitative practices vis-à-vis their consumers and trading partners. In an earlier case concerning alleged price coordination among the petroleum product retailers, the NAPC held that by receiving price data notified by the parties without assuring an effective price control, the NERA has contributed to the price coordination by facilitating the exchange of information among the undertakings concerned.[126] The role of NERA in facilitating the alleged price coordination has been examined on appeal of the NAPC decision before the courts where the NAPC's decisions have been annulled for the lack of evidence concerning price coordination.[127] Needless to say, the NAPC's intervention and the resulting litigation have not contributed to the improvement of cooperation between the NCA and energy regulator.

[122] 2012 Competition Act, Article 34(3).

[123] 2012 Competition Act, Article 34(5). See also A. Svetlicinii, New Competition Law of the Republic of Moldova: Prospects and Concerns, 6 Österreichische Zeitschrift für Kartellrecht (2013), pp. 201–218.

[124] See Section 4 of the present report for the review of the CC's practice in the telecommunications sector.

[125] See press releases at http://competition.md/news/a-fost-semnat-acordul-de-cooperare-bilaterala-intre-c-c-si-anrceti.html and http://www.anrceti.md/news18072014_2. Accessed 22 March 2015.

[126] See A. Svetlicinii, The Moldovan Competition Authority finds concerted practices on the market for retail of oil derivatives (Petroleum companies), 17 February 2011, e-Competitions Bulletin, Art. N° 36984.

[127] See A. Svetlicinii, The Moldovan Supreme Court of Justices quashes two infringement decisions of the Competition Authority on concerted practices in the market for retail trade in oil derivatives for the lack of evidence (Petrom and Lukoil), 7 December 2011, e-Competitions Bulletin December 2011, Art. N° 44496.

9.6 Concluding Remarks

As it was discussed earlier, the effective enforcement of the 2000 Competition Act by the NAPC has effectively commenced in 2007, when the leadership of the competition authority has been appointed by the Parliament and the government has undertaken practical steps towards the establishment of the competition authority. As a result, the current enforcement record of the NCA in the field of unilateral anti-competitive conduct has been accumulated during 2007–2012 under the broad prohibitions of various forms of abusive conduct embedded in the 2000 Competition Act. Although the early practice of the NAPC has attracted criticisms from the domestic business community and foreign investors, these were mainly directed towards the application of sanctions by the newly established competition authority.[128] The attitude of the general public or average consumers, often reflected in the media reporting on the work of the NAPC, was generally positive in relation to the prosecution of abusive conduct of the dominant undertakings. The newly established NCA has received numerous complaints by consumers and competitors concerning the potential abuses of dominant position. The NAPC has managed to attract a substantial degree of public attention precisely by targeting dominant undertakings in socially sensitive sectors such as utilities, energy, transportation, etc. These interventions could be also seen as an "enforcement shortcut", which allowed the young NCA to build its enforcement record with limited human, financial and institutional resources and experience that were insufficient for the organisation of complex investigations or sophisticated economic assessments.

As a part of the 2008–2010 EU-funded project "Support for the Implementation of Agreements between the Republic of Moldova and the European Union",[129] the international experts have produced the review of the Moldovan competition legislation and enforcement mechanism for compliance with the EU standards. The authors have noted that the 2000 Competition Act places undue emphasis on the abuse of dominant position: extensive list of possible abuses, determination of dominant position carried out by the NAPC in separation from the infringement proceedings, the declared purpose of the merger control being to prevent potential abuses of dominant position, etc.[130] During the course of its European integration, first as a participant of the EU's Eastern Partnership[131] initiative and currently as a

[128]See A. Svetlicinii, Enforcement of competition law in the Republic of Moldova: one year on 29 (9) ECLR 2008, pp. 532–539.

[129]For general information about the EU-funded projects in Moldova see the official website of the State Chancellery, Department for Coordination of Policies, External Assistance and Public Administration Reform at http://www.ncu.moldova.md/. Accessed 22 March 2015.

[130]See Eugene Stuart and Abel Mateus, Competition Law and Policy: Law Approximation to EU Standards in the Republic of Moldova (IBF International Consulting, 2009), pp. 41, 97.

[131]The Eastern Partnership represents the Eastern dimension of the European Neighbourhood Policy. It is a joint policy initiative launched at the Prague Summit in May 2009, which aims to deepen and strengthen relations between the European Union and its six Eastern neighbours: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. http://eeas.europa.eu/eastern/index_en.htm. Accessed 22 March 2015.

signatory of the Association Agreement with the EU,[132] Moldova has substantially aligned its competition legislation with the EU standards, which has been reflected in the current 2012 Competition Act and secondary legislation such as CC's Regulation on the determination of dominant position and assessment of abuse of dominant position, which partly transposed the EU Commission's Guidance on enforcement priorities in applying Article 102 TFEU.[133] In the light of this legislative reform of competition rules, enhancement of the investigative and sanctioning powers of the CC, improved cooperation between the NCA and the NRAs, growing experience of the CC in antitrust enforcement matters, it could be expected that in the future the CC will become more selective in its interventions against the unilateral anti-competitive conduct with the possible shift of the enforcement priority towards exclusionary abuses and high-impact cases.

[132]The Moldova-EU Association Agreement was signed in Brussels on 27 June 2014, ratified by the Parliament of the Republic of Moldova on 2 July 2014 and by the European Parliament on 13 November 2014. See Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other part, OJ 2014 L 260, p. 4.

[133]In its 2013 progress report for Moldova the EU Commission noted that "The Competition Council has made considerable progress in adopting the secondary legislation necessary to implement competition law and state aid law." Joint Staff Working Document Implementation of the European Neighbourhood Policy in the Republic of Moldova: Progress in 2013 and recommendations for action, 27 March 2014, SWD (2014) 93 final, p. 14.

Poland

10

Aleksander Stawicki, Bartosz Turno, and Tomasz Feliszewski

10.1 Introduction

Anticompetitive unilateral conduct is prohibited by Article 9 of the Act of Competition and Consumer Protection (hereinafter the "Act"). According to Article 9(1) of the Act, the abuse by one or more undertakings of a dominant position within a relevant market shall be prohibited. This legislation constitutes a development of the general rule laid down in Article 1(2) of the Act, whereby the Act regulates the principles and procedures for counteracting practices that restrict competition (restrictive practices). The prohibition of the abuse of a dominant position is a unilateral practice in the form of acts or omissions of an undertaking with a significant degree of market power. The structure of this regulation is based on the provisions of Article 102 TFEU. In addition, Polish competition law considers the abuse of a dominant position as contrary to general public interest. The prohibition laid down in Article 9(1) is absolute, which means that the law does not provide any means of exemption.[1]

Article 9(2) of the Act provides a list of examples that constitute the most typical and the most frequent types of abusive conducts applied in practice. Pursuant to the abovementioned provision, the abuse of a dominant position may, in particular, take the form of

[1] A. Stawicki, E. Stawicki (eds.). *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2011.

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1) direct or indirect imposition of unfair prices, including excessive or predatory pricing, delayed payment terms, or other trading conditions;
2) limiting production, sale, or technological progress to the prejudice of contracting parties or consumers;
3) application to equivalent agreements with third parties onerous or not homogenous agreement terms and conditions, thus creating for these parties diversified conditions of competition;
4) making conclusion of the agreement subject to acceptance or fulfillment by the other party of another performance having neither substantial nor customary relation with the subject of the agreement;
5) counteracting formation of conditions necessary for the emergence or development of competition;
6) imposition of onerous agreement terms and conditions, yielding to this undertaking unjustified profits;
7) dividing the market according to territorial, product, or entity-related criteria.

The list should be seen as an indicative catalogue of examples, which means that other anticompetitive practices of a dominant undertaking that affect the interests of competitors, clients, and contractors may be considered as abuses of dominant position. This open catalogue may be helpful to identify the main features of an abusive behavior within the market.

Pursuant to Article 9(3) of the Act, any legal transaction that constitutes an abuse of a dominant position is null and void in its entirety, or in its respective part. The invalidity will particularly apply to contracts between the dominant undertaking and its clients and contractors, if the agreements were concluded as a means of carrying out restrictive practices. Unilateral legal transactions may also be considered as invalid.

The first Polish regulations concerning competition protection, which were established in the interwar period, applied only to cartels and did not have a rule prohibiting anticompetitive unilateral conduct; the provisions for providing means to combat antitrust practices were introduced to the act as of 1987. The statute at that time, however, still did not differentiate between the two basic forms of anticompetitive conduct, i.e. restrictive agreements and the abuse of a dominant position.[2]

The Act of 24 February 1990 for the first time included the list of prohibited practices, along with the separation of the anticompetitive practices into restrictive agreements and the abuse of a dominant position. Furthermore, the act created the basis for the formation of the Antitrust Office, which was allowed to issue decisions prohibiting such practices and determining the conditions of these prohibitions. Moreover, in the case of an increase in prices of goods or services that resulted from the application of prohibited practices, the Authority had the capacity to issue decisions decreasing those prices. Undertakings had to notify the Office about the

[2] C. Banasiński, *Ochrona konkurencji i konsumentów w Polsce i Unii Europejskiej (studia prawno-ekonomiczne).* Warszawa 2005.

intent to carry out a merger or a transaction that resulted in a change of control over the companies involved, as well as of the intent to establish a new company, if these could lead to obtaining a dominant position.[3] The statute was subject to many amendments in the 1990s.

A significant step in the evolution of Polish competition law came with the adoption the Act of Competition and Consumer Protection on 15 December 2000. It introduced the foundations of the current system of competition and consumer protection. In view of Poland's expected accession to the European Union, the legislator reformulated some of the provision in order to achieve conformity with the requirements laid down in EC competition law. As a result, Article 8, which then regulated the prohibition of abusing dominant position, was based on Article 82 of the Treaty establishing the European Community. Foreseeably, a number of changes were introduced into the act after Poland's accession to the European Union in 2004. As regards the regulation of unilateral anticompetitive conduct, the list of abuses was extended so as to include market-sharing practices.[4] The statue of 2000 was replaced by the Act of Competition and Consumer Protection of 16 February 2007, which is still in force. The new legislation was a means for implementing Regulation 2006/2004[5] and created the occasion to make some crucial amendments to the version of the Act from 2000.

Interestingly, in the field of law of unfair competition, one can also find provisions that prohibit practices similar to those banned by the Act as regards anticompetitive unilateral conduct. The act of 16 April 1993 on combating unfair competition introduces measures of preventing and combating unfair competition in B2B relations in the interest of the general public, the undertakings, and their customers. A similar role, yet for B2C relations, is played by the act of 23 August 2007 on combating unfair commercial practices, which defines unfair commercial practices in business and professional areas and introduces measures to counteract such practices in the interest of consumers and the public.

10.2 Definition of Abuse

The Act, similarly to the provisions of the TFEU that it is based on, does not include a legal definition of what constitutes an abuse of a dominant position. Article 9 of the Act—the only provision that specifically refers to this form of anticompetitive behavior—as in the case of Article 102 TFEU, only states that such an abuse in the relevant market by one or more undertakings shall be prohibited. It further lists certain examples of practices that will undoubtedly be found to raise particular competitive concerns on the part of the NCA, e.g. direct or indirect imposition of

[3]Ibidem.

[4]D. Miąsik, *Rozwój polskiego prawa konkurencji*, SPP 2013, Nr 1.

[5]Regulation 2006/2004 of the European Parliament and of the Council of 27 October 2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws (the Regulation on consumer protection cooperation), OJ 2004 364, p. 1.

unfair prices, including excessive or predatory pricing. Thus, like its TFEU predecessor, Article 9 of the Act, in order not to limit the potential scope of its application, functions on the basis of a general clause banning abusive behaviors of dominant undertakings.[6] Hence, it is more than understandable why the Polish lawmaker decided to follow the example given by the EU legislator and abandoned the idea of formulating a statutory definition of abuse. It is worth mentioning, however, that unlike the TFEU, the Act does contain a precise definition of a "dominant position."

It was thus left to the decisional practice of the President of the Office of Competition and Consumer Protection (hereinafter the "Authority" or the PCA) and the national courts to establish the definition of an abuse of a dominant position or, as a matter of fact—as is the case in EU law—several working definitions in order make use of the open-ended nature of the prohibition and its applicability to a variety of, sometimes not yet even identified, forms of abusive behaviors. One also has to bear in mind that the generality of the ban also reflects the fact that its precise meaning will also depend on the specific aims pursued by a country's antimonopoly regulation.[7]

As a consequence, for a practice to be found to constitute an abuse of a dominant position on the basis of Article 9(1) of the Act, it must not only meet the conditions of this provision but also go against the aims and axiology of the Act itself as expressed in its Article 1(1). Therefore, the PCA will have to establish the existence of public interest that has been infringed in order to pursue an anticompetitive behavior. In practice, decisions of the PCA and the Polish Court of Competition and Consumer Protection (hereinafter the "Competition Court") usually follow this pattern:[8]

i. First, the institution has to identify the existence of a public interest in instigating an intervention against a potential violation.
ii. Then, on the basis of the fact that there is no legal definition of what constitutes such an "abuse," which in turn imposes the necessity to rely on the aims and axiology of the Act itself, the relevant authority (the PCA or the PCCCP) will declare that, according to the existing jurisprudence and the views of the law scholars, two types of practices fulfill the conditions of the prohibition laid down in Article 9 of the ACT, i.e., "exclusionary" and "exploitative" practices.
iii. Finally, a specific behavior will either be found to constitute one of the "named" types of abuses, i.e. those listed under Article 9(2), or more seldom, an "unnamed" violation, i.e., one that will be prohibited on the basis of the general clause laid down in Article 9(1) of the Act. Such a practice will also have to be

[6] A. Stawicki, E. Stawicki (eds.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2011, p. 303.

[7] *Ibidem*, p. 303.

[8] *Ibidem*; T. Skoczny (ed.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2014, p. 434.

qualified as belonging to the category of either "exclusionary" or "exploitative" practices or, in some cases, as exhibiting features of both of these categories.[9]

According to the prevalent opinion in the academia and jurisprudence, the far-reaching similarity between the Polish provision and its EU equivalent makes it possible for the national courts and the PCA—which after all have the capacity to apply and enforce the rules of both Polish and EU competition laws—to base their decisions on the interpretations of the prohibition already developed in the case law of the EC and the CJEU.[10] It is therefore not infrequent for the aforementioned entities to refer in their rulings to some of the seminal definitions of abuse developed in EU jurisprudence, e.g., the *special responsibility*[11] doctrine developed by the CJEU judgment in the case 322/81 *Michelin I*.[12]

And yet, Polish courts have not refrained from providing their own interpretations of the concept adapted to the specific facts of the cases they analyzed. An oft quoted example is the judgment of the Polish Supreme Court of 19 August 2009 in the case against Marquard Media Polska (Ref. No. III SK 5/09), where the court, expanding on some parts of the reasoning behind the CJEU's ruling in case 85/76 *Hoffmann – La Roche* and C-62/86 *AKZO*, in fact confirmed the validity of the standard EU approach to the issue of abuse of a dominant position.[13] The Court—specifically targeting exclusionary abusive practices—stated that "what constitutes an anticompetitive abuse of dominance is a behavior of an undertaking in a dominant position that, being objectively contrary to the patterns of normal competition, might influence the structure of the dominated market or another market, and takes the form of measures which have no relation with competing for buyers on the merits, or takes the form of measures, which though normally employed when competing in a competitive market, are still disproportional on the market affected by the behavior of the dominant undertaking, and thereby hinder the maintenance or development of competition that still exists on the market."

10.3 Exploitative Abuse and Exclusionary Abuse

The distinction between exploitative and exclusionary practices, though, as mentioned before, clearly reflected in the jurisprudence and decisional practice of Polish institutions responsible for the enforcement of competition law, is not visible in the Act. As in the case of Article 102 TFEU, the sample catalogue of forbidden

[9] *Ibidem*.

[10] *Ibidem*, p. 428.

[11] A. Stawicki, E. Stawicki (eds.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2011, p. 305.

[12] PCA Decision No. DOK-3/2009 of 7 July 2009.

[13] T. Skoczny (ed.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2014, p. 433.

practices indicated in Article 9(2) is not phrased in a manner that would enable a linear differentiation between the two categories of abusive conduct, e.g., Article 9 (2)(1), which mentions all price-related forms of abuse, such as direct or indirect imposition of unfair prices, including excessive or predatory pricing, delayed payment terms, or other trading conditions, which comprise both exclusionary and exploitative practices. Furthermore, according to the views of legal scholars, it is also difficult to clearly distinguish the character of some of the examples of abuses listed under Article 9(2) since some of the types of conduct described therein could easily fall under both of these categories, an opinion that seems particularly applicable to measures limiting production, sale, or technological progress to the prejudice of contracting parties or consumers described in Article 9(2)(3) of the Act. Here again, it must be borne in mind that identifying a given abuse as belonging to one type or the other will also be dependent on the axiology and aims pursued by the antimonopoly regulation, for if the main objective of competition law is the protection of consumers, and not the maintenance of an open and diversified structure of the market, the role of exclusionary abuse diminishes—certain practices, even though "harmful" for the competitors of the dominant undertaking, might be tolerated because of the consumer welfare they bring.[14]

Notwithstanding the aforementioned, as was already indicated in Sect. 10.2, the PCA and national courts typically attempt to categorize a given anticompetitive practice as falling into the category of either "exclusionary" or "exploitative" abuses. This allows them to more easily rely on the guidelines already established by the academia or jurisprudence, thereby compensating for the vagueness of the undefined and open-ended notion of "abuse of a dominant position." As a result, there are some distinct interpretations of the notions developed by Polish institutions entrusted with the enforcement of competition law.

10.3.1 Exclusionary Abuse

As a matter of fact, the PCA employs a fairly straightforward definition of exclusionary abuses, using the term to denote practices that exert a direct influence on the condition or development of competition.[15] The brevity of the formulation should, however, not be seen as an indication of the lesser importance of this type of anticompetitive behavior for the Authority. In fact, as in the case of most competition authorities, the PCA's enforcement mostly focuses on exclusionary abuses. This results from a variety of reasons, which contribute to the general orientation of EU competition law enforcement in relation to abuses of dominance on protecting the structure of the market. Exploitative practices are in general easier to eradicate as they cannot on their own function for extended periods of time—new market

[14] *Ibidem*, p. 436; A. Stawicki, E. Stawicki (eds.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2011, p. 323.

[15] PCA's Decision No. RPZ-32/2007 of 12 September 2008.

entries will enable consumers to choose more affordable offers. Moreover, exclusionary abuses, with their potential to eliminate competitors from a given relevant market, may lead to harmful and possibly irrevocable changes to the structure of that market.[16]

As a matter of fact, this preoccupation with exclusionary practices is reflected in the inclusions of an additional type of "named" forbidden practice among those listed under Article 9(2) of the Act, i.e., conduct that counteracts the formation of conditions necessary for the emergence or development of competition.[17] This provision, also referred to as the "little general clause," constitutes a codification of the aforementioned definition of an exclusionary abuse as a means of simplifying the enforcement of this type of practices for the Authority. Even though in theory Article 9(2)(5) of the Act can be considered as giving little more added value beyond codifying what has already been established in other sources of competition, the practical dimension of this fact is not irrelevant. Instead of having to refer to the jurisprudence concerning some of the "unnamed" but later identified forms of abusive behavior, the PCA can directly apply a specific and very broadly defined statutory instrument in order to easily establish a violation of the Act.

The aforementioned concise definitions of what constitutes an exclusionary abuse have often been further expanded upon in the jurisprudence. A recent example is the ruling of the Competition Court of 22 February 2012 (Ref. No. XVII AmA 171/11), which states that under exclusionary practice, one should understand a behavior of an undertaking in a dominant position that may result in the foreclosure of a market or the complete or partial exclusion of the development of the activity (increase of supply) of undertakings already functioning on a given market or the exclusion of the possibility of market entry by other undertakings (i.e., those that are not yet active on this market), and this practice is simultaneously harmful to consumers. Hence, the PCCCP makes clear that while Polish competition law aims to protect a diverse structure of the market, it will not do so at the expense of consumer welfare but in order to strengthen it.

10.3.2 Exploitative Abuse

As for exploitative practices, the PCA indicates that their primary aim or effect is the infringement of the interests of market actors related to other aspects than those connected with competition, by making use of the existing advantage they have over their clients and contractors (regardless of the fact of whether these are undertakings or consumers). At the same time, Polish courts identify only two "purely" exploitative practices, namely, the direct or indirect imposition of unfair

[16] A. Stawicki, E. Stawicki (eds.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2011, p. 324.

[17] *Ibidem*, p. 349.

prices regulated under Article 9(2)(1)[18] and the imposition of onerous agreement terms and conditions, yielding unjustified profits as mentioned in Article 9(2)(6).[19] This confirms the existence of difficulties in establishing a clear-cut distinction between these two types of abusive practices, as indicated in Sect. 10.3.

10.4 Price-Based and Non-price-Based Abuse

Under the Polish competition law regime, the distinction between price-based and non-price-based examples of abuse of a dominant position can be found in text of Article 9 (2) of the Act itself.

Article 9 (2) section 1) of the Act expressly states that an abuse of a dominant position can amount to *direct or indirect imposition of unfair prices, including excessive or predatory pricing*. As M. Blachucki has commented:[20] *the analyzed practice covers all strategies regarding the abuse of a dominant position that lead to price manipulation to the detriment of contractors or consumers. This outlawed price strategy consists in charging prices regardless of the commercial value of the good or service offered (. . .) To establish such abuse of dominance it is necessary to compare the cost of production and the price*.

The decisional practice of the PCA regarding abuse cases is that a distinction is made between price-based and non-price-based ones in the sense that any decision issued by the Authority indicates the legal provisions that have been violated by the fined undertaking. It is the most convenient way to assess whether the PCA examines price-based or non-price-based abuse in a given case.

The PCA's latest case law concerning price-based abuses covers *inter alia* the case of Tauron Ciepło, a leading Polish energy provider. The Authority's investigation revealed that the undertaking in question charged its partners, in a manner that went against the law, an additional fee for the exceeding output they had ordered. The company also failed to make information available to customers about the parameters of the heat it supplied, which would allow them to determine whether its charges were calculated correctly. According to the PCA, Tauron Cieplo used its market position to impose illegal fees on customers and hinder them from asserting their rights. Nevertheless, since the company has committed to refrain from the practices, the Authority did not impose fine.[21]

On the other hand, non-price-based abuse cases involve PGNiG, a leading Polish undertaking as regards retail and wholesale of natural gas.[22] PGNiG has been accused of abusing its market position by applying contractual terms and conditions

[18]Ruling of the Antimonopoly Court (predecessor of the Competition Court) of 19 November 2001, Ref. No. XVII Ama 2/01.

[19]Ruling of the Competition Court of 21 May 2010, Ref. No. XVII AmA 71/09.

[20]M. Blachucki, *Polish Competition Law – Commentary, Case Law And Texts*. Warsaw 2013, p. 39.

[21]PCA's Decision No. RKT-39/2014 of 27 November 2014.

[22]PCA's Decision No. DOK-8/2013 of 31 December 2013.

that were disadvantageous for undertakings active in the wholesale or retail purchases of natural gas. The contractual clauses that were challenged limited the undertakings' ability to reduce the amount of the fuel ordered and to decrease the contracted power. PGNiG has committed to modify its contract templates and offer their customers a possibility to amend previously concluded agreements. As a result, the PCA decided to refrain from imposing fine on PGNiG.

Since Polish law regulations related to the abuse of dominant position cases are the direct equivalent of the rules contained in Article 102 TFEU, there is no ground to claim that Polish jurisdiction has stricter rules than EU ones.

10.5 Enforcement

10.5.1 Decision-Making Practice

Based on the Reports issued annually by the PCA, Table 10.1 illustrates the number of decisions issued by the Polish Competition Authority in selected years.

Unfortunately, there is no similar statistics concerning court's case law available. No distinction between exploitative and exclusionary abuses has been made as well.

10.5.2 Competent Courts and Authorities

The main body responsible for the enforcement of competition law in Poland is the President of the Office of Competition and Consumer Protection (the "Authority" or the PCA).

Under Polish law, there are two types of proceedings related to competition infringements: explanatory proceedings and antimonopoly proceedings.

If the circumstances of the case indicate a possibility that the provisions of the Act have been infringed, the PCA may instigate, on an *ex officio* basis, explanatory proceedings—initially to determine whether an infringement that would justify the institution of antimonopoly proceedings took place.

Antimonopoly proceedings are always instituted on an *ex officio* basis (e.g., as a result of the explanatory proceedings). They are initiated with a resolution containing formal charges against the named parties.

Third parties (e.g., harmed competitors or customers) are not entitled to file a motion for the initiation of antimonopoly proceedings. They are only entitled to file a notice (complaint) on a potential breach of competition law. The Authority has discretion to decide whether the information contained in the notice justifies the initiation of proceedings.

The decision of the PCA is subject to an appeal to the Competition Court, lodged within 1 month from the date of the delivery of the decision to the party to the proceedings. The Authority and the undertakings that committed the alleged practice are the parties to the proceedings.

Table 10.1 Number of decisions by PCA

Subject matter of the decision	Number of the decision issued in a given year				
	2009	2010	2011	2012	2013
Agreements restricting competition	18	28	28	19	28
Abuse of a dominant position	89	68	72	67	64

A ruling of the Competition Court may be subject to an appeal filed with the court of the second instance i.e., with the Court of Appeals. The ruling of the latter can be further appealed to the Supreme Court in the framework of a cassation appeal. However, a cassation appeal is accepted by the Supreme Court only in individually selected cases (e.g., where there is a novel issue of law or there is a manifest error in the verdict of the Appeal Court).

Apart from the PCA, there are several administrative bodies in Poland that are working on improving effective competition on their respective markets—the sector regulators. Although in principle their competences are different from the competences of the PCA (with regulators acting *ex ante* and the PCA intervening *ex post*), in practice both the regulatory authority and the Authority may intervene in the same case simultaneously, both exercising their own jurisdiction.

The President of the Office of Electronic Communications ("President of UKE") is the national regulatory authority for the market of telecommunications and postal services. The President of UKE cooperates with the PCA and with the National Broadcasting Council in the field of the enforcement of the rights of parties using postal and telecommunications service.

The President of the Energy Regulatory Office ("President of URE") is the central body of state administration responsible for the realization of tasks in the scope of fuel and energy management control, as well as promotion of competition. The latter duty is to be enforced in cooperation with the PCA and the President of URE on energy enterprise practices that limit competition.

Moreover, it should be noted that there are additional regulatory bodies in Poland that are entitled to examine specific sectors in respect of their competitiveness, including abuse of dominant position cases. These are the President of the Office of Rail Transportation, as well as the President of the Civil Aviation Office.

In terms of the guidelines applicable to abuse cases, the PCA has published Guidelines on setting fines for practices restricting competition and Guidelines on commitment decisions. It is worth mentioning that all guidelines published by the PCA are not binding. And yet the Authority stipulates that it will apply them in its proceedings.

10.5.3 Approach Followed by Competent Courts and Authorities

As already mentioned in Sect. 10.2, it should be stressed that Polish competition law by means of Article 9 of the Act introduces a general clause prohibiting the abuse of dominant position. Unfortunately, the Act does not contain definition of the "abuse" itself. In consequence, it is sometimes difficult to draw a clear line between illegal and legally accepted market practices of dominant undertakings.

In order to better understand the concept of "abuse," one should bear in mind what the overall goals of the Act are. Hence, competition enforcement, i.e. protection of competition, is seen as a mechanism to ensure the efficiency of business processes and the optimal allocation of resources, on the one hand, and the means of safeguarding public interest of consumers, on the other. Furthermore, the case law of the PCA and the relevant courts can also provide some guidelines in that respect.

Since Article 9 of the Act is almost entirely the same as its EU counterpart, when defining the notion of "abuse," the PCA or Polish courts base their analysis on the jurisprudence of EU courts and refer to well-rooted standards developed in seminal cases, such as *Hoffmann-La Roche*[23] or *Michelin*.[24] Moreover, well-developed tests assessing whether particular behavior amounts to an abuse such as "No Economic Sense Test" or "Equally-Efficient Competitor Test" or "Consumer Welfare Test" also have considerable relevance under the Polish law regime.[25]

In practice, EU competition authorities (including the PCA) may refer to each of the abovementioned concepts in order to grasp the difference between lawful conduct and behaviors that violate the law. The individual tests can be more or less useful to study the various manifestations that abuses of dominant position take on the market. It is always possible to use more than one test to analyze the specific facts.

It should also be noted that a given test can be used either at the stage of determining whether there is an abuse of a dominant position or at the stage of justifying the alleged practice. Its place in the analysis depends essentially on the established concept of interpretation of the rules on abuse of dominant position.[26]

Another method used for the assessment of whether a specific behavior amounts to an abuse is by comparing it to the examples of such abuses listed under Article 9 (2) of the Act. As it has already been indicated in Sects. 10.1 and 10.2, this list is not exhaustive, but it describes practices that the PCA most commonly finds to constitute abuse.

[23]ECJ, case 85/76, *Hoffmann-La Roche & Co. AG v Commission*, ECR 1979, 461.

[24]ECJ, case 322/81, *Nederlandsche Banden-Industrie Michelin N.V. v. Commission*, ECR 1983, 3461.

[25]A. Stawicki, E. Stawicki (eds.), *Ustawa o ochronie konkurencji i konsumentów. Komentarz*. Warsaw 2011.

[26]*Ibidem*.

Spain

11

Manuel Cañadas Bouwen and Julia Suderow

11.1 Introduction

The object of this national report is to analyse the Spanish legal framework in relation to unilateral anticompetitive conducts. The present report will analyse the applicable definition in Spain, the decisional practice and case law and the enforcement of national competition rules regarding the abuse of a dominant position.

The Spanish Act 15/2007, of 3 July, for Defence of Competition (hereafter SCA) regulates the abuse of a dominant position, as well as other antitrust matters. The Defence of Competition Regulation (hereafter CR) implements specific sections of the Competition Act such as *de minimis* exceptions applicable to abuse of dominant position practices, according to Article 5 of the SCA.[1] As in other European Member States, Spanish Competition Authorities are also entitled to apply Articles 101 and 102 TFEU, where applicable.

This legal framework is enforced in Spain by the National Competition Authority (Comisión Nacional de los Mercados y la Competencia, the CNMC) and by

[1]Royal Decree 261/2008 of 22 February 2008, approving the Defence of Competition Regulation, Official Gazette 2008 [50] [11575-11604].

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certain regional authorities, if their behaviour impacts only on the Autonomous Region where they have jurisdiction.[2]

The provision prohibiting anticompetitive unilateral conduct in the Spanish jurisdiction is contained in Article 2 of the SCA:

> Article 2. Abuse of a dominant position.
>
> 1. Any abuse by one or more undertakings of their dominant position in all or part of the national market is prohibited.
>
> 2. The abuse may, in particular, consist in:
>
> a) The direct or indirect imposition of prices or other unfair trading or services conditions.
>
> b) The limitation of production, distribution or technical development to the unjustified prejudice of undertakings or consumers.
>
> c) The unjustified refusal to satisfy the demands of purchase of products or provision of services.
>
> d) The application, in trading or service relationships, of dissimilar conditions to equivalent transactions, thereby placing some competitors at a disadvantage compared with others.
>
> e) The subordination of the conclusion of contracts to acceptance of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of these contracts.
>
> 3. The prohibition set out in this article shall apply in cases in which the dominant position in the market of one or more undertakings has been established by legal provisions.

Article 2 of the SCA is parallel, almost identical, to Article 102 of the Treaty on the Functioning of the European Union (TFEU). And, as in the case of Article 102 of the TFEU, the list of prohibited practices included in the above-mentioned provision is interpreted as an indicative list of prohibited practices. As indicated by the CNMC, "the essential element for a conduct to be covered by Article 2 of the Spanish Competition Act is that it must be abusive, even if it is not any of the specific prohibited practices listed in the provision".[3] In fact, the Spanish Competition Authority has applied the concept of abuse of dominant position, using a reasoning based on *per se* prohibitions, when a practice is, formally, similar to a previously assessed or to one of the listed practices.

Spain's first rule prohibiting anticompetitive unilateral conducts was contained in Act 110/1963, of 20 July 1963, for the repression of practices restricting competition. In 1963, there was no previous practice in this field and, therefore, the application of competition rules was not part of the culture of Spain. The approval of Act 110/1963 was based on the necessity of making the Spanish legislation equivalent to the legislation of the Member States of the European Community. But since no measures were adopted to liberalise the Spanish economy, this first competition act was scarcely applied. This first Act already

[2] Law 3/2013 established the creation of a single regulatory body in Spain, combining the functions of the former National Competition Commission (the "CNC") and the regulators of the following sectors: energy, telecommunications, media, post, railway transport, air transport and gambling. Law 1/2002 of 21 February regulates the allocation of cases between the national authority and the regional authorities. Regional authorities can only enforce their powers in relation to infringements whose effects are limited to its specific jurisdiction.

[3] Decision of the CNMC of 10 July 2014, Case S/0446/12, Endesa Instalación.

prohibited anticompetitive unilateral conducts for companies holding a dominant position in the market and specified what it considered to be a dominant position in the market but without listing any prohibited practices. This provision did also foresee the application of this prohibition to cases in which the dominant position in the market had been established by legal provisions.

As a consequence of the entry of Spain in the European Community, Spain had to transform its economy in order to compete in the European Market. In this framework, the legal system established by Act 110/1963 was modified by Act 16/1989, of 17 July 1989, for the Defence of Competition, which promoted free enterprise and free competition. In this Act 16/1989, Article 6 prohibiting unilateral anticompetitive practices did no longer specify what it considered to be a dominant position in the market. In order to obtain a similar, if not identical, draft to the European provision, the new provision included an indicative list of prohibited practices.

In 1999, Article 6 of the Act 16/1989 was further modified. The provision was no longer limited to prohibiting the abuse of a dominant position in the market. It also covered the abuse of a situation of economic dependency of a client or a provider that does not have an equivalent alternative for the exercise of its activity. The new provision prohibiting unilateral anticompetitive conducts became, thus, stricter than Article 102 of the TFEU.

However, Article 2 of the SCA eliminated the abuse of economic dependency concept. This type of abuse has, since then, been regulated in Act 3/1991, of 10 January 1991, for Unfair Competition (hereafter UCA), which is not implemented by the CNMC. Nevertheless, the new placement of this prohibition does not impede the CNMC from assessing an abuse of an economic dependency situation when the abuse has been carried out by a company having also a dominant position in the market.

Thus, Article 2 of the SCA is the only provision prohibiting the abuse of a dominant position in the market.

As previously indicated, Article 16 of the UCA also prohibits the abuse of an economic dependency situation, *i.e.* a relative dominant position, for instance, when company A abuses company B, which is economically dependent of company A. However, an economic dependency situation does not necessarily happen with a company with a dominant position in the market.

11.2 Definition of 'Abuse'

As in the case of Article 102 of the TFEU, Article 2 of the SCA does not provide a definition of "abuse". In this sense, the CNMC has followed the definition provided for in the case law of the European Court of Justice (ECJ).[4]

The case law follows closely that of EU institutions. The Spanish Supreme Court has indicated that, taking into account the similarity between Article 102 of the TFEU and Article 2 of the SCA, the European doctrine regarding the abuse of

[4]ECJ, case 85/76, *Hoffmann-La Roche & Co v. Commission,* ECR 1979, p. 461.

dominant position can be used as an auxiliary tool when interpreting the Spanish legislation.

The Supreme Court, based on the definition provided by the ECJ, has defined the concept of abuse as a qualified type of abuse of rights that, sustained in the privileged economic freedom that the dominant undertaking enjoys, surpasses the normal limits of the exercise of the right to obtain an advantage in transactions, without any justification. This advantage, which would not have been obtained in case of a feasible and effective competition, directly harms the interests of third parties or the general interest of which the system of defence of competition takes care. All things considered, the abuse consists of an anti-social exercise of the exceptional economic freedom deriving from a dominant position in the market.

However, the Supreme Court has specified that “not every restriction in the competitive structure of the market carried out from a dominant position can be qualified as an abusive exploitation”. The Supreme Court requires, in order to qualify a practice as abusive, that the practice lacks any objective and reasonable economic justification: “Hence, any restrictions of competition carried out from a dominant position which are not reasonable because of a lack of justification capable of being accepted as such by the legal-economic legislation will be considered abusive.” And this lack of justification will be seen “when the exercise of its special economic freedom by the dominant company does not match, without any recognizable reason, the exercise of its special economic freedom in a situation of effective competition”.[5]

11.3 Exploitative Abuse and Exclusionary Abuse

Article 2 of the SCA does not make any distinctions between exploitative and exclusionary abuses. In fact, the above-mentioned list of prohibited practices included in Article 2 of the SCA contains both exploitative and exclusionary abuses. Therefore, exploitative as well as exclusionary abuses are covered by Article 2 of the SCA, as is the case with Article 102 of the TFEU.

Even if this distinction is not foreseen in Article 2 of the SCA, in the framework of the investigations of potential breaches of the relevant provision prohibiting unilateral anticompetitive conducts, when identifying the specific abuse committed by the undertaking enjoying a dominant position in the market, both the decisional practice of the CNMC and the case law assess the conduct and identify the conduct as being exclusionary (such as predatory pricing, margin squeeze practices or refusal to supply) or exploitative (such as imposing excessively high prices or imposing discriminatory conditions), using the doctrine of the European Commission and the case law of the European courts.

[5] For all, see Judgment of the Supreme Court of 8 May 2003, *Tándem Transportes y Ruta Sur*, cassation appeal n°4495/1998.

11.4 Price-Based and Non-price-Based Abuse

Article 2 of the SCA does not make any distinctions between price-based and non-price-based abuses. The list of prohibited practices listed in Article 2 of the SCA includes price-based abuses, as well as non-priced-based abuses. Therefore, both price-based and non-price-based abuses are covered by Article 2 of the SCA, as is the case with Article 102 of the TFEU.

And the same happens with the reduced decisional practice of the CNMC and the judgments of the Spanish courts, in which the European case law and doctrine is applied, such as the "Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings" (hereafter "Commission Guidance").[6]

There is no specific distinction between the assessment of price-based and non-price-based abuses as such. The abuses are assessed based on their anticompetitive effects, using an economic approach when applying Article 2 of the SCA. The nature of the conduct is not a key element but rather a factor to be taken into account when assessing the effects of the practice. On this regard, Article 3 of the CR establishes that the CNMC can decide not to apply Article 2 of the SCA to conducts that, taking into account the existing legal and economic framework, are not capable of significantly affecting competition, independently of the market share of the companies.

Notwithstanding the above, we will now describe the assessment applied by the CNMC and the Spanish courts to determine whether some specific practices are to be considered as an abuse covered by Article 2 of the SCA.

11.4.1 Excessive Prices

Excessive prices are the paradigmatic example of exploitative price-based practices and are covered by Article 2.2.a SCA as they are considered, by its own nature, as unfair commercial conditions. However, it is not easy to make a distinction between high prices, which generally stimulate innovation and the entry of new competitors, and abusive prices covered by Article 2 SCA.

Generally speaking, a price is considered excessive when it has no reasonable relation with the economic value of the good or service provided. Nevertheless, establishing the economic value of the good or service and the reasonable relation with that value is not possible in many cases.

In the cases *Mensajes Cortos* and *Endesa Instalación*,[7] the CNMC identifies the previously used criteria to differentiate abusive prices from non-abusive prices.

[6] OJ 2009, C 45, p. 7.

[7] Decisions of the CNMC of 19 December 2012, case S/248/10, *Mensajes cortos* and of 10 July 2014, case S/0446/12, *Endesa Instalación*.

On one hand, the CNMC identifies structural criteria, which help to recognise those situations in which the market cannot correct the excessive prices applied by an operator. In these cases, it is more likely that the analysed prices are excessive when they are applied by an operator holding a monopoly or a quasi-monopoly, protected by barriers to entry avoiding the entrance of new competitors as a consequence of the excessive prices, during a reasonable period of time, and when a rigid demand exists in the market.

On the other hand, the CNMC identifies the comparative criteria, which are based on the *United Brands* judgment. In order to determine if a price is excessive or not, it is necessary to compare the prices with a valid reference such as the costs of the product or service (in order to verify the existence of high margins) or with other prices of that same product or service in a situation of normal competition in the market or in another geographic market or in other periods of time.

Once these criteria are applied, it is necessary to determine whether an objective justification exists that could explain the maintenance of the assessed prices. If the operator applying excessive prices justifies it exclusively on the benefit deriving from its dominant position, harming consumers' welfare and distorting the efficient functioning of the market, the practice will be considered as abusive.

11.4.2 Predatory Pricing and Other Price-Based Exclusionary Abuses

Regarding predatory pricing practices, the CNMC specifically refers to the Commission Guidance.[8] The predatory nature of charging lower prices to all or certain customers is found in the predator making a sacrifice by deliberately incurring short-run losses with the intention to eliminate or discipline rivals or prevent their entry.

In this sense, a conduct will be viewed as entailing a sacrifice if, by charging a lower price for all or a particular part of its output over the relevant time period or by expanding its output over the relevant time period, the dominant undertaking incurred or is incurring losses that could have been avoided.

Regarding foreclosure of the market, generally speaking, consumers are likely to be harmed if the dominant undertaking can reasonably expect its market power, after the predatory conduct comes to an end, to be greater than it would have been had the undertaking not engaged in that conduct in the first place, *i.e.*, if the undertaking is likely to be in a position to benefit from the sacrifice.

Regarding conditional rebate practices, the assessment differs from that of predatory pricing, which always entails a sacrifice.[9]

[8] Decision of the CNMC of 15 September 2009, case S/0095/08, *Ceramica del Principado, S.L.*.
[9] Decision of the CNMC, of 30 March 2011, case 2748/06, *Axion Abertis II*.

As for margin squeeze practices, the CNMC and the Spanish courts use the test of the equally efficient competitor based on the case law of the ECJ.[10] This test analyses the profitability of the activity of an equally efficient competitor based on the downstream costs of the dominant company in order to determine if this competitor with the same costs would be able to trade profitably in the downstream market on a lasting basis, taking into account the wholesale and retail prices applied by the dominant company.

11.4.3 Refusal to Supply

Not every refusal to supply, understood as a direct refusal to provide a service or supply a product or as a refusal subject to the acceptance of unacceptable or unjustified conditions, is covered by Article 2 of the SCA. Only refusals to supply to regular customers or refusals to supply a product or service essential to operate in another market are considered to restrict competition, unless the refusal is objectively justified. However, in case a potential or real economically viable supply alternative exists, it will be difficult to conclude that an abuse has taken place.[11]

Article 2 of the SCA is parallel, almost identical, to Article 102 of the TFEU and the decisional practice of the CNMC and the case law follows closely the decisional practice and the case law of EU institutions. Consequently, it cannot be said that the Spanish jurisdiction has stricter rules than that contained in Article 102 TFEU in the sense of Regulation 1/2003 Article 3(2).

11.5 Decision-Making Practice

Since the introduction of the SCA, the Spanish Competition Authority has intensified its investigation and sanctioning activities, entailing an increase year after year of the number of fines and the total amount of the fines. However, the Spanish Competition Authority has been rather discrete in the last 5 years sanctioning unilateral conducts in comparison to the sanctions imposed on horizontal conducts such as cartels. Therefore, it can be concluded that the CNMC has been focusing its enforcement priorities on fighting cartels. Table 11.1 and Figure 11.1 show the decisions taken in the last 5 years.

These data show that the number of cases regarding abuse of dominance is rather insignificant in comparison to the cartel cases sanctioned in Spain. This is probably the result of the new leniency policy introduced in Spain in 2009 that has obviously facilitated the investigations carried out by the Investigations Directorate against cartels and other horizontal conducts.

[10]Decisions of the CNMC of 6 March 2014, case S/0391/11, *Llamadas Móviles,* and of 21 January 2014, case S/0373/11*, Correos 2*.

[11]Decision of the CNMC of 15 June 2009, case S/0034/08, *Olympus Medical Systems Europa*.

Table 11.1 Findings of abuse of dominance

Year	Abuse of Dominance, Art. 2 SCA	Horizontal infringements, Art. 1 SCA
2010	0	10
2011	7	22
2012	1	11
2013	2	13
2014	1	6
Total	13	62

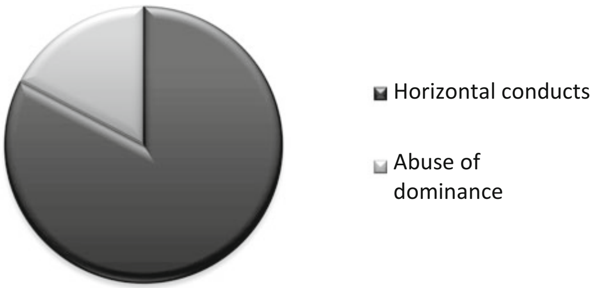


Fig. 11.1 Sanctions imposed by the NMCC

The CNMC has been active against exploitative and against exclusionary abuses during the last 5 years. More specifically, the CNMC has issued eight decisions fining exclusionary abuses and four decisions fining exploitative abuses as shown in Table 11.2 and Fig. 11.2.

From the mentioned cases, we summarise the main examples from both types of unilateral conducts.

11.5.1 Exclusionary Abuses

The liberalisation of the Spanish Energy Market allowed the entry of new players in the electricity and gas distribution markets. Several existing providers tried to impede the entry of new competitors in the areas where they had a dominant position. Thus, the affected new companies filed several complaints before the CNMC. Therefore, the CNMC consequently fined five energy providers in 2011 for exclusionary abuses. We describe below the main examples:

11.5.1.1 E.On[12]

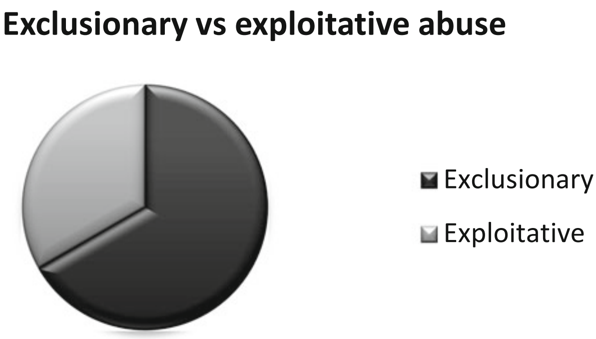
Between 2001 and 2009 E.On declined to provide information about technical and economic conditions to other electricity distributors in a region in Spain where its electricity distribution company held nearly 100% of the market. Furthermore, E. On used the information requests to offer services to the final clients of the

[12]Decision of the CNMC 8 November 2011 S/0003/07 E.On.

Table 11.2 Exclusionary vs exploitative abuses

Year	Exploitative abuse	Exclusionary abuse
2010	0	0
2011	1, AISGE Cines	5: Mediapro, Gas Natural Unión Fenosa, Hidrocantábrico, E.ON Instalación
2012	1, Mensajes cortos	2: Tanatorios de Coslada, Endesa
2013	1 AGEDI	0
2014	1 SGAE	1 CORREOS
Total	4	8

Fig. 11.2 Exclusionary vs exploitative abuses



competing electricity distributors. E.On obtained through this policy between 80 and 90% of the contracts, and these results entailed the exclusion of competing electricity distributors of the geographical area, where E.On held a dominant position. In the year 2011, the CNMC also fined Unión Fenosa and Hidrocantábrico for the same type of conduct in the areas where they held a dominant position.[13]

11.5.1.2 Gas Natural

Between 2007 and 2009, after a partial liberalisation of the gas market in Spain, Gas Natural, one of the main companies in the market with a market share of 37.8% of the retail providers and 84.3% of the distribution points, denied the change of consumers to Iberdrola, another energy provider, because the consumers asked for the change of provider via phone calls and not in written form. This case is similar to the other energy cases mentioned above, whereas in this case the market share of Gas Natural is not as important as in the electricity distribution cases. However, the SCA clarified that the abuse of dominance in a certain market has also effects in related markets if the undertaking uses its position in a certain market to expand in a related market, in this case, transport and distribution of gas.[14]

[13]Decision of the CNMC Case 2795/07 of 20 September 2011, Hidrocantábrico instalación; and S/0089/08 of 20 September 2011, Unión Fenosa instalación.

[14]Decision of the CNMC, 29 July 2011, S/0184/09/Gas Natural.

11.5.1.3 MediaPro

The Multimedia provider MediaPro and its subsidiary Gol Television were fined on March 2011 with EUR 500,000 for the abuse of its dominant position in the distribution of football broadcasting rights to other TV providers.[15] The conduct sanctioned consisted of hindering competition in the market for the resale of the audiovisual broadcasting rights of the Spanish regular league and King's Cup football competitions, as well as in downstream television markets, particularly pay-TV. Mediapro held the audiovisual rights for the league and King's Cup matches of all teams in the first and second division leagues in Spain for season 2009/2010 and subsequent seasons, giving it a dominant position in the market for resale of audiovisual broadcasting rights of the league and King's Cup matches. Furthermore, Mediapro is present in the free-to-air TV market through La Sexta and in pay-TV with its channel Gol TV. According to the SCA, certain features of Mediapro's system for reselling and exploiting the audiovisual broadcasting rights for league and King's Cup football matches are inconsistent with the principles of transparency, objectivity and non-discrimination that must govern the activity of an operator with a dominant position and to which the applicable sectorial rules are to be applied. These features were used by Mediapro to limit competition in the market for resale of audiovisual broadcasting rights of football matches and in the downstream television markets, particularly in pay-TV, by engaging in unjustified discrimination when licensing the use of those rights by operators. This sanctioning decision was subsequently confirmed by the National Appeal Court (NAC) in the year 2012.[16]

11.5.1.4 Correos[17]

The CNMC imposed in January 2014 a fine over EUR 8,000,000 on Correos, the public postal service provider for abusing its dominant position by means of margin squeeze that excluded alternative service providers to compete in the market for large customers. The sanctioned undertaking applied higher discounts to large customers than to alternative operators that used the universal postal service network even if the alternative operators contracted a sufficiently large amount of services. Due to this price policy, alternative service providers were not able to offer services without incurring losses.[18]

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[15]Decision of the CNMC, 17 march 2011, Mediapro AC/2011/1030, NAC, 11 July 2012, 02386/2011, Mediapro.

[16]Decision of the CNMC, 11 July 2012, 02386/2011, Mediapro.

[17]Decision of the CNMC, 21 January 2014, / CORREOS 2.

[18]Other similar examples of exclusionary abuses: Decision of the CNMC 4 October 2013, SAMAD 12/10 Tanatorios de Coslada, Decision of the CNMC, 10 July 2014, S 446/12 Endesa instalación.

11.5.1.5 Mobile Calls

In 2014, the CNMC issued a decision exonerating Telefónica, Vodafone and France Telecom of an alleged abuse of a collective dominant position.[19] The proceedings were initiated by a complaint by British Telecom in which it argued that those companies held individual dominant positions in the wholesale markets for call termination on mobile voice and held a collective dominant position in the wholesale market for access and call origination, on one hand, and in the retail market for mobile voice calls, on the other hand. According to the Directorate for Investigation of the CNMC, the companies would have conducted individual abuses benefiting from the collective dominant position in the upstream markets. However, the CNMC ultimately concluded that despite the collective dominant position held by these companies, there was insufficient evidence to declare the existence of exclusionary effects derived from the alleged margin squeeze practice apparently followed by the three companies.

11.5.2 Exploitative Abuses

During the last 5 years, telecommunication service providers, as well as copyright collecting societies, have been sanctioned in several occasions for abusing their dominant position on the management of intellectual property rights in Spain. The following examples show the main approach followed in these cases.

11.5.2.1 Short Text Messaging[20]

On December 2012, the former Competition Authority, CNC, imposed fines amounting to EUR 120,000,000 on Telefónica, Vodafone and France Telecom for their collective abuse of dominance in the wholesale text messaging market. The Competition Authority concluded that each company misused its dominant position to drive up the prices charged to virtual mobile operators for transmitting short text and multimedia messages. These operators held a monopoly position in text and multimedia messaging termination services in their respective networks, and this allowed the three mobile network operators to freely price the termination of short messages at very high levels. The excessive pricing for the origination and access for wholesalers contributed to keeping retail prices for short messages higher and to generating larger barriers to entry and expansion for virtual mobile operators.

11.5.2.2 Agedi

The anticompetitive behaviour sanctioned by the CNMC in the AGEDI case of year 2013 consisted of the refusal to supply and imposing unfair service conditions,

[19]Decision of the CNMC, 6 March 2014, S 03691/11 Llamadas móviles.

[20]Other similar cases: Decision of the CNMC, 30 June 2011, R 0071/11, Artistas Intérpretes o ejecutantes, sociedad de gestión AISGE.

including the obligation to acquire certain repertoires on a monthly basis.[21] According to the CNMC, AGEDI, a copyright collective society, abused its dominant position on the management in Spain of the intellectual property rights of producers of phonograms and music videos regarding jukeboxes.

11.5.2.3 Sgae[22]

On 14 November 2014, the CNMC imposed a fine amounting to EUR 3,000,000 million on Sociedad General de Autores y Editores (SGAE), a copyright collective society, for abusive practices concerning the management of intellectual property rights of authors in relation to the public communication of musical works at concerts in Spain. In particular, the CNMC found that the high level of fees requested by SGAE for the public communication of musical works at concerts in Spain constituted an abuse of a dominant position. The CNMC assessed the level of fees applied by SGAE and compared it to the level of fees applied by similar organisations in other Member States, concluding that they were set at a much higher level than in other European countries without any objective economic justification. The CNMC concluded that SGAE abused its dominant position on this market.

11.5.3 Judicial Review of the Decisions of the CNMC

According to the report of the CNMC of the year 2013, from 2007 to 2013, nearly 85% of the decisions of the CNMC have been subject to judicial review. In 80% of the cases, the NAC or the Supreme Court confirmed the infringement. The above-mentioned cases concerning unilateral conducts have been mainly confirmed by the courts, whereas the courts have in certain cases reduced or reviewed the imposed fines.

11.5.4 Private Enforcement

It is difficult to define how many cases concerning the prohibition on unilateral conducts have been decided in the Spanish courts, although they have to communicate the cases to the CNMC. This problem is enhanced by the fact that several cases where the application of competition law is too broad or the claims are dismissed or the parties reach an extrajudicial agreement. However, private enforcement is constantly increasing in Spain.[23]

[21]Decision of the CNMC, 26 August 2013, S/0360/11, AGEDI.

[22]Decision of the CNMC, 6 November 2014, S/460/13, SGAE Conciertos.

[23]F. Marcos, Competition law private litigation in the Spanish Courts, 1999-2012, Working Paper IE Law School, 2013(16).

11.5.4.1 Exploitative Abuse: IP Collective Rights Cases

The Spanish courts have dealt in several cases with collective management of IP rights issues in *stand-alone* claims filed before the Spanish civil courts. As mentioned above, these collective management societies have been fined in several occasions by the European Commission and by the Competition Authority.[24]

Some of the cases regarding IP collective rights have led to damage actions before the Spanish commercial courts. The claims challenged in most of the cases exploitative excessive pricing.[25] However, until 2012, only some of these actions were successful. In many of the rejected cases, the reference to competition law was too broad. In other cases, the courts have accepted the abuse of dominance argument and granted damages to the claimants.[26]

11.5.4.2 Exclusionary Abuses: Electricity Distribution Cases

There are also some examples of *stand-alone* and *follow-on* claims for the abuse of its dominant position against electricity providers. In 2009, the CNMC concluded that Iberdrola Distribución had abused its dominant position in the electricity market and hindered competition in the electricity supply market.[27] Specifically, the abusive conduct consisted in denying supplier Centrica the information needed to compete in the retail market. Centrica brought a follow-on action for damages against Iberdrola Distribución before the Commercial Court of Bilbao, which rejected Centrica's claim on the basis that its action was time-barred but confirming that Iberdrola abused its dominant position. In the year 2013, the Supreme Court finally concluded that the action was not time-barred and granted damages to Centrica.[28]

11.5.5 Competent Courts and Authorities

11.5.5.1 Public Enforcement

The Spanish competition legal framework is enforced in Spain by the mentioned CNMC and by certain regional authorities, if their behaviour impacts only on the Autonomous Region where they have jurisdiction.[29] The CNMC was created in the

[24]Decision of the CNMC, 6 November 2014, S/460/13, SGAE Conciertos Decision of the CNMC, 30 June 2011, R 0071/11, Artistas Intérpretes.o ejecutantes, sociedad de gestión AISGE, Decision of the CNMC, 26 August 2013, S/0360/11, AGEDI.

[25]F. Marcos, Competition law private litigation in the Spanish Courts, 1999-2012, Working Paper IE Law School, 2013(16).

[26]F. Arribas, in G.A. Benacchio & M. Carpagnano, Il private enforcement del Diritto Comunitario della Concorrenza: Ruolo e Competenze dei Giudici Nazionali, p. 188, Trento 2009.

[27]Decision of the CNMC, 2 April 2009, R 644/08, Céntrica Iberdrola and NAC, 17 May 2012, 171/2009, Céntrica Iberdrola.

[28]Spanish Supreme Court, 4 September 2013, R 528/2013.

[29]Law 3/2013 established the creation of a single regulatory body in Spain, combining the functions of the former National Competition Commission (the "CNC") and the regulators of following sectors: energy, telecommunications, media, post, railway transport, air transport and gambling. Law 1/2002 of 21 February regulates the allocation of cases between the national authority and the regional authorities. Regional authorities can only enforce their powers in relation to infringements whose effects are limited to its specific jurisdiction.

year 2013, and it merges the Competition Authority with several sectorial regulators (energy, telecommunications, audiovisual, transport and postal). This Authority is independent from the Spanish Government, and the regional Authorities are also independent bodies.

The National Competition Authority, CNMC, has exclusive jurisdiction over merger control, state aid, block exemption regulations, representation before international bodies and application of EU competition rules in Spain. Therefore, the abuse of dominance can be sanctioned by the CNMC for trans-regional matters and by the regional authorities if the conduct only reaches a certain region. Nowadays, several regions have established regional Authorities although only some of them are really active (such as Andalucía, Basque Country and Catalonia). The Spanish competition rules apply to all conducts that have significant effects on the Spanish Market following the European approach. Nationality or location of the involved undertaking is not relevant for these purposes. The CNMC can initiate infringement proceedings on its own or after receiving a complaint from third parties.

The enforcement of competition rules in Spain is mainly administrative, and the SCA does not establish criminal sanctions.

Final decisions of the CNMC or the regional competition Authorities can be appealed before the *Audiencia Nacional (NAC)* within 2 months after the decision of the CNMC.[30] The appeal is open for any person or undertaking with a legitimate right or interest in the decision. Finally, the judgments of the NAC are reviewed by the Supreme Court.

11.5.5.2 Private Enforcement

Since 2004, Spanish commercial courts have had powers to decide on the enforcement of Articles 101 and 102 TFUE. The SCA contains now an express acknowledgment of the jurisdiction of the Spanish commercial courts over cases that only deal with the national SCA. Therefore, commercial courts can also deal with the abuse of dominance in *stand-alone* damage claims or in *follow-on* damage claims.[31]

11.5.5.3 Approach Followed by Competent Courts and Authorities

There are no guidelines in the Spanish jurisdiction concerning the enforcement or the substantive interpretation of the prohibition of abuse of dominance. Notwithstanding this, as in other areas of competition law, the Spanish courts tend to follow the approach established by the European courts or even by the European Commission in its guidelines and similar documents as described above.

[30]Legal Regime of the Public Administration and Ordinary Administrative Procedure, art. 3, (B.O.E. 1998, 29). Vid art. 19 CA.

[31]See F. Marcos, Competition law private litigation in the Spanish Courts, 1999-2012, Working Paper IE Law School, 2013(6).

Sweden

12

Trine Osen Bergqvist

12.1 The Swedish Prohibition

Chapter 2 Section 7 of the Swedish Competition Act (2008:579) prohibits abuse of a dominant position. The prohibition reads as follows:

> Any abuse by one or more undertakings of a dominant position on the market is prohibited. Such abuse may, in particular, consist in:
>
> 1. directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions,
> 2. limiting production, markets or technical development to the prejudice of consumers,
> 3. applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage, or
> 4. making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations, which by their nature or according to commercial usage, have no connection with the subject of such contracts.

The Competition Act entered into force on 1 November 2008. The Act concerns competition law exclusively. The prohibition in Chapter 2 Section 7 has had the same wording since 1993, when it was introduced in the former Competition Act (1993:20). The prohibition is modelled closely on Article 102 of the Treaty of the Functioning of the European Union (TFEU). Like Article 102 TFEU, the list of prohibited practices is not exhaustive.

The views expressed in the report are the personal views of the author and does not necessarily reflect the position of the Swedish Competition Authority.

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Similar practises to those covered by the prohibition may also be covered by other areas of law, such as contract law and marketing law.[1]

12.2 The Judiciary System

Although the substantial prohibition in Chapter 2 Section 7 in the Swedish Competition Act is modelled closely on the prohibition in Article 102 TFEU, the procedural rules differ significantly. In general, the decision-making powers of the Swedish Competition Authority (hereafter SCA) are less extensive than those of the Commission and of other competition authorities in the EU.

The SCA may not impose administrative fines on its own; it has to submit a summons of application to the Stockholm District Court and request the court to impose fines.[2] The District Court's judgments may be appealed to the Market Court, which is the court of last instance in competition law cases.

The SCA may issue injunctions ordering the dominant undertaking to terminate the infringement.[3] Injunctions may be imposed under the threat of a fine for default.[4] The SCA may order the dominant undertaking to stop applying a certain agreement, terms of an agreement or other prohibited practices, but it may only impose remedies that are proportionate and necessary to bring the infringement to an end.[5] Neither the SCA nor the courts may impose structural remedies. Injunctions may be appealed directly to the Market Court.[6]

If the SCA decides not to intervene against an alleged ongoing infringement, competitors affected by the conduct may submit a summons of application to the Market Court and request the Market Court, as the first and last instance, to issue an injunction.[7]

The Stockholm District Court is involved only in cases concerning administrative fines and in private litigation concerning damages or nullity caused by competition law violations. The District Court is not a specialist court, but it has a specialised chamber dealing with competition law. In competition law cases, the court consists of two legal judges and two judges who are experts in economics. The judgments of the District Court may be appealed to the Market Court, which is the court of final instance.

[1]For instance, unfair contract terms be set aside as void according to section 36 of the Swedish Contracts Act (1915:218) and misleading marketing is prohibited by Section 10 of the Swedish Marketing Act (2008:486).

[2]Chapter 3, Section 5 of the Competition Act.

[3]Chapter 3, Section 1 of the Competition Act.

[4]Chapter 6, Section 1 of the Competition Act.

[5]Prop. 1992/93:56 page 90 and prop. 2007/08:135 p. 252.

[6]Chapter 7, Section 1 of the Competition Act.

[7]Chapter 3, Section 2 of the Competition Act.

The Market Court is a specialised court that handles cases relating to the Competition Act, the Marketing Act and other consumer and marketing legislation. The Market Court consists of a chairman and a vice chairman, in addition to five special members. The chairman, the vice chairman and one of the special members must be lawyers with experience as judges. The other special members are experts in economics.

The review carried out by the Stockholm District Court and the Market Court is not limited to a judicial review. The courts examine all facts of the case and make their own decision on whether the practice constitutes an abuse of dominant position.

12.3 The Definition of Abuse

The statute contains no definition of abuse. Both the Swedish Competition Authority (SCA) and the Swedish courts have applied the definition of abuse developed by the Court of Justice, defining abuse as "an objective concept relating to the behaviour of an undertaking in a dominant position which is such as to influence the structure of markets where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse to methods different from those which condition normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition".[8]

In its preliminary ruling in *TeliaSonera*, the Court of Justice explained that the term abuse may not only consist of exploitative practices which directly cause harm to consumers; it may also consist of exclusionary practices that cause consumers harm through their impact on competition.[9] In *Post Denmark*, the Court of Justice added the phrase "to the detriment of consumers" to its definition of exclusionary abuse. It pointed out that "Article 82 EC applies, in particular, to the conduct of a dominant undertaking that, through recourse to methods different from those governing normal competition on the basis of the performance of commercial operators, has the effect, to the detriment of consumers, of hindering the maintenance of the degree of competition existing in the market or the growth of that competition".[10]

As opposed to exclusionary abuse, case law has not developed a single definition covering all types of exploitative abuse. Exploitative abuse in the form of excessive prices has been defined as prices that have "no reasonable relation to the economic value of the product supplied".[11]

[8]ECJ, case 85/76, *Hoffman-La Roche & Co AG v Commission*, ECR 1979 461, pt 91.

[9]CJEU, case C-52/09 *TeliaSonera Sverige AB*, ECR 2011 I-527, pt 24.

[10]CJEU, case C-209/10 *Post Danmark A/S*, ECR 3261, pt 24.

[11]ECJ, case 27/76, *United Brands Company v Commission,* ECR 1978 207, pt 50.

12.4 Exploitative Abuse and Exclusionary Abuse

Chapter 2 Section 7 of the Competition Act covers both exploitative and exclusionary abuses. The statute does not use the terms exploitative or exclusionary, but from the list of prohibited practices, it is apparent that both types of abuse are covered by the prohibition.

The decisional practice of the SCA makes no explicit distinction between exploitative and exclusionary abuse. Of a total of three cases that led to an intervention from the SCA during the period 1 January 2010 to 1 January 2015, one concerned an abuse that was purely exploitative[12] and two concerned abuses that were mainly exclusionary.[13] Of the seven judgments from Swedish courts during the same period concerning abuse of dominant position, one concerned an abuse that was purely exploitative,[14] three concerned abuses that were purely exclusionary[15] and three concerned discriminatory abuse,[16] an abuse that may be both exclusionary and exploitative. In a recent judgment from the Stockholm District Court concerning price discrimination, the court explicitly differs between exploitative and exclusionary price discrimination.[17]

As opposed to exploitative abuses, exclusionary abuses are particularly mentioned in the SCA's prioritisation policy as an example of serious conduct.[18] This is an indication that the SCA is more likely to give priority to a case concerning exclusionary abuse than it is to a case concerning exploitative abuse.

[12]Case 378/2013 *Swedavia AB*.

[13]Case 533/2009, *Ekfors Kraft AB* and case 815/2014, *Swedish Match North Europe AB*.

[14]MD 2011:28, *Uppsala Taxi 100 000 AB v Swedavia AB and EuroPark Svenska AB*, 23 November 2011.

[15]Svea Hovrätt, case T 10012-08, *Euroclear Sweden AB v Europe Investor Direct AB et al*, 19 January 2011, MD 2011:14, *Bring CityMail AB v Posten Meddelande AB*, 8 June 2011 and MD 2013:5, *TeliaSonera AB v Konkurrensverket*, 12 April 2013.

[16]MD 2011:2, *Stockholm Transfer Taxi i Stockholm AS v Swedavia AB*, 2 February 2011, Stockholm District Court, case T 5995-09, *Preem AB v Gävle Hamn AB*, 31 May 2012 and Stockholm District Court, case T 20621-10, *Verizon Sweden AB v Tele 2 Sverige AB*, 2 February 2014.

[17]Stockholm District Court, case T 20621-10, *Verizon Sweden AB v Tele 2 Sverige AB*, 2 February 2014, pp. 71–72.

[18]See SCA, The Swedish Competition Authority's Prioritisation Policy for Enforcement, April 2014, available at http://www.kkv.se/globalassets/english/about-us/english_prioritisation_policy_for_enforcement.pdf.

12.5 Price-Based and Non-price-Based Abuses

The statute makes no explicit distinction between price-based and non-price-based abuses. However, both the decisional practice from the SCA and case law from the European courts suggest that when it comes to price-based conduct, a different legal test shall be applied than in non-price-based cases.

In price-based cases, the SCA conducts usually an “as efficient competitor” test (hereafter referred as “AEC test”) in accordance with the principles in the Commission’s Guidance Paper[19] in order to determine whether the price constitutes an abuse of dominant position.[20] This practice is in line with recent case law from the Court of Justice. In its preliminary rulings in *TeliaSonera*[21] and *Post Danmark*,[22] the Court of Justice stated that in order to establish a price-based abuse in the form of margin squeeze or selective rebates, it is necessary to show that the price is capable of excluding as efficient competitors. The General Court took a different approach in *Intel*, stating that it is not necessary to perform an AEC test to conclude that exclusivity rebates constitute abuse of dominant position, but this position was based on the General Court’s finding that exclusivity rebates, as opposed to margin squeeze and selective rebates, constitute non-price-based conduct.[23] Thus, as regards price-based conduct, it seems to be established case law that it is necessary to conduct AEC tests in order to establish that the price is abusive. The Swedish Market Court has at one occasion taken a different approach with respect to non-exclusive discounts, holding that it is not necessary to perform an AEC test in order to conclude that such a discount is abusive,[24] but this judgment is quite difficult to reconcile with subsequent case law from the European courts.

12.6 The Objective of the Prohibition

When the prohibition was introduced in Swedish law, one of its purposes was to protect small and medium-sized companies from strong competitors, suppliers and customers.[25] However, both the SCA and the Commission have on several occasions made it clear that the purpose of the prohibition is to protect competition,

[19] Guidance on the Commission’s Enforcement Priorities in applying Article 82 of the EC Treaty to exclusionary conduct by dominant undertakings, OJ 2009 C 45, p. 7.

[20] Decision of 3 May 2012 in case 262/2011, *Posten AB*, p. 4 and decision of 4 July 2014 in case 721/2013, *Infranord AB*, p. 3.

[21] CJEU, case C-52/09 *TeliaSonera Sverige AB*, ECR 2011 I-527.

[22] CJEU, case C-209/10 *Post Danmark A/S*, ECR 3261.

[23] EGC, case T-286/09, *Intel Corp v Commission*, pt. 152.

[24] MD 2011:14, *Bring CityMail AB v Posten Meddelande AB*, 8 June 2011, p. 14.

[25] Prop. 1992/92:56 pp. 21–22.

not competitors. The Court of Justice has also made it clear that dominance is not in itself a ground for criticism of the undertaking.[26]

Today, there seem to be two schools of thought on what should be considered the objective of the prohibition of abuse of dominant position. The first school sees the goal as to protect the process of competition, the essence being that it is the process or structure of competition that matters, not the outcome. The other school suggests that the goal is to protect competition to the benefit of consumers, that is, to protect competition in order to protect consumer welfare. The latter school is effect or outcome oriented.[27] The overall objective of the SCA is to promote effective competition in the private and the public sectors to the benefit of consumers.[28]

12.7 Enforcement

The prohibition in Chapter 2 Section 7 of the Competition Act is enforced by the SCA. If the practice investigated also affects trade between EU member states, the SCA will also apply Article 102 TFEU. No other regulatory authority has concurrent power to enforce the Competition Act.

The SCA has not adopted any guidelines with respect to the interpretation of the prohibition. It has adopted a prioritisation policy for its overall enforcement of the Competition Act, but this policy provides no guidance on how to interpret the prohibition or how to identify an abuse. The SCA's interpretation of the prohibition is based on decisional practice of the Commission and case law from the European courts regarding Article 102 TFEU. The SCA has also explicitly relied on the guidance provided in the Commission's Guidance Paper.[29] Although the SCA is not legally bound by the Guidance Paper, and has not committed to follow the principles therein, the Guidance Paper provides important guidance for the SCA's analysis.

According to the SCA's prioritisation policy, decisions whether or not to investigate a case are based on whether the competition concern is serious competition concern, whether the case is liable to be a guiding precedent, whether the SCA is the best placed authority to deal with the problem and whether the SCA is able to effectively investigate and remedy the problem. The seriousness of concerns is

[26]CJEU, case C-209/10 *Post Danmark A/S*, ECR 3261, pt 21.

[27]L. Peeperkorn, Conditional pricing: Why the General Court is wrong in *Intel* and what the Court of Justice can do to rebalance the assessment of rebates, Concurrences No 1-2015 I pp. 43-63, pt 23.

[28]See the statement of the SCA in its web site: http://www.konkurrensverket.se/en/omossmeny/about-us/uppgifter/.

[29]Decision of 3 May 202 in case 262/2011, *Posten AB*, page 4 and decision of 4 July 2014 in case 721/2013, *Infranord AB*, page 3.

based primarily on potential harm to competition and consumers. Exclusionary abuse is explicitly listed as a serious conduct.[30]

Over the latest years, and in particular following the Commission's adoption of its Guidance Paper, the SCA has applied an economic approach, focusing on the risk of consumer harm. Efficiencies are carefully taken into account in order to avoid intervention against conducts that are truly pro-competitive. In price-based cases, the SCA has conducted AEC analysis in accordance with the principles of the Guidance Paper.

In the period 1 January 2010 to 1 January 2015, 50 cases concerning abuse of dominant position was decided by the SCA, of which three cases led to an intervention. During the same period, the SCA decided in 89 cases concerning anti-competitive agreements, of which eight cases led to an intervention.

The three cases in which the SCA has intervened against abuse of dominant position are briefly described below.

On 25 August 2010, the SCA ordered the electric utility company *Ekfors Kraft AB* (Ekfors Kraft) to connect the municipal street lighting facilities of Haparanda Stad (Haparanda) to its power grid.[31] The SCA found that access to the grid was objectively necessary in order for Haparanda to be able to operate on the market for street lighting services. In the absence of objective justification, Ekfors Kraft's refusal to supply a connection to its grid amounted to an abuse of dominant position in violation of Chapter 2 Section 7 of the Competition Act. The decision was appealed to the Market Court, but the appeal was later abandoned.

On 18 June 2013, the SCA brought legal proceedings in the Stockholm District Court against the state-owned airport operator *Swedavia AB* (Swedavia).[32] The SCA requested the court to order Swedavia to pay administrative fines amounting to SEK 340,000 for having abused its dominant position by imposing unfair fees at Arlanda airport. The action followed a successful private claim for injunction by the complainant, Uppsala Taxi 100 100 AB (Uppsala Taxi). When the SCA decided not to investigate the case, Uppsala Taxi requested the Market Court to issue an injunction against Swedavia and the parking company EuroPark Svenska AB (EuroPark). The Market Court found one of the fees applied at Arlanda to be abusive and ordered Swedavia and EuroPark to end the infringement.[33] Following this injunction, the SCA brought legal proceedings before Stockholm District Court, requesting the court to order Swedavia to pay administrative fees for the violation. Swedavia argued that the case was inadmissible, as the matter had already been resolved by the Market Court, and that the principle of *ne bis idem* meant that the case could not be tried again. In January 2014, Stockholm District Court gave a

[30]See SCA, The Swedish Competition Authority's Prioritisation Policy for Enforcement, April 2014, available at http://www.kkv.se/globalassets/english/about-us/english_prioritisation_policy_for_enforcement.pdf.

[31]Case 533/2009, *Ekfors Kraft AB*.

[32]Case 378/2013, *Swedavia AB*.

[33]MD 2011:28, *Uppsala Taxi 100 000 AB v Swedavia AB and EuroPark Svenska AB*, 23 November 2011.

judgment finding that the principles of *ne bis in idem* did not make the case inadmissible.[34] The decision was appealed to the Market Court, and the case is still pending.

On 9 December 2014, the SCA brought legal proceedings in the Stockholm District Court against *Swedish Match North Europe AB* (Swedish Match), the manufacturer of wet tobacco sold in Scandinavia as "snus".[35] The SCA asked the court to order Swedish Match to pay administrative fines amounting to SEK 37,982,000 for having abused its dominant position by imposing a new system for shelf labels in Swedish Match's snus coolers, according to which Swedish Match's competitors were forced either to follow a detailed label template produced by Swedish Match or accept Swedish Match's exchanging of the existing labels for generic grey/white ones. The SCA found that Swedish Match had a strict application of the labelling system. It did not accept labels with minor deviations from the template, even if they fitted in the existing label holders. In addition, Swedish Match did not always provide an indication of the price of competitors' products. In certain cases, Swedish Match used non-standard labels for their own low-price snus Kaliber or removed competitors' existing labels without replacing them. Internal documents showed that the labelling system was introduced by Swedish Match as part of a strategy to reduce price and brand competition.[36] The SCA concluded that the practice amounted to an abuse of dominant position. The case is still pending.

The SCA has at times been criticised for not being sufficiently active in its enforcement of the prohibition against abuse of dominant position; therefore, there are no claims of putting too many restrictions on companies' legal rights or their business opportunities.[37] The SCA's application of an effect-based approach, in which the costs of over-enforcement are carefully taken into account, may have contributed to the low number of interventions. As of 1 January 2014, the SCA has established a separate competition unit to handle cases concerning abuse and vertical restraints. The Abuse and Vertical Restraints Unit is headed by the former deputy chief economist, Martin Mandorff, and consists of 18 case officers, of which about 50% are economists and the other 50% are lawyers. Through increased expertise and more resources, the SCA is expected to be well equipped to enforce abuse of dominant position provisions.

12.8 Judgments from the Courts

During the period 1 January 2010 to 1 January 2015, Swedish courts have decided on seven cases concerning abuse of dominant position. Of these seven cases, one was initiated by the SCA, three was initiated by complainants following a SCA

[34] Stockholm District Court, case T 9131-13, 13 January 2014.

[35] Case 815/2014, *Swedish Match North Europe AB*.

[36] For further information, see the SCA's fact sheet available at http://www.konkurrensverket.se/globalassets/english/news/2014_815_swedishmatch_eng.pdf.

[37] Global Competition Review's rating 2014 of the SCA's work 2013.

decision not to investigate the case and three were private enforcement cases with claim for stand-alone damages. During the same period, Swedish courts have decided on five cases concerning anti-competitive agreements, of which three were initiated by the SCA, one was initiated by a complainant following an SCA decision not to investigate the case and one was a private action concerning the nullity of an agreement.

The judgments concerning abuse of dominant position are briefly described below.

In *Euroclear Sweden AB*, a Swedish Court of Appeal awarded damages in a private enforcement case.[38] The case followed a refusal from Euroclear Sweden AB (Euroclear) to supply share registers with complete information about shareholders in Swedish companies. Euroclear had previously supplied share registers with complete information about shareholders, but with no prior notice Euroclear started to supply share registers without personal identity numbers and street addresses to the shareholders. Euroclear was found to have abused its dominant position, not only during the period it had explicitly refused to supply complete share registers but also during the period it had charged excessive prices for supplying the same.

The case *Stockholm Transfer Taxi i Stockholm AB* concerned an action for injunction by the taxi company Stockholm Transfer Taxi i Stockholm AB against the airport operator Swedavia AB (Swedavia) following a decision from the SCA not to investigate the case.[39] The complainant argued that Swedavia abused its dominant position by allocating taxi lanes in a discriminatory way between different taxi companies. The Market Court agreed that, as a cause of the limited space outside the terminal, rules governing the use of the area should, to the extent possible, be competition neutral. However, the Market Court found that Swedavia's allocation was based on customer demand. Considering that the facts of the case did not support the claim that the allocation led to a competitive disadvantage for the complainant or even a cementation of the market, the Market Court concluded that the practice did not constitute an abuse.

Bring CityMail is another case in which the complainant brought an action directly before the Market Court.[40] The case started with a complaint from Bring City Mail AB (CityMail) to the SCA against its main competitor on postal services, the incumbent postal operator *Posten Meddelande AB* (Posten). CityMail argued that Posten's sorting discount of SEK 0.2 per item on pre-sorted bulk mail had a foreclosing effect and that it was thus abusive. Posten claimed that the discount was based on cost savings caused by the customers' pre-sorting of the mail. Posten also argued that the effective price that CityMail would have to offer in order to compete with Posten was above CityMail's long-run average incremental costs and that the discount could thus not be exclusionary. In accordance with the Commission's

[38] Svea Hovrätt, case T 10012-08, *Euroclear Sweden AB v Europe Investor Direct AB et al*, 19 January 2011.

[39] MD 2011:2, *Stockholm Transfer Taxi i Stockholm AS v Swedavia AB*, 2 February 2011.

[40] MD 2011:14, *Bring CityMail AB v Posten Meddelande AB*, 8 June 2011.

Guidance Paper, the SCA performed an AEC test. As the AEC test did not show that the discount was capable of foreclosing as efficient competitors, the SCA decided to close the case.[41] When the case was brought before the Market Court, the court did not have access to the AEC test carried out by the SCA. Posten did submit its own AEC test but not the underlying cost data. Unlike the SCA, the Market Court considered that it was not necessary to perform an AEC test in order to conclude that the discount amounted to an abuse of dominant position. Applying a more formalistic approach than the SCA, the court found it obvious that the discount was capable of restricting customers from making their purchases from CityMail or force CityMail to squeeze its margins and that the discount was therefore abusive.

In *Swedavia AB*, the Market Court gave a judgment on a pre-order fee for taxi charged by the parking company EuroPark Svenska Aktiebolag (Europark) and the airport operator Swedavia AB (Swedavia).[42] The case has its origin in 2011, when Swedavia and EuroPark introduced a new system for pre-ordered taxis. The system consisted of two service levels. At the first service level, customers who had pre-ordered a taxi were picked up by the taxi driver at the pre-order desk. For this service, a fee of SEK 25 was charged. At the second service-level, an additional charge of SEK 25 was charged for the taxi driver meeting the customer with a name sign at the arrival gate. The complainant, Uppsala Taxi 100 000 AB (Uppsala Taxi), argued that the fees constituted abuse of dominant position through unfair trading conditions, alternatively excessive pricing and bundling. When the SCA rejected the complaint, the complainant brought actions before the Market Court. The Market Court considered that the fee for the second service level was unfair and thus abusive. The conclusion was not based on the fee being excessive in relation to the cost but on the fact that the costs on which the fee was said to be based lacked necessary connection with the service. The fee for the first service level was, however, found to be cost related and thus not abusive.

In *Preem*, the Stockholm District Court gave a judgment regarding price discrimination in a stand-alone claim for damages.[43] Oil company Preem AB (Preem) claimed that port Gävle Hamn AB (Gävle Hamn) had applied discriminatory prices by charging higher port fees from Preem than it charged from another customer, Arlanda Flybränslehantering AB (Afab). The District Court agreed with Preem that the differences in price were not economically motivated but pointed out that a price differentiation does not necessarily constitute price discrimination. The court held that, in order for a price differentiation to be abusive, it must lead to a competitive disadvantage for the company that claims to be discriminated. Considering that Preem did not compete on the same market as Afab, and that Preem's competitors were charged the same fees as Preem, the court concluded that the price

[41]Decision of 3 May 2012 in case 262/2011, *Posten Meddelande AB*.

[42]MD 2011:28, *Uppsala Taxi 100 000 AB v Swedavia AB and EuroPark Svenska AB*, 23 November 2011.

[43]Stockholm District Court, case T 5995-09, *Preem AB v Gävle Hamn AB*, 31 May 2012.

differentiation did not lead to a competitive disadvantage for Preem and that it was thus not abusive.

In the case *TeliaSonera Sverige AB*, the Market Court ordered the Swedish telecom operator *TeliaSonera Sverige AB* (TeliaSonera) to pay an administrative fine amounting to SEK 35 million for having abused its dominant position in the broadband market, ADSL, through a margin squeeze.[44] In doing so, the Market Court upheld the judgment of the Stockholm District Court finding the abuse[45] but reduced the fine from SEK 144 million to SEK 35 million. The fine is still by far the highest ever imposed in a Swedish case concerning abuse of dominant position. The case was initiated in 2004, when the SCA brought an action before the Stockholm District Court, requesting the court to order TeliaSonera to pay administrative fines of SEK 144 million for applying a pricing strategy amounting to margin squeeze between the wholesale price for its resale products for ADSL broadband and the resale price for its ADSL services to end users. In January 2009, the District Court referred the case to the Court of Justice for a preliminary ruling regarding the interpretation of the application of Article 102 TFEU. The questions were answered through a preliminary ruling on 17 February 2011.[46] In short, the Court of Justice stated that a pricing practice whereby the margin between the wholesale prices and the retail price is insufficient to cover the costs that the undertaking must incur in order to gain access to the retail market may constitute an abuse of dominant position. The Court of Justice clarified that a margin squeeze may, in itself, constitute an independent form of abuse distinct from that of refusal to supply.[47] In accordance with these principles, the Stockholm District Court found that TeliaSonera's pricing strategy constituted an abuse and ordered TeliaSonera to pay administrative fines of SEK 144 million. Upon appeal, the Market Court upheld the finding of abuse but lowered the administrative fines to SEK 35 million, mainly by reducing the period in which the pricing was found to be abusive.

In *Verizon Sweden AB*, the Stockholm City Court rejected a claim from Verizon Sweden AB (Verizon) for damages following alleged price discrimination by Tele 2 Sverige AB (Tele 2).[48] The case concerned fees paid by Verizon for the termination of phone calls in Tele 2's network. Similar fees were paid by Tele 2's competitor TeliaSonera AB (TeliaSonera), but because of a disagreement concerning the size of the fees, TeliaSonera withheld parts of its payments. After an administrative court decided on the size of the fees to be paid by TeliaSonera, Tele 2 repaid an amount of approximately SEK 93 million to the company. Verizon claimed that Tele 2 should make a similar retrospective adjustment of Verizon's fees, so that the fees actually paid were the same for TeliaSonera and Verizon. The

[44]MD 2013:5, *TeliaSonera AB v Konkurrensverket*, 12 April 2013.

[45]Stockholm District Court, case T 31862-04, *Konkurrensverket v TeliaSonera AB*, 2 December 2011

[46]CJEU, case C-52/9, *Konkurrensverket v. TeliaSonera Sverige AB*, ECR 2011 I- 527.

[47]CJEU, case C-52/9, *Konkurrensverket v. TeliaSonera Sverige AB*, ECR 2011 I-527, pt. 56.

[48]Case T 20621-10, *Verizon Sweden AB v Tele 2 Sverige AB*, 7 February 2014.

Stockholm District Court started by pointing out that price differentiation does not necessarily amount to price discrimination. In order for the price differentiation to be abusive, it must lead to a competitive disadvantage upstream or downstream. The court found that Tele 2's retrospective payment of a lump sum did not lead to a competitive advantage for TeliaSonera, the main reason being that a company's pricing strategy is influenced by variable costs but not by the payment of a lump sum. The court also rejected the claim that Tele 2's charging of different prices to competitors and its own subsidiaries constituted unlawful price discrimination. Verizon appealed the judgment, but the appeal was subsequently withdrawn.

Like the SCA, the Swedish courts have gradually shifted their enforcement of the prohibition to a more economic and effect-oriented approach. The judgments from the Stockholm District Court and the Market Court in *TeliaSonera*[49] were both based on the effect-based principles set out in the Court of Justice's preliminary ruling. The Market Court's judgment in *Posten*[50] was, however, based on a more formalistic approach.

Whereas the SCA has been criticised for being too passive in its enforcement of the prohibition, the Market Court has been more active. It has on several occasions issued injunctions in cases that were first rejected by the SCA. But even the Market Court's enforcement of the prohibition has received some critical remarks. It has been argued that the Market Court has been less receptive than the SCA to the analytical framework provided in the Commission's Guidance Paper[51] and that its approach is inconsistent with the Court of Justice's standards in *Post Danmark*.[52]

[49]Stockholm District Court, case T 31862-04, *Konkurrensverket v TeliaSonera AB*, 2 December 2011, and MD 2013:5, *TeliaSonera AB v Konkurrensverket*, 12 April 2013.

[50]MD 2011:14, *Bring CityMail AB v Posten Meddelande AB*, 8 June 2011.

[51]U. Öberg, A. Reindl and M. Schain, Report on the abuse of dominance legislation in Sweden, The Dominance and Monopolies Review 2013, p. 275.

[52]U. Öberg, A. Reindl and M. Schain, Report on the abuse of dominance legislation in Sweden, The Dominance and Monopolies Review 2013, p. 278.

Switzerland 13

Denis Cherpillod

13.1 Introduction

The scope of this report is to provide general information on the Swiss regulations related to abuse of a dominant position and their interpretation and application by the Swiss competition authority and courts.

Switzerland is a small market, geographically embedded in the European Union. It has consistently refused to join the Union, even if close relationships are maintained and some economic integration has been achieved through bilateral agreements, in particular on the free movement of persons and free trade. In this framework, the Swiss export industry faces tough international pressure from outside competitors, particularly given the strength of the Swiss franc. On the other side, the internal market has, on several aspects, remained immune from external pressure.

The Swiss practice on unilateral conduct of dominant firms reflects this economic setting. During the last years, the competition authorities have dealt exclusively with national matters related to the national market. Most of them were related to access to some input (a network, a product) in order to ensure that markets remain open for competitors that, otherwise, would have no alternatives.

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13.2 Provision Prohibiting the Abuse of Dominant Position

13.2.1 Relevant Provisions of the Cartel Act

Article 7 of the Federal Act on Cartels and Other Restrictions to Competition[1] (hereafter "ACart") prohibits unlawful practices by dominant undertakings. Its content is the following:

> 1 Dominant undertakings behave unlawfully if they, by abusing their position in the market, hinder other undertakings from starting or continuing to compete, or disadvantage trading partners.
>
> 2 The following behaviour is in particular considered unlawful:
> a. any refusal to deal (e.g. refusal to supply or to purchase goods);
> b. any discrimination between trading partners in relation to prices or other conditions of trade;
> c. any imposition of unfair prices or other unfair conditions of trade;
> d. any under-cutting of prices or other conditions directed against a specific competitor;
> e. any limitation of production, supply or technical development;
> f. any conclusion of contracts on the condition that the other contracting party agrees to accept or deliver additional goods or services.

The law also provides for a definition of what is a dominant position in Art. 4 para. 2 ACart, whose wording is the following: "Dominant undertakings are one or more undertakings in a specific market that are able, as suppliers or consumers, to behave to an appreciable extent independently of the other participants (competitors, suppliers or consumers) in the market." As the notion of dominant position is not the topic of this report, it will not be discussed further.

13.2.2 Historical Development, Amendments to the Statutory Regulation and Relation to EU Law

The ACart has been enacted by the Swiss Parliament on 6 October 1995 and entered into force on 1st July 1996. Its adoption followed Switzerland's refusal in 1992, by popular referendum, to join the European Economic Area (EEA) and was intended to foster the competitiveness of the Swiss economy.[2] The ACart has been further reinforced in 2004 with the introduction of direct sanctions that may amount to up to 10% of the turnover achieved in Switzerland in the preceding three financial years (Art. 49a ACart). Before 1996, Swiss competition law was merely based on

[1]Available in an (unofficial) English translation at https://www.admin.ch/opc/en/classified-compilation/19950278/index.html.

[2]Message of the Federal Council related to the Act on Cartels and other Restrictions of Competition, pp. 13 ss; V. Martenet and A. Heinemann, Droit de la concurrence, Schulthess 2012, p. 16.

private enforcement and lacked a provision specifically geared towards the abuse of a dominant position. The practice in this field remained limited.[3]

To a large extent, Art. 7 ACart has been modelled after Art. 102 TFEU (previously Art. 82 TEC) and the practice resulting thereof. Given its conception, its wording and the history of its adoption, both the literature and the practice of the competition authorities have recognised that Art. 7 ACart should not be interpreted in a notably different manner than Art. 102 TFEU.[4] For this reason, the practice and jurisprudence of the European authorities and courts have been widely taken into account by Swiss authorities in the application of Art. 7 ACart.

However, the Federal Court ruled in the "*Mobilfunk*" decision of 11 April 2011 in favour of an autonomous interpretation of Swiss law. According to the Federal Court, there are no common rules of competition law that have been agreed between the EU and Switzerland in the framework of a bilateral treaty. In addition, the legislator's primary purpose in the adoption of the ACart was not to align Swiss law with EU competition law. Finally, the principles underlying Swiss competition law are different from those underlying EU competition law.[5] Therefore, the mere use of the same terminology would not automatically imply an identical application of the rules, and autonomous Swiss law shall thus be interpreted independently from EU law.

Notwithstanding the "*Mobilfunk*" ruling, which has been criticised,[6] both the Competition Commission ("Comco") and the courts have continued to refer to EU practice and jurisprudence as a source of inspiration and an important method of interpretation in the application of Art. 7 ACart.[7]

In 2012, a proposal to revise the ACart has been submitted to the Swiss Parliament but was never voted into law and was definitively abandoned in September 2014. This proposal would have substantially changed the nature of the ACart and the prohibitions it contains. In relation to the abuse of dominant position, it was proposed to introduce an Art. 7a ACart with the title "Unlawful Obstruction to Purchase in Foreign Countries". This provision would have prohibited the imposition of higher prices in Switzerland than abroad by undertakings or groups of undertakings that would have, as a second condition of the prohibition, refused to sell to Swiss customers from their foreign branches. Such behaviour can indeed not be caught in the same way as vertical agreements in the framework of distribution networks.

[3] E. Clerc, in: V. Martenet, C. Bovet and P. Tercier, Commentaire Romand – Droit de la Concurrence, 2nd edition, Helbing Lichtenhahn 2013 (hereafter "CR-LCart"), ad Art. 7 I LCart N. 24 ss.

[4] Decision of the Comco of 19 October 2009 "Preispolitik Swisscom ADSL", DPC 2010/1 116, 147; E. Clerc, in: CR-LCart, ad Art. 7 N. 49.

[5] ATF 139 II 99, para. 4.3.1.

[6] E. Clerc, in: CR-LCart, ad Art. 7 I LCart N. 50.

[7] Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 8.2.3.

Article 7a ACart would have applied to all undertakings without respect of their power on the market based on the controversial idea that an undertaking that is in a position to charge higher prices to Swiss customers has, by nature, some market power.[8] It would have prohibited the refusal to supply Swiss customers in a country of the OECD at the prices and conditions applied in this country if the concerned products or services were also offered in Switzerland and the prices were publicly disclosed or the customers relied on these goods or services to satisfy their own customers and could not purchase them in Switzerland at comparable prices or conditions.

Despite the obvious difficulties inherent in the application of such a prohibition, the proposal found some political support before the whole revision process was abandoned. An attempt to lower the threshold of relative market power was recently reintroduced in the Parliament, with a similar purpose.[9]

13.2.3 Other Statutory Provisions

While Art. 7 ACart is the only provision of Swiss law that directly and globally regulates the behaviour of undertakings with market power, some other statutory provisions either prohibit certain behaviours that are similar to those covered by Art. 7 para. 2 ACart or command certain obligations to undertakings with a dominant position in regulated markets.

First, the Federal Act on Price Supervision applies to undertakings with "market power". It establishes a regime of price supervision by a federal authority, the "Price Supervisor", with the power to order price reductions or to prohibit price increases. Prices are deemed abusive if their level is not the result of effective competition. The assessment of abusive prices must take into account the evolution of prices on similar markets, the requirement to achieve equitable profits, the evolution of costs, specific services provided by the undertakings, as well as particular circumstances inherent to the market. The application of these regulations has never gained much traction, mostly because of the difficulty to assess what constitutes a fair level of price under the criteria set by the law.

Second, Art. 3 let. f of the Federal Act against Unfair Competition prohibits the repeated offering of selected goods, works or services below cost price and the making of particular mention of such offers in the offeror's advertising, thus deceiving the customers as to the offeror's capabilities or those of its competitors. This provision aims at protecting customers against the deception triggered by

[8]See B. Merkt, Abus de position dominante: développements récents de la pratique, in: I. Hochreutener, W. Stoffel and M. Amstutz (eds), Pratique du droit de la concurrence: Abus de position dominante, procédure, révision, Schulthess 2013, p. 66.

[9]Parliamentary initiative of Mr Hans Altherr in the Council of States dated 25 September 2014. See http://www.parlament.ch/e/suche/Pages/geschaefte.aspx?gesch_id=20140449.

specific offers advertised below cost price as to the general price level of the products sold by an undertaking. It applies to all firms, irrespective of their market power. In contrast, Art. 7 para. 2 let. d ACart protects the market against the reinforcement of a dominant position through the under-cutting of prices directed towards a specific competitor.

Finally, certain sector-specific regulations provide for obligations that are only applicable to undertakings with market power.

Under Art. 11ff of the Federal Telecommunications Act (hereafter TCA), providers of telecommunication services that have a dominant position on the market must provide access to other providers in a transparent and non-discriminatory manner at cost-oriented prices to their facilities and their services in certain forms provided by law (including access to the local loops, interconnection and access to cable ducts). Disputes over access conditions are decided by the Communication Commission, an administrative body with decisional powers. If the question of dominance on the market must be assessed, Comco must be consulted (Art. 11a para. 2 TCA). Finally, dominant providers of telecommunications services may bundle their services only if they also offer the services included in the bundle individually (Art. 12 TCA).

This sector-specific regulation replaces the general rules of competition law for the particular market that it regulates. This does not mean that competition law is entirely excluded from the telecommunications market. On the contrary, the incumbent provider, Swisscom, has been considered dominant in several decisions rendered by Comco in the application of Art. 7 ACart.

In the sector of supply of electricity, Art. 13ff of the Federal Act on Electricity compels the operators of electricity networks to grant access on a non-discriminatory basis and at prices that should not exceed the sum of their costs. While the law does not mention the holding of a dominant position as a condition of these obligations, it implies that electricity networks are, by nature, natural monopolies exempt of competition.[10]

Finally, Art. 75 of the Federal Act on Radio and Television provides that a broadcaster or another undertaking active in the radio and television market that has jeopardised diversity of opinion and offerings as a result of an abuse of its dominant position may be compelled to ensure diversity by measures such as granting broadcasting time for third parties or cooperating with other participants on the market, to take measures against corporate journalism, such as issuing editorial statutes to ensure editorial freedom, or, should such measures prove to be clearly inadequate, adapt the business and organisational structure of the undertaking.

[10]FF 2005 1502.

13.3 Definition of Abuse

13.3.1 Structure of Art. 7 ACart: General Rule and List of Abusive Behaviours

Article 7 ACart contains, in its first paragraph, a general clause dealing with the abuse of a dominant position. Its second paragraph contains a list of abusive behaviours. This list reflects Art. 102 TFEU, with the addition of refusal to deal and under-cutting of prices, which have long been recognised as possible abusive behaviour by the European practice and jurisprudence. It is a list of examples, as specified by the use of the words “in particular” in the law. The indicative nature of this list has always been recognised in literature, by Comco and by the courts.[11]

The exemplative nature of the list has two consequences. First, other forms of behaviour by dominant undertakings may infringe Art. 7 para. 1 ACart and be qualified as abusive even if they do not correspond to one of the examples listed in Art. 7 para. 2 ACart.[12] However, the courts have ruled that, while such behaviour may be deemed to constitute an abuse of a dominant position, it may not be subject to administrative sanctions (fines) because the general clause of Art. 7 para. 1 ACart did not, in its own right, fulfil the predictability requirements imposed by Art. 7 of the European Convention of Human Rights. Such requirements are only fulfilled if the abusive behaviour falls into one of the categories listed in Art. 7 para. 2 ACart.[13]

Second, the listing of abusive behaviour in Art. 7 para. 2 ACart does not create a per-se prohibition or a presumption of illegality. A substantial analysis of the dominant firm’s behaviour is required in each particular case.[14] Thus, a behaviour falling into one of the categories listed in Art. 7 para. 2 ACart may only be deemed abusive if it fulfils the test set forth by Art. 7 para. 1 ACart.

Article 7 ACart shall thus be read as an “indivisible unity”, meaning that, in practice, no abusive behaviour may be sanctioned by Comco unless it fulfils the test of para. 1 and can be attributed to one of the examples provided in para. 2.[15]

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[11]For the latest occurrence in the jurisprudence of the Federal Court, see ATF 139 I 72 para. 10.1.2. See also the decision of Comco of 29 November 2010 “SIX/Terminals mit Dynamic Currency Conversion”, DPC 2011/1, 96 ss, 142.

[12]E. Clerc, in: CR-LCart, ad Art. 7 I LCart N. 109.

[13]Judgement of the Administrative Federal Court of 24 February 2010, DPC 2010/2 242 para. 4.5.1; Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 8.

[14]Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 10.1.2; P. Reinert, in: Baker & McKenzie (eds), Kartellgesetz, Stämpfli 2007, p. 90; for a critic of the systematic of the interpretation, see M. Amstutz and B. Carron, in: M. Amstutz and P. Reinert, Basler Kommentar – Kartellgesetz, Helbing Lichtenhahn 2010 (hereafter “BK-KG”), ad Art. 7 KG N. 29.

[15]E. Clerc, in: CR-LCart, ad Art. 7 I LCart N. 110.

13.3.2 Definition of Abuse

Article 7 para. 1 ACart does not provide an explicit definition of what abuse means. It does, however, state that the behaviour of dominant firms is illegal if it "hinders other undertakings from starting or continuing to compete, or disadvantage trading partners". Therefore, the law does not define abuse through the form of the indicted behaviour but through its effects.

Comco has not developed a more precise definition in its decisions. In general, it is recognised that abusive behaviour of dominant firms can take multiple forms and yield ambivalent results, both pro- and anticompetitive. The same behaviour, such as low prices, can either be beneficial to competition or, if such prices have a predatory effect, harmful to competition.[16] A test has thus been developed to analyse whether a particular behaviour meets the conditions of Art. 7 para. 1 ACart.

In its landmark judgment "*Publigroupe*",[17] the Federal Court stated that abuse includes "all possible behaviour which have a damaging economic effect as well as such behaviour which hinders the economic freedom of the concerned undertakings". Thus, the Federal Court confirmed that abusive behaviour could take all kinds of forms, provided they were harmful to competition. It also confirmed that Art. 7 ACart did not seek to protect only competition as a process but also the economic freedom of the dominant firm's trade partners.

13.4 Distinction Between Exploitative and Exclusionary Abuses

Article 7 para. 1 ACart makes a distinction between behaviours that "hinder other undertakings from starting or continuing to compete" and those that "disadvantage trading partners". Thus, the distinction between exploitative and exclusionary abuse results already from the wording of the legal provision. This distinction has been acknowledged since the redaction of the law, has been consistently applied ever since and is inherent to the definition of abusive behaviour under Swiss law.[18]

Exclusionary abuse is the most common type of illicit behaviour. According to Comco, it usually occur in the form of restrictions to competition directed against competitors and are, by nature, competition related. Through exclusionary abuse, other undertakings are obstructed in the entry into or exercise of competition; actual competitors are weakened or driven out of the market, or the entry into the market of potential competitors is made more difficult or even impossible. This results in an anticompetitive foreclosure. Exclusionary abuse leads to the exclusion of

[16] M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 24.

[17] Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 10.1.2.

[18] See M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 41; B. Merkt, Abus de position dominante: développements récents de la pratique, in: I. Hochreutener, W. Stoffel and M. Amstutz (eds), Pratique du droit de la concurrence: Abus de position dominante, procédure, révision, Schulthess 2013, p. 63 ss.

competitors by means that are different from the competitiveness of the dominant undertaking's products or services. The result is not only an obstruction of the competitors but also a restriction of the competition as such.[19]

According to the Administrative Federal Tribunal, exclusionary behaviour always occurs in the form of restrictions to competition directed against competitors and is, by nature, competition related.[20] With the exception of the use of the word "always", which most likely has no proper meaning, this definition is very close to the one provided by Comco.

According to the Federal Court, in cases of exclusionary abuse, other undertakings (usually actual or potential competitors but potentially also other participants to the market) are hindered in the entry into (i.e., through the erection of barriers to entry) or exercise of competition. The hindrance of exercise of competition encompasses multiple forms of behaviour, including disciplinary restraint, which tends to destroy the achievements of competitors on the market, price hindrance and strategic hindrance, which relates to other parameters than the price. Whether the hindrance occurs on the market controlled by the dominant undertaking or on an upstream or downstream market is irrelevant. Exclusionary behaviour thus includes all actions of a dominant undertaking that are not akin to fair competition on the merits, which are directed towards actual and potential competitors and limit the scope of action of the latter on the controlled market or on a neighbouring market.[21]

Exploitative practices, on the other side, happen on a market with limited or no competition and are geared towards the dominant undertaking's trade partners (suppliers or customers), which are disadvantaged by constrained, exploitative prices or business terms.[22] This is the case, for instance, when a monopolist on the offering side uses his situation to impose usurious prices to customers knowing that the latter—given the monopoly—do not have any reasonable alternative.[23]

This being said, the distinction between exclusionary and exploitative abuse is purely heuristic and is legally irrelevant. What matters is that the abusive dimension—including the harm to competition—is determined on a case-by-case basis.[24] Moreover, the examples listed in Art. 7 para. 2 ACart cannot be attributed by principle to a particular type of abuse. Abusive behaviour can simultaneously cover several matters of fact of Art. 7 para. 2 ACart and can be, at the same time, both exclusionary and exploitative.

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[19]Decision of Comco of 21 October 2013 "Swatch Group Lieferstopp", DPC 2014/1 215, 253.

[20]Judgement of the Administrative Federal Court of 24 February 2010 "Terminierungspreise im Mobilfunk", B-2050/2007, para. 11.1.1.

[21]Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 10.1.1.

[22]Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 10.1.1.

[23]Judgement of the Administrative Federal Court of 24 February 2010 "Terminierungspreise im Mobilfunk", B-2050/2007, c. 11.1.

[24]Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para10.1.1; M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 42.

A third category of abusive behaviour, namely structural abuse, has been proposed by literature. It would cover the cases where a dominant undertaking reinforces its position on the market by directly affecting the market structure through a series of transactions not related to the company's products (i.e., through the acquisition of a stake in another undertaking, the acquisition of an intellectual property right, etc.).[25] However, this approach has been criticised[26] and has never really found its way into practice.

13.5 Distinction Between Price-Based and Non-price-Based Abuse

The statutory provision related to abuse of dominant position (Art. 7 ACart) does not make a distinction between price-based and non-price-based abuses. This distinction has been cited in case law, however, without any relevancy attached hereto.[27] Literature has mentioned it, mostly with reference to European law.[28]

The distinction between price-based and non-price-based abuse does not have any legal relevance beyond its illustrative purpose. Both types of abuses are assessed using the same test.

13.6 Enforcement Practice

13.6.1 Decision-Making Practice

13.6.1.1 Comco

Between 2010 and 2014, Comco has rendered a total of six decisions related to the prohibition of unilateral conduct (Art. 7 ACart). For comparison purposes, the total number of decisions issued by Comco during the same period in relation to either anticompetitive agreements (Art. 5 ACart) or unilateral conduct (Art. 7 ACart) amounted to 29. These numbers include only final decisions rendered at the outcome of a formal investigation in accordance with Art. 27 ACart. They exclude preliminary decisions such as interim measures.

Table 13.1 shows the allocation of cases on a yearly basis.

The most significant decisions were the following.

[25] D. Cherpillod, L'abus structurel, Bruylant and Schulthess 2006, p. 251.

[26] M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 47ff.

[27] Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 10.1.1.

[28] M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 45; J. Borer, Wettbewerbsrecht I – Schweizerisches Kartellgesetz, 3rd edition, Orell Füssli 2011, p. 102; E. Clerc, in: CR-LCart, ad Art. 7 I LCart N. 95; D. Cherpillod, L'abus structurel, Bruylant and Schulthess 2006, p. 67; M. Ruffner, Unzulässige Verhaltensweisen marktmächtiger Unternehmen, AJP/PJA 7/96, 834, 838.

Table 13.1 Allocation of cases on a yearly basis

Year	Cases related to anticompetitive agreements (Art. 5 ACart) or unilateral conduct (Art. 7 ACart)	Cases related to unilateral conduct (Art. 7 ACart)
2010	5	1
2011	6	1
2012	5	1
2013	7	1
2014	6	2
Total	*29*	*6*

In its decision "*SIX/Terminals mit Dynamic Currency Conversion*",[29] Comco ruled that SIX Group AG had abused its dominant position on the market for acquiring credit and debit cards by refusing to grant access to the Dynamic Currency Conversion System to other providers of payment terminals than its subsidiary SIX Card Solutions AG. Thus, retailers could only offer dynamic currency conversion if they had purchased a payment terminal from SIX Card Solutions AG. Comco considered that this behaviour amounted to refusal to deal with other suppliers of terminals, discrimination between trade partners, limitation of technical development and tying between acquiring and sale of payment terminals. The decision determines that SIX Group AG's conduct hindered the exercise of competition and allowed SIX Card Solutions AG to increase its market share substantially. The decision examines the concept of leverage, as well as, for the first time, an efficiency defence related to incentives to invest and innovate.

The "*Swatch Group Lieferstopp*"[30] case is particular insofar as it was initiated by Swatch Group AG itself. In light of a previous case in which it had been held dominant on certain markets in the watch industry, Swatch Group AG spontaneously notified Comco of its plan to phase out the supply of mechanical watch movements and assortments (regulating components of a mechanical watch movement) to other watch manufacturers. Upon receipt of this notification, Comco opened an investigation and ordered interim measures based on an amicable agreement with the Swatch Group.

Comco ruled that Swatch Group AG (through its subsidiaries ETA and Nivarox) was in a dominant position on the markets for mechanical watch movements and assortments. Their plan to stop supplying such products to undertakings outside of the Swatch Group was qualified as abusive behaviour, more specifically of refusal to supply. It was established that these inputs were necessary in order for competitors of Swatch to efficiently compete against Swatch on the market for mechanical watches. It was determined that this refusal to sell would have substantially

[29]Decision of Comco of 29 November 2010, DPC 2011/1, p. 96.

[30]Decision of Comco of 21 October 2013 "Swatch Group Lieferstopp", DPC 2014/1 215. See also B. Merkt, Abus de position dominante: développements récents de la pratique, in: I. Hochreutener, W. Stoffel and M. Amstutz (eds), Pratique du droit de la concurrence: Abus de position dominante, procédure, révision, Schulthess 2013, p. 65ff.

eliminated competition on the market for mechanical movements and strongly restricted it on the market for manufactured watches because manufacturers of movements and watches had no meaningful alternatives to Swatch for the supply of these products (particularly assortments) and would thus be hindered in the exercise of competition.

Comco refused to see a justification in incentives to invest and innovate. While accepting the argument on the principle in the framework of a refusal to deal, Comco ruled that it did not apply in the particular case because the products at stake were relatively old, they had been on the market for a long time and the investments for their development had already been amortised. Further, the fact that Swatch Group had supplied these products to its competitors for more than 25 years showed that it considered such supply as efficient, so that a short-term discontinuation of supply would hardly increase efficiency. Finally, Swatch Group continued to innovate even while supplying its competitors.

Surprisingly, Comco only examined the effects of the discontinuation of supply on the incentives of Swatch Group to invest and innovate (which it denied), but not those of its competitors.

In "*Preispolitik und andere Verhaltensweisen der SDA*",[31] Comco found that SDA (a news agency) held a dominant position on various markets for news services for media publishers. The exclusivity rebates granted by SDA to some of its customers included a reduction of up to 20% of the price if the customer purchased news services exclusively from SDA. Those rebates were assimilated to abusive fidelity rebates and were qualified both as discrimination between trading partners and as limitation of production, supply or technical development in the meaning of Art. 7 para. 2 ACart. Comco established that the rebates were specifically directed against SDA's main competitor, AP Schweiz, which had been hindered in the exercise of competition by the incriminated rebate scheme. It also found out that this scheme had led to a restriction of competition among the media that were customers of SDA.

13.6.1.2 Administrative Federal Tribunal

Between 2010 and 2014, the Administrative Federal Tribunal rendered a total of 21 judgments pertaining to either anticompetitive agreements (Art. 5 ACart) or unilateral conduct (Art. 7 ACart), of which only two were related exclusively to cases of abuse of dominant position. This statistic does not include appeals against decision of the Communications Commission where the issue of the dominant position was at stake or appeals against interim measures.

Table 13.2 shows the allocation of cases on a yearly basis.

The only two judgments rendered by the Administrative Federal Tribunal in relation to unilateral behaviour have been appealed to the Federal Court and will be explained below.

[31] Decision of Comco of 14 July 2014 "Preispolitik und andere Verhaltensweisen der SDA", DPC 2014/4, p. 670.

Table 13.2 Allocation of cases on a yearly basis

Year	Cases related to anticompetitive agreements (Art. 5 ACart) or unilateral conduct (Art. 7 ACart)	Cases related to unilateral conduct (Art. 7 ACart)
2010	8	2
2011	1	0
2012	1	0
2013	4	0
2014	7	0
Total	*21*	*2*

13.6.1.3 Federal Court

Between 2010 and 2014, the Federal Court rendered a total of five judgments pertaining to either anticompetitive agreements (Art. 5 ACart) or unilateral conduct (Art. 7 ACart), of which three were related exclusively to cases of abuse of dominant position.

Table 13.3 shows the allocation of cases on a yearly basis.

The three cases related to unilateral conduct were the following.

In a judgment dated 11 April 2011, the Federal Court rejected an appeal from the Swiss government[32] in proceedings against Swisscom, the incumbent telecommunications operator. Initially, Comco had ruled that Swisscom, which operates a mobile telecommunications network and has the largest market share on the mobile telecommunications market, was dominant on the wholesale market for incoming services onto its mobile network (so-called termination services). Swisscom was found to have abused its dominant position by charging overrated termination prices to other providers of telecommunications services for calls terminating on its mobile network. This behaviour was qualified as imposition of unfair prices in the meaning of Art. 7 para. 2 ACart. Swisscom was fined more than CHF 333 million.

Upon appeal by Swisscom, the Administrative Federal Tribunal first ruled that the relevant market had been correctly defined and that Comco was right in its finding that Swisscom held a dominant position on this market. However, the Tribunal denied that Swisscom has committed an abuse insofar as it could not "impose" unfair prices because of the interconnection regime set forth in the telecommunications regulatory framework.

The Federal Court upheld this ruling. The Administrative Federal Tribunal had previously ruled that the "imposition" of unfair prices required that the dominant firm's trade partners should be forced "against their own will" to enter into a contract on unfair terms, while the mere acceptance of such terms against their own interests in light of the situation on the market could not be qualified as "imposition". The Federal Court stated that the question could be left open. What is required for the "imposition" of unfair prices or terms is that the trade partners

[32] Judgment of the Federal Court of 11 April 2011, ATF 137 II 199.

Table 13.3 Allocation of cases on a yearly basis

Year	Cases related to anticompetitive agreements (Art. 5 ACart) or unilateral conduct (Art. 7 ACart)	Cases related to unilateral conduct (Art. 7 ACart)
2010	0	0
2011	1	1
2012	1	1
2013	2	1
2014	1	0
Total	*5*	*3*

cannot resist or have no alternative to the economic pressure deriving from the dominant position. In the case at stake, it found that the interconnection regime was applicable to termination services also in the field of mobile telecommunications if a dominant position could be established, which it was in this particular case. Therefore, other providers of telecommunications services had an alternative to the unfair prices of Swisscom, who could thus not "impose" such prices.

This case has been the only case of exploitative abuse rendered in the last 5 years in Switzerland. It also had an exclusionary aspect insofar as the alleged overrated prices were paid by customers that were simultaneously competitors.

The landmark judgment of 29 June 2012 in the case "*Publigroupe*"[33] settled several core issues pending at the time in Swiss competition law. Firstly, it definitively confirmed that sanctions for infringement of competition law had a criminal character. Thus, the guarantees provided in Arts. 6 and 7 of the European Convention on Human Rights (ECHR) were applicable. It also confirmed that the institutional setting of the Swiss competition authorities was compliant with Art. 6 ECHR.

Secondly, the Court ruled that Art. 7 para. 1 ACart was not written in a sufficiently clear and precise manner to fulfil the requirements of Art. 7 ECHR. Therefore, sanctions could only be imposed if the incriminated behaviour also fulfilled one of the categories of Art. 7 para. 2 ACart.

Thirdly, the Court held that a rigorous proof of evidence was hardly possible in relation to the definition of the relevant market because the authorities had to rely on experience, observation of the market and market surveys. The determination of the relevant products, as well as the assessment of their substitutability, cannot be stated with accuracy but relies necessarily on certain economic assumptions. Therefore, in light of the objectives of the law, which is to prevent the harmful economic or social effects of restraints of competition, the standards of proof for such elements should not be exaggerated. In the case at stake, the Federal Court confirmed the finding of Comco, supported by the Administrative Federal Tribunal, that Publigroupe held a dominant position on the market for placement and sale of advertising spaces in written media.

[33]Judgment of the Federal Court of 29 June 2012, ATF 139 I 72.

Finally, the Federal Court laid down in detail the criteria for the assessment of abusive unilateral conduct under Swiss law, which are presented in this report with frequent reference to the Publigroupe judgment.

The "*Etivaz*" judgment of 23 May 2013[34] was rendered on appeal against a judgment of a court of civil law. The defendant was a cooperative exploiting a cheese maturing cellar. It had obtained a protected designation of origin (AOP) for the cheese it produced, the "Etivaz". Its cellar was the only one to produce cheese that could be marketed under this valued name. The plaintiff was a farmer who wanted to produce Etivaz cheese and, for that purpose, applied for membership in the cooperative, which would have allowed him to use the cooperative's infrastructure. In spite of the fact that he met all criteria of the AOP, he was denied this membership, mainly because the cooperative wished to maintain some residual maturing capacity for young local farmers. The plaintiff required the court to order his admission as a member of the cooperative, which was granted.

In the definition of the relevant market, the Federal Court attached a great importance to the nature and purpose of the AOP. Under the regulations governing the AOPs, the legal protection is granted without regard to the commercial performance of the protected products, to the influence of this protection on the balance of powers between competitors or the profit made by the producers. Anyone should be able to appreciate freely whether there is an interest in competing under the AOP, with the related constraints. Therefore, in the definition of the relevant market, the particular nature of the AOP, which is conceived as an instrument of the struggle between competitors, was given an important weight. According to the Federal Court, where a competitor claims to be wrongfully hindered to access an AOP, the relevant market shall necessarily be limited to the products protected by the AOP. In the present case, the market was thus limited to the "Etivaz" cheese, although Comco, in its opinion to the court of first instance, had defined a broader market, including the much more powerful "Gruyères" cheese. The Federal Court seised the occasion to confirm that the civil courts were not bound by Comco's opinion, provided they explained their diverging assessment.

Almost by definition, the defendant was found to be dominant on this narrow market and to have abused this position by refusing to admit the plaintiff as a member. According to the Federal Court, a dominant undertaking behaves in an abusive manner if it is the only one to possess equipment or installations that are necessary to deliver a product or service, if there is no competition on the market for this product or service, if it refuses without any objective motive to allow a potential competitor to use this infrastructure and if the potential competitor has no alternative replacement source of supply.

It remains to be seen whether the narrow definition of the market applied by the Federal Court in the "*Etivaz*" case can be applied by analogy outside the specific domains of AOPs, for instance in relation to a brand of strong reputation. Given the

[34]Judgment of the Federal Court of 23 May 2013, ATF 139 II 316.

importance given to the AOPs' regulatory regime in the Court's wording, this appears unlikely but cannot be excluded.

13.6.2 Competent Court and Authorities

This section presents, in a very summarised way, the enforcement regime for Swiss competition law.

The ACart is applied by the Competition Commission ("Comco"), a specialised administrative authority with extended investigation and decision powers.

Comco is made up of up to 15 members, a majority of whom being independent members (mostly professors of law and economics). The non-independent members include representatives of business, trade and consumer associations and worker unions. Comco is formally independent from the Swiss federal government. However, it cannot be considered as a tribunal in the meaning of Art. 6 para. 1 ECHR. Despite the criminal nature of the sanctions that Comco can impose, the Federal Court has ruled, in the wake of the *Menarini* ruling of the European Court for Human Rights, that this setting was compliant with the ECHR insofar as the parties have the right to an appeal of full jurisdiction to the Administrative Federal Tribunal.[35]

Comco is assisted by a Secretariat, with a staff of around 80 people, whose duties are to prepare Comco's business and draft decisions, to conduct investigations (including dawn raids and searches) and, together with a member of the presiding body, to issue any necessary procedural rulings. It proposes motions to Comco and implements its decisions.

Comco has the power to impose financial sanctions of up to 10% of the turnover achieved in Switzerland in the preceding three financial years. There exists a leniency program similar to the one in place in the European Union. It also applies to cases of unilateral conduct, although only for a reduction of the sanction, not a full immunity.

The amendments to the ACart proposed in 2012[36] included the proposal to replace Comco by a so-called Competition Authority, which would have retained only the powers to investigate the restrictions to competition. The infringement decisions, including the imposition of a financial sanction, would have been rendered by the Administrative Federal Tribunal, upon a proposal of the Competition Authority. This setting would have ensured that sanctions were imposed by a tribunal compliant with Art. 6 para. 2 ECHR. However, after the aforementioned judgment of the Federal Court, this proposal became purposeless and the whole project was abandoned by the Parliament.

Decisions of Comco are subject to an appeal of full jurisdiction before the Administrative Federal Tribunal, which is the appellate court for all decisions

[35] Judgment of the Federal Court of 29 June 2012, ATF 139 I 72 para. 4.

[36] See Sect. 13.2.2 above.

rendered by the Swiss federal administration. It is therefore not a specialised court. However, a number of judges have extended knowledge of competition law and are assigned to the assessment of appeals pertaining to this particular field.

Judgments of the Administrative Federal Tribunal are subject to a final appeal before the Federal Court. The appeal is limited to the application of law. The Federal Court may thus not review facts. The Federal Court is a general court of law. It has no chamber specialised exclusively in the treatment of cases of competition law.

Aside from the administrative enforcement of the ACart, courts of civil law also have jurisdiction to rule on restraints to competition, including abusive behaviour of dominant undertakings. According to Art. 12 ACart, a person hindered by an unlawful restraint of competition from entering or competing in a market is entitled to request from a court of civil law the elimination of or desistance from the hindrance, damages and surrender of unlawfully earned profits. The courts may in particular rule that the person responsible for the hindrance of competition must conclude contracts with the person so hindered on terms that are in line with the market or the industry standard (Art. 13 ACart).

While each canton is required to designate a single court with the competence to handle competition law matters in order to ensure some degree of knowledge within such courts, there is no requirement for a specialised court.

In order to ensure some coherence in the application of the ACart, Art. 15 ACart requires that the case shall be referred to the Competition Commission for an expert report if the legality of a restraint of competition is questioned in the course of civil proceedings. However, the expert report is not binding upon the civil courts, which may choose to assess the case differently.

Application of the ACart by civil courts has remained scarce over the last years, mainly due to the difficulty for the plaintiff, who has the burden of proof, to establish the relevant facts and to the high costs of civil proceedings.

13.6.3 Approach Followed by Competent Courts and Authorities

Neither Comco nor the courts have issued any guidelines related to the enforcement of Art. 7 ACart. However, they have developed and consistently applied a single test for all abusive behaviours, whether listed in Art. 7 para. 1 ACart or not and whether exclusionary or exploitative. This test is twofold. In a first step, the restriction to the competition, both as a process and as protection to the economic freedom of participants to the market, (i.e., hindrance or disadvantage of other undertakings), must be carved out. In a second step, the existence of possible justifications (legitimate business reasons) is analysed.[37]

To determine whether a restriction to competition has occurred, Comco usually proceeds in two additional steps. First, it investigates the incriminated behaviour to

[37]Judgment of the Federal Court of 29 June 2012, ATF 139 I 72, para. 10.1.2.

determine whether, from a formal point of view, it falls within the categories listed in Art. 7 para. 2 ACart. Second, it analyses the effects of the behaviour on the competition. Such effects may include foreclosure, erection of barriers to entry, etc. and may occur either on the dominated market or on different markets, such as upstream or downstream markets. A simple exclusionary effect, which restricts effective competition, is sufficient. It is not required that the incriminated behaviour eliminates effective competition in order to be abusive.[38]

As an example, in the "*Swatch Group Lieferstopp*" case, Comco first established that Swatch refused to supply its customers, which were mostly other manufacturers of mechanical watches, with mechanical movements and assortments (an important part of the watch movement). It further established that these inputs were necessary in order for competitors of Swatch to efficiently compete against Swatch on the market for mechanical watches. It finally determined that this refusal to sell would substantially eliminate competition on the market for mechanical movements and strongly restrict it on the market for manufactured watches because manufacturers of movements and watches had no meaningful alternatives to Swatch for the supply of these products and would thus be hindered in the exercise of competition.[39]

In "*Preispolitik und andere Verhaltensweisen der SDA*", Comco found that the exclusivity rebates granted by SDA (a news agency) to its customers were assimilated to fidelity rebates, which were thus qualified both as discrimination between trading partners and as limitation of production, supply or technical development in the meaning of Art. 7 para. 2 ACart. Comco then established that SDA's main competitor, AP Schweiz, had been hindered in the exercise of competition by the incriminated rebate scheme. It also found out that this scheme had led to a restriction of competition among the media that were customers of SDA.[40]

The requirement for a causal relation between the dominant position, the abusive behaviour and its effects on the market has been a subject of discussion in legal literature and is still unclear. The Federal Court has mentioned that a causality between the dominant position and the abusive behaviour was required (in a case pertaining to unfair conditions of trade). It noted, however, that a causal relation should usually be given if both the dominant position and, in the particular case, the unfairness of the conditions of trade were established, which makes the requirement of causality not very relevant.[41] These considerations must, however, be read in the particular context of this case and cannot apply on a general level.

[38]Decision of Comco of 29 November 2010 "SIX/Terminals mit Dynamic Currency Conversion", DPC 2011/1 96, 152.

[39]Decision of Comco of 21 October 2013 "Swatch Group Lieferstopp", DPC 2014/1, p. 215, 257.

[40]Decision of Comco of 14 July 2014 "Preispolitik und andere Verhaltensweisen der SDA", DPC 2014/4 670, 683ff.

[41]Judgment of the Federal Court of 11 April 2011, ATF 137 II 199, para. 4.3.4.

The most common opinion in literature is that there must be some degree of causal relationship not between the dominant position and the abuse thereof but between the abusive behaviour and its effects on the market. Otherwise, it would remain unclear whether the negative effects on competition can be attributed to the dominant undertaking, with the risk that firms be punished for the mere holding of a dominant position.[42] It should be noted that this particular requirement has never been thoroughly discussed by Comco and the courts.

Abusive behaviour may be justified by legitimate business reasons. Although this possibility of justification does not appear in the wording of Art. 7 ACart, it has been developed in the practice of Comco and the courts based on a historical and teleological interpretation of the legal provision.[43] A first category of legitimate business reasons includes the reference to commercial principles (e.g., protection against insolvability of the trade partner, health or safety considerations, etc.) and also the modification of demand, costs savings, administrative simplifications, transport and distribution costs, as well as technical reasons.[44]

A second category of legitimate business reasons includes efficiency gains. The possibility of an efficiency defence has been recognised for the first time by Comco in its decision "SIX/Terminals mit Dynamic Currency Conversion" of 29 November 2010, with explicit reference to the Communication of the European Commission related to the application of Art. 102 TFEU, although a defence based on incentives to invest and innovate has been rejected in this particular case.[45] A similar defence has also been rejected in the "Swatch Group Lieferstopp" case.[46]

A justification for legitimate business reasons further requires that the incriminated behaviour be necessary for and be proportionate to the alleged justified motives for such behaviour, in light of all circumstances of each specific case.

The test applied by Swiss competition authorities and courts relies thus, at first sight, more on an effect-based than on a form-based approach. This is consistent with the wording of Art. 7 ACart, which makes no mention of a particular form of behaviour as a condition of its prohibition and only lists examples of behaviour without creating presumptions or per-se prohibitions. The fact that the effects, not the form of the abusive behaviour, were ultimately relevant has been acknowledged for more than a decade now.[47] The analysis of abuses of a dominant position is thus clearly based on a rule of reason.

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[42] M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 19ff; E. Clerc, in: CR-LCart, ad Art. 7 I LCart N. 66; P. Reinert, in: Baker & McKenzie (eds), Kartellgesetz, Stämpfli 2007, p. 88; D. Cherpillod, L'abus structurel, Bruylant and Schulthess 2006, p. 69.

[43] E. Clerc, in: CR-LCart, ad Art. 7 I LCart N. 99; P. Krauskopf and O. Kaufmann, Das System der Rechtsfertigungsgründe im Kartellrecht: Einwendungen bei Marktmachtmissbrauch, in: sic! 2013 499.

[44] Judgment of the Federal Court of 29 June 2012, ATF 139 I 72, para. 10.1.2.

[45] Decision of Comco of 29 November 2010 "SIX/Terminals mit Dynamic Currency Conversion", DPC 2011/1 96, 165ff.

[46] Decision of Comco of 21 October 2013 "Swatch Group Lieferstopp", DPC 2014/1, p. 215, 263ff.

[47] M. Amstutz and B. Carron, in: BK-KG, ad Art. 7 KG N. 29.

However, Comco has not issued guidelines for the assessment of abusive behaviours. In addition, in the landmark case "*Publigroupe*", the Federal Court has ruled that exclusionary behaviour would include all actions of a dominant undertaking that are "not akin to fair competition on the merits".[48] It remains to be seen whether this possibly unfortunate wording by Switzerland's Supreme Court will be read as a more form-based approach than previously advocated.

In addition, the analysis of the effects of an abusive behaviour is mostly limited to the restrictions suffered by the dominant firm's competitors or trade partners. The harm caused to competition as a process and to consumer welfare is presumed to derive from such restrictions but is not specifically evaluated in the decisions rendered by Comco. An example for this limited analysis can be found in the aforementioned case "*Preispolitik und andere Verhaltensweisen der SDA*", where the possible economic efficiency and benefits of the fidelity rebates applied by SDA for its customers and, ultimately, the consumers have not been assessed. It is also striking that the analysis of possible efficiency gains remains limited and occurs only after the anticompetitive effect has been established, as a possible justification for the incriminated behaviour, but not as an element of the harm to competition as a process.

13.6.4 Claimed Objective of the Prohibition of Anticompetitive Unilateral Conduct?

Aside from the general purpose of preventing the harmful economic or social effects of restraints of competition and promoting competition (Art. 1 ACart), there is no claimed objective of the prohibition of the abuse of a dominant position.

Switzerland being a small market embedded within the European Union but without being part of it, the general trend of Comco has been to ensure that restrictions to competition were not used to foreclose markets in order to eliminate competitive pressure from outsiders. Comco's main line of engagement has thus been to maintain open markets. This also applies to the cases of unilateral conduct. Looking at Comco's practice in the field of abuse of dominant position in the last 5 years, it is noteworthy that almost all prohibition decisions were related to behaviours that were hindering competitors from accessing to a particular product or service, be it a technology, a connection to a network or a product, and were thus restricted in the exercise of competition.

13.6.5 Criticism of the Decisional Practice and Case Law?

Although the debate about this controversial field of law has remained lively on an academic level, the decision-making practice of Comco and the courts has not given

[48] Judgment of the Federal Court of 29 June 2012, ATF 139 I 72, para. 10.1.1.

rise to much criticism in the recent years, be it for its lack of rigour or, on the opposite, for its excessive rigour.

What has been criticised are Comco's attempts to regulate the market by way of decision or amicable settlements with dominant undertakings. In the wake of the "Swatch Group Lieferstopp" case, the amicable settlement concluded with the Swatch Group, which provided for a gradual reduction of the supply of mechanical watch movements until a complete stop after a few years, has been criticised as illegitimate "market engineering". In the eyes of the critics, this was not part of Comco's tasks.[49]

[49] M. Amstutz, Planwirtschaftlicher Eingriff der Wettbewerbsbehörden, in: Neue Zürcher Zeitung of 13 March 2013. The author disclosed that he acted as advisor to one of the parties in the Swatch proceedings.

14 The Netherlands

Sarah Beeston and Maria Geilmann

14.1 Introduction

Abuse of a dominant position is prohibited by Article 24 of the Dutch Competition Act ("DCA"). This Article provides:

> "Prohibition to abuse a dominant position
> 1. Undertakings are prohibited from abusing a dominant position.
> 2. The implementation of a concentration, as described in Article 27 [DCA], shall not be deemed to be an abuse of a dominant position."

Although Article 24 DCA does not provide for a list of prohibited practices, the explanatory memorandum of the DCA clarifies that the abusive practices listed in Article 102 of the Treaty on the Functioning of the European Union ("TFEU") are included in Article 24 DCA. Similar to Article 102 TFEU, Article 24 DCA is nonexhaustive: abusive practices that are not listed in Article 102 TFEU are subject to Article 24 DCA.

Dutch law contains a prohibition of abuse of dominance since the entry into force of the DCA on 1 January 1998. The Dutch government then strongly, if not exclusively, based the prohibition on Article 86 EC (now Article 102 TFEU), rulings of the Court of Justice of the European Union ("CJEU") and European Commission decisions. The explanatory memorandum to the DCA states that the Dutch rules should be interpreted in consistence with the EU competition rules.

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Apart from Article 24 DCA, Article 6:194 of the Dutch Civil Code also prohibits unfair unilateral behaviour. This article implements Directive 2006/114 of 12 December 2006[1] concerning misleading and comparative advertising. Under this article, undertakings will be held liable for misleading and/or comparative advertisements. This article aims to protect undertakings from unfair practices of other undertakings, without requiring that the undertaking behaving unfairly, holds a dominant position.

14.2 Definition of 'Abuse'

The DCA defines dominance as:

> "*a position of one or more undertakings which enables them to prevent effective competition being maintained on the Dutch market or a part thereof, by giving them the power to behave to an appreciable extent independently of their competitors, their suppliers, their customers or end-users*".[2]

The DCA does not, define *abuse*. The Dutch competition authority, the *Autoriteit Consument en Markt* ("ACM")[3], provides the following definition on its website:

> "*Abuse occurs when an undertaking that holds a dominant position in the market causes damage to the competitive position of its competitors. The dominant undertaking excludes competitors from the market at the expense of consumers. Thereby the consumer has, for example, less choice*."[4]

A conclusive definition of *abuse* is not provided by the ACM. The description above only seems to include *exclusionary abuse*. In its decision-making practice, the ACM refers to the case law of the CJEU when it defines abuse in the context of Article 24 DCA.[5] The application of Article 24 DCA is therefore very casuistic. It is an established case law and practice that Dutch competition law is based to a significant extent on European competition law. The decisions of the CJEU relating to definition of *abuse* are therefore also leading for the interpretation of abuse in the context of Article 24 DCA.[6] This follows from the explanatory memorandum of the DCA.[7]

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[1]Directive 2006/114/EC of the European Parliament and of the Council of 12 December 2006 concerning misleading and comparative advertising, Official Journal of the European Union of 27 December 2006, L 376, p. 21.

[2]Article 1(1) DCA.

[3]Before 1 April 2014, the ACM (the *Autoriteit Consument en Markt*) was called the *Nederlandse Mededingingsautoriteit (NMa)*. For reasons of coherence, in this report reference will be made to the competition authority as "ACM".

[4]See the website of the ACM: https://www.ACM.nl/nl/onderwerpen/concurrentie-en-marktwerking/misbruik-economische-machtspositie/wat-is-een-dominante-positie/.

[5]Decision in case no. 2910 of 28 April 2004 (700) (*Interpay*), para. 138–141.

[6]CBb, 15 July 2004, ECLI:NL:CBB:2004:AQ1727 (*NOS/Telegraaf*).

[7]Explanatory memorandum (*Kamerstukken II, 1995/96,* 24 707, nr. 3) p. 71.

14.3 Exploitative Abuse and Exclusionary Abuse

The DCA does not make a distinction between exploitative and exclusionary abuse. However, the explanatory memorandum to the DCA does make this distinction.[8] For exploitative abuse, on the one hand, the explanatory memorandum describes the situation where the dominant position is exploited to achieve benefits that would not have been realised in a situation with adequate competition. The explanatory memorandum refers to an example of charging excessively high prices. Exclusionary abuse, on the other hand, is explained as a situation in which a company strengthens its position in relation to its competitors. For example this may be done by giving fidelity rebates to gain commitment of certain customers, by refusing to supply competitors or by selective price dumping. The explanatory memorandum notes that both exploitative and exclusionary abuse may occur together.

In addition, the ACM has published guidance on its website about abuse of dominance, in which it is explained that it is common practice to make a distinction between exploitative and exclusionary abuses.[9] According to the ACM, exploitative abuse, on the one hand, occurs when an undertaking uses its dominant position in order to gain benefits that would not be obtained under normal market conditions. Exclusionary abuse, on the other hand, refers to the improper weakening of an (efficient) competitor or the hindering of market access by an undertaking in order to strengthen its position on the market.

An example of a decision where the ACM explores which conduct must be regarded as exclusionary abuse is *Stichting LPEV*.[10] In this case, the ACM ruled that exclusionary abuse is found when a dominant undertaking anti-competitively forecloses the market and therefore negatively influences the welfare of the consumer.[11] The ACM adds that the market can be considered to be foreclosed in an anti-competitive way where the effective access of actual or potential competitors to the market is hindered or prevented as a result of the behaviour of the undertaking with a dominant position, and as a result the dominant undertaking is in a position to raise prices to the disadvantage of the consumers. There will be no abuse of a dominant position if the behaviour of the dominant undertaking can be objectively justified.[12]

Concerning an example of exploitation, the ACM has imposed a fine in 2004 in its decision *Interpay*[13] for abuse of a dominant position in the form of excessive

[8]Ibid.

[9]See the brochure of the ACM: "Misbruik van een economische machtspositie", October 2009. In this document the ACM also provides a list with examples of what constitutes abuse. https://www.acm.nl/nl/publicaties/publicatie/7103/Misbruik-van-een-economische-machtspositie-/.

[10]Decision in case 7475 of 13 June 2013 (40) (*Stichting LPEV/Oranje Kruis).*

[11]Ibid., para. 39.

[12]Ibid., para. 40–41.

[13]Decision in case no. 2910 of 28 April 2004 (700) (*Interpay*).

fees charged for network services for electronic payment. ACM fined Interpay for the excessive fees charged for electronic payment transactions that individual retailers had to pay. In this decision, the ACM establishes that Interpay holds a dominant position on the market for network services relating to electronic payment. Interpay, set up by eight of the largest banks of the Netherlands, was at that time the sole undertaking offering this particular electronic service. Although Interpay had already decreased its prices for transactions, the fees they imposed were, according to the ACM, still too high in relation to the costs made for the corresponding network services.

The Dutch courts also make a distinction between exploitative and exclusionary abuses. In *VVV*,[14] the Administrative High Court for Trade and Industry (*College van beroep voor het bedrijfsleven* ("CBb")) explicitly discusses the difference between these two forms of abuse. The CBb first considers and repeats the extensive definition of abuse provided by the General Court of the European Union ("General Court") referring to *SELEX*,[15] which is tailored to abuse in the sense of the exclusion of competitors. In *SELEX,* an *abuse* was defined, in accordance with settled case law,[16] as

> "*the conduct of an undertaking in a dominant position which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is already weakened and which, through recourse to methods different from those governing normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition*".

The CBb subsequently held that abuse may also include the exploitation of a dominant position.[17] For this type of abuse, the CBb refers to the definition provided in *United Brands*.[18] In this case the CJEU stated that it must be evaluated whether "the dominant undertaking has made use of the opportunities arising out of its dominant position in such a way as to reap trading benefits which it would not have reaped if there had been normal and sufficiently effective competition".[19]

It must be emphasised, however, that it is not common practice, neither in the decisional practice of the ACM nor in Dutch case law, to always qualify exactly whether the behaviour of an undertaking relates to exclusionary or exploitative

[14]CBb, 22 March 2007, ECLI:NL:CBB:2007:BA2598, (*Vereniging Vrije Vogel)*, para 6.3.1. See also for example District Court of Rotterdam, 4 July 2007, ECLI:NL:RBROT:2007:BA9164 (*CRV*/*NMA*); see also Visiedocument Inkoopmacht, https://www.acm.nl/nl/download/bijlage/?id=7749, p. 12.

[15]CFI, case T-155/04, *SELEX Sistemi Integrati v European Commission,* ECR 2006 II-04797, pt. 107.

[16]ECJ, case C-62/86, *AKZO v European Commission* ECR 1991 I-3359, pt. 69, and CFI, case T-228/97, *Irish Sugar v European Commission* ECR 1999 II-2969, pt. 111.

[17]CBb, 22 March 2007, ECLI:NL:CBB:2007:BA2598 (*Vereniging Vrije Vogel)*, para 6.3.2.

[18]ECJ, case 27/76, *United Brands v European Commission*, ECR 1976 207.

[19]Ibid., pt. 249.

abuse, as it common practice to directly refer to one of the practices listed in Article 102 TFEU.

14.4 Price-Based and Non-Price-Based Abuse

Article 24 DCA does not distinguish between price-based and non-price-based abuse. The explanatory memorandum to the DCA explicitly states that the provisions on competition law are based on EU competition rules and are not stricter or less strict than EU competition law. The general principle of the DCA is that its provisions and its application are influenced to a significant extent by the decisional practice of the European Commission and the case law of the CJEU.[20] In practice, however, the Dutch authorities interpret the definitions of dominance and abuse strictly, as set out in the following chapter.

14.5 Enforcement

14.5.1 Decision Making Practice

In the period between 1 January 2009 and 6 May 2015, the ACM has adopted 28 decisions concerning the prohibition of abuse of dominance. This number is very low, compared to the number of cases relating to cartel infringements. This number is especially low, considering that out of those 28 decisions, many do not contain a detailed investigation.[21] By referring to ACM's policy on enforcement priorities and after conducting preliminary research the ACM simply states that other cases are more important to investigate than the case at hand.

Furthermore, of those cases in which the ACM did carry out an investigation, there are only two cases in which the ACM enforced Article 24 DCA. In the first case, *GasTerra*, the ACM imposed a fine.[22] It subsequently annulled the fine and its decision after GasTerra appealed the decision in an administrative procedure.[23] In the other case, the national registrar of music copyrights *Buma/Stemra* made a commitment to the ACM in which it stated that it would offer more choice to its customers in the future.[24] As a result, the ACM ended its investigation. Another

[20]Explanatory memorandum (*Kamerstukken II, 1995/96,* 24 707, nr. 3), p. 10.

[21]See for example Decision in case no. 7341 of 15 March 2012 (6) (*TransRAbility/Lloyd's Registrar Nederland*); Decision in case no. 7213 of 27 April 2012 (27) (*Platform Makers/NOP e.a.*); Decision in case no. 7464 of 30 August 2012 (8) (*Van der Zwan/Kluwer*); Decision in case no. 7489 of 29 September 2012 (16) (*Praktijk voor psychologische en pastorale hulpverlening/ Zorgverzekeraars Nederland*); Decision in case no. 1404 of 8 May 2014 (3229) (*Stichting Belangenbehartiging Opstalhouders Harlemmermeer/Hoogheemraadschap Rijnland*).

[22]Decision in case no. 4296 of 5 January 2011(213) (*GasTerra*).

[23]Decision in case no. 4296 of 30 June 2011 (214) (*GasTerra).*

[24]Decision in case no. 203301 of 6 June 2014 (*Buma/Stemra).*

case that received a lot of attention during the last five years is the *AstraZeneca* case.[25] The ACM investigated this case for nearly four years, but in the end concluded that it could not be established that AstraZeneca did in fact had a dominant position.

These three cases are briefly discussed below.

14.5.1.1 GasTerra

In its decision of 5 January 2011, the ACM found that GasTerra, a Dutch wholesale supplier of natural gas, was hindering competition in the wholesale gas market. Before the liberalisation of the market for gas in 1998, GasTerra had been granted an exclusive license for gas supply. The ACM concluded that GasTerra had used supply conditions in its agreements with energy distributors that discouraged them from offering gas from other wholesale suppliers. The ACM regarded this as an impediment of the markt access of such wholesale suppliers.

However, on administrative appeal the ACM was convinced by GasTerra's counter-arguments. On appeal, GasTerra argued that the ACM had not proven that the energy distributors had been hindered by GasTerra from using other sources of energy than gas. GasTerra asserted that after the market had been liberalised, it simply took a while before alternatives to GasTerra's products and services became available. The fact that they had not used other sources, GasTerra reasoned, could have been attributable to a number of other factors. In addition, the ACM suspected that there might have been practical and legal obstacles to the introduction of these contracts, which served to offer energy companies more freedom. Thus, after reconsideration, the ACM concluded that it could not be established that GasTerra had abused its dominant position.

The ACM stated that its intervention as competition authority was not directed at enforcing more advantageous distribution conditions for the distribution of gas by GasTerra, but aimed at making it possible for undertakings to have access to other sources competing with GasTerra's. In other words, the ACM emphasised that it did not want to prescribe the results of commercial negotiations, but wanted the market to function. In this light, the behaviour of GasTerra would only result in an abuse of a dominant position if it would hinder the access to other sources of gas.

14.5.1.2 Buma/Stemra

Composers and songwriters need Buma/Stemra, the national registrar of music copyrights, to collect the fees that radio and television stations have to pay for playing their music. However, this service is not always needed for music played through Internet sources. Nonetheless, Buma/Stemra based its contracts with composers on "all-in-one" package deals. There was no procedure for transferring only a part of the copyrights to Buma/Stemra. As a result, composers and songwriters had no choice and no possibilities to sell their music via the Internet.

[25]Decision in case no. 7069 of 2 December 2014 (1832) (*AstraZeneca*).

After several complaints, the ACM initiated to negotiate a more flexible, simpler and more accessible system with Buma/Stemra. This way, composers and songwriters have more choice in selling (parts of) their rights resulting in more possibilities to stream and download music. In the perspective of the ACM these commitments would be beneficial not only for the composers and songwriters, but also for the consumers.

14.5.1.3 AstraZeneca

This case concerned the market for gastric acid blockers. At the time of the decision, the market for this type of medicine consisted of the product of AstraZeneca, called Nexium, and generic medicines. AstraZeneca was distributing Nexium to hospitals as well as pharmacies. However, the prices it offered to hospitals were much lower (even lower than the cost price), than those offered to pharmacies. In spite of the low prices it applied to hospitals, AstraZeneca was able to compensate its losses with its high prices for Nexium distributed to pharmacies. In 2011, ACM already published a preliminary report in which it established the presumption that AstraZeneca was abusing its dominant position.

However, in the final decision it *could not be established*, as the ACM emphasised, that AstraZeneca had infringed Article 24 DCA. The ACM therefore did *not see a basis for intervening* in relation to her competence for applying Article 102 TFEU. Concerning the factual research of the case, the preliminary report presumed that a reason for why AstraZeneca kept the prices low for hospitals was that there was an *endorsement effect* of Nexium. If specialists prescribed a medicine in a hospital, later on it would be prescribed again outside the hospital since patients have a tendency to use the same medicine as doctors continue to prescribe a brand that a patient has already used. Therefore, it would be advantageous for AstraZeneca to have higher sales through hospitals, as patients would be bound by Nexium afterwards. Also, in the ACM report a distinction was made concerning the market for gastric acid blockers between the extramural and intramural market.

AstraZeneca offered extensive argumentation against the conclusions of the preliminary report. AstraZeneca first of all contested the conclusion that Nexium and generic blockers were substitutable, which was successful. Secondly, AstraZeneca was undermined the presumption of the ACM's preliminary report that the low prices in the intramural market had an effect on the extramural market. AstraZeneca had argued that a number of factors could have been responsible for the fact that the sales volumes of generic blockers did not grow as expected.

Therefore, after the ACM evaluated the market position of AstraZeneca, it concluded that AstraZeneca did not have a dominant position on the intramural market, where it had a market share below 30%. In the separate, extramural market, considering the arguments of AstraZeneca, ACM doubted whether it could conclude that the users of Nexium were bound to Nexium by its endorsement effect to such an extent that AstraZeneca could behave independently on the market in the sense of Article 24 DCA and 102 TFEU. As a consequence, the ACM could not establish that AstraZeneca had a dominant position in either of the relevant markets.

In this case, complaints were brought by market participants on the basis of which ACM started their investigation. This investigation and the concluding decision focussed on the question whether other products or producers were hindered by the pricing of AstraZeneca. When the ACM concluded on this, it is interesting that, after more than four years of investigation, the ACM did not investigate whether the prices on the extramural market might have been excessive and therefore an exploitation of consumers and health insurers.

Between 1 January 2009 and 6 May 2015 the Dutch courts have decided on 54 abuse of dominance cases. This number is very low, compared to the number of cases concerning cartel infringements. This number is significantly higher as there is a growing number of follow-on claims for damages against former cartel members.

In regard to decisions from the Dutch courts, the only case in the Netherlands where the court actually found proof of an abuse of dominance was *EMS/Equens*.[26]

14.5.1.4 EMS/Equens

The only case in the Netherlands where a court found that abuse of dominance was established was in *EMS/Equens*.[27] Equens administrated a data network for credit card payment transactions. Undertakings accepting payments from credit cards are called ‘merchants’. EMS, a processor of payments made by credit cards, acts as a so-called ‘acquirer’. Payments can be accepted through point of sale terminals (basically any device accepting credit card payments) which are connected through a network operated by EMS. Paysquare is also an acquirer, in which Equens indirectly held shares, and a competitor of EMS. Equens had a contract with EMS on the basis of which EMS was able to use the data network. At a given moment, Equens introduced a waiting procedure for the transfer of a merchant to a different acquirer. This waiting procedure meant that the transfer to a new acquirer would be effected after 42 days, a period in which the former acquirer would be able to contact and possibly bind the nearly lost customer again.

In this case, the facts were investigated in light of Article 102 TFEU as well as Article 24 DCA. It was assumed that the relevant product market was the total Dutch market. In this case, an abuse of a dominant position was found. The court stated that abuse within the meaning of Article 102 TFEU and Article 24 DCA requires an *objectively proven infringement*. According to the court, abuse could in certain circumstances also be noticed on an adjacent market, for example when a dominant undertaking on an upstream market abuses its dominant position through its actions on a downstream market. In this case, the waiting procedure of 42 days which Equens introduced for disconnecting a merchant and connecting him to a different acquirer, was found to introduce a factual obstacle to competition between acquirers. This way, Equens significantly influenced the competition on the

[26] District court of Midden-Nederland, 10 July 2013, ECLI:NL:RBMNE:2013:3245 (*EMS/Equens*).
[27] Ibid.

downstream market for acquirers in a negative way, the court concluded. The waiting procedure gave Equens and Paysquare the possibility to prevent and, in any case, delay the disconnection of merchants from acquirers. This amounted to an abuse of a dominant position.[28]

Amongst the decisions made, the proportion of exploitative and exclusionary abuses is difficult to identify since there is not always a distinction made between exploitative and exclusionary abuses. Often the qualification of the abuse is limited to a referral to the examples provided by Article 102 TFEU.

14.5.2 Competent Courts and Authorities

In the Netherlands, only two courts actually deal with competition law. In respect of judicial review with regard to the decisions taken by the ACM, the Dutch General Administrative Act (DAA) applies. In the second annex of the DAA, titled 'The regulation of Administrative Jurisdictions', Article 7 states that the District Court of Rotterdam has jurisdiction to rule on individual decisions taken on the basis of the DCA. The District Court of Rotterdam therefore has, as the only court where decisions of the ACM can be appealed in first instance, specialised expertise in competition law. In the same annex, Article 11 states that appeal of a judgment of the District Court can be lodged at the Administrative High Court for Trade and Industry (CBb), which is located in The Hague. The CBb is the highest authorised Dutch court in competition cases and has a special working group for competition law.

Besides the specialised judicial appeal in administrative cases, it is also possible for a private party to invoke the DCA in civil court cases. This is done, for example, in order to challenge the validity of a contract. A judgment finding that an undertaking has a dominant position on the market and has violated Article 24 DCA, can lead to the contract being declared null and void on the basis that it is in conflict with Dutch public order. Such a claim can be brought before every civil court in the Netherlands.

On the side of the authorities, the ACM is the only regulator that can enforce Article 24 DCA, since it is the only authority with the competence to take decisions on infringements of the DCA and EU competition law. This is set out in Article 2 DCA and the Institutional Act of the ACM. The ACM was merged out of three entities, the former Independent Authority on Post and Telecommunications, the Authority on Consumers and the Dutch Competition Law Authority. Therefore, the competences of these three authorities have already been merged.

The only other authority with a similar enforcement goal next to the ACM is the Dutch Healthcare Authority (*Nederlandse Zorgautoriteit*, NZA). This authority investigates the mergers of undertakings in the healthcare sector and monitors the

[28] District court of Midden-Nederland, 10 July 2013, ECLI:NL:RBMNE:2013:3245 (*EMS/ Equens)*, para. 4.4.21.

market position of undertakings with a significant market power. Therefore, the NZA is exercising an *ex ante* supervision on the healthcare market. The Market Regulation Healthcare Act (MRHA) is applicable to the NZA. According to Article 47 MRHA, one or more healthcare providers or healthcare insurers, alone or together, have a significant market power if they are able to hinder the actual competition on the Dutch market or a part of it through the possibility of behaving independently to important extent of:

– their competitors;
– other healthcare providers or insurers;
– consumers.

Article 49 MRHA confers the competence on the NZA to take a number of decisions by which it can impose measures on undertakings with a significant market power. The NZA can, amongst other things, impose an obligation on an undertaking in the healthcare sector to give access to information, treat consumers in a non-discriminatory way, offer services independently of other services, manage their accounts in a certain way, use certain calculation measures or not to create overcapacity. Furthermore, the NZA can adopt rules which might be necessary for the execution of these obligations. With these competences, the NZA exercises an *ex ante* supervision in the healthcare market in order to prevent any abuse of dominance, but it does not enforce Article 24 DCA.

As concerns guidelines on the enforcement of Article 24 DCA, the ACM has published a brochure on "Abuse of a dominant position".[29] However, this brochure only gives a superficial introduction to the common concept of Articles 102 TFEU and 24 DCA. From the brochure it is apparent that the ACM fully shares the goal of the European Commission as laid out in the guidelines on priorities of enforcement.[30] This goal, the ACM states, is the protection of the competition process in order to prevent damage to the consumer, as well as a more effect oriented approach in the application of the provision.

14.5.3 Approach Followed by Competent Courts and Authorities

14.5.3.1 Decisional Practice ACM in General

The ACM applies a high threshold concerning the standard of harm required for a breach of Article 24 DCA and Article 102 TFEU. Following the implementation of the DCA in 1998, the Dutch courts annulled a number of decisions of the ACM due to the lack of sufficient proof and economic research. In recent years, however, the approach of the ACM seems to be the opposite extreme: economic assessment is the

[29]See the brochure of the ACM: "Misbruik van een economische machtspositie", October 2009. In this document the ACM also provides a list with examples of what constitutes "abuse". Available at https://www.acm.nl/nl/publicaties/publicatie/7103/Misbruik-van-een-economische-machtspositie-/.

[30]Communication from the Commission—Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ 2009, C 45 p. 2.

key[31] and the ACM is very reserved in concluding that there is a dominant position or an abuse without extensive (economic) proof.

14.5.3.2 Predatory Pricing

The ACM takes a very reserved approach to predatory purchase or selling prices, as illustrated in a number of decisions. In *Sandd/TNT*,[32] Sandd, an undertaking active in the post and package sector, had made several complaints against the former national postal service, TNT Post (later PostNL) which, after the liberalisation of the postal sector in 2001 and until 2009, held an exclusive concession.

The ACM stated that since the reduction of prices is in principle a natural expression of healthy competition from which the consumer directly profits, it is wary of taking action against low pricing.[33] The ACM investigated the factual development of competition in the market and the longrun average incremental costs (LRAIC). This is one of two models of an as-efficient-competitor-test which the Commission employs.[34] Both are cost-benchmark-tests, and the choice of the appropriate cost benchmark is crucial for the analysis. Failure to cover the LRAIC indicates that the dominant undertaking is not recovering all the (attributable) costs of producing the good or service in question and that an equally efficient competitor could be foreclosed from the market. The ACM concluded in its investigation that not only was the pricing slightly above the LRAIC, but competitor Sandd had also been able to enter the market and increase its profit each year. This led the ACM to the conclusion that there had been no predatory pricing.[35]

The ACM later confirmed this initial decision, rejecting another complaint of Sandd.[36] Sandd had additionally claimed that free use of the network of PostNL by Netwerk VSP—the subsidiary of PostNL (and legal successor of TNT Post)—was a form of predatory pricing and therefore an infringement of Article 24 DCA. Sandd argued in particular that an assessment of the prices would have to take into account the remuneration that Netwerk VSP paid for the use of the network of its mother undertaking. This argument was rejected by the ACM because PostNL formed an economic unit with its subsidiary. The ACM concluded that abusive pricing could not be proven. ACM emphasised in this case that it would only take action against predatory pricing if competition was being harmed and consumers would suffer

[31] Official reaction of the management board of the ACM to the SEO report addressed to the Minister of Economic Affairs, Agriculture and Innovation, reference number 12328452, 23 November 2012.

[32] Decision in case no. 6207 of 15 December 2009 (233), (*Sandd/TNT*).

[33] Ibid., para. 38.

[34] Communication from the Commission—Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ 2009, C 45, p. 2, para. 26.

[35] Decision in case no. 6207 of 15 December 2009 (233), (*Sandd/TNT*), para. 44–56.

[36] Decision in case no. 6207 of 21 May 2012 (476), (*Sandd/PostNL*).

damage. Pricing would possibly be abusive if the price for a product or service is lower than the relevant costs made. However, according to ACM, offering products or services for a price that is lower than the costs made does not necessarily have to have an exclusionary effect on competition. According to the ACM, prices below cost price can also, in the long run, offer effects of economies of scale or learning effects.[37]

14.5.3.3 Unfair Litigation as a Dominant Undertaking

In August 2012, the ACM issued a decision concerning a complaint of the land development company, Chipshol, against Schiphol Airport.[38] Chipshol claimed that Schiphol had abused its dominant position by unduly influencing several governmental decisions and procedures to the disadvantage of Chipshol. Chipshol alleged that it was prevented from developing a working site in the area of the airport as a result of the abuse. The ACM assessed Chipshol's complaint against the criteria which the General Court had laid down in its judgment in *ITT/Promedia*.[39] In this judgment, the General Court considered that starting legal proceedings could qualify as an abuse of a dominant position if, firstly, the action cannot reasonably be considered as an attempt to establish rights and can therefore only serve to harass the opposite party, and secondly, the action is conceived in the framework of a plan whose goal is to eliminate competition.[40] Although, according to the ACM, Schiphol had influenced the governmental decisions, ACM found no evidence that Schiphol had done this in order merely to frustrate Chipshol, and not, as Schiphol claimed, in order to pursue and defend its own interests. Therefore, according to the ACM, Schiphol's conduct did not fulfil the conditions of *ITT/Promedia*. Since Schiphol's conduct could not qualify as abuse, the question whether Schiphol had a dominant position in the relevant market was left unanswered. This decision has recently been confirmed by the CBb on appeal.[41]

14.5.3.4 Case Law of Dutch Courts on Abuse of a Dominant Position

Several judgments of the Dutch courts reflect the high standard of proof required for a finding of a breach of Article 24 DCA and Article 102 TFEU. For example, in the case *CR Delta*,[42] the CBb annulled a decision of the ACM and emphasised that the competition authority had to substantiate its decision with both a legal motivation

[37]Ibid., para. 39–43.

[38]Decision in case no. 7194 of 20 August 2012 (75) (*Chipshol/Schiphol*).

[39]CFI, case T-111/96, *ITT Promedia v European Commission* ECR 1998 II-02937.

[40]Ibid., pt. 55.

[41]CBb, 8 October 2015, ECLI:NL:CBB:2015:314 (*Chipshol/ACM*).

[42]CBb, 7 October 2010, ECLI:NL:CBB:2010:BN9947 (*CRV/NMA*).

and a solid economic motivation.[43] As the ACM itself recognises,[44] the standard of harm required by the courts is high, amongst other things because of the requirement of a solid economic analysis.

14.5.3.5 High Standard of Proof in Courts

That the courts apply a high standard of proof was also recently confirmed in the case *UPC/T-Mobile Netherlands*.[45] This case concerned the tariffs for telecom interconnection services between fixed telephone lines (from UPC) and mobile telephone providers (T-Mobile). UPC claimed that the tariffs charged by T-Mobile exceeded the maximum tolerable levels. UPC complained that with these tariffs, T-Mobile was abusing its dominant position. According to the District Court of Rotterdam it was apparent from the competition law practice of the ACM, the European Commission and the courts, that the test for assessing whether prices were excessive was very strict. The District Court was therefore of the opinion that this provision demands a thorough analysis. In the case at hand, the ACM had, in the opinion of the court, no reason to carry out a thorough analysis, since UPC had not provided an economic report on the matter. There was therefore *prima facie* no reason to believe that the prices charged by T-Mobile Netherlands were excessive. The District Court of Rotterdam did not allow UPC to further substantiate its claim through additional evidence.[46]

14.5.3.6 HPC/NVM

This case concerned a dispute between the Dutch Association of real-estate agencies (NVM) and a software company (HPC).[47] HPC supplied an office management application to real estate agencies which made it possible to exchange information about the supply and demand of real estate. The relevant issue was the fact that NVM delayed the supply of information that was necessary to use the management application. NVM supplied a competing company without delay. In this case the Amsterdam Court of Appeal ordered an economic report on the definition of the relevant market, the assessment of the substitutability of products and their costs and prices. Having received such report, the Court of Appeal gave its judgment.[48] The Court of Appeal considered in the first place that the case law of the EU courts should be followed when applying Article 24 DCA. In order to determine whether the claimed refusal to deal should be held to be abusive, specific

[43] Ibid., para. 4.1.2.

[44] Official reaction of the management board of the ACM to the SEO report addressed to the Minister of Economic Affairs, Agriculture and Innovation, reference number 12328452, 23 November 2012.

[45] District court of Rotterdam, 3 July 2013, ECLI:NL:RBROT:2013:5992, (*UPC/T-Mobile*) para. 5.11.

[46] Ibid., para. 5.12.

[47] Amsterdam Court of Appeals, 30 March 2010, ECLI:NL:GHAMS:2010:BM1240 (*NVM/HPC*).

[48] Amsterdam Court of Appeals, 12 June 2012, ECLI:NL:GHAMS:2012:BX0460 (*HPC/NVM*).

attention was given to the criteria established by the CJEU in the judgment *Bronner*.[49] In applying these criteria, the Court of Appeal ruled that HPC had not been able to demonstrate in a substantiated manner that (1) the alleged refusal of NVM had led to the complete elimination of competition and (2) having access to the specifications was the only way of building a market presence. On this second point, the Court of Appeal also took account of the fact that HPC was active on the market with a market share of about 20%. The Court of Appeal therefore ruled against a finding of abuse of dominance, [50] which ruling was subsequently confirmed by the Dutch Supreme Court.[51]

14.5.3.7 EasyJet/Schiphol

In this case, low-cost carrier EasyJet complained that Schiphol airport discriminated against EasyJet because it made a distinction between the tariffs for passengers boarding their first plane of their journey at Schiphol and the tariffs for transfer passengers. In addition, EasyJet complained that the rates for transfer passengers were unreasonable, not cost-based and comprised an abuse of a dominant position. The ACM investigated the complaint. The ACM concluded that the price differentiation between boarding and transfer passengers did not amount to discrimination as the two services were not equivalent. This decision was upheld by the District Court of Rotterdam in November 2010.[52] The District Court indicated furthermore that price discrimination only constitutes an abuse if it can be established that there is harm to competition. The District Court found that EasyJet bore the burden of proof and failed to show competitive harm.

14.5.3.8 Starting Point in ACM's Approach: Application of the European Commission Guidelines

In the brochure of the ACM on "Abuse of a dominant position",[53] the ACM states that its goal is the same as that of the European Commission and specifically the protection of the competitive process in order to prevent damage to the consumer. The ACM also adopts a more effect oriented than form based approach in the application of the provision.

[49] ECJ, case C-7/97, *Bronner,* ECR 1998 I-07791.

[50] Amsterdam Court of Appeals, 12 June 2012, ECLI:NL:GHAMS:2012:BX0460 (*HPC/NVM),* para. 2.27.

[51] Supreme Court of the Netherlands, 21 January 2014, ECLI:NL:HR:2014:149 (*HPC/NVM*).

[52] District court of Rotterdam, 25 November 2010, ECLI:NL:RBROT:2010:BO5063 (*EasyJet/Schiphol*).

[53] Brochure of the ACM: 'Misbruik van een economische machtspositie', October 2009. In this document the ACM also provides a list with examples of what constitutes 'abuse'. See https://www.ACM.nl/nl/publicaties/publicatie/7103/Misbruik-van-een-economische-machtspositie-/.

14.5.3.9 Alternative Resolution and Solution-Oriented Approach

In a report titled "An international comparison of the abuse-of-dominance provision",[54] the economic bureau, SEO, compared the number of dominance cases in the Netherlands with ten other jurisdictions for the period from 2005 to 2009. The economists and lawyers involved concluded that the Netherlands ranked amongst the countries with the lowest number of abuse-of-dominance interventions. It was concluded that this low number was not the result of tools or resources used by the ACM or their deterrent effect. The report explored several possible explanations for the low number of cases. For example, it was considered possible that the ACM might have chosen expressly to intervene in only a small number of cases or might have resolved cases informally. The report was unable to identify the cause.[55]

The SEO-report had been commissioned by the Ministry of Economic Affairs, Agriculture and Innovation and was published on 31 October 2011. This report did not reflect positively on the enforcement practice of the ACM. In reaction to this report, an official statement by the ACM was delivered to the Minister.[56] In this statement the ACM confirmed that the ACM is taking a very pragmatic approach towards the enforcement of Article 24 DCA. Furthermore, the statement read that the ACM is evaluating on a case-by-case basis which strategy should be followed. According to the ACM, enforcement is not only about imposing fines, but also about finding an adequate solution for the competition problem.

For a substantiation of this argument, the ACM referred to its cases *Interpay*[57] from 2004 and *GasTerra*[58] from 2011. According to the ACM, these cases were good examples of its pragmatic approach. Although in both cases the fine for an infringement of Article 24 DCA was annulled, the problem for the complainant was solved. In *Interpay*, the problem for the shopkeepers was solved since the market for electronic payment transactions was opened and an incentive for more efficient regulation of payment transactions was given. In *GasTerra*, the ACM ensured through her actions that the wholesale market for gas was opened without the imposition of a fine under Article 24 DCA.

Furthermore, the ACM stated that it is of importance that undertakings are open to changes of behaviour through other ways than sanctions. It considered the possibility of commitments very appropriate for an effective approach to abuse of dominance cases. In light of this, the ACM indicated that it would like to promote that undertakings will get the opportunity to offer commitments on time. The ACM

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[54] R. van der Noll, B. Baarsma, N. Rosenboom and J. van der Voort, SEO-report nr. 2001-63, "An international comparison of the abuse of dominance provision", Amsterdam, 31 October 2011. Available at http://www.seo.nl/pagina/article/an-international-comparison-of-the-abuse-of-dominance-provision/.

[55] Ibid., p. i-iii.

[56] Official reaction of the management board of the ACM to the SEO-report addressed to the Minister of Economic Affairs, Agriculture and Innovation, reference number 12328452, 23 November 2012.

[57] See description of the case above in answer to question 3.

[58] Decision in case no.5968 of 26 June 2009 (11), (*GasTerra*).

also wanted to raise the awareness amongst undertakings that they might have a dominant position in a market through trainings. However, whilst this objective of the ACM seems legitimate in itself, the number of commitments published in the Netherlands does not reflect this approach. In the period that the SEO-report examined (2005–2009), relatively more commitments were given in other countries than in the Netherlands. In the period examined in this report (2009–2015), the only case is *Buma/Stemra*.[59]

All in all, it is clear from the explanatory memorandum that ACM's statements and many cases, such as *Sandd/TNT*[60] and *Stichting LPEV/Oranje Kruis*[61], that the ACM uses the guidelines of the Commission as its starting point for all interpretation of abuse of a dominant position. Concerning its prioritisation policy, the ACM states in its reaction to the SEO-report, as stated above, that, while its policy does not differ much, objectively speaking, from that of other countries, it has recently sharpened its policy. It shares the economic approach which the Commission presents in its guidelines on priorities on enforcement in order to prevent *overenforcement* as well as *underenforcement*. Just as the Commission, the ACM believes that an economic analysis can mean the difference between pro-competitive and anti-competitive exclusionary effects.[62]

14.5.3.10 Criticism and Doubts on the Approach of the ACM

There is widespread criticism in the Netherlands on the decisional practice of the ACM. This is because of the extremely low number of decisions finding an abuse of a dominant decision. Lawyers and academics have recently criticised the ACM with provocative statements, alleging that the Netherlands is increasingly becoming a "paradise for abuse of a dominant position" in which undertakings can dictate the conditions of their behaviour towards suppliers, undertakings and, finally, consumers. Dutch courts have criticised the ACM for its decisions as well. In the judgment *Vereniging van Reizigers*,[63] the appeal by the complainant was unsuccessful, but the CBb stated: "The decision of the ACM has a high level speculation."[64]

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[59]Decision in case no. 203301 of 6 June 2014 (*Buma/Stemra*).

[60]Decision in case no. 6207 of 15 December 2009 (233) (*Sandd/TNT*).

[61]Decision in case no. 7475 of 13 June 2013 (13) (*Stichting LPEV/Oranje Kruis*).

[62]Official reaction of the management board of the ACM to the SEO report addressed to the Minister of Economic Affairs, Agriculture and Innovation, reference number 12328452, 23 November 2012.

[63]Ibid.

[64]Ibid., para. 4.

14.5.3.11 Doubts of the European Commission Concerning Cable Market Regulation

The European Commission has recently opened an investigation in relation to the ACM's proposed analysis of the wholesale market for local Internet access.[65] The Commission has concerns about the analysis of competition on the retail market for consumer Internet access and the related question whether KPN can continue to benefit from its strong position on the relevant wholesale market when confronted by the cable operator UPC/Ziggo, whose network also serves such consumers throughout almost the entire country.

On the basis of its market analysis, the ACM proposes to regulate local access to KPN's (the Netherlands' incumbent operator) copper and fibre networks in order to tackle the competition problems identified. The Commission, however, has expressed serious doubts as to whether this market has been defined and analysed in accordance with the EU telecom rules and competition law principles. This investigation by the Commission in a case where the ACM was actually planning to take regulatory measures on the basis of a market analysis that counts more than 700 pages can certainly be seen as a criticism. In reaction to this investigation by the Commission, the ACM has published a revised analysis of the Internet market and the role of cable networks.[66]

14.5.3.12 Criticism on Priorities

Another criticism is that the ACM "prioritises cases away" (*"wegprioriteren"*). The enforcement priorities of the ACM are being questioned since the ACM often[67] states in its decisions that it will not investigate a matter further as other cases are deemed more important and its capacity should be invested there. In the case *Vereniging voor Reizigers*,[68] the CBb therefore had to critically analyse the legitimacy of the ACM's habit of referring to its prioritisation policy after an initial investigation. The CBb stated that, in general, taking into consideration the public interest that is being served with the enforcement of competition law by the ACM,

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[65]See press release of the European Commission, available at http://ec.europa.eu/digital-agenda/en/news/european-commission-questions-dutch-regulators-analysis-wholesale-market-local-access-telecom.

[66]See press release of the ACM on its website concerning the revised market analysis, available at: https://www.acm.nl/nl/publicaties/publicatie/14858/ACM-biedt-aangepast-besluit-ontbundelde-toegang-aan-bij-Europese-Commissie/.

[67]As was mentioned before, see for example Decision in case no. 7341 of 15 March 2012 (6) (*TransRAbility/Lloyd's Registrar Nederland*), Decision in case no. 7213 of 27 April 2012 (27) (*Platform Makers/NOP e.a.*), Decision in case no. 7464 of 30 August 2012 (8) (*Van der Zwan/Kluwer*), Decision in case no. 7489 of 29 September 2012 (16) (*Praktijk voor psychologische en pastorale hulpverlening/Zorgverzekeraars Nederland*), Decision in case no. 1404 of 8 May 2014 (3229) (*Stichting Belangenbehartiging Opstalhouders Harlemmermeer/Hoogheemraadschap Rijnland*).

[68]CBb, 20 August 2010, ECLI:NL:CBB:2010:BN4700 (*Vereniging voor Reizigers/KLM*).

the ACM would, in the case of an established infringement, have to make use of its competences for enforcing the rules of the DCA. Therefore, the CBb concluded that the ACM would have to motivate why a complaint does not justify a further investigation into the matter, taking into account the alleged infringement and the prioritisation criteria.[69]

[69]Ibid., para. 7.2.1 and 7.5.2.1.

Ukraine

15

Nataliia Ivanytska

15.1 Overview

The concept of dominance, both single and collective, plays a significant role in the Ukrainian competition policy. According to the official reports of the national competition agency (the Antimonopoly Committee of Ukraine, hereinafter AMCU), assessing dominance as well as abuse of dominance investigations constitute up to 42% of its overall activity.

This particular focus and constant attention of the enforcement shall be observed with understanding the susceptibility of the national economy to high concentration.[1] In general, high concentration measures must not be a presumption for dominance as the economic concept of significant market power provides a more extensive framework for the respective analysis, which shall not rely solely on shares-related data. The enforcement practice shows, however, that sometimes much importance is erroneously given to structural characteristics and market shares data, which is not equilibrated with other important considerations. This is to say that a conservative approach based on structural assessment lacking tools for dynamic analysis still prevails.

Fundamentally, the national competition law, in particular, its part relating to the dominance issues, can already create a platform for efficient and consistent competition policy, sound with economic logic and respectful for potential efficiencies of

[1]The markets reported to be monopolized—12%; with oligopolistic structure—16%; with the signs of dominance—25%; meanwhile markets considered to have competitive structure constitute 47% (the AMCU official report, 2014).

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market players possessing significant economic power. However, there is still considerable room for improvement.

Institutionally, the relevant regulation includes the concept of dominance, *inter alia*, reference to the applicable share measuring; the procedure for determining a dominant position, including market definition, assessment of market power; abuse of a dominant position and an indicative list of prohibited practices; basics of defense arguments.

The major issues, which are subject to revision in the national policing of concerns arising from dominance and consequently abuse thereof, shall be identified as follows:

(a) introducing of more flexible market definition approach based on economics understanding and proactive analysis in a dynamic dimension;
(b) development of analytical tools for the assessment of excessive pricing as a form of market power exploitation where the key role, in our view, shall have that of modeling the counterfactual;
(c) providing practitioners with guidelines or other document that would communicate the model framework for competition assessment of the respective conduct of dominant companies as, currently, practitioners rely on the respective Guidelines of the EC and the EC's published working and discussing papers in observing the allegations that can be raised by a competition authority.[2]

We believe that given the lack of revision in the said issues, the risk of interventions on the part of competition authorities remains arbitrary from the viewpoint of economic grounding and positive effects.

The introduction of the legal concept of dominance traditionally referred to in regulation together with "monopoly", e.g. "monopolistic (dominant) position", was one of the primary steps to establish regulation for commercial relations based on structural independence, self-risk compensation and entrepreneurship within a free market run by economic competition. The Law of Ukraine on Restriction of Monopoly and Resistance to Unfair Competition dated 18.02.1992 was passed

[2]Due to 256 of Chapter 10 of the Association agreement between the European Union and its member states, of the one part, and Ukraine, of the other part (as ratified by Verkhovna Rada of Ukraine, i.e. national parliament, as well as by the European Parliament on 16.09.2014, the Law Of Ukraine № 1678-VII) Ukraine, *inter alia*, Ukraine shall approximate its competition laws and enforcement practices to the part of the EU acquis, namely, Council Regulation 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty; Council Regulation 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the EU Merger Regulation); Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices; Commission Regulation 772/2004 of 27 April 2004 on the application of Article 81 (3) of the Treaty to categories of technology transfer agreements.

shortly after the Independence Act in August 24, 1991, and provided for the an exhaustive list of practices, which were considered as abusive, while the notion of abuse of dominance was not addressed literary and was instead defined as “monopolistic activity”, i.e. activity or omission aimed at the exclusion, significant restriction or elimination of competition.

With the further development of competition law and replacement of the cited law with the Law of Ukraine on Protection of Economic Competition of 11.01.2001, the notion of dominance (monopoly) was revised. In particular, the definition of abuse of dominance was presented with the categories of abusive practices set out in the *open* list.

In our opinion, the regulation of abuse of dominance strictly in its proper sense in the context of competition law and policy shall not be regarded as isolated from the conceptual understanding of abuse of the individual rights for reaching and satisfying interests considered by law. In the context of civil law, we normally regard an abuse of right as exceeding the limits of an individual right for reaching the observable interest, which otherwise, i.e. without the abuse element, would be legitimate.[3]

Legal studies of competition relationships undertaken by national researchers tend to interpret the right to compete as a measure of commercial freedom, which can be exercised unless it comes into conflict with the fair competition balance, which, in turn, constitutes the subject of individual rights of third persons: other market players, competitors, consumers.[4]

We consider such approach in the competition analysis to be highly proactive in terms of approximation of the competition law to the demands of the economic concept of *rule of reason*. In our opinion, there is a need to establish a clear *legal* framework to observe the abuse *in the dynamics of its distorting effect* influencing the market equilibrium supported by fair practices in striving to win in the economic competition, which by itself is not illegal, by excluding the competitors or limiting their ability to compete through exercising the possibilities nonaccessible for other market players.

The above by no means denies the importance of the economic analysis framework. On the contrary, we emphasize that the legal analysis, with its inherent criteria of certainty and equity, shall encourage economic reasoning in the assessment of behavior associated with market power issues.

[3]The Civil Code of Ukraine addresses the problem of abuse of civil rights through the framework of their exercise [Article 13 of the Civil Code of Ukraine].

[4]O.O. Bakalinska, Execution of right for fair competition and abuse of the individual right in commercial activity, Scientific review of Herson State University, Legal Sciences, 2014 pp. 215–218.

15.2 Definitions and Regulations

The effective Ukrainian legislation defines abuse of dominance with a reference to a dominant (monopolistic) position on the market and characteristics of the market outcome as a result of the respective incumbent's unilateral conduct or omission by contrasting it to the one that would likely take place in conditions of *significant* competition. Such market outcome implies the harm to other market players or enterprises' interests, as well as to those of consumers. Therefore, the theory of harm to be deducted in the respective type of cases implies two possible, sometimes independent and self-sufficient and sometimes integrated, directions: harm to other market players' welfare and/or harm to consumers' welfare. In the meantime, the basic economics prove that a competition policy focusing on either dimension of harm would be questionable. Therefore, it needs to be proven that the harm to a particular undertaking is the consequence of market power abuse and not of fierce competition, which equally can lead up to exit from the market of not-efficient player. The outlined approach follows from the respective provision provided below establishing general delict of the abuse of dominance:

> Abuse of a monopolistic (dominant) market position shall mean actions or omissions of an undertaking enjoying a monopolistic (dominant) market position, which has lead or may lead to the exclusion, elimination or restriction of competition, or infringe on the interests of other undertakings or consumers, which would not be possible under significant competition on the market.[5]

Obviously, the key element of competition assessment in abuse of dominance cases relates to defining whether the incumbent has significant market power, i.e., whether it possesses dominant or monopoly position. The prevailing approach outlined in law and applied by the competition authority is based on market share analysis.

Respectively, the law, *Article 12 of the Law of Ukraine on Protection of Economic Competition*, provides for the following criteria, which are based mainly on market shares data:

> An undertaking shall be considered as a monopolist (dominant), if the following conditions are fulfilled:
>
> there are no competitors for it on the market occupied;
>
> it is not constrained by significant competition as a result of other undertakings' restricted access to essential inputs, materials and product sales; there are entry barriers for others, benefits or other circumstances.[6]

In principle, though not mentioned directly in the above provision, the expansion barriers are also subject to consideration. In particular, the potential competition by supply substitution as a market power constraint is implied in *the Methodology of*

[5]*Part 1, Article 13 of the Law of Ukraine On Protection of Economic Competition.*

[6]Article 12 part 1.

the AMCU for establishing the monopoly (dominant) position of undertakings on the market:

> The list of sellers (suppliers, producers), buyers (consumers) of the product (product group) – the potential competitors, buyers, which can sell (supply, produce), purchase (consume, use) a similar or equivalent product (product group) on the market [para 2.1.9].[7]

Further, the burden of proof is shifted to the incumbent possessing more than 35% of market obliging him to prove that it is constrained by competition:

> Monopolistic (dominant) is considered as a position of the incumbent whose market share exceeds 35%, unless it proves to be constrained by considerable competition.[8]

It is also possible for that incumbent to possess a 35% or smaller market share to be considered as dominant, unless it is constrained by competition:

> Monopolistic (dominant) may also be held by an undertaking which possesses a 35% or smaller market share, unless it is constrained by significant competition, in particular as a result of relatively small market shares of the other competitors.[9]

In our understanding, the aforementioned provision shall be interpreted in the way that the burden of proof rests within the antimonopoly authority, and the standard of proof shall be established on the highest level with due regard to the dynamic factors affecting the market structure and interactions between market players.

Further, the law provides for the criteria to establish collective dominance, respectively:

> It is considered that each of the two or more undertakings enjoys a monopolistic (dominant) position on the product market, if they do not compete or compete non-significantly with regard to a certain type of product; and they are jointly subject to the conditions envisaged in part 1 of Article 12 part 4.
>
> The market position of each of the undertakings is considered to be monopolistic (dominant), if they are jointly subject to the following conditions:
>
> - The joint market share of no more than three undertakings possessing the largest market shares exceeds 50%;
> - The joint market share of no more than five undertakings possessing the largest market shares, exceeds 70%;[10]

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[7]Though supply substitution seems disregarded in the context of market definition, being an integral part of overall case assessment, it is an initial step of analysis and shall integrate all potential market power constraints itself. We will address this issue in more detail below.

[8]Article 12 part 2.

[9]Article 12 part 3.

[10]Literarily, part 5 is terminated by reference to part 4 pointing out that “unless they prove no to be subject to the conditions established in part 4”.

> and if they fail to prove that they face constraints to market power and are constrained by mutual competition or by other market players.

Consequently, if the given shares are achieved within a certain market,[11] the burden of proof automatically shifts to the respondents.

In this context, we cannot but mention the great deal of attention paid to tacit collusion, i.e. coordinated/nonunilateral effects, which is considered beyond the legal framework due to the provision of part 3 Article 6 of the Law of Ukraine on Protection of Economic Competition:

> Anticompetitive concerted actions can also constitute the resembling conduct (or omission) on a product market, which leads or can lead to the exclusion, elimination or restriction of competition, unless the analysis of the market situation proves that such conduct (omission) is due to objective reasons.

In analyzing part 3 of Article, for instance, the lack of price competition, when absent undercutting strategy and softening competition between major players in the price dimension, on an oligopolistic market or a market with few players, which would evidently lead to setting higher prices than those on a market with intense competition, may raise the question of prosecution for collective dominance only based on the allegation of its mere existence.

The observed trade-off in policing coordinated effects and collective dominance adds to legal uncertainty and ambiguity of enforcement in the respective areas of competition law. As the evil of the lesser kind, the standard of proof for the competition authority may be found unreasonably low.

Meanwhile, it is generally recognized that possession of significant market power (dominance or monopolism) is not a violation, whereas abusive behavior is prohibited.

The law provides for a **nonexhaustive list of practices** by dominant (monopolistic) companies, which are considered as abuses of a market position part 2 of Article 13:

1) establishing prices or other selling or buying conditions for products, which would be impossible with significant competition on the market;
2) applying different prices or other conditions to equivalent agreements with contractors, sellers or buyers without any objective reason;

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[11] Market definition is conducted with regard to the Methodology for establishing of monopoly (dominant) position of the companies on the market (the Regulation of the AMCU as of 05.03.2002 # 49) and traditionally has three dimensions: product, geography and time. The product dimension (the pool of the substitutable products) is defined on the basis of substitution: 1). On the consumption level with regard to the characteristics of consumption, physical, technical, qualitative features, prices, and 2). on the production level with regard to the ability of suppliers to offer new products instead of the product in question. Though the assessment of demand side substitution always prevails over the considerations of potential competition and supply side substitution in enforcement decisions, it does not mean that there is no room for more proactive and economic grounded arguments, which can be raised by the parties.

3) conditioning the entry into contracts by obliging the contractor to bear additional obligations which by their nature or due to trading and other good faith practices are not relative to the subject of contract;
4) restriction of the production, markets or technical development, which cause or can cause harm to other companies, buyers or sellers;
5) partial or total refusal to buy or sell product, if there are no alternative sources of selling or buying;
6) significant restriction of other companies' ability to compete on the market without any objective reasons;
7) establishing entry barriers (barriers to exit) or market exclusion of sellers, buyers or other market players.

It should be noted that in the Law of Ukraine on Protection against Unfair Competition (as of 07 June 1996 N 36), the violations are indicated as follows: persuading of a market player to boycott in different forms against another market player (Article 10) and persuading of the market player to discriminate against his contractor (Article 11).

The forms of these practices may very much resemble the one of abuse of dominance, but the essential distinction with the unfair competition is that the persuading is not realized by means of market power exercising. Otherwise, there would be a risk of the simultaneous, or in other words cumulative, application of the respective provisions of the laws (on protection of economic competition, Article 13, and on protection against unfair competition, Articles 10 and 11).

Though there is no exact legal classification of the abusive practices into exclusionary and exploitative ones, it is implied in the said list. On the other hand, in our opinion, sometimes there are no objective reasons and/or arguments to provide for an explicit distinction between the exclusion of competitors and exploitation of market power, as these effects can be interrelated and inseparable. Meanwhile, we should recognize that in prosecuting the respective behavior and shaping a convincing theory of harm, such division can be helpful.

The classification of abusive behavior into price based and non-price based can be derived from the wording of the above practices. The price-based abuses case take normally above 30% of all cases on abuse of dominance (please see statistics provided on pages 7–8). It should be also mentioned that a significant part of price-related abuses statistically are classified under the group of general delict, i.e. cases prosecuted under part 1 of Article 13, and thus the object of the behavior is not reflected.

As it follows from the definition of abuse of dominance set out in part 1 of the Article 13 and part 2 with its nonexhaustive list of abusive practices, abusive behavior practices are determined either by their nature or by their effects rather than by form, which implies that the respective analysis of their economic impact and related efficiencies are required.

In some industries, in particular in natural monopoly markets, the stereotyped approach is sometimes applied, i.e. some practices are considered *per se* abusive by their form and thus illegal. In our understanding, a simplified assessment of practices performed by strong market players risks to lead to the decisions that are contrary to economic logic of commercial dealings requiring case-by-case study as a guaranty of cautious interventions of the competition authority. On the other hand, it would be erroneous to deny that the theory of hardcore restrictions applicable to the dealings involving a dominant partner can be helpful; while it serves as a filter, which implies that further analysis is carefully conducted, in particular, the arguments of the efficiency defense are subject to objective and nonprejudiced study.

15.3 Enforcement

Competition policy, including the dominance-related issues, is exercised solely by the Antimonopoly Committee of Ukraine. Consequently, no other institution has powers to define market for the purpose of abuse of dominance investigation and *a fortiori* to establish dominance.

However, the competence of the AMCU is limited strictly to competition concerns. In other words, regulatory issues, such as tariffs and other pricing instruments for the regulated industries, as well as technical issues that relate to contract terms (e.g., energy, water supply, public services), are entrusted to sectoral regulatory authorities and to some extent to local governmental agencies.

Statistically, the cases on abuse of dominance can be presented in Table 15.1 combined on the basis of the official reports of the AMCU for the respective years.

15.4 Court Practice

There is no exclusively designed jurisdiction for considering disputes arising from competition enforcement and abuse of dominance cases, in particular. The decisions of the AMCU shall be challenged within the commercial court system, which consists of three instances (first, appeal, cassation), and the Chamber on commercial cases at the Supreme Court of Ukraine.

Though the national judicial system is not operated through precedents in the strict sense of this term, the major approaches adopted by the Highest Commercial Court and Supreme Court of Ukraine are followed in the forthcoming cases of the same essence and subject matter. It should be also recognized that notwithstanding the fact that stable court practice is an essential element of the legal certainty principle and rule of law standard, certain inflexibility of courts' viewing the competition cases is not appreciated. The feature referred to concerns the problem of the limits of the AMCU's decision revisions. More precisely, the courts tend not to verify the methodology of the competition assessment and stick mainly to procedural issues. It can be explained by the fact that the practice of considering economic evidence is not widely developed. Furthermore, there is no efficient procedural mechanism to present it. This is to say, commercial jurisdiction does not provide for an opportunity for any testimonies beyond the court-authorized expertise. In its turn, economic analysis, which can be potentially presented as an economic expertise conclusions, is not formalized and is addressed in the respective

Table 15.1 Cases on abuse of dominance

Year/ criterion	Percentage of cases on abuse of dominance in respect of the other cases considered by the AMCU	Aggregated sum of penalty in respect of the other cases considered by the AMCU	Price-based abuses	Applying different terms for similar contracts	Prosecution on the basis of part 1 of Article 13 (general delict)	Other forms of abuses
2014	Abuse of dominance—42%; unfair competition—12%; anticompetitive concerted practice—8%; anticompetitive actions of public authorities—31%	61%	30%	2%	66%	2%
2013	Abuse of dominance—42%; unfair competition—18%; anticompetitive concerted practice—9%; anticompetitive actions of public authorities—25%	39%	30.5%	3%	62.8%	2%
2012	Abuse of dominance—44%; unfair competition—10%; anticompetitive concerted practice—8%; anticompetitive actions of public authorities—22%	42%	50%	9%	38%	3%

(continued)

Table 15.1 (continued)

Year/ criterion	Percentage of cases on abuse of dominance in respect of the other cases considered by the AMCU	Aggregated sum of penalty in respect of the other cases considered by the AMCU	Price-based abuses	Applying different terms for similar contracts	Prosecution on the basis of part 1 of Article 13 (general delict)	Other forms of abuses
2011	Abuse of dominance—43%; unfair competition—10%; anticompetitive concerted practice—8%; anticompetitive actions of public authorities—22%	Not mentioned	49%		47%	4%
2010	Abuse of dominance—32%; unfair competition—12%; anticompetitive concerted practice—30%; anticompetitive actions of public authorities—18%	Not mentioned	35%		61%	4%

regulations concerning court expertise.[12] Thus, it is an extremely challenging mission for attorneys to argue about the economic merits suggested in a disputed decision of the AMCU. By economic merits we mean market definition, market power constraint analysis and efficiency defense considerations.

[12]For example, the expertise of the objects of intellectual property rights, technical expertise, accounting (financial) expertise are addressed and regulated in details, while the economic analysis which can be conducted for the aims of competition issues studies is not specified. Procedurally it can be an issue of acceptability of the evidences and ultimately of the appointment of such type of the expertise by the court.

Ukrainian courts have established some general approaches and thus created the framework for revision of the competition authority's decision in dominance matters, which are delivered in the Resolution of the Highest Commercial Court on hearing the cases about economic competition (26 December 2011 № 15).

Further, we deliver major points, which are essential in considering cases of dominance accompanied by our comments:

- *the burden of proof to substantiate that a dominant incumbent had reasonable grounds to differentiation mentioned in para 1 of part 2 of Article 13 rests with the respondent* – the same approach is applied in investigations normally, and the burden of proof is rather high;
- *performing contractual obligations in no case gives a ground to release the party from liability for violation of competition law* – it shall be highlighted that hardcore restrictions and thus *per se* prohibitions in the context of vertical restraints imposed by the dominant firm are rather questionable from the economic point of view; there should be no presumption of the contrary either;
- *though the AMCU has no jurisdiction over pricing as a matter of regulation policy, para 1 of part 2 of article 13 provides the Committee with the powers to investigate whether there are competition concerns in the non-regulated prices and tariffs established*—in this context, we would like to emphasize that there is no benchmark established to be the proxy of the prices "produced" by effective competition; this is true both for court and administrative practices in cases regarding excessive prices allegations;
- *the cases prosecuted under part 1 of the Article 13 envisage proving that the consequences or the plausibility that the consequences such as restriction, elimination, exclusion of competition could arrive; the cases prosecuted under part 2 of the Article 13 demand that the practice of the provided character was used by the undertaking which is dominant*—the latter is mentioned only in general features, i.e. without any exlanatory guidelines for enforcement.

15.5 Conclusions

In legal terms the phenomenon of "abuse" and "limits of the right execution" is one of the most disputable. In competition law this phenomenon can be translated into the question "does the market power obliges?" and "what are the limits of these obligations?" The answer with high extent of reasonability can be provided with economic analysis tools. The legal and specifically political framework needs to accept and respect this reasoning.

It is undisputable how highly important is to maintain effective competition policy on abuse of dominance. However, it also obviously means that the respective interventions by the competition authority shall be grounded objectively and conducted cautiously.

United Kingdom

16

Jeremy D.M. Robinson

16.1 The Structure of UK Competition Law on Unilateral Anti-Competitive Conduct

16.1.1 The Competition Act 1998 and Other Competition Statutes in the UK

The Competition Act 1998 is a statute exclusively concerned with competition law, which takes effect across the entirety of the United Kingdom. It is not the only statute that concerns competition law—the other major piece of primary legislation is the Enterprise Act 2002, which contains the UK's merger control rules, rules on market studies and investigations and creates a criminal "cartel offence", as well as rules on the investigation and enforcement of certain consumer law matters. The Consumer Rights Act 2015 reforms the UK's regime for private actions in competition law and expands the jurisdiction of the Competition Appeal Tribunal to hear stand-alone actions for damages.

The Competition Act 1998 contains two core prohibitions: the Chapter I prohibition regulates anti-competitive agreements, decisions of undertakings or concerted practices in similar terms to Article 101 TFEU (but extending only to trade within the UK, not between Member States). The Chapter II prohibition regulates the abuse of a dominant position within the UK in similar terms to Article

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102 TFEU, again with emphasis on the UK. The Prohibition contains a non-exhaustive list of conduct that may amount to abuse; in principle, the scope of the Prohibition can expand to include other conducts.

There is no UK law of unfair competition as such containing legal rules prohibiting practices similar to those prohibited by the Chapter II prohibition. Section 11 of the Enterprise Act 2002 enables a designated consumer body to make a "super-complaint" to the Competition and Markets Authority (CMA), which requires the CMA to respond within 90 days stating whether (and if so, what) action it will take to deal with the complaint. The complaint may relate to unilateral conduct, but it is not clear that a finding of infringement under the Chapter II prohibition is necessary for the CMA to take action.[1] The system of market studies and investigations—replacing the older mechanisms of investigating scale and complex monopolies[2]—allows the CMA to address conduct that may be unilateral in nature, outside the formal prohibition of anti-competitive unilateral conduct. Market investigation references can examine—and impose remedies for—unilateral conduct without the need to make a finding of dominance.[3] In addition, the sector regulators have powers to impose *ex ante* regulation on the sectors to prevent unilateral conduct considered harmful.

16.1.2 Enforcement and Concurrency

In the UK, the CMA is the primary body enforcing competition law.[4] It combines the functions of the former Competition Commission and the Office of Fair Trading, which have been abolished.[5] In addition, various sector regulators may also apply UK competition law, concurrently with the CMA. These bodies are as follows:[6] the

[1]Since 1 April 2016, Monitor is now part of "NHS Improvement". See: https://www.gov.uk/government/news/monitor-is-now-part-of-nhs-improvement and https://improvement.nhs.uk/. A recent example of a super-complaint concerned grocery pricing—pricing practices that had the potential to confuse or mislead consumers, and so possibly breach consumer law (but not necessarily Chapter II). See: https://www.gov.uk/cma-cases/groceries-pricing-super-complaint.

[2]These provisions of the Fair Trading Act 1973 were repealed by the Competition Act 1998.

[3]See for example the Competition Commission investigation into BAA Airports, which examined—amongst other things—whether the common ownership by BAA of seven UK airports created an adverse effect on competition. The Commission required the divestiture of Gatwick, Stansted and either Edinburgh or Glasgow airports as a remedy. See: http://webarchive.nationalarchives.gov.uk/20100111133411/http://www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/545.pdf.

[4]The CMA describes itself as an independent non-ministerial department: https://www.gov.uk/government/organisations/competition-and-markets-authority/about.

[5]Section 26(1) and (2) of the Enterprise and Regulatory Reform Act 2013, with effect from 1 April 2014.

[6]Section 54 of the Competition Act 1998.

Office of Communications (Ofcom),[7] the Gas and Electricity Markets Authority (GEMA, often referred to as 'Ofgem'), the Water Services Regulatory Authority (WSRA, often referred to as 'Ofwat'), the Office of Rail and Road (ORR), the Northern Ireland Authority for Utility Regulation (often referred to as 'Ofreg'), the Civil Aviation Authority (CAA, in relation to designated airports and air traffic control), the Payment Systems Regulator (PSR, part of the Financial Conduct Authority), the Financial Conduct Authority (FCA) itself,[8] and Monitor, the health service regulator.[9]

The competition authorities have issued a substantial body of guidance on the application of competition law to regulated industries. These include the following: *Regulated Industries Guidance on concurrent application of competition law to regulated industries*,[10] *The Application of the Competition Act in the telecommunications sector*,[11] *Application in the energy sector*,[12] *Application to services relating to railways*[13] and *Guidance on the application of the Competition Act 1998 in the water and sewerage sectors*.[14] In addition, there are several Memoranda of Understanding between the CMA and specific regulators on the exercise of concurrent powers,[15] guidelines on the use of enforcement powers[16] and prioritisation principles.[17]

Decisions of the CMA may be appealed in the first instance to the Competition Appeal Tribunal. The CAT may hear follow-on damage cases, stand-alone damages and injunction cases. The Chancery Division of the High Court retains its jurisdiction to hear stand-alone actions.[18]

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[7] Ofcom is the successor to five separate communications regulators including the Director General of Telecommunications, which is referred to below and which previously had concurrent competition powers.

[8] In this chapter, I refer to the CMA to represent the UK authorities generally, but in relation to specific cases I use the name of the actual regulator that took the decision.

[9] Health and Social Care Act 2012, section 72.

[10] CMA10 (March 2014).

[11] OFT 417 (February 2000).

[12] OFT 428 (January 2005).

[13] OFT 430 (October 2005).

[14] OFT 422 (March 2010).

[15] See, for example, those between the CMA and: the Northern Ireland Authority for Utility Regulation (May 2014); the Financial Conduct Authority (June 2014); the Civil Aviation Authority (June 2014), the Water Services Regulation Authority (June 2014) and with Ofcom (June 2014).

[16] For example, *Ofgem, Enforcement guidelines on complaints and investigations* (June 2012); *Ofcom Enforcement Guidelines: Ofcom's guidelines for the handling on competition complaints and complaints concerning regulatory rules* (July 2012); and *Monitor Enforcement Guidance* (28 March 2013).

[17] For example, *Ofwat, Prioritisation Principles: application to the Competition Act 1998* (September 2010).

[18] See the Competition Law Practice Direction, stated to be up to date to 10 September 2013 but not reflecting Treaty of Lisbon numbering changes or recent UK competition reform legislation: http://www.justice.gov.uk/courts/procedure-rules/civil/rules/competitionlaw_pd.

16.1.3 Interplay of Competition and Sectoral Powers in Article 3 of Regulation 1/2003

The powers of sector regulators may in some cases pursue the same objectives as Article 102/the Chapter II prohibition. Exercising those sectoral powers would be considered an application of national competition law for the purpose of Article 3 of Regulation 1/2003. By contrast, exercising powers that predominantly pursue a different objective to Article 102/Chapter II would not be considered an application of national competition law. It is for the sector regulator to decide, case by case, whether the exercise of sectoral powers amounts to an application of national competition law, and in so deciding, it will consider the "predominant purpose" of the sectoral power, which in turn may derive from whether the legal base of that power is in EU or national law.[19] Ofgem suggests that the exercise of powers concerned with suppliers of last resort and with the promotion of efficient use of electricity and gas pursues the objectives of security of supply and promotion of environmental standards, respectively, and so do not fall within the scope of Article 102. Ofgem would not—in those circumstances—apply national competition law in addition.[20]

Those of Ofgem's sector regulatory powers that could be seen to pursue a competition law objective could be said to be more stringent than Article 102/Chapter II prohibition. For example, conditions 17 and 17A of the Standard Licence Conditions of the Electricity Generation Licence—prohibiting discrimination in selling electricity and cross-subsidies—may be included and applied to generating companies even if they have not been found to be dominant.[21]

Regulators (with the present exception of Monitor) are required to consider whether their use of Competition Act 1998 powers is more appropriate before using their sectoral enforcement powers to promote competition.[22]

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[19] See OFT 428 (Application in the energy sector) at §§2.7-2.8.

[20] *Ibid*, §2.9. Contrast, OFT 430 (Application to services relating to railways) at §§3.5-3.11, where ORR states that "*[a]s a general principle, therefore, 'the protection of competition in the market' is not the predominant objective for the ORR under the Railways Act. Generally speaking, ORR's duties under the Railways Act do not have the same objectives as Articles [101] and [102]. Consequently, ORR's Railways Act powers fall outside Article 3 of the Modernisation Regulation.*"

[21] See https://epr.ofgem.gov.uk/Document.

[22] See Schedule 14 of the Enterprise and Regulatory Reform Act 2013; paragraph 4.1 of CMA10 Regulated Industries, Guidance on Concurrent Application of Competition Law to Regulated Industries, March 2014; and the relevant sectoral legislation e.g. section 94(10) Communications Act 2003; section 28(4A) Gas Act 1986 etc.

16.1.4 History of the Prohibition of Unilateral Conduct in the UK

Before the enactment of the Competition Act 1998, there was no direct equivalent to the Chapter II prohibition in previous competition legislation in the UK. The closest was the scheme enacted in sections 2-10 of the Competition Act 1980.[23] Section 2 defined anti-competitive practices:

> a person engages in an anti-competitive practice if, in the course of business, that person pursues a course of conduct which, of itself or when taken together with a course of conduct pursued by persons associated with him, has or is intended to have or is likely to have the effect of restricting, distorting or preventing competition in connection with the production, supply or acquisition of gods in the United Kingdom or any part of it or the supply or securing of services in the United Kingdom or any part of it.

Sections 3-10 enabled the Director General of Fair Trading[24] to investigate, accept undertakings in lieu of a reference, make references to the Monopolies and Mergers Commission (MMC)[25] and the MMC to investigate, assess the alleged anti-competitive practices according to a public interest test and impose orders. The scheme was operated in conjunction with the Secretary of State, a UK Government minister. The scheme did *not* provide for: surprise investigations (dawn raids) or powers to impose fines. The system was widely regarded as out-dated long before its repeal.

16.1.5 Prohibited Practices

The Competition Act 1998 does not define whether the prohibited practices are exhaustive or merely indicative. Instead, the prohibition closely tracks the wording of Article 102 TFEU, and questions arising under the Prohibitions are to be dealt with in a manner that is consistent with the treatment of corresponding questions arising in Community law in relation to competition within the Community.[26] Further, at any time when the court determines a question arising under the Prohibition, it must act (so far as is compatible with the provisions of this Part and whether or not it would otherwise be required to do so) with a view to securing that there is no inconsistency between the principles applied and the decision reached by the court in determining that question and the principles laid down by

[23]This scheme was repealed by the Competition Act 1998, although limited parts of the rest of the Act remain in force.

[24]An office created by the Fair Trading Act 1973, which continued until its functions were transferred—under the Enterprise Act 2002—to the Office of Fair Trading.

[25]The Monopolies and Mergers Commission carried out detailed investigations of matters referred to it. It was established as the Monopolies and Restrictive Practices Commission in 1949, and its powers evolved until its functions were transferred—by section 45 of the Competition Act 1998—to the Competition Commission.

[26]Competition Act 1998, section 60 (1).

the Treaty and the European Court and any relevant decision of that court, as applicable at that time in determining any corresponding question arising in Community law.[27] It is generally accepted therefore that—as with Community law—the list of prohibited practices is indicative rather than exhaustive.

16.1.6 The Chapter II Prohibition of the Competition Act 1998

Section 18 of the Competition Act 1998[28] closely follows Article 102 but with different jurisdictional scope, in three areas.

Firstly, trade must be affected "within the United Kingdom" rather than "between Member States".

Secondly, the dominant position must be within the UK or any part of it—which need not be substantial. This means that the prohibition can bite in local markets.[29] In its *Cardiff Bus*[30] decision, the OFT found that the defendant undertaking was dominant in the market for bus and train services running into and out of Cardiff. In *First Edinburgh/Lothian*,[31] also a bus case, the OFT suggested two or more markets

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[27] *Ibid.*, Section 60 (2).

[28] (1) *Section 18 of the Competition Act 1998 reads as following: "Subject to section 19, any conduct on the part of one or more undertakings which amounts to the abuse of a dominant position in a market is prohibited if it may affect trade within the United Kingdom.*

(2) *Conduct may, in particular, constitute such an abuse if it consists in –*

a. *directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;*

b. *limiting production, markets or technical development to the prejudice of consumers;*

c. *applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; press enter making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of the contract.*

(3) *In this section –*

"dominant position" means a dominant position within the United Kingdom; and "the United Kingdom" means the United Kingdom or any part of it.

(4) *The prohibition imposed by subsection (1) is referred to in this Act as "the Chapter II prohibition."*

[29] Although some cases have involved small markets, the CMA's need to prioritise the use of its resources and the difficulty of attracting funding for litigation may reduce the number of "smaller" cases. See for example paragraph 1.3 of CMA16 Prioritisation Principles for the CMA, April 2014: "*We therefore focus our efforts and resources on deterring and influencing behaviour that poses the greatest threat to consumer welfare, and intervene in order to protect consumer welfare and, in the process, drive higher productivity growth.*"

[30] Case No. CA98/01/2008 *Cardiff Bus*, OFT decision of 18 November 2008.

[31] Case No. CA98/05/2004 *First Edinburgh/Lothian*, OFT decision of 29 April 2004.

that were relevant: a market that could be approximately identified as the Greater Edinburgh area and one or more market(s) in the area surrounding Edinburgh. In *JJ Burgess*,[32] the CAT found (on this point, agreeing with the OFT) a discrete local market for funeral directing services in the Stevenage/Knebworth area and that, on the balance of probabilities, Welwyn and Welwyn Garden City comprised a discrete relevant geographic market for funeral directing services.[33]

Thirdly, the prohibition may also apply where the abuse takes place outside the UK, provided that the dominant position and effect on trade are both within the UK.

In common with Article 102, conduct that amounts to the abuse of a dominant position is prohibited and the undertaking or undertakings involved may be subject to a financial penalty and/or to directions appropriate to bring the infringement to an end.

However, unlike Article 102, there is a limited immunity from financial penalties for conduct of minor significance[34] *i.e.* if the annual turnover of the undertaking concerned does not exceed BPD 50 million.[35] Undertakings will benefit from immunity from financial penalties for infringement of the Chapter II prohibition if the CMA is satisfied that they acted on the reasonable assumption that on the facts they qualified for the limited immunity for conduct of minor significance. The CMA may still investigate conduct of minor significance and can decide to withdraw the immunity from financial penalties if, having investigated the conduct, it considers the conduct is likely to infringe the Chapter II prohibition.[36] However, withdrawal of the immunity in this way cannot have effect before the date of the decision.[37]

Note that under Council Regulation 1/2003, the UK is empowered to apply Article 102 TFEU in parallel with the Chapter II prohibition. The competition authority guidance[38] strongly emphasises the commonality and continuity between the EU and the UK provisions, but the focus of this article is exclusively on the UK domestic provisions.

16.1.7 Exclusions from the Prohibition

Section 19 of the Competition Act 1998 provides for certain types of cases to be excluded from the scope of the Chapter II prohibition. This contrasts with EU law, which does not specifically recognise the concept of an exclusion, even though in practice Article 102 would not be applied to conduct that would result in a

[32]Case No. 1044/2/1/04 *M.E. Burgess, J. J. Burgess and S. J. Burgess (trading as J.J. Burgess & Sons) v The Office of Fair Trading* [2005] CAT 25.

[33]*Ibid*, §§175 and 180.

[34]Section 40 of the Competition Act 1998.

[35]The Competition Act 1998 (Small Agreements and Conduct of Minor Significance) Regulations 2000 (SI 2000/262).

[36]*Ibid*. section 40 (4).

[37]*Ibid*. section 40 (7).

[38]Abuse of a Dominant Position, OFT 402, December 2004, adopted by the Board of the CMA.

concentration with a Community Dimension and subject to the EU Merger Regulation or that is carried out by an undertaking entrusted with the operation of services of general economic interest or having the character of a revenue producing monopoly, in so far as the application of Article 102 would obstruct the performance, in law or fact, of the particular tasks assigned to the undertaking.

The first type of exclusion concerns merger control. The Chapter II prohibition does not apply to conduct that—either on its own or when taken together with other conduct—falls within the UK's merger control jurisdiction.[39] Equally, the Chapter II prohibition does not apply if the Merger Regulation[40] gives the Commission exclusive jurisdiction in the matter.[41]

The second type concerns general exclusions. These general exclusions attach to the Chapter I Prohibition (prohibition of anti-competitive agreements, decisions of associations of undertakings or concerted practices) and a subsection of these is also relevant to the Chapter II prohibition: services of general economic interest, compliance with legal requirements, avoidance of conflict with international obligations, public policy, and coal and steel.

16.1.7.1 Services of General Economic Interest

The Chapter II prohibition does not apply to an undertaking entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly in so far as the prohibition would obstruct the performance, in law or in fact, of the particular tasks assigned to that undertaking.[42]

16.1.7.2 Compliance with Legal Requirements

The Chapter II prohibition does not apply to conduct to the extent to which it is engaged in an order to comply with a legal requirement.[43,44]

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[39] Schedule 1 to the Competition Act 1998, Part I, Mergers, para. 2.

[40] Council Regulation (EEC) No 139/2004 20 of January 2004 on the control of concentrations between undertakings.

[41] Schedule 1 to the Competition Act 1998, Part II, Concentrations subject to EC Controls, paragraph 6 (2).

[42] Schedule 3 to the Competition Act 1998, paragraph 4.

[43] *Ibid*. §5.

[44] A "legal requirement" is further defined as a requirement:

(a) imposed by or under any enactment in force in the United Kingdom;
(b) imposed by or under the Treaty or the EEA Agreement and having legal effect in the United Kingdom without further enactment; or
(c) imposed by or under the law in force in another Member State and having legal effect in the United Kingdom.

16.1.7.3 Avoidance of Conflict with International Obligations

The Secretary of State may make an order that the Chapter II prohibition is deemed never to have applied in relation to specific conduct, in order to avoid a conflict with an international obligation of the United Kingdom.[45] An international arrangement relating to civil aviation and designated by an order made by the Secretary of State is to be treated as an international obligation for the purposes of this paragraph.[46]

16.1.7.4 Public Policy

If the Secretary of State is satisfied that there are exceptional and compelling reasons of public policy why the Chapter II prohibition ought not to apply in particular circumstances, he may by order provide for it not to apply in such circumstances as may be specified.[47] Such an order may provide that the Chapter II prohibition is to be deemed never to have applied in relation to specified conduct.[48]

There has to date been only one such order: the Competition Act 1998 (Public Policy Exclusion) Order 2007,[49] which excluded conduct[50] by a member of the Team Complex Weapons, which had as its purpose the protection of the essential security interests of the UK. This was revoked by the Competition Act 1998 (Public Policy Exclusion) (Revocation) Order 2011.[51] The use of such Orders may in principle make UK competition law inconsistent with EU competition law where the conduct in question may affect trade between Member States.

16.2 Abuse: Legislation, EU Law, Guidance and Governing Principles

16.2.1 Legislation

The legislation does not formally define “abuse”, although as seen above, section 18 (2) provides a non-exhaustive list of conduct that may amount to abuse, tracking the wording of Article 102 TFEU.

[45] Schedule 3 to the Competition Act 1998, paragraph 6 (4).

[46] *Ibid*. §6 (6).

[47] *Ibid*. §7 (4).

[48] *Ibid*, §7 (5).

[49] SI 2007/1896.

[50] It also covered agreements between two members of the Team’s CW or between a member of Team’s CW and any other person.

[51] SI 2011/2886.

16.2.2 Case Law

The interpretation of "abuse" derives from both EU and UK case law. Again, as noted above, section 60 of the Competition Act 1998 connects the case law of the Court of Justice of the EU with the decisional practice and case law in the UK.

In *Hoffman-La Roche v Commission*,[52] the ECJ (as it was then commonly known) defined abuse as follows:

> an objective concept relating to the behaviour of an undertaking in a dominant position which is such as to influence the structure of the market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, through recourse to methods different from those which condition normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market, or the growth of that competition.

The ECJ then added, in AKZO:[53]

> Article [102] prohibits a dominant undertaking from eliminating a competitor and thereby strengthening its position by using methods other than those which come within the scope of competition on the basis of quality. From that point of view, however, not all competition by means of price can be regarded as legitimate.

The CMA Guidance states:

> In general... the likely effect of a dominant undertaking's conduct on customers and on the process of competition is more important to the determination of an abuse than the specific form of the conduct in question. Conduct may be abusive when, through the effects of conduct on the competitive process, it adversely affects consumers directly (for example, through the prices charged) or indirectly (for example, conduct which reduces the intensity of existing competition or potential competition).[54]

It further states:

> Neither Article [102] nor the [Competition] Act contains a provision under which an abuse can be exempted because it produces benefits, but conduct may not be regarded as an abuse, even if it restricts competition, where there is an objective justification for the conduct. For example, a refusal to supply might be justified by the poor creditworthiness of the customer. However, it will still be necessary for a dominant undertaking to show that its conduct is proportionate.[55]

In April 2004, the OFT issued draft competition law guidance for consultation called "Assessment of conduct".[56] This was never finalised and so has not been

[52]ECJ, case 85/76, *Hoffman-La Roche v Commission,* ECR 1979 461.

[53]ECJ, case 62/86, *AKZO Chemie BV v Commission* [1993] 5 CMLR 215.

[54]OFT 402, §5.2.

[55]*Ibid*, §5.3.

[56]OFT414a, Assessment of Conduct, Draft competition law guideline for consultation. Available at: http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/business_leaflets/competition_law/oft414a.pdf.

adopted by the CMA Board. Yet it provides useful indicia—at least at the time it was written—of the considerations that may apply to the assessment of unilateral conduct in the UK.

The draft guidance affirms the distinction between exploitative and exclusionary abuses[57] but then—when discussing excessive pricing—blurs the distinction by noting that excessive prices may indicate that the process of competition is not working, for example, where a dominant undertaking combines excessive and exclusionary prices.[58]

16.2.3 Governing Principles: Consistency Between UK and EU Competition Law

UK competition law on anti-competitive unilateral conduct—legislation, decisional practice and case law—closely follows EU law in defining the concept of abuse, distinguishing between exclusionary and exploitative abuses and distinguishing between price-based and non-price-based abuses.

The concept of abuse must be interpreted in a manner that is consistent with EU case law unless there are relevant differences between them. So far, the principal "relevant difference" between EU and UK law—the EU's single market objective—has not engendered differences in how CMA or the courts interpret the concept of abuse.

Equally, the distinction between EU and UK law in the "effect on trade" concept does not engender differences in how the concept of abuse should be interpreted. Under Article 102, the effect on trade must be between Member States. Under section 18(1), the effect on trade must be within the United Kingdom.

UK competition law was designed to be consistent—so far as possible—with EU competition law, so that UK businesses could as far as possible be subject to one rather than two sets of rules.[59]

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[57] Para. 1.2.

[58] Para. 2.4.

[59] Section 60 of the Competition Act 1998 (as amended) reads:

> (1) The purpose of this section is to ensure that so far as is possible (having regard to any relevant differences between the provisions concerned), questions arising under this Part in relation to competition within the United Kingdom are dealt with in a manner which is consistent with the treatment of corresponding questions arising in Community law in relation to competition within the Community.
>
> (2) At any time when the court determines a question arising under this Part, it must act (so far as is compatible with the provisions of this Part and whether or not it would otherwise be required to do so) with a view to securing that there is no inconsistency between-
>
> a. the principles applied, and decision reached, by the court in determining that question; and
>
> b. the principles laid down by the Treaty and the European Court, and any relevant decision of that Court, as applicable at that time in determining any corresponding question arising in Community law.

Although the governing principle provision is designed to secure consistency between UK and EU law, differences may still emerge on the margin. For example, the High Court considered that the EU's *Guidance on the Commission's enforcement priorities in applying Article 102 of the TFEU to abusive exclusionary conduct by dominant undertakings*[60] was merely a statement of enforcement priority, not of law.[61]

16.2.4 Legislative Provision on Abuse

The examples of conduct that may constitute abuse in paragraphs (a) to (d) of section 18(2) of the Competition Act 1998 are exact copies of paragraphs (a) to (d) of Article 102 TFEU. As with EU competition law, these are non-exhaustive examples of abuse. As the concept of abuse develops in EU law—for example, through the extension of the types of conduct that may be considered abusive—so it must develop in UK law (subject to there being any relevant differences).

The legislation itself (section 18 of the Competition Act 1998) does not itself distinguish between exclusionary and exploitative abuses or between price-based and non-price-based abuses. For that, we turn to the decisional practice and case law.

16.2.5 Exclusionary and Exploitative Abuses

The policy of promoting consistency in the interpretation of UK and EU competition law—subject to relevant differences—also means that the distinction of exclusionary and exploitative abuses is paralleled in UK decisional practice and case law. Thus, the CMA has—historically—investigated cases in both categories.

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(3) The court must, in addition, have regard to any relevant decision or statement of the Commission.

(4) Subsections (2) and (3) also apply to-

a. the CMA; and

b. any person acting on behalf of the CMA, in connection with any matter arising under this Part.

(5) In subsections (2) and (3), "court" means any court or tribunal.

(6) In subsections (2)(b) and (3), "decision" includes a decision as to-

a. the interpretation of any provision of Community law;

b. the civil liability of an undertaking for harm caused by its infringement of Community law.

[60] OJ 2009 C 45.

[61] *Purple Parking Limited (1), Meteor Parking Limited (2) v Heathrow Airport Limited* [2011] EWHC 987 (Ch). Judgment of 15 April 2011at §95.

16.3 UK Decisions and Cases on Abuse

16.3.1 Excessive Pricing

The principal European cases established that it can be an abuse to charge a price that is excessive in relation to the economic value of a product. In *United Brands*, the Court of Justice confirmed that it was an abuse to charge "a price which is excessive because it has no reasonable relation to the economic value of the product supplied".[62] The Court of Justice devised a two-part test: first, comparing the costs actually incurred and the price actually charged. If the difference is excessive, the second question is whether such price is unfair in itself or when compared to competing products.

The UK cases have shown that there is a wide margin of appreciation in applying the United Brands test to the specific circumstances of each case: see *Albion Water*.[63] Nonetheless, the test will be strictly applied, as two examples make clear. In *Attheraces*,[64] the High Court found that the prices were unfairly excessive compared to the cost of production, plus a reasonable margin. The Court of Appeal disagreed and clarified that a price may be excessive without being unfair, and therefore not abusive, if it does not have the effect of restricting or distorting competition. A price is not abusive by being excessive unless it would affect competitors' or customers' ability to compete.[65] In *Humber Oil Terminals Trustee Ltd v Associated British Ports*,[66] the High Court rejected an allegation that the proposal of high prices during negotiation could be abusive.

The courts and the CMA have found abusively high prices and imposed fines (after appeals) in two cases.

Napp Pharmaceuticals[67]

Here the OFT found that Napp had abused its dominant position in the market for the supply of sustained relief morphine tablets and capsules in the UK by charging excessively high prices in the community segment of the market and supplying hospitals at discount levels, which had the effect of eliminating competition.

Albion Water

On appeal, the CAT found—contrary to Ofwat's decision—that Dŵr Cymru had abused its dominant position by charging an excessive and unfair access price. The access price significantly compromised Albion Water's ability to compete.

[62] ECJ, case 27/76, *United Brands v Commission of the European Communities*, ECR 1978 207.

[63] *Albion Water Limited v Water Services Regulation Authority* [2008] CAT 31.

[64] *Attheraces Ltd and Anr v British Horse Racing Board and Anr* [2007] EWCA Civ 38.

[65] *Attheraces* goes further on this point than EU case law at present.

[66] [2011] EWHC 352 (Ch), judgment of 24 February 2011.

[67] Case No. CA98/2/2001 *Napp Pharmaceutical Holdings Limited and Subsidiaries*, OFT decision of 30 March 2001.

16.3.2 Predatory Pricing

The ECJ established a two-limb test for predation:

> First, prices below average variable costs must always be considered abusive. In such a case, there is no conceivable economic purpose other than the elimination of a competitor, since each item produced and sold entails a loss for the undertaking. Secondly, prices below average total costs but above average variable costs are only to be considered abusive if an intention to eliminate can be shown.[68]

The first limb is now more refined in EU law: prices below average variable costs must be considered prima facie abusive, but demonstrating an economic justification for the pricing may succeed in rebutting that presumption. For example, to launch a new product it may be necessary to sell at a loss initially to gain customer awareness and acceptance.

This more refined approach has found a parallel in UK law. In *Aberdeen Journals*,[69] the CAT considered that predation had to be looked at "in the round", in particular taking account of whether the conduct had "the effect of weakening or distorting competition in the relevant market". The CAT stated:

> Even where prices are below average variable costs, and despite the apparently peremptory wording of the judgements of the Court of Justice in AKZO, at paragraph 71 and Tetra Pak II, at paragraph 41, we do not exclude the possibility that, exceptionally, a dominant firm may be able to rebut the presumption of abuse.
>
> However, in our view the presumption of abuse will rarely, if ever, be rebutted if the pricing policy under scrutiny originates as an aggressive response to market entry by a competitor, or is directed towards eliminating a competitor.[70]

In *First Edinburgh/Lothian*, the OFT applied the following test:

> . . . although evidence of price and below average variable cost provides a strong presumption of predation, and undertaking may be able exceptionally to rebut this presumption providing, inter alia, the pricing strategy is not directed towards eliminating a competitor.[71]

In common with EU law, there is no requirement to prove that the dominant company may recoup its losses after forcing competitors to leave the market.[72]

In seven major decisions to date, the OFT and ORR have found predatory abuse in three cases (*Napp*, *Aberdeen Journals*, *Cardiff Bus*), no grounds for action in two (*Idexx*, *Flybe*) and no abuse (on the facts) in two (*First Edinburgh*, *DB Schenker Rail*).

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[68]ECJ, *AKZO v Commission*; case 62/86 ECR I-3359 as reaffirmed in ECJ, case 333/94P *Tetra Pak International SA v Commission of the European Communities*, ECR I-5951.

[69]*Aberdeen journals Ltd v The Office of Fair Trading* [2003] CAT 11.

[70]*Ibid.,* §§ 357–358.

[71]*Op. cit.* at footnote 27, §56.

[72]ECJ, case 202/07 *France Telecom SA v Commission,* ECR I-2369.

Napp Pharmaceutical Holdings Limited and subsidiaries v DGFT
The OFT found that Napp was selling to hospitals at below average direct cost, less than one-tenth of the price that Napp charged to the community segment. Since GPs tended to prescribe the brands used in hospitals to their community patients, the predation in the hospital segment foreclosed the community market segment. On appeal, the CAT reduced the fine because of the existence of a voluntary Pharmaceutical Price Regulation Scheme, and novel issues, but upheld the substance of the OFT's findings.[73]

Aberdeen Journals
The OFT found that Aberdeen Journals had predated against its only competitor, the Aberdeen & District Independent, through selling advertising space at below average variable cost, in order to expel the rival from the market. The CAT required the OFT to reconsider its market definition, and on further review, the OFT confirmed its earlier decision, which was upheld on appeal, albeit with a reduced fine.

First Edinburgh/Lothian
The OFT decided on 29 April 2004[74] that First Edinburgh had not infringed the Chapter II prohibition by reducing its fares and increasing the scale of its commercial bus services in the Greater Edinburgh area between March 2000 and July 2002. The decision date is interesting—2 days before Regulation 1/2003 and the Modernisation amendments to the Competition Act 1998 took effect. Although the decision interprets the legal tests established in European cases, the OFT did not then have the power or obligation[75] to apply Article 102 if it considered that there could be an effect on trade between Member States.[76]

English Wales and Scottish Railways[77]
The ORR found that EWS had engaged in predation in the market for coal haulage by rail and fined it BPD 4.1 million. See also discriminatory pricing below.

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[73]Case No. 1001/1/1/01, *Napp Pharmaceutical Holdings Limited and Subsidiaries v DGFT*. Judgment of 15 January 2002.

[74]*Op. Cit.* at footnote 27.

[75]Article 3(1) of Regulation 1/2003.

[76]Note that the Court of Justice's ruling on a preliminary reference in ECJ, case 375/09, *Prezes Urzędu Ochrany Konkurencji I Konsumentor v. Tele2 Polska sp. Zoo*, [2011] 5 CMLR2, confirmed that a national competition authority is not competent to declare that unilateral anti-competitive conduct does not infringe Article 102, but merely that it has "no grounds for action" where the conditions for prohibition are not met. See Article 5, second sentence, Regulation 1/2003. *Cf*. the ORR's prior (August 2010) "non-infringement" decision in *DB Schenker Rail (UK) Limited*, covering both Chapter II and Article 102.

[77]*English Wales and Scottish Railways*, Decision of the Office of Rail Regulation, 17 November 2006.

Cardiff Bus
The OFT found that Cardiff Bus had engaged in predation when it introduced a "no frills" bus service on the same route as another "no frills" service and in response to it. The competitor left the market and Cardiff Bus discontinued the "no frills" service. The OFT found that Cardiff Bus had intentionally sustained losses in the short term to eliminate competition.[78]

Flybe
The OFT similarly offered no grounds for action when Flybe entered a new route market (London Gatwick-Newquay) against incumbent monopoly airline Air Southwest.[79] Flybe was found to be dominant on two small-scale markets (Exeter to Jersey and Guernsey), and the OFT considered that conduct on a related market could be abusive where it was likely to strengthen that dominant position where the associative links were sufficiently close. Flybe's revenue in the first year was forecast to fall below its average avoidable costs and exceed them only in year four after entry. These losses, however, were not inconsistent with those incurred by Flybe on other routes, and this was in fact normal commercial practice by airlines when entering new routes. In addition, the evidence of predatory intent was not sufficiently clear.

DB Schenker Rail (UK) Limited
The ORR found that DB Schenker Rail had not infringed the Chapter II prohibition or Article 102 because its pricing was above average avoidable cost and the ORR did not find evidence to suggest that its pricing was part of an anti-competitive strategy.[80]

IDEXX
The OFT issued a "no grounds for action decision" after finding that IDEXX had not priced below its average avoidable costs and that equally efficient competitors could still offer an alternative to IDEXX.[81] A key point was the finding that the relevant predation test had to take into account the future profits from consumables associated with the sale of the analysers.

16.3.3 Margin Squeeze

There have been numerous investigations of margin squeeze, in particular conducted by Oftel/Ofcom in the communications industry, and one by Ofgem in

[78] *Op. Cit.* at footnote 26.
[79] Case No. MPINF-PSWA001, *Alleged abuse of a dominant position by Flybe Limited.*
[80] *DB Schenker Rail (UK) Limited*, Decision of the Office of Rail Regulation, 2 August 2010, §8.
[81] Case No. CE/9322/10, *IDEXX Laboratories Limited*. OFT decision of November 2011.

the electricity sector.[82] Other than those investigations, there have been three major cases on margin squeeze, in two cases finding an abuse.

Albion Water

In *Albion Water*,[83] the CAT proposed two tests for margin squeeze: first, where the dominant company's own downstream operations could not trade profitably on the basis of the price charged to its competitors by the upstream operating arm of the document company and, second, where a reasonably efficient downstream operator could not earn (at least) in normal profit when paying input prices set by the vertically integrated undertaking.

Genzyme[84]

The OFT found that Genzyme had engaged in margin squeeze and so abused its dominant position in the market for the supply of drugs to treat Gaucher disease. Genzyme also provided services on the downstream market for the delivery of the drug and provision of related services to Gaucher patients in their own homes. Homecare services were also carried out by a competitor company, Healthcare at Home. Genzyme charged Healthcare at Home the same price for the drug as it charged the NHS for the drug and associated homecare services, thus allowing Healthcare at Home (or any other homecare service provider) no margin at all on homecare services.

BSkyB[85]

The OFT found insufficient grounds that BSkyB had engaged in margin squeeze in the wholesale price premium TV channels.

16.3.4 Discriminatory Pricing

The major case here was *EWS*,[86] considered above under Predatory Pricing.

[82]See in particular: BT UK—SPN (2003); BT Openworld (2003); Vodafone, O2, Orange, T-Mobile (2004); BT Together (2004), BT 0845 and 0870 (2004); BT Wholesale calls (2004); NCCN 500 (2008); BT's Residential Broadband Pricing (2010); BT/Thus (2012) and BT TalkTalk (2013); also Electricity North West (2012—Ofgem). BT/Thus was an interesting case where Ofcom found a technical margin squeeze—a negative margin on its wholesale calls—but insufficient evidence of anti-competitive effect.

[83]*Op. Cit.* at footnote 57.

[84]Case No. C3/03/98, *Genzyme*. OFT Decision of 27 March 2003.

[85]Case No: CA98/20/2002, *BskyB*, OFT Decision of 17 December 2002.

[86]*Op Cit.* at footnote 74.

16.3.5 Fidelity Rebates

EWS

The OFT also found that EWS had abused its dominant position by offering fidelity rebates to its customers.[87]

Walkers Snack

The OFT closed an investigation—on the grounds of administrative priority—into Walkers Snack Ltd's use of growth rebates, financial inducements and exclusivity agreements.[88] It found no evidence that its growth and qualitative rebate schemes had a material effect on customer decision-making in purchasing, listing and promotional decisions for the products in question or on the process of competition generally. It concluded that rebates were unlikely to have resulted in material anti-competitive foreclosure.

16.3.6 Mixed Bundling

IDEXX

The OFT investigated discounts on in-clinic analysers that were conditional on purchases of external services and bundled discounts for two types of specialist external laboratory test. It found no grounds for action.[89] The rebates and discounts did not result in a bundled price for external lab tests below the average avoidable costs of providing these services and therefore, an equally efficient competitor would have been able to compete profitably with IDEXX for the supply of those services.

Even if the discounts foreclosed an equally efficient competitor, they applied to less than 5% of the market for external lab tests, so that any foreclosure was unlikely to impair effective competition on the market. There was evidence that discounts offered on bundles of certain specialist tests (in which it was assumed to be dominant) and standard tests (in which it was not) resulted in a price that an equally efficient rival would be unable to match profitably. However, the bundled discounts were unlikely to foreclose more than 2% of the market for external tests and even in a worst case scenario would have foreclosed less than 15% of the market. The OFT concluded that bundling of specialist external tests with standard external lab tests was unlikely to impair effective competition in the external market.

[87]*Op. Cit.* at footnote 74.

[88]Case No: CE/1604-02, *Walkers* Snacks. OFT case closure Decision of 3 May 2007.

[89]*Op. Cit.* at footnote 69.

16.3.7 Cross Subsidy

There have been no infringement decisions so far.

16.3.8 Exclusive Dealing

National Grid

Ofgem found that National Grid's long-term contracts for the supply and maintenance of gas metres with five of the six major energy suppliers contained restrictions on the ability of the suppliers to obtain gas metres or metering services from National Grid's rival metre operators.[90] In particular, they imposed financial penalties if suppliers replaced more than a small number of National Grid's metres.

Certas Energy

The CMA accepted commitments from Certas Energy UK Ltd and its parent company DCC plc to resolve concerns about its long-term contracts for the supply of fuels to filling stations in the Western Isles.[91] Certas offered to terminate its existing contracts with filling stations and to open up access to its marine terminals to competitors. It further offered to provide access to its Stornoway terminal for five years, to ensure rivals sufficient time to become established and invest. It also offered to incorporate (with other input costs) the throughput fees chargeable to wholesalers using its terminals in full into the prices that Certas charges filling stations, to ensure that competitors could compete on a level playing field.

16.3.9 Abusively Low Pricing by a Dominant Purchaser

BetterCare[92]

The OFT considered that charging excessively low purchase prices would amount to an abuse only in exceptional circumstances.[93] Without barriers to exit by suppliers from the relevant market, a purchaser that paid excessively low prices would be unable to obtain supply in the short-term even if it were a monopolist. Consequently, excessively low prices would normally be self-correcting and would not, absent price discrimination, usually justify action under Chapter 2. On the facts, exceptional circumstances did not arise in this case partly because there was evidence that at least one of BetterCare's rivals had been able to operate profitably on the basis of the prices paid by N & W.

[90] Case No: CA98/STG/06, *National Grid*. OFGEM Decision of 21 February 2008.

[91] *Certas Energy UK* Ltd, CMA Decision of 24 June 2014.

[92] Case No: CA98/09/2003, *BetterCare Group Ltd/North & West Belfast Health & Social Services Trust*. OFT Decision of 18 December 2003.

[93] *Ibid*. at § 58.

16.3.10 Refusal to Supply, Essential Facilities

In *JJ Burgess*,[94] the CAT reviewed the line of authority stretching from *Commercial Solvents*, through *Télémarketing*, *United Brands* and *Bronner* and commented on the meaning of abuse through refusal to supply under the Chapter II prohibition. It stated that its comments were not intended to exhaust the scope of refusal to supply:

> (1) An abuse of a dominant position may occur if a dominant undertaking, without objective justification, refuses supplies to an established existing customer who abides by regular commercial practice, at least where the refusal of supply is disproportionate and operates to the detriment of consumers: United Brands at paragraphs 182 to 183, and also at 189 to 194; Advocate General Jacobs in Bronner, at paragraph 43.
> (2) Such an abuse may occur, in particular, if the potential result of the refusal to supply is to eliminate a competitor of the dominant undertaking in a neighbouring (e.g. downstream) market where the dominant undertaking is itself in competition with the undertaking potentially eliminated, at least if the goods or services in question are indispensable for the activities of the latter undertaking, and there is a potential adverse effect on consumers: see Commercial Solvents, at paragraph 25; Télémarketing at paragraphs 26 to 27; Advocate General Jacobs in Bronner at paragraphs 43, and 58 to 61; and the judgment of the Court in Bronner at 38 and 41.
> (3) It is not an abuse to refuse access to facilities that have been developed for the exclusive use of the undertaking that has developed them, at least in the absence of strong evidence that the facilities are indispensable to the service provided, and there is no realistic possibility of creating a potential alternative: the opinion of Advocate General Jacobs at paragraphs 56 to 66: the judgment of the Court in Bronner, at paragraphs 41 to 46.[95]

Applying these principles to the facts, the CAT found that Burgess' Knebworth branch was unlikely to be viable without access to the Harwood Park Crematorium.

The CAT—overturning an earlier OFT decision—found that the refusal by one funeral directing business (W Austin & Sons) to give another funeral directing business access to its crematorium constituted an abuse. This was the first case in which the CAT substituted its own decision for the OFT's in its entirety.

DuPont

In 2003, the OFT found that DuPont had not abused a dominant position when it refused to supply OPG—an existing customer—with halographic photopolymer film (HPF), which OPG used for graphic art applications (a use that DuPont was phasing out itself).[96] OPG depended on DuPont for its supply. The OFT refused to find that HPF was an essential facility because this would involve too great an interference with the freedom of undertakings to choose their own trading partners.

[94] *Op. Cit.* at footnote 28.

[95] *Op. Cit.* at footnote 28, §311.

[96] Case No. CA98/07/2003, *E.I.DuPont de Numours & Company and Op. Graphics (Holography) Limited.* OFT Decision of 9 September 2003.

Further, since DuPont was phasing out its own use of HPF for graphic art applications, it could not be said that it was attempting to eliminate a competitor. In its decision, the OFT distinguished the *Bronner* case, noting that

> . . .treating unprocessed HPF for use in graphics arts applications as an essential facility would be too broad an interpretation of that concept. The essential facilities concept is generally applied to facilities such as ports utility distribution networks and some telecommunications networks. . .where access is indispensable in order for the would-be consumer to compete.[97]

ATOC

The ORR found that the Association of Train Operating Companies (ATOC) had not abused a dominant position by refusing to supply licences to its database of real-time train information.[98] The ORR examined the case in accordance with essential facilities case law, especially *Microsoft*. The ORR found that the data in question were indispensable for third parties to be able to provide real-time train information and that there had been a refusal to supply; the ORR found insufficient evidence that ATOC's refusal to supply had denied access to the market for a new product or specific or readily identifiable technology for which there was consumer demand. It was also not clear that all competition had been eliminated.

Purple Parking[99]

In April 2011, the High Court found that Heathrow Airport had abused its dominant position when it required the claimant to relocate its "meet and greet" parking services from the Terminal 1, 3 and 5 forecourts to other, more distant car parks whilst it continued to operate its own services from those forecourts. The High Court's reasoning was based on discrimination rather than the essential facilities doctrine, where it indicated that the criteria for an abuse based on essential facilities would not have been met.

In *Chemistree Homecare Ltd v Abbvie Ltd*,[100] the High Court refused the claimant an interim injunction for lack of a real prospect of establishing that either the defendant had a dominant position or it had abused any dominant position. In finding the latter, the Court accepted that a putatively dominant supplier of pharmaceuticals was entitled to restrict the supply to hospital pharmacies only. Chemistree was an existing customer of Abbvie but had concealed that it was purchasing not merely for providing homecare services to NHS hospitals but also for wholesale, contrary to Abbvie's distribution policy. The Court accepted that Abbvie could restrict supply to what was necessary to fulfil Chemistree's requirements for UK homecare provision.

[97] *Ibid*. §29.

[98] *Association of Train Operating Companies (ATOC)*, ORR Decision of 17 November 2009.

[99] *Op. Cit*. at footnote 61.

[100] [2013] EWHC 264 (Ch).

16.3.11 Tying

Genzyme[101]

The OFT fined Genzyme for bundling its supply of its pharmaceutical drug with delivery and homecare services within the NHS list price and so foreclosing third party suppliers. On appeal, the CAT agreed that there had been bundling and that homecare services were an independent economic activity, but the bundled price had not been proven to have a sufficiently adverse effect on competition such that it was necessarily an abuse under the Chapter II prohibition during the relevant period. There was no evidence that the NHS had wished to obtain the relevant homecare services from anyone else or had approached Genzyme to suggest that the pricing of Cerezyme was adjusted accordingly.

16.3.12 Leveraging Dominance

BT Broadband[102]

The Director General of Telecommunications found that BT had not abused its dominant position in the retail telephony market through marketing its broadband product. This followed an investigation into a complaint by Freeserve.com that BT was leveraging its dominant position into the residential retail broadband market. The DGFT presumed that BT was dominant (but not super-dominant) in retail telephony because it persistently held more than 60% of the market and was considered to have significant market power for the purposes of the EU Communications Directives. The DGFT then found that there was an ability to leverage from retail telephony into the closely related market of retail asymmetric broadband Internet access products to residential customers. Three questions then arose: are the advantages enjoyed by the dominant company unmatchable by competitors? If not, then (b) is there an impact on competition? And (c) is the impact on competition material and adverse? The DGFT concluded that there was no evidence that BT had infringed the Chapter II prohibition because competitors were able to match BT in marketing costs; despite BT's unmatchable advantage in customers, there was no evidence that this was causing a material adverse effect on competition; finally, there was no evidence that joint billing had a material adverse effect on customers.

BT Directory Enquiries[103]

The DGT also investigated a complaint by providers of director enquiries providers that BT was leveraging its dominant position in the market for paper directories to gain an

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[101] *Op. Cit.* at footnote 78. On appeal: Genzyme *Limited v Office of Fair Trading,* CAT judgment of 11 March 2004 [2004] CAT 4.

[102] *Investigation by the Director General of Telecommunications ('the Director') into alleged anti-competitive practices by British Telecommunications plc ('BT') in relation to its BT Broadband product*, Oftel decision, 11 July 2003.

[103] Case CW/604/03/03, Oftel decision 23 December 2003, *BT publishing its 118500 directory enquiries number on the front of the BT phonebook.*

advantage in the market for telephone enquiries. Since BT's conduct had not affected consumer behaviour, there was no infringement of the Chapter II prohibition.

***United Utilities Electricity plc*[104]**

The Gas and Electricity Markets Authority dismissed a complaint that United Utilities had abused its dominant position in the upstream market for point of connection (POC) information to favour its downstream affiliate, through discriminatory behaviour (provision of point of connection information more promptly to its own affiliate than to competitors).

***Severn Trent*[105]**

This was the first time that Ofwat accepted commitments to resolve a competition case. The complaint to Ofwat alleged that Severn Trent Laboratories, an affiliate of Severn Trent Water Limited, had committed abuse by predatorily pricing its water supply analysis services. The case was concluded before Ofwat had reached findings on market definition and dominance, through the commitment to remove the structural links between Severn Trent Water and Severn Trent Laboratories.

***Bristol Water/Self-Lay Charges*[106]**

Ofwat has recently accepted binding commitments to resolve two complaints that Bristol Water plc had abused its dominant position through the price and non-price terms applied when providing services to self-lay organisations. The complaints were essentially about leveraging the dominant position in the upstream market for the non-contestable supply and maintenance of water infrastructure in its area of appointment (licensed area) into the downstream market for the provision of contestable services to provide new connections. It was also alleged that Bristol Water was discriminating against self-lay operators (SLOs) in the market for new connections. The commitments were designed to separate the upstream and downstream elements of Bristol Water's services and to prevent possible discrimination between its own business and those of its competitors downstream.

16.3.13 Use of Intellectual Property Rights

***Consignia plc and Postal Preference Service Ltd*[107]**

The OFT found that Consignia was dominant in the market for ordinary mail delivery, which was closely related to the market for lifestyle marketing data. Consignia entered into an agreement with the Postal Preference Service (of which

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[104] Ofgem decision, 17 December 2004.

[105] Ofwat decision, 17 January 2013 http://www.ofwat.gov.uk/competition/ca98/pap_pos20130117alcontrol.pdf. Accessed 27 October 2015.

[106] Ofwat decision OFW 0006160 of 23 March 2015: Formal investigation under the Competition Act 1998 concerning the price and non-price terms Bristol Water applies when providing services to self-lay organisations.

[107] Case No CA98/4/2001, 15 June 2001, *Consignia plc and Postal Preference Service Limited*, non-confidential version (Case CP/0155-01).

Table 16.1 Competition authority decisions January 2010 to February 2016

Case	Alleged abuse	Outcome
DB Schenker Rail (2010)	Predatory pricing	No abuse
BT residential pricing (2010)	Margin squeeze	Non-infringement
Flybe (2010)	Predatory pricing	No grounds for action
Reckitt Benckiser (2011)	IPRs	Early resolution agreement
IDEXX Laboratories (2011)	Predatory pricing Mixed bundling	No grounds for action
BT wholesale calls (2013)	Margin squeeze	No grounds for action
Bunker Fuel Cards (CH Jones) (2013)	Exclusive agreements	No grounds for action
BT superfast broadband (2014)	Margin squeeze	No grounds for action
Bristol Water/self-lay charges (2015)	Leveraging dominance/ discrimination	Commitments
Paroxetine (2016)	Pay for Delay	Infringement Decision

Consignia owned 44.6%) by which Postal Preference Service could use the Royal Mail trademark on its consumer lifestyle marketing surveys. The OFT found that the use of the trademark had not increased PPS's response rate and would be unlikely to influence customers to switch to the Postal Preference Service. PPS was competing legitimately, and competition was not being undermined as a result of the arrangements. Although it was possible in principle for a dominant undertaking to commit abuse in a related market in which it was not dominant, the required special circumstances were not present here.[108]

Reckitt Benckiser[109]

Reckitt Benckiser admitted abusing a dominant position by withdrawing and de-listing Gaviscon Original Liquid from the NHS prescription channel in 2005, after the expiration of its patent but before the generic name for the product was published. The case was concluded through an early resolution agreement by which Reckitt Benckiser agreed to pay a reduced fine.

GlaxoSmithKline[110]

The CMA investigated allegations that GlaxoSmithKline had abused its dominant position through action taken (including payments made) to delay the entry into the

[108]See also *Claritas (UK) v Post Office*, [2001] U.K.C.L.R. 2 in which the High Court refused an application for interim injunctive relief: there was no evidence to suggest that the licensing of the "Royal Mail" brand name and logo in connection with the collection and exploitation of direct mail amounted to an abuse of a dominant position by the Post Office. Also, the link between the market for delivery of mail and the direct mail market was not sufficient to render the direct mail market a relevant market for the purposes of the Chapter II prohibition.

[109]Case CE 8931/08, OFT Decision 13 April 2011.

[110]OFT Press release 36/13 of 19 April 2013; CMA Press release dated 21 October 2014.

Table 16.2 Court cases from January 2010 to September 2015

Case	Alleged abuse	Outcome
Humber Oil Terminals Trustee Ltd v Associated British Ports[111]	Excessive rent proposed during negotiations of lease renewal	Claim struck out
Chemistree Homecare Ltd v Abbvie Ltd[112]	Refusal to supply (exclusionary)	No Injunction Defendant awarded indemnity costs
Interfederation Ltd v Google Inc & Ors[113]	Lowering the position of websites in the list of search results (exclusionary)	Stay refused Limited disclosure on abuse allegation
Secretary of State for Health and Ors v Servier Laboratories Ltd and Ors[114]	Attempts to delay market entry (exclusionary)	Stay of proceedings Interlocutory orders for disclosure and confidentiality
Dahabshiil Transfer Services Limited v Barclays Bank plc and Harada Limited and Berkeley Credit and Guarantee Limited v Barclays Bank plc[115]	Refusal to supply (exclusionary)	Grant of interim injunction pending trial
Arriva the Shires Ltd v London Luton Operations Limited (High Court, 28 January 2014)[116]	Abusive tendering Abusive terms of contract Foreclosure by exclusivity (mixed exclusionary/ exploitative)	Abuse found

UK of the generic anti-depressant paroxetine. In February 2016, the CMA fined GSK and various other pharmaceutical manufacturers £45 million.

At the time of writing there have been ten competition authority cases concerning infringements of Article 102 and the Chapter II prohibition in the last 5 years. This compares to three decisions concerning the infringement of Article 101 and the Chapter I prohibition (Table 16.1).

At the time of writing, there have been five cases to reach judgment in the UK courts raising questions of anti-competitive unilateral conduct. This does not include hearings on appeal from competition authorities (Table 16.2).

[111] [2011] EWHC 352 (Ch), judgment of 24 February 2011. On appeal [2012] EWCA Civ 36, judgment of 27 January 2012.

[112] [2013] EWHC 264 (Ch), judgment of 11 February 2013. Judgment on application for interim injunction. [2013] EWCA Civ 1338, judgment of 7 November 2013 Court of Appeal judgment on appeal against previous judgment.

[113] [2013] EWHC 2295 (Ch), judgment of 26 July 2013 (application for stay of proceedings and disclosure).

[114] [2015] EWHC 647 (Ch), judgment of 12 March 2015.

[115] [2013] EWHC 3379 (Ch), judgment of 5 November 2013. Judgment on application for interim injunction.

[116] [2014] EWHC 64 (Ch), judgment of 28 January 2014.

Part II

Protection and Disclosure of Know-How

International Report

17

Henrik Bengtsson

17.1 Trade Secrets and Know-How: An Overview

Trade secrets have been a legal concept since innovations made an impact on economy. Even during the Roman period, trade secrets were afforded legal protection.[1] During the industrial revolution, courts introduced the notion of trade secrets.[2] Trade secrets comprise a huge number of different categories of information that can be divided into technical and commercial information, such as the following:

Technical information –

- drawings and designs;
- prototypes;
- manufacturing processes;
- patentable or not patented inventions;
- know-how, formulae or recipes;
- genetic materials and fragrances;
- research and test data;
- source code for computer software;
- manufacturing technology;

[1]Cf A. Arthur Schiller, Trade Secrets and the Roman Law: The Actio Servi Corrupti, 30 Colum. L. Rev. 837 (1930).

[2]See in 1817, England, *Newbery v James*, 35 Eng. Rep. 1011 (Ch. 1817); and in 1837, the United States, *Vickery v Welch*, 36 Mass. (19 Pick.) 523 (1837).

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- negative R&D information (information about technical processes that do not work).

Commercial information

- customer and supplier lists;
- business methods and strategies;
- cost and price information;
- budgets;
- marketing plans;
- business concepts.

Famous trade secret examples are Coca-Cola's secret recipe, Google's search algorithm, the method for generating the New York Times' Best Sellers list, and Kentucky Fried Chicken's eleven herbs and spices on their fried chicken.[3]

In the United States, trade secret theft—according to one estimate—costs U.S. companies between 1 and 3% of U.S. GDP each year, i.e., between USD 160 million and USD 460 million annually.[4] In its 2014 report "Economic Impact of Trade Secret Theft: A framework for companies to safeguard trade secrets and mitigate potential threats," international accounting firm PWC identifies the following primary threat actors engaged in trade secret theft: foreign intelligence and security services, malicious insiders, competitors, and hacktivists.[5]

The need for adequate protection of trade secrets has likely increased due to digitalization and the ease with which someone who misappropriates can reproduce large amounts of information. From a policy perspective, the legal protection of trade secrets encourages efficiency and the circulation of R&D and innovation information. Legal protection and contractual protection of trade secrets work as a partial substitute for excessive investments in physical security, and legal protection of trade secrets facilitates disclosure in contract negotiations over the use or sale of know-how that otherwise would not occur in the absence of such protection. Protecting trade secrets is therefore rational from a societal and law and economics perspective since it decreases transaction costs and facilitates that transactions occur.

Trade secrets most likely qualify as *property,* at least in a European context. Both the European Court of Human Rights and the Court of Justice of the European Union have in several cases expressed that trademarks and copyrights constitute

[3]US Report, Section 1.

[4]US Report, Section 4.

[5]The report is available at https://www.pwc.com/us/en/forensic-services/publications/assets/economic-impact.pdf.

property under protocol 1 to the European Convention of Human Rights[6] and under Article 17 of the EU Charter of Fundamental Rights.[7] There are no reasonable grounds to assume that trade secrets would not similarly qualify as property. However, it is a controversial subject under German law whether the Basic Law protects trade secrets.[8]

From an international perspective, trade secrets and know-how are governed by Article 10bis of the Paris Convention and Article 39.2 of the TRIPs Agreement. Under Article 10bis of the Paris Convention, the countries of the union shall assure protection against acts of unfair competition and specifically against any act of competition contrary to honest practices in industrial or commercial matters that constitutes an act of unfair competition (Article 10bis (2)).

The 1994 TRIPS Agreement requires that members protect undisclosed information—trade secrets or know-how. Under Article 39.2, the protection shall apply to information that is secret, which has commercial value because it is secret and that has been subject to reasonable steps to keep it secret. The TRIPs Agreement does not require undisclosed information to be treated as a form of property, but it does require that a person lawfully in control of such information must have the possibility of preventing it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices. The expression "manner contrary to honest commercial practices" includes breach of contract, breach of confidence and inducement to breach, as well as the acquisition of undisclosed information by third parties that knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

The subject of trade secrets has recently gained attention in the European Union. In April 2013, the European Commission and renowned law firm Hogan Lovells issued their joint Study on Trade Secrets and Confidential Business Information in the Internal Market.[9] The report analyzes how trade secrets are protected under the national laws of each of the 27 Member States and concludes that as a consequence of historical evolution, the current situation at the EU level is that the legal protection afforded by Member States to trade secrets varies significantly. Likewise, the remedies in case of misappropriation of trade secrets differ significantly. Trade secrets are in different countries protected under diverse legal regimes such as the following:

[6]ECtHR (Grand chamber), 11 January 2007, case of Anheuser-Busch Inc. v. Portugal, Appl. nr. 73049/01, ECtHR (2nd Section) 5 July 2005, case of Melnychuk v. Ukraine, Appl. Nr 28743/03 and ECtHR (5th Section), 10 January 2013, case of Ashby Donald and others v. France, Appl. nr. 36769/08 and ECtHR (5th Section) 19 February 2013, case of Fredrik Neij and Peter Sunde Kolmisoppi v. Sweden, Appl nr 40397/12.

[7]CJEU, case C-70/10, *Scarlet Extended SA v Société belge des auteurs, compositeurs et éditeurs SCRL (SABAM)*, ECR 2011 I-11959, pt 40 and ECJ, case C-275/06, *Productores de Música de España (Promusicae) v Telefónica de España SAU*, ECR 2008 I-271, pt 62.

[8]German report, Section 23.2.4.

[9]The report is available at http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf.

1. unfair competition law;
2. industrial property law;
3. penal law;
4. labor law;
5. tort law;
6. specific trade secret acts.

The Hogan Lovells report concludes that there is far from a uniform definition of trade secrets and in a majority of the EU Member States trade secrets are defined in case law.

At the end of November 2014, the European Commission presented its 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 which proposal aims at harmonizing the protection of trade secrets throughout the European Union.[10] The proposal, among others, contains proposed articles on the definition of trade secrets, prohibited acts, remedies in case of misappropriation, protection of trade secrets in court proceedings, and sanctions against misuse of trade secrets. On May 26, 2014, the Council decided on a general approach to the proposed directive and proposed amendments to the directive text.[11] On June 22, 2015, the European Parliament's Legal Affairs (JURI) Committee in its report[12] on the proposal made a number of amendments[13] to the proposed directive, namely that the directive shall not affect the following:

1. the freedom of movement of workers;
2. the freedom of establishment;
3. the right of worker's representatives to acquire and disclose trade secrets when they exercise their union rights;
4. the right to privacy, protection of personal data; and fundamental rights;
5. the use of experience acquired honestly through employment or some other contractual relationship.

[10]The proposal is available at http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/131128_proposal_en.pdf.

[11]The document is available here http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209870%202014%20INIT.

[12]European Parliament, Report on the 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 (COM(2013)0813—C7-0431/2013—2013/0402(COD)), available at http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2015-0199+0+DOC+PDF+V0//EN.

[13]See European Parliament, Report on the 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 (COM(2013)0813—C7-0431/2013—2013/0402(COD)).

Interestingly, the European Parliament proposes an addition[14] to Article 4 of the proposed directive (which governs lawful acquisition, use, and disclosure of trade secrets) under which addition the trade secret concept shall not cover the knowledge, qualifications, and skills gained by employees in previous employment. Obligations of contracts and other actions that may limit the use of such knowledge shall comply with the principle of proportionality in the interest of innovation and free competition.

The purpose behind the general LIDC question is to research the differences in national protection of trade secrets and know-how and also to ascertain whether the scope of protection in different countries is sufficient or even too far-reaching. The purpose is further to get an understanding on to which extent commercial parties may agree on protecting confidential information and to which extent such agreements are enforceable.

17.2 Regulation of Trade Secrets in International Instruments

Already in Article 10bis (2) of the Paris Convention, trade secrets are addressed, albeit in an unfair competition context and without any specific provisions on trade secrets as such the following:

> Unfair Competition
>
> [. . .]
>
> (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

International law does not provide for a definition of trade secret as such. However, Article 39(2) of the TRIPs Agreement provides that "undisclosed information" should be protected against being disclosed to, acquired by, or used by others without their owner's 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.

[14] See European Parliament, Report on the 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 (COM(2013)0813—C7-0431/2013—2013/0402(COD)).

In note 10 to Article 39(2), the notion of “in a manner contrary to honest commercial practices” is explained as follows:

> 10. 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.

By comparison, § 1839 of the United States Code defines a “trade secret” as follows:

> (3) the term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—
>
> (A) the owner thereof has taken reasonable measures to keep such information secret; and
> (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.

In the European Parliament’s proposal for amendments of the European Commission’s proposal for a trade secret directive,[15] trade secrets have been defined as follows under Article 2 (1):

> (1) ‘trade secret’ means know-how and business information which meets all of the following requirements:
>
> (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;
>
> (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.
>
> Experience and skills honestly acquired by employees in the normal course of their employment shall not be considered a trade secret.

17.2.1 The Definition of Know-How as Compared to Trade Secrets

The concept of know-how to a large extent overlaps with trade secret definitions and is subject to, among others, sector-specific legislation in the European Union,

[15]European Parliament; Report on the 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 (COM(2013)0813—C7-0431/2013—2013/0402(COD)), p. 23.

national case law and international standard contracts such as the Orgalime Model for an International technology license agreement (different versions depending on whether they are intended to govern relationships inside or outside the EU/EEA area).

17.2.1.1 Sector-Specific Regulation of Know-How in EU Law[16]

Several European legislative acts contain specific definitions of trade secrets and/or know-how, which concept often is considered, if not as a synonym, at least as a subset of the concept of trade secrets. These definitions are, however, limited to the specific sector covered by the considered regulations:

Under Article 1(i) of Commission Regulation No 316/2014[17], *know-how* means a package of 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 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.[18]

In its Notice 2005/C 325/07,[19] the Commission provides for a definition of trade secret in a specific context (access to the Commission's files), but which is not without interest considering that the approach is case based, so that the considered definition can easily be transposed to other situations. Section 3.2 of the Commission notice distinguishes between two categories of information, namely "business secrets" and "other confidential information":

(i) "Business secrets" are defined, with reference to the decision "Postbank" of the Court of First instance of the European Union (hereafter "CFI")

[16]This Section 2 is in principle based on the valuable summary of trade secrets and know-how provided in the Belgian report, Section 1.2.

[17]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, OJ L 93, 28 March 2014, pp. 17-23.

[18]For similar definition of "know-how", see: Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010 L 102, pp. 1-7; Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements, OJ 2000 L 304, pp. 7-12**;** Commission Regulation No 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ 2002 L 203, pp. 30-41.

[19]OJ 2005 C 325, p. 7–15.

of 18 September 1996[20], as "information about an undertaking's business activity, [the disclosure of which] could result in a serious harm to the same undertaking." According to the Commission, examples of information that may qualify as business secrets include: technical and/or financial information relating to an undertaking's know-how, methods of assessing costs, production secrets and processes, supply sources, quantities produced and sold, market shares, customer and distributor lists, marketing plans, cost and price structure and sales strategy.

(ii) "Other confidential information" includes information other than business secrets, which may be considered as confidential, insofar as its disclosure would significantly harm a person or undertaking.

In a decision of 12 October 2007,[21] the Court of First Instance took over this definition and added that the interests liable to be harmed by disclosure must be worthy of protection:

> As regards, generally, the nature of business secrets or other information covered by the obligation of professional secrecy, it is necessary, first of all, that such business secrets or confidential information be known only to a limited number of persons. Next, it must be information whose disclosure is liable to cause serious harm to the person who has provided it or to third parties.[22]

Finally, the interests liable to be harmed by disclosure must be worthy of protection. The assessment as to the confidentiality of a piece of information requires, in this regard, the individual legitimate interests opposing disclosure of the information to be weighed against the public interest that the activities of the Community institutions take place as openly as possible.[23]

17.2.1.2 "Technical Knowledge" as Defined in the Orgalime Model Contracts

Orgalime's Model for an International technology license agreement[24] is commonly used for the purpose of technology and know-how licensing and may serve as a reference to the definition of know-how or technical knowledge. In the 2005 version of Orgalime's Model for an International technology license agreement (preamble A, notes 4 and 5), technical knowledge is defined as follows:

[20] CFI, case T-353/94, *Postbank v Commission*, ECR 1996 II-921.

[21] CFI, case T-474/04, *Pergan Hilfsstoffe für industrielle Prozesse GmbH v Commission*, ECR 2007 II-4225.

[22] CFI, case T-353/94, *Postbank v Commission*, ECR 1996 II-921, pt 87. See also Commission Notice 2005/C 325/07 on the rules for access to the Commission file in cases pursuant to Articles 81 [EC] and 82 [EC], OJ 2005 C 325, p. 7, paras 3.2.1 and 3.2.2.

[23] CFI, case T-198/03, *Bank Austria Creditanstalt AG v Commission*, ECR 2006 II-1429, pt 71; CFI, case T-474/04, *Pergan Hilfsstoffe für industrielle Prozesse v Commission*, ECR 2007 II-4225, pt 65.

[24] The form is available on the Internet on the following address http://www.orgalime.org/publication/model-international-technology-licence-agreement-outside-eueea.

> Technical knowledge may consist of practical information, not covered by intellectual property rights, resulting from experience and testing and not previously known to the Licensee.

17.2.1.3 "Know-How" as Defined in National Case Law

The German Supreme Court has in a case[25] defined know-how in confidentiality agreements as follows:

> facts that are only known to a limited group of people and that are kept secret in accordance with the will and reasonable interest of their proprietary since the disclosure may cause commercial harm for the proprietary.

17.2.2 National Legal Protection of Trade Secrets

Though Article 39(2) TRIPs applies to all signatories of the TRIPs Agreement and provides a fairly detailed standard for which information qualifies as undisclosed information or not, most jurisdictions have differing definitions of trade secrets. Among the Member States of the European Union, only 10 Member States have a statutory definition of what constitutes a trade secret.[26] In the rest of the Member States, trade secrets are defined in case law.

In the Commission studies of trade secrets law in the EU members, the authors conclude that trade secrets are protected under different legal regimes in different Member States, namely civil law,[27] unfair competition law,[28] contract law,[29]

[25] German Federal Court of Justice, decision of 10th May 1995, Case No. 1 StR 764/94, 1995 NJW pp. 297 et seq. (BGH Urteil vom 10.5.1995—1 StrR 764/94, NJW 1995, 297); German Federal Court of Justice, decision of 25th November 2010, Case No. Xa ZR 48/09, 2011 GRUR pp. 455 et seq. (BGH Urteil vom 25.11.2010—Xa 48/09, GRUR 2011, 455). See Geman report, Section II.

[26] Study on Trade Secrets and Confidential Business Information in the Internal Market Final Study April 2013, page 4. Under for example French, Scottish, Northern Irish and English law there is no statutory definition of trade secrets (the French report, Section 1 and the United Kingdom report, Section 2.1), under French law there is neither any definition in the case law (see French report, Section 1).

[27] Brazilian report, Section 1, French report, Section 2.1.4 and Swiss Report Section 3.4.

[28] See Austrian Report, Section 18.1, page 1–3, Belgian report, Section 2.4, Bulgarian Report, Section 1.1.2.1, German Report, Section 23.2.5, Hungarian Report, Section 1.3, Luxembourgian Report, Section 2.2.1, Romanian report, Section 1.1, Ukrainian report, Section 1 and Swiss Report, Section 3.2.

[29] See Belgian report, Section 2.5.

commercial law,[30] companies law,[31] criminal law,[32] data protection law,[33] intellectual property law,[34] tort law,[35] public law,[36] and labor law.[37] In several jurisdictions, trade secrets are protected by a patchwork of different legal regimes.[38] The only EU Member State that provides a specific trade secret act is Sweden, which in 1989 enacted the Act on Protection of Trade Secrets.[39] In the United States, almost all states have, on the basis of the Uniform Trade Secrets Act, adopted specific trade secret acts.[40] With a view to other major jurisdictions, the Japanese Unfair Competition Prevention Act not only applies to trade secrets but also contains a definition of trade secrets. From a procedural perspective, different regimes also apply; in some jurisdictions, trade secret misappropriations are litigated not only under civil or penal law but also under administrative law.[41]

A large number of cases concern ex-employees who have misappropriated trade secrets.[42] The protection against ex-employee misappropriation of trade secrets varies between the different jurisdictions. Under, for example, the Swedish Trade Secrets Act, an ex-employee is only liable to remedies if there are extraordinary reasons.[43]

There is an obvious boundary, in particular in employment relationships between on one hand the employer's interest in protecting its trade secrets and on the other hand the employee's interest in being able to use his/her general expertise

[30]See German report, Section 23.2.7 and Bulgarian report Section 1.1.2.3.

[31]See German report, Section 23.2.10.3.

[32]See Austrian report, Section 18.1, page 3-5, Belgian report, Section 2.1, Bulgarian report, Section 1.2.2, French report, Section 2.1.1, German report, Section 23.2.10, Hungarian report, Section 1.4, Dutch report, Section 2.1, Luxembourgian Report, Section 2.2.1, Romanian report, Sections 1.2-1.3, Swedish report, Section 30.7, page 10-11, US report, Section B and Swiss Report, Section 3.3. Under UK law, trade secret misappropriation is not penalized, albeit that there have been a legislative proposal proposing criminalization of misappropriation of trade secrets, see UK report Section 6.

[33]See Austrian report, Section 18.2.4, page 5-6, Hungarian report, Section 1.4 and Swiss Report, Section 3.6.

[34]See Brazilian report, Section 1, French report, Section 2.1.2, Italian Report, Section 1 and Swiss Report, Section 3.5.

[35]See French report, Section 2.1.3 and Luxembourgian Report, Section 2.2.1.

[36]See German Report, Section 23.2.11 and Ukrainian report, Section 2 (iv).

[37]Study on Trade Secrets and Confidential Business Information in the Internal Market Final Study April 2013, page 23. See Austrian report, Section 2.2, Brazilian report, Section 2, Bulgarian report, Section 1.1.2.2., French report, Section 2.1.4, Dutch report, Section 2.1.

[38]See for example the Belgian report Section 2.1 through 2.7 and the French report Sections 2.1 through 2.2.

[39]See Swedish report, page 3.

[40]Study on Trade Secrets and Confidential Business Information in the Internal Market Final Study April 2013, page 10.

[41]See Romanian report, Section 28.1.4.2, page 5.

[42]See a Statistical Analysis of Trade Secret Litigation in the Federal Court, Aimeling, D.S., March 2010.

[43]See Swedish report, Section 30.6, pages 8-9.

or experience and to freely exercise his/her profession. The distinction between on one hand employee experience/knowledge and on the other hand specific trade secrets can be challenging in many jurisdictions. This particular issue is one of the focus areas in the negotiations regarding the proposed European trade secret directive:

(i) from a review of the different definitions of trade secrets in the different country reports, it can be concluded that there are some common elements in national and EU trade secret definitions that rather closely mirror Article 39 (2) of the TRIPs Agreement. In general, a trade secret is defined as technical or commercial information related to a business:
(ii) which is not generally known or easily accessible,
(iii) which has economic value (*i.e.*, it confers a competitive advantage to the owner), and
(iv) which disclosure to a competitor could cause prejudice to the owner's interest.

Further, from the review of different country reports, it can be concluded that the elements that a trade secret proprietor must establish to successfully take legal action against trade secret misappropriation are as follows:

(i) mere existence of the alleged trade secret (the plaintiff must demonstrate that all the requirements for information to constitute a trade secret are met);
(ii) misappropriation (acquisition, use, or disclosure) of the trade secret; and
(iii) unlawfulness of the misappropriation or use of the information by the defendant.

17.2.3 Conclusion

The protection of trade secrets, though the application in view of the TRIPs Agreement should be fairly similar, differs substantially between different jurisdictions. One major difference is whether there is a statutory definition of trade secrets or whether trade secrets are defined in the courts' case law. Another major difference is under which legal regime trade secrets are protected, which in its turn points to different competent courts and different legal frameworks (penal or civil law) under which trade secret cases are assessed. There are common features to the definition of trade secrets, but if one sample case would be tried under different national rules, one can suspect that the outcomes would be fairly different in different jurisdictions. Harmonization efforts such as the United States Uniform Trade Secrets Act or the pending European proposal for a trade secret directive must therefore be seen as a welcome contribution to international trade and cross-border transactions. Since the differences between different jurisdictions are that numerous, it is obviously advisable for trade secret proprietors to try to obtain as strong a protection as possible under confidentiality agreements.

17.3 Protection Against Third Parties Misappropriating Trade Secrets

The rules regarding liability for third parties misappropriating trade secrets that have been unlawfully obtained by a person who thereafter discloses it to a third party differ substantially between different jurisdictions. In some jurisdictions, third parties are liable on the basis of legal theory of accessory liability,[44] whereas in other jurisdictions, third parties are liable under statutory law.[45] Third parties may also be liable on the basis of third party interference.[46]

A fairly common feature when it comes to third party liability is that third parties are only liable if they have received the misappropriated trade secret in bad faith.[47] Under Swedish law, it is a requirement that the receiving party was in bad faith upon the time it received the information; whether the recipient was informed of the trade secret misappropriation after receipt of the trade secrets does not matter. The principle of liability for third parties receiving and subsequently using or disclosing trade secrets is also reflected in the European Parliament's proposed trade secret directive, which reads:

> The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of acquisition, use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully within the meaning of paragraph 3.

17.3.1 Conclusion

The provisos for liability for third parties receiving or acquiring information that have been subject to trade secret misappropriation differs from jurisdiction to jurisdiction. It is reasonable to apply the threshold that the third party knew or should have known that the trade secret had been misappropriated.

17.4 Remedies

Under Articles 44 through 46 compared with Article 39(2) of the TRIPs Agreement, Member States are required to provide injunctions, preliminary injunctions, damages, and destruction of infringing goods in the event of misappropriation of

[44] See Bulgarian report, Section 2.

[45] See Luxembourgian report, Section 2.3.

[46] See the Belgian Report, Section 5.5.

[47] See the Belgian Report, Section 19.5.5, French Report, Section 2.2 and the Swedish Report, Section 30.3, page 9.

trade secrets. There are a number of civil remedies in the case of misappropriation of trade sanctions that are available in most jurisdictions, namely:

(i) final and preliminary injunctions,
(ii) damages,
(iii) an order to transfer or deliver up misappropriated trade secrets.

There are other remedies available in certain jurisdictions,[48] namely:

(i) publication of a court decision in a newspaper or even broadcasting of it on the radio,[49]
(ii) an injunction against the defendant using goods resulting from the misappropriation of trade secrets,
(iii) an order requiring the defendant to provide information about which third parties have received the misappropriated trade secrets.

In several LIDC reports and in other reports, the trade secret proprietor's need to have access to search and seizure orders in trade secret cases for the purposes of securing evidence on how the defendant uses and/or discloses trade secrets is highlighted.[50] The need to effectively secure evidence is also highlighted by the report preceding the proposal for a European trade secret directive.[51] Though Article 50(1) and (2) of the TRIPs Agreement provide an obligation for the Member States to implement civil procedure *inaudita altere parte* search and seizure orders,[52] it is not possible to search for evidence of trade secret misappropriations in many jurisdictions. Neither does the proposed European trade secret directive contain any rules on ex parte searches. From a litigation perspective, it is often very difficult for a trade secret proprietor to prove whether the defendant, for example, has used its trade secrets in internal manufacturing and developing processes. The possibility to conduct civil raids and secure evidence without the defendant being put on alert is therefore a key issue for trade secret proprietors.

[48] See Romanian report Section 2.2 and United Kingdom report, Section 3.6.

[49] See French report, Section 3.2.2.

[50] Belgian Report, Section 3.3.1, French Report, Section 2.4 and Hungarian Report, Section 2.2.

[51] Study on Trade Secrets and Parasitic Copying (Look-alikes) MARKT/2010/20/D Hogan Lovells Final Report on Parasitic Copying for the European Commission, page 40.

[52] LTC Harms, The Enforcement of Intellectual Property Rights: A Case Book, WIPO 2005, s. 328 ff.

17.4.1 Calculation of Damages

Damages in the case of trade secret misappropriations are in most jurisdictions calculated on the following basis:[53]

(i) a hypothetical license fee for the licensing of the misappropriated trade secret,
(ii) the trade secret proprietor's lost profit,
(iii) the profit of the party misappropriating the trade secret (unjust enrichment).

Moral damage is in principle compensated in many jurisdictions. It is, however, often difficult for the trade secret proprietor to prove that a trade secret misappropriation has caused damage to the image or reputation of the right holder. Under Hungarian law, nonpecuniary damages may be awarded in the case of trade secret misappropriations.[54] Similarly, under Swedish law, the interest of the trade secret proprietor not to have his/her trade secrets misappropriated and other nonfinancial interests may be taken into account.[55]

17.4.2 Conclusion

Remedies differ between different jurisdictions, but all jurisdictions provide final and preliminary injunctions and damages. In some European jurisdictions, there are additional harsher remedies influenced by the EU Enforcement Directive 2004 such as the defendant's obligation to publish an infringement judgment. Damages are calculated along the same lines in most jurisdictions, and though it is possible to obtain moral damages in some jurisdictions the trade secret proprietor would normally face difficulties proving damage to reputation or goodwill.

17.5 Procedural Aspects: Confidentiality During Court Hearings

In many jurisdictions, there will be a conflict between on one hand the protection of trade secrets and on the other hand the principles of a fair trial and the public transparency of court hearings. The trade secret proprietor has an evident interest in keeping the court hearing confidential and not providing trade secrets to the court that may become public documents or that may be divulged during a public hearing. If there are no guarantees that information can be kept confidential in the court, a

[53]See Austrian Report, Section 18.9, page 10, Belgian Report, Section 5.3.2, Brazilian Report, page 4, French Report, Section 3.2.1, German Report, Section 23.2.5.4, Hungarian Report, Section 2.4.2, Italian Report, Section 2, UK report, Section 3.3.

[54]Hungarian Report, Section 2.4.2.

[55]Swedish Report, Section 30.8.1, page 11 and 12.

trade secret proprietor may often end up in a worse situation if it pursues a trade secret misappropriation since the trade secrets will be available to several other parties than the defendant. On the other hand, the defendant has a justified interest in receiving the trade secrets to be able to (a) assess whether the information qualifies as trade secrets and (b) assess whether the information has at all been misappropriated. If the plaintiff does not provide the trade secret information, the defendant is deprived of its right to defend itself since it cannot fully assess the defense positions.

In several jurisdictions, it is possible to exclude the public from parts of trade secret trials where trade secrets are disclosed.[56] In some jurisdictions, the court can black line trade secrets from the evidence as long as that does not make the document impossible to understand,[57] and in other jurisdictions the defendant is only entitled to take part of the trade secrets if the defendant would otherwise be impaired from exercising its rights under law.[58] Normally, the parties and their counsel cannot be restricted from partaking in the evidence containing trade secrets.

In the proposal for a European trade secret directive, this particular issue is, as per the European Parliament's proposed changes, resolved in Article 8 (Preservation of confidentiality of trade secrets in the course of legal proceedings) as follows:

> "1. Member States shall ensure that the parties, their legal representatives or lawyers, court officials, witnesses, experts and any other person participating in the legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret, or who has access to documents which form part of those legal proceedings, shall not be permitted to use or disclose any trade secret or alleged trade secret, which the competent judicial authorities have, in response to a duly reasoned application by the interested party, identified as confidential and of which they have become aware as a result of such participation or access. Member States may also allow competent judicial authorities to take such measures on their own initiative.
>
> The obligation referred to in the first subparagraph shall remain in force after the end of the legal proceedings. However, it shall cease to exist in any of the following circumstances:
>
> (a) where, the alleged trade secret is found by a final decision not to fulfil the requirements set out in point (1) of Article 2;
>
> (b) 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.
>
> 2. Member States shall also ensure that the competent judicial authorities may, on a duly reasoned application by a party, take specific measures necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of the legal proceedings relating to the unlawful acquisition, use, or disclosure of a trade secret. Member States may also allow competent judicial authorities to take such measures on their own initiative:
>
> The measures referred to in the first subparagraph shall at least include the possibility:

[56] Austrian Report, Section 18.7, page 9, Belgian Report, Section 4.1, Brazilian Report, Section 20.2, page 2, Bulgarian Report, Section 2.1, German report, Section 23.2.9, Hungarian Report, Section 2.5.

[57] Belgian Report, Section 4.2.2.

[58] Hungarian Report, Section 2.5.1.

(a) to restrict access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties to a limited number of persons, in whole or in part provided that at least one person from each of the parties, and, where appropriate in view of the proceedings, their respective lawyers and/or legal representatives, are given access to the document in full;

(b) to restrict access to hearings, when trade secrets or alleged trade secrets may be disclosed, and their corresponding records or transcript to a limited number of persons, provided that it includes at least one person from each of the parties, and, where appropriate in view of the proceedings, their lawyers and/or legal representatives;

(c) to make available to third parties a non-confidential version of any judicial decision, in which the passages containing information defined as trade secrets have been removed or redacted.

3. When deciding on the granting or the rejection of measures for the preservation of a trade secret and assessing their proportionality, the competent judicial authorities shall take into account the need to guarantee 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 third parties, resulting from the granting or rejection of those measures.

4. Any processing of personal data pursuant to paragraphs 1, 2 and 3 shall be carried out in accordance with Directive 95/46/EC.

17.5.1 Conclusion

There is an obvious conflict between the trade secret proprietor's interest in continuously keeping its trade secrets confidential even after a trade secret litigation, the public's interest in public trials and judgments, and the defendants right to conduct a full defense understanding of which allegations the claimant is making. The European Parliament's proposal for Article 8 of the trade secret directive takes a balanced approach where the interests of all parties involved are well addressed.

17.6 Protection of Know-How in Confidentiality or Nondisclosure Agreements

In most jurisdictions, there are no formal requirements for a confidentiality agreement to be valid.[59] However, under Brazilian law, for a nonconfidentiality undertaking to be enforced in court, the signature of the undertaking must be witnessed by two witnesses.[60] It is normally beneficial to protect trade secrets by means of confidentiality agreements to be able to show that the information has been imparted in circumstances that imply that the information has been received by the counterparty in confidence.[61]

[59] Cf Swedish Report, Section 30.9, page 13.

[60] Brazilian report, Section 20.4, page 5.

[61] UK Report, Section 4.

It seems as though information that would not qualify as trade secrets under trade secrets law may be protected under confidentiality agreements in most jurisdictions;[62] at least the national committees have not provided any comments to the contrary. In the Romanian Report, it is, however, noted that information that has become public cannot be subject to remedies in case of breach of contract.[63] Further, under Swiss law, in case of a breach of confidentiality, reparation of a trade secret misappropriation *in natura* is prohibited.[64] In case of breach of confidentiality agreements, courts may award damages and issue injunctions under contract law. Confidentiality agreements often contain penalties that serve the purpose of relieving the trade secret proprietor from the burden to prove the damage sustained as a result of the breach of confidentiality.[65]

17.7 Misuse of Trade Secret Protection

Several of the LIDC reports address the possibility to sanction misuse of trade secrets under competition law and rules on abuse of dominant position.[66] If trade secret litigation has been initiated in bad faith for the purpose of unfairly restricting or delaying a party's access to the market, it may qualify as vexatious litigation under Italian procedural law.[67] In Italy, the judge can also award the winning party an equitable amount if the other party is proven to have entered into the litigation in bad faith.[68] Also under Brazilian, Japanese, and Luxembourgian laws, a right holder that abuses its rights and causes damage is liable to pay damages.[69] These sanctions are available also in trade secret cases. The Belgian Supreme Court has in a case from 1971 established an interesting principle of abuse of rights. In the Belgian Report, the principles that apply for assessing whether a party's rights (among them trade secret rights) are exercised in an abusive manner are described as follows.

The Belgian Supreme Court defines the abuse of right as any use of a right that "obviously exceeds the limits of a normal exercise thereof by a normally cautions and diligent individual."[70]

To qualify the exercise of a right as abusive, one must prove one of the following elements:

[62] C f for example the Bulgarian Report, Section 11, the Hungarian Report Section 3 and the Italian Report, Section 3.

[63] Romanian report, Section 3.

[64] Swiss Report, Section 7.2.

[65] German Report, Section 23.3.4.

[66] The Netherlands Report, Section 5, Bulgarian Report, Section 4.1 and Swiss Report, Section 6.

[67] Italian Report, Section 4.

[68] Italian Report, Section 4.

[69] Brazilian Report, Section 20.5 page 6, Japanese Report, Section 5, Luxembourgian Report, Section 5.

[70] Supreme Court, 17 September 1971, Pas., 1972, I, p. 28; Supreme Court, 17 October 2008, Arr. Cass., 2008, p. 2281.

- the predominant motive for exercising the right is to cause harm to another party; or
- no serious or legitimate motive exists for exercising the right in the considered way; or
- the exercise of the right is against moral rules, good faith, or elementary fairness; or
- the right is exercised for a purpose other than that for which it was granted.[71]

Considering what precedes, the possibility of an abuse/misuse of a trade secret right is not excluded *per se*:

- possible misuse to circumvent legal obligations to disclose specific information;[72]
- possible misuse to conceal information within the framework of (judicial) proceedings;
- possible misuse to gain access to a competitor's confidential information (through right to access public records, right to attend public hearing, etc.);
- possible misuse to unfairly delaying or restricting a competitor's access to the market;
- possible misuse to unfairly intimidating or harassing a competitor; etc.

If the abuse of right is established, the trade secret owner can be held liable under Article 1382 of the Belgian Code Civil and consequently see the exercise of his right limited and/or be condemned to pay damages if the abuse caused prejudice to a third party.

In the proposal for a European trade secret directive, there is a specific article that addresses the trade secret proprietor's abuse of its rights. Article 6(2) is worded as follows:

> 2. Member States shall ensure that where competent judicial authorities determine that a claim concerning the unlawful acquisition, disclosure or use of a trade secret is manifestly unfounded and the applicant is found to have initiated the legal proceedings abusively or in bad faith, such competent judicial authorities shall be entitled to take the following measures:
> (a) impose sanctions on the applicant;
> (b) order the dissemination of the information concerning the decision taken in accordance with Article 14.

[71]G. De Leval, Traité des saisies, 1988, p. 13; P. Van Ommeslaghe, Abus de droit, fraude aux droits des tiers et fraude à la loi, R.C.J.B., 1976, p. 303 ss; Supreme Court, 29 November 1962, Pas., 1963, I, p. 406.

[72]As expressly reminded on the European Commission's website on Trade Secrets, companies cannot invoke their trade secrets with the sole purpose to hide information on matters of public interest, such as public health, the environment or the safety of consumers (http://ec.europa.eu/growth/industry/intellectual-property/trade-secrets/index_en.htm).

> The measures referred to in the first subparagraph shall be without prejudice to the possibility for the respondent to claim damages. Member States may provide for those measures to be determined in separate proceedings.

17.7.1 Conclusion

There is a fairly obvious risk that the legal protection of trade secrets is misused by plaintiffs aiming to distort competitors' business, using ex parte search orders for the purpose of obtaining competitor's trade secrets or harassing a competitor. A strong protection of trade secrets must be balanced against, among others, competitors' interest in protecting their trade secrets and not becoming subject to lengthy and costly trade secret litigation. Sanctioning the abuse of trade secret protection causes the trade secret proprietor to act diligently and think twice before doubtful trade secret litigations are initiated and likely works as a restraint against dominant parties taking advantage of their market position to limit competitors.

17.8 Personal Reflections and Conclusion

In most reports, the contributors' advice is that trade secret proprietors ought to take additional contractual and practical steps to ensure the thorough protection of their trade secrets.

The measures recommended are as follows:

(i) confidentiality agreements that specify which information is subject to confidentiality;
(ii) IT security measures, including encryption;
(iii) restricting employee access to confidential information on a need-to-know basis.[73]

The harmonization of trade secret rules throughout the European Union is welcomed by reporters.

Resolution Adopted by the LIDC
On the basis of the report above, the LIDC in its October 3, 2015, meeting in Stockholm adopted the following resolution, which reflects the concerns and ideas put forward by the national reporters:

Whereas the investment in the acquisition, development and application of trade secrets forms the backbone of the knowledge based economy.

[73]The Netherlands report Section 6.

Whereas the due protection of trade secrets has a crucial economic impact on the efficiency of international business.

Whereas strong non-contractual protection of trade secrets facilitates transactions and the flow of information and stimulates research, development and innovation.

Whereas this purpose is endangered if different national rules on the protection of trade secrets create gaps and inconsistencies.

Whereas a considerable variety of national protection systems against the misuse of trade secrets still characterises the existing international regulatory framework.

Whereas in particular, a consistent definition of trade secrets, as well as a clear and well-balanced integration of this protection tool into the system of intellectual property rights is absent.

Whereas a unified trade secret protection system should be well balanced against other fundamental rights and the legitimate public interest, in particular fair competition.

Whereas a new system should protect the disclosure of trade secrets if it serves the legitimate public interest i.e. in the case of whistleblowing or the freedom of the media.

Whereas it is also essential to provide for efficient and appropriate measures to prevent further misuse of trade secrets.

Whereas trade secrets are defined in Article 39 (2) of the TRIPs Agreement.

Whereas trade secrets in many jurisdictions are vaguely defined and not included in statutory law, which may result in legal uncertainty.

Whereas trade secret protection should not be extended to experience and skills honestly acquired by employees.

Whereas Articles 50 (1) and (2) of the TRIPs agreement place an obligation on the Member States to implement (civil procedure) ex parte search and seizure orders in case of misuse of trade secrets.

Whereas it is difficult for a trade secret proprietor to prove that trade secrets have been misused unless the trade secret proprietor can conduct a civil search to establish the misuse.

Whereas it is difficult for a trade secret proprietor to prove the full extent of damage that the misappropriation of trade secrets has caused the proprietor.

Whereas trade secrets must not become publicly available as a result of trade secret litigation.

Whereas defendants in trade secret cases must be granted the right to fair trial and to conduct a full defense.

Whereas trade secret protection may be abused by the trade secret proprietor to limit or harass competitors.

Whereas the balance between trade secret proprietors and its competitors must be upheld and trade secret proprietor's measures in case of trade secret misappropriation must be proportionate.

The LIDC considers that it is important to participate in this debate and therefore recommends the following:

1. The international harmonisation of legislation on the protection of confidential know-how and business information (trade secrets) against their wrongful acquisition, use, and disclosure should be pursued within due time.
2. A good starting point is the European Parliament's proposal for an EU directive of June 2015 on the protection of trade secrets. However, the existing text still has some lacunas, especially where it supports trade secret proprietors´ claims against public authorities, journalists and whistleblowers in respect of the acquisition and revelation of business information.
3. In general, the protection of trade secrets should not prejudice the public's access to information regarding industry malpractice.
4. When protecting trade secrets it is important to have regard to fundamental rights, such as freedom of speech, and other legitimate public interests, including fair competition.
5. It is necessary to work towards the adoption of a uniform statutory definition of trade secrets to increase legal and business certainty.
6. It is necessary to work towards the allowance of ex parte search orders in national legislation in cases of trade secret misuse.
7. It is necessary to work towards establishing a common standard for defining the protection against proprietors´ abuse of trade secrets and the remedies in case of such abuse.
8. It is necessary to work towards establishing procedural principles under which trade secret information is kept under seal and at the same time is accessible to the defendant to conduct a full defence.
9. It is necessary to work towards the establishment of a principle of a lower burden of proof when it comes to proving damage as a result of the misuse of trade secrets.

Austria

18

Juliane Messner, Max W. Mosing, and Rainer Schultes

18.1 Specific Statutory Provisions of Austrian Law on the Protection of Trade Secrets

Business and trade secrets are enterprise-related commercial or technical facts that are known only by a limited and determined number of people, that are not generally accessible or only with difficulty, and that owner does not intend to disclose beyond a circle of informed people, and in the secrecy of which the owner of the business has an economic interest.[1] The facts in question must be business related. This excludes mere scientific secrets, as well as untrue statements. Those are not considered facts.

A distinction can be made between trade secrets that mainly refer to commercial aspects (e.g., distribution of goods, capacity, strategies, *et cetera*) and business secrets that mainly refer to technical aspects (like manufacturing processes, materials used, et cetera). For the application of the law, the differentiation is of no importance since the law itself does not make a distinction.

The protected fact must not be obvious. The circle of persons who know the effect must be determined. Any fact that has become public by way of publication or as part of an exhibition can be regarded as available to the public. In this regard, it is of no importance whether the fact is new.[2] Another criterion is the explicit or implicit intention to keep the fact secret. Finally, the interest in keeping the fact

[1]M. Burgstaller, Der strafrechtliche Schutz wirtschaftlicher Geheimnisse, in Ruppe, Geheimnisschutz im Wirtschaftsleben, Orac 1980, 12.

[2]M. Burgstaller, Der strafrechtliche Schutz wirtschaftlicher Geheimnisse, in Ruppe, Geheimnisschutz im Wirtschaftsleben, Orac 1980, 13.

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secret is a criterion. This is to be evaluated on an objective basis. It is not in the disposition of the person entitled in the business or trade secret to voluntarily declare facts to be subject of secrecy. The subjective interest to preserve the secrecy must be accompanied by an objective interest in the secrecy.[3]

Austrian law provides for the protection of trade secrets prevalently in the Unfair Competition Act,[4] specifically in Sections 11 to 13, and also in the Penal Code. These provisions are supported by the general clause according to Section 1 of the Austrian Unfair Competition Act. Also, Sections 11 and 12 are provisions of criminal law. The general nature of these provisions is the disclosure or exploitation of trade or business secrets that have been entrusted to the offender in the course of a professional occupation or that have been obtained by espionage. The penalties in question are imprisonment and fines. The legal values protected under this framework are the legitimate interest in the confidentiality of trade and business secrets and to punish infringements of such legitimate interests.

18.1.1 General Clause on Unfair Competition

Section 1 (1) of the Unfair Competition Act stipulates that anyone who in the course of business either resorts to an unfair commercial or other unfair practice that is likely to distort competition materially in detriment of enterprises or uses an unfair commercial practice contrary to the requirements of professional diligence and that is capable of distorting the economic behavior of the average consumer it reaches or it is addressed to may be sued for a cease and desist order and in case of fault for payment of damages.

The term average consumer is then further explained in the subsequent paragraphs 2 and 3:

If the practice is addressed to a certain group of consumers, the average member of this group is considered the average consumer. Commercial practices reverted against consumers, which are especially vulnerable due to mental condition, physical infirmity, age or credulity, have to be assessed from the perspective of the average member of that particular group.

18.1.2 Disclosure of Business or Trade Secrets. Misuse of Entrusted Documents

Business or trade secrets and entrusted documents are specifically protected by Sections 11 through 12 of the Unfair Competition Act.

Section 11 distinguishes two offenses:

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[3] D. Heine and F. Rischka, Intellectual Property Law in Austria, Harcourt Professional Publishing, 2014, p. 220ff.

[4] Federal Act Against Unfair Competition of 1984 (as last amended by Federal Law Gazette I No. 79/2007), "Unfair Competition Act".

– first, the unauthorized disclosure of business or trade secrets by employees, which they only know due to their employment, for competitive reasons during the time of their employment;
– second, the utilization or disclosure of information that was obtained through an offense as described before or by their own activity contrary to the law or public order, done for the purpose of competition.

In other words, Section 11 of the Unfair Competition Act requires either actual disclosure or unauthorized use of the trade or business secret for competitive purposes to give rise to criminal liability. To fulfil the elements of a crime, the communication of the secret to any uninformed person is sufficient; the illegal utilization of a trade or business secret by an employee for itself does not fall within this article but can be punished.

Section 12 should prevent misuse of models and patterns or samples of a technical kind. Any disclosure or utilization of technical documents or requirements entrusted in the course of business without authorization for competitive purposes offends against the provision.

The definition of model or technical patterns in the sense of this provision is very broad; anything that can be used in the production of goods as a model and all instructions on technical procedures can be regarded as model or technical pattern.[5] However, it is necessary that the model or technical pattern is entrusted to someone in the course of business. Material is considered entrusted if it has been handed over with the intention that it can only be used for the interests of the person handing it over. Any misuse of documents or requirements that have been entrusted by the owner of an enterprise to his employee is covered by Section 11.

Offenses against Sections 11 and 12 stipulate a term of imprisonment of up to 3 months or a fine of up to 180 per diem rates. They are, however, only prosecuted upon request of the injured party, and, generally speaking, these sections have very little forensic significance. The practical importance of these two provisions is based on the civil law remedy in the form of claims for cease and desist orders and damages as laid down in Section 13.[6]

18.2 Provisions to Protect Trade Secrets Against Misappropriation

Apart from the provisions in the Unfair Competition Act, there are three articles in the Austrian Criminal Code[7] that deal with the violation of trade and business secrets and actually grant the strongest protection for trade or business secrets. Section 122 deals with the violation of trade and business secrets, Section 123 with

[5] Supreme Court 28.7. 1964, ÖBl 1965, 34.

[6] C. Thiele, in A. Wiebe, G. Kodek, UWG, Manz, 2012, Section 11, margin no 7.

[7] Federal Law Gazette 1974/60, last amendment Federal Law Gazette I 2013/134, “Criminal Code”

the exploration of trade and business secrets, and Section 124 with the exploration of trade and business secrets in favor of a foreign country.

Section 122 (1) of the Criminal Code stipulates that either disclosure or exploitation of trade or business secrets gives rise to criminal liability. Sections 123 and 124 of the Criminal Code require the spying out of trade or business secrets in order to give rise to criminal liability.

18.2.1 Violation of Trade and Business Secrets

Disclosure or exploitation of trade or business secrets that have been entrusted or made accessible to the accused in the course of its activity in exercising a surveillance, review, or investigation entrusted by the law or governmental order shall be sentenced with a fine of up to 360 per diem rates or imprisonment of up to 6 months according to Section 122 of the Criminal Code.

The punishment is even stricter if the deed is committed to obtain a pecuniary advantage for itself or somebody else or to cause a detriment to someone else; in those cases, para 2 *leg cit* sentences imprisonment of up to 1 year or 360 per diem rates.

However, not all trade or business secrets are comprised in para 1, but only those that the offender is obliged to keep secret by law and disclosures and that are also suitable to infringe the reasonable interest of the person subject to the surveillance, review, or investigation. There should not be any punishment if the disclosure or exploitation can be justified in content and form by a public or justified private interest. As with Sections 11 and 12 Unfair Competition Act, the offender shall only be prosecuted upon the request of the person whose interest in secrecy is infringed.

Only a person who in the course of a review, inspection, or control ordered by a public authority or by law has access to trade or business secrets or to whom the secrets are entrusted and who by law is requested to keep the secrets is subject to Section 122 Criminal Code and can therefore be an offender. The legal duty to keep the trade or business secret can be included in different laws, while a contractual obligation to keep a secret is not enough to make Section 122 Criminal Code applicable. It is not relevant whether the person has gained knowledge of the secrets in the course of his business or whether it has been entrusted to him. Section 122 therefore is in direct overlap with § 11 para 2 Unfair Competition Act.

The offender must either disclose or utilize the trade or business secret. If the person who was communicated the fact already knew it, the presence of a secret is excluded. The provision of one single person with the unknown fact is sufficient.[8]

A prerequisite for punishment is that the disclosure or utilization of the secret harms the justified interest of the person who is able to claim protection. The mere suitability to harm the interest of the trade secret holder is sufficient.[9] Another

[8] O. Leukauf and H. Steininger, Kommentar zum Strafgesetzbuch, Prugg Eisenstadt, 1978, 723.

[9] Zipf, H., Wiener Kommentar zum Strafgesetzbuch, §§ 118-124, Manz, 1981, 55.

prerequisite for criminal liability is intent. The intent of the offender must be directed toward explaining and utilizing the business or trade secret or toward forwarding it to someone else for utilization. Conditional intent is sufficient.

Like the provisions of Sections 11 and 12 of the Unfair Competition Act, infringement of the Criminal Code according to Sections 122 to 123 is a private prosecution matter and is pursued solely upon the request of the person whose right has been harmed. Consequently, it is necessary to file an application for the crime to be pursued.

18.2.2 Exploration of Trade and Business Secrets

Section 123 Criminal Code states that anyone who spies out a trade or business secret with the intent to exploit it or make it available for exploitation by someone else or discloses it to the public will be punished with imprisonment for up to 2 years or a fine of up to 360 per diem rates. Penalties may be imposed collectively as well. Prosecution only takes place upon request of the injured party.

In principle, anybody who exploits a trade or business secret can violate Section 123 of the Criminal Code. Only people who have a right to access the information are excluded. A partner or shareholder in a company has a right to be given information connected to the business; however, that should not allow it to explore the trade or business secrets of the company in any case. The type of business entity and the agreement of the partners must be considered when deciding whether or not he has committed a crime according to Section 123 Criminal Code.[10]

Any firm and direct effort to obtain knowledge of the trade or business secret is considered exploitation. It is not relevant whether the offender actually gains knowledge of the secret or whether the exploration is done factually by legal transaction or through an illicit act.

Again, conditional intent is sufficient. The intention of the offender must be directed toward explaining and utilizing the business or trade secret or toward giving it to someone else to utilize it or make it publicly available.

18.2.3 Exploration of Trade and Business Secrets in Favor of a Foreign Country

Section 124 Criminal Code covers two offenses:

– first, the exploitation of a business and trade secret for the purpose that it might be utilized abroad;

[10] R. Schnopfhagen, D. Heine and V. Katanic, Intellectual Property Law in Austria, Kluwer Law International, 2011, 227.

– second, the disclosure of the business or trade secret in order to use it abroad by a person who is obliged to keep it secret.

As a consequence of such behavior, a term of imprisonment of up to 3 years and, additionally, a fine of up to 360 per diem rates may be imposed by court.

Section 124 of the Criminal Code can be violated by anybody, but it is required that the offender be obliged to keep the secret. Depending on the facts of the case, the attempt to commit any of the offenses enlisted above may give rise to criminal liability. According to Sec. 15 (2) of Criminal Code, an offender attempts to commit an offense if the decision to carry out the offense has been actuated by an act that directly precedes the actual carrying out of the offense. Preparatory acts remain unpunished.

Additional provisions on the infringement of professional confidentiality (Section 121 of the Criminal Code) and the infringement of official secrecy (Section 310 of the Criminal Code) are designed to protect the legitimate interest in the confidentiality of a trade secret. The conduct that is considered as criminal by these sections is the disclosure or exploitation of trade secrets that have been entrusted to the offender during a professional relationship (or that have been obtained by espionage).

In addition to these provisions of the Criminal Code and the Unfair Competition Act, the Austrian Data Protection Act[11] contains another pertinent penal provision.

18.2.4 Use of Data with the Intention to Make a Profit or to Cause Harm

Section 51 of the Data Protection Act states that whoever uses personal data for itself that was given solely because of professional reasons or that was acquired illegally or discloses such data to others with the intention to make a profit or to harm others will be punished. The sentence can be imprisonment of up to 1 year unless the offense shall be subject to a more severe punishment pursuant to another provision if the person whose data is used or disclosed has a valid interest in its secrecy that deserves protection.

Section 51 Data Protection Act overlaps with Section 11 para. 2 of the Unfair Competition Act. According to Austrian case law, the subsidiarity clause of Section 51 para 1 Data Protection Act shall not apply, which means that both sections are violated by the same act but eventually the violation is only punished with one sentence.[12]

In labor law, the Austrian jurisdiction has developed a definition for the term secret. A secret is a fact that is only known to a determined number of people, which

[11]Federal Act concerning the Protection of Personal Data (DSG 2000), last amendment Federal Law Gazette I 83/2013, "Data Protection Act".

[12]C. Thiele, in A. Wiebe and G. Kodek, UWG, Manz, 2012, Section 11 margin no 74.

is not easily accessible to third parties and which affects the employer's intent to keep it secret and upon which the employer has an objective interest of secrecy.[13]

Finally, the Patent Act[14] provides that the employee must keep his employee's invention secret prior to the acceptance of the invention by his employer (in order not to obstruct patentability).

18.3 Protection Against Third Parties

Some of the provisions that offer protection against trade secret misappropriations mentioned before also apply toward third parties, i.e., parties that gained access to the trade secrets through someone who is not the trade secret appropriate, such as the new employer of a former employee.

For instance, Section 11 para 1 of the Unfair Competition Act sanctions the illegal communication of trade or business secrets by employees of the trade secret owner during their working relationship with a third party. Section 11 para 2 of the Unfair Competition Act further prohibits cases of industrial spying such as the unfair exploitation by third parties or employees. According to the clear wording of the law, the employee has to consciously communicate the secret during the term of its contract with the employer.

The exploitation or communication of the business or trade secret may be sanctioned according to Section 1 of the Unfair Competition Act.

The unauthorized use or disclosure of any document entrusted to a party may be sanctioned under Section 12 of the Unfair Competition Act.

Sections 11 and 12 of the Unfair Competition Act are criminal sanctions. They are accompanied by Section 13, which provides for a civil cease and desist claim. This cease and desist claim is directed in the first line against the infringer, thus against the briber, respectively against the employee. About that, any person involved, aider, and abettor can be sued if they infringe their duty of due diligence.[15]

18.4 Elements Needed to Launch Legal Actions

Under Austrian law, there is no specific definition of a trade secret, even though the term "trade secret"[16] appears in several laws. Trade secrets may concern technical aspects like the processes of the manufacturing of goods, the details of a printing process, the methods of stocking goods, or the construction of facilities.

[13]F. Marhold, Geheimnisschutz und Verschwiegenheitspflicht im Arbeitsrecht, in H. Ruppe, Geheimnisschutz im Wirtschaftsleben, Orac, 1980, 103.

[14]Patent Act 1970, last amendment Federal Law Gazette I 126/2013

[15]In German referred to as "deliktspezifische Sorgfaltspflicht".

[16]In German referred to as "Geschäftsgeheimnis".

Both Austrian criminal and civil laws have developed similar standards for the definition of trade and business secrets:

- commercial or technical information or processes in relation to the business of a company that are important for the competitive position of the company and that are
- only known to certain and limited circle of people,
- which have to be kept confidential and with regard to which
- there is a legitimate economic interest in the confidentiality of the information or process.

Whether a fact is a trade secret or not is to be evaluated on a case-by-case basis. According to the Austrian case law, a process for the manufacture of films for sequins, printing processes, and processes for galvanizing screws were considered trade secrets. Qualified as business or trade secret are also strategic questions, conditions of purchase,[17] distribution channels, customer lists,[18] tennis lists,[19] turnover on customer accounts, print methods, origin of raw materials, price calculation,[20] sample collection,[21] tenders,[22] recipes,[23] information on the production and storage of goods,[24] methods of production.[25] However, no business and trade secrets are part of a machine that could easily be unbolted and were accessible to everybody.

Trade secrets may concern technical aspects like manufacturing processes of goods, details of a printing process, methods of stocking goods, or construction of facilities.

According to the Austrian case law, a trade secret must not be accessible to the public. Even if it is accessible solely to a very limited number of people, it is no more a business or trade secret if the information is easily accessible, for example, via textbooks or the Internet. In practice, this means that enforcing business or trade secrets makes only sense with regard to absolute secrets. The courts have to limit a cease and desist order if from a certain moment on the activity of the infringer is no more illegal, for example, if the breach of the trade secret provides solely for a limited advantage in time versus the competitors.

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[17] KOG Okt 2/89—Arienl Plus—Öbl 1989, 183 = RdW 1989, 391.

[18] Supreme Court SSt 7/6; EvBl 1949/430; 9 Os 50/71—Geschäftsgeheimnis—ÖBl 1972, 72 = SSt 42/37.

[19] Supreme Court 4 Ob 394/86 = ÖBl 1988, 13—Tenniskartei.

[20] Supreme Court 11.11.1930, ZBl 1931/112.

[21] Supreme Court 4 Ob 34/31 MuW 1932, 511 = SZ 13/62.

[22] Supreme Court 9 Os 7/70—Farbbedrucken von Spielzeugwaggons—Öbl 1971, 26 = JBl 1971, 205.

[23] Supreme Court JBl 1936, 233; ÖBl 1963,11—Aktivöl.

[24] P. Lewisch, in F. Höpfel/E. Ratz, WK StGB^2, Manz, 2008 Section 122 margin no 10.

[25] Supreme Court 8 ObA 225/95—Produktionsverfahren—EvBl 1995/183.

Reverse engineering is not considered a violation of a business secret because the technical information can be gathered from an object that is not subject to secrecy.

18.5 Legal Measures to Secure Evidence of Trade Secret Misappropriation

Since all provisions are enforceable only privately, criminal house searches and seizures are available only to a very limited extent.

Civil law, instead, following the requirements of the EC Enforcement Directive 2004/48/EC provides for the possibility of house searches via provisional injunctions. Injunctions can also be issued to safeguard cease and desist claims, both *ex parte* and *inter partes*.

18.6 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

A violation of any criminal law may lead to punishment.

Civil claims available to an injured party in case of infringement of a business or trade secret are as follows:

- injunction (which usually encompasses destruction);
- rendering of accounts (although not explicitly provided by law);
- information on origin and distribution network (not provided by law but accepted in literature);
- monetary claims (adequate monetary compensation) in analogy to license fees or damages, including loss of profits in case of culpability, alternatively the surrender of the profits made by the infringer.[26]

Destruction sometimes includes entire manufacturing plants if they cannot be used for noninfringing activities.

The application for provisional injunction is usually, but not necessarily, combined with a complaint. The complaint can also be filed afterward or vice versa. In case the complaint is filed later, the court has to determine a time limit within which the respective complaint has to be filed.

The application for provisional injunction has to contain a detailed description of the facts. The danger of repetition, which is a prerequisite for a provisional injunction, is presumed as soon as there is one actual infringement.

The main difference from proceedings on the merits is that the level of proof is lower in provisional proceedings: prima facie evidence is sufficient. Each party has

[26] C. Thiele, in A. Wiebe/G. Kodek, UWG, Manz, 2012, Section 13, margin no 47.

to convince the court that its argumentation is more likely to be true than that of the opponent. Thus, a level of persuasion of 51% is sufficient compared to the "near certainty" required in proceedings in the main action.

An application for provisional injunction aims at obtaining a cease and desist order and must not claim anything that would anticipate the definitive judgment (e.g., destruction, etc.).

No hearings are held in provisional proceedings. Only in exceptional cases, courts may hear witnesses as informants without the parties or their representatives being present.

A provisional injunction is effective upon receipt by defendant. Under certain circumstances, the court may condition the issuance of a provisional injunction to a security for legal procedural costs (*cautio iudicatum solvi*). Foreign plaintiffs, for example, may under certain circumstances be ordered to provide a bond for the costs of the proceedings. A provisional injunction, however, might jeopardize the business of defendant as such, and the effects of a granted injunction that turns out to be unjustified at the end of the day cannot always be reversed by plaintiff's obligation of indemnification according to Section 394 Enforcement Act.[27] Therefore, the court may condition the effectiveness of a provisional injunction by a security deposit of plaintiff.

Damage may be caused to the defendant mainly in two kinds of circumstances:

- insufficient evidence (Section 390 paragraph 1 Enforcement Act); and
- sufficient evidence but consideration of interests in favor of defendant (Section 390 paragraph 2 Enforcement Act).

Until deposit of a bond by the claimant, enforceability is suspended.

When applying for a provisional injunction, plaintiff may theoretically give defendant the possibility to suspend the effects of the injunction by deposing a security amount (Section 389 paragraph 2 Enforcement Act). The court can, however, order such a security amount also without such an application of plaintiff on request or on its own motion (*cautio de relaxando arresto*; Section 391 paragraph 1 second sentence Enforcement Act).

The deposit of such security amount does not annul the interim measure but prohibits its execution. This option gives the defendant the possibility to avoid the effects of the provisional measures and, at the same time, takes care of the plaintiff's interests since it provides it with funds to be accessed in case damages are awarded later on. In practice, Austrian courts, however, do not order defendants to provide such security whenever IP rights, including business and trade secrets, are concerned.

A provisional injunction, just like its rejection, does not have binding effect for the proceedings in the main cause.

[27] Enforcement Proceedings Act, last amendment Federal Law Gazette I 69/2014 "Enforcement Act".

18.7 Measures to Preserve Confidentiality in the Course of Proceedings

In general, court hearings in Austria are public.[28] By way of exception, the public may be excluded, precisely in case a business or trade secret is at risk to be disclosed.[29] Court files, however, are solely accessible to the parties of the proceedings.

It is not possible to exclude the other party from the right to have access to the court file or to any document presented in court.

If provisional injunction is ordered prior to the procedure on the merits and if, in the course of these proceedings, documents are seized, the defendant may apply for sealing the documentation, which then can be accessed solely upon court order.

In order to encourage protection of trade secrets, instruments should be developed taking into consideration the needs of both parties, the holder of a business or trade secret as well as the defendant. Such instruments must not interfere with the special relationship of confidence between the party and its attorney and must comply with the fundamental principles of a fair procedure, in particular the right to a fair trial, the principle of immediate taking of evidence, and the principle of oral hearings. Even now, the principle of public hearing can be restricted in case of business or trade secrets.

18.8 Remedies for Trade Secret Misappropriation

Under Austrian criminal law, an aggrieved person may bring damage claims in the course of criminal proceedings. However, a conviction in criminal proceedings also serves as a basis for the assertion of damage claims in civil proceedings—which will have to be initiated independently of the criminal proceedings.

The pertinent provisions of the Unfair Competition Act are considered protective laws. Consequently, civil responsibility is not limited to intentional violation but includes also negligence.

As regards the scope of indemnification, the general rules of Austrian civil law can be applied. Section 16 of the Unfair Competition Act explicitly states that any person who is entitled to claim damages may also request compensation for lost profits. In addition, the court may award a reasonable amount of money as a compensation for immaterial damages or personal disadvantages resulting from the trade secret misappropriation if such an award is justified by the special circumstances of the case.

If several persons are liable for damages to be compensated, these persons shall be jointly and severally liable.

[28] Article 171, para. 1, Civil Procedure Act, last amendment Federal Law Gazette I 2013/118; Article 228 Criminal Procedure Act 1975, last amendment Federal Law Gazette I 112/2015.

[29] Article 26, Act Against Unfair Competition, last amendment Federal Law Gazette I 49/2015.

The owner of an enterprise may be enjoined from acts that violate Sections 1, 11, and 12 of the Unfair Competition Act if the act was committed by another person in the operation of its enterprise. It shall be liable for damages in such cases if the conduct was known or should have been known to it.

The penalties applicable under Sections 11 para 2 and 12 of the Unfair Competition Act shall also be imposed upon the owner of an enterprise if it has intentionally failed to prevent the act committed by another person in the operation of its enterprise.

If the owner of the enterprise is a corporation, a cooperative, and an association or any other legal entity not being a natural person, the above shall apply to these members of the executive body of the enterprise that failed to act as specified therein.

The penal provisions of Sections 11 para 2 and 12 of the Unfair Competition Act shall not apply to employees who have committed the act upon the order of their employer if, due to their economic dependency, they could not be expected to refuse to carry out the act.

18.9 Calculation of Damages

Monetary claims can be calculated in three different manners: adequate monetary compensation in analogy to license fees; damages, including loss of profits in case of culpability; or the surrender of the profits made by the infringer.[30]

Wherever the estimate of the damage is unreasonable, for example if extremely expensive, the courts may decide upon their own discretion. In that case, the infringed person has to prove solely the first Euro of causal damage.

18.10 Protection of Know-How in Confidentiality or Nondisclosure Agreements

Nondisclosure agreements are not regulated by specific contractual rules in Austrian law. Only the general rules on contracts are applicable. Thus, a violation of a contractual obligation entitles for damages.

It is to be noted that in case a nondisclosure or confidentiality agreement provides for a contractual penalty, the payment may hinder the enforcement of the agreement via cease and desist actions.

There are also remedies for know-how that are protected under contractual terms (e.g., license or confidentiality agreement) but do not meet statuary trade secret standards.

Generally speaking, the violation of confidentiality agreements is per se very hard to prove, and if certain know-how turns out to be available to the public, the

[30]C. Thiele, in A. Wiebe/G. Kodek, UWG, Section 13, Manz, 2012, margin no 47.

proprietor will generally fail to prove the violation. However, if, for particular reasons, evidence of the violation can be provided, there is no reason to assume that, for example, a stipulated contractual penalty for each violation should not accrue.

In the event of breach of a confidentiality or nondisclosure agreement protecting know-how, the possible remedies are payment of the contractual penalty, if stipulated, or a cease and desist order.

18.11 Is There Any Critique Voiced Regarding the Scope of the Protection of Trade Secrets?

As a fundamental rule, the Austrian case law states that no cease and desist order must prohibit anything that can also be accessed in a legal way. In the context of trade secrets, this rule limits the practical. This is the basis for the major problem when trade secret violations shall be enforced: often the presumed infringer is able to develop the very same solution as protected by the business secret or to achieve the very same know-how during the respective time of enforcement.

Offenders then argue that they used (or at least could have used) the time court proceedings were running to find the secrecy on their own or, insofar as a secret technology was concerned, to have developed the very same technology autonomously. Since offenders already know what to look for, it usually takes far less time to find other credible sources of that information that are not protected by law or any secrecy agreements. Offenders consequently regularly can demonstrate how to find out the secret without violation of the plaintiff's know-how. Therefore, cease and desist orders often remain without effect currently.

18.12 Personal Reflections

Criminal actions against infringements of business and trade secrets have not acquired a practical importance for proprietors. Civil actions often remain without any practical effect since the courts are not allowed to prohibit anyone to exercise its rights. Any cease and desist order may be effective only as long as know-how is secret. Since nobody must be prohibited to use any knowledge that is publicly available, judgments remain ineffective whenever defendants can demonstrate that they (in fact or hypothetically) would have been able to develop or gain the know-how from the proprietor without using its know-how. This argument of rightful alternative behavior could cure infringements of trade or business secrecies and would therefore block any judgment's enforceability.

Future legislation should consider introducing a punitive term prolonging the cease and desist order that prohibits the use of the know-how and trade secrets for a certain period after the issuance of the judgment. This term could be adapted in accordance with the type of the secret but should generally exceed the time needed to develop the "stolen" secret. During this period, infringers should not be allowed to object to an enforcement of a judgment by stating that they could have been able to obtain the secret know-how by own and independent research.

As a new concept, a flat-rate damage compensation could be an alternative to deter from the misuse of trade secrets.

Belgium

19

Sophie Lens

19.1 Definitions

As we will further see in the next section, there is not a single piece of legislation on the protection of trade secrets as such in Belgium, but there are several provisions of Belgian law which can be used against the misappropriation of trade secrets.[1] These provisions do not provide for a uniform definition of trade secrets under Belgian law.[2] In the absence of a uniform definition, guidance can nevertheless be sought at the international, European and national levels to determine the common features of the general concept of "trade secrets".[3]

19.1.1 International Level

International law does not provide for a definition of trade secret as such. Yet, Article 39(2) of the TRIPS agreement[4] (hereafter "TRIPS") provides that

[1]Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 2, Member States' responses to initial trade secrets questionnaire, Belgium, p. 9.

[2]D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 370.

[3]M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 13.

[4]Agreement on Trade-Related Aspects of Intellectual Property Rights, see WTO website: https://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm.

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"undisclosed information" should be protected against being disclosed to, acquired by, or used by others without their owner's consent in a manner contrary to honest commercial practices, "so long as such information:

(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 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".

19.1.2 European Union

Until recently, the law of the European Union did not provide for a uniform definition of trade secrets. Several EU legislative acts contained specific definitions of trade secret and/or know-how (often considered, if not as a synonym, at least as a subset of the notion of trade secret), the scope of which being limited to the specific sector covered by the considered regulations:

– According to Article 1(i) of Commission Regulation No 316/2014,[5] know-how means a package of 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 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.[6]

[5]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, OJ 2014, L 93, pp. 17-23.

[6]For similar definition of "know-how", see: Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010, L 102, pp. 1-7; Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements, OJ 2000, L 304, pp. 7-12 (expired); Regulation (EC) No 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ 2002, L 203, pp. 30-41 (expired).

– In its notice 2005/C 325/07,[7] the Commission provides for a definition of trade secret in a specific context (access to the Commission's files), but which is not without interest considering that the approach is case-based, so that the considered definition can easily be transposed to other situations.[8] Section 3.2 of the Commission notice distinguishes between two categories of information, namely "business secrets" and "other confidential information":
  (i) "Business secrets" are defined, with reference to the decision "Postbank" of the Court of First instance of the European Union (hereafter "CFI") of 18 September 1996,[9] as "information about an undertaking's business activity, [the disclosure of which] could result in a serious harm to the same undertaking". According to the Commission, examples of information that may qualify as business secrets include: technical and/or financial information relating to an undertaking's know-how, methods of assessing costs, production secrets and processes, supply sources, quantities produced and sold, market shares, customer and distributor lists, marketing plans, cost and price structure and sales strategy.
  (ii) "Other confidential information" includes information other than business secrets, which may be considered as confidential, insofar as its disclosure would significantly harm a person or undertaking.

In a decision of 12 October 2007, the CFI took over this definition and added that the interests liable to be harmed by disclosure must be worthy of protection:

> As regards, generally, the nature of business secrets or other information covered by the obligation of professional secrecy, it is necessary, first of all, that such business secrets or confidential information be known only to a limited number of persons. Next, it must be information whose disclosure is liable to cause serious harm to the person who has provided it or to third parties (*Postbank* v *Commission*, paragraph 63 above, paragraph 87, and see also Commission Notice 2005/C 325/07 on the rules for access to the Commission file in cases pursuant to Articles 81 [EC] and 82 [EC] (OJ 2005 C 325, p. 7), paragraphs 3.2.1 and 3.2.2). Finally, the interests liable to be harmed by disclosure must be worthy of protection. The assessment as to the confidentiality of a piece of information requires, in this regard, the individual legitimate interests opposing disclosure of the information to be weighed against the public interest that the activities of the Community institutions take place as openly as possible (*Bank Austria Creditanstalt v Commission*, paragraph 46 above, paragraph 71).[10]

[7]Commission Notice on the rules for access to the Commission file in cases pursuant to Articles 81 and 82 of the EC Treaty, OJ 2005, C 325, p. 7, Articles 53, 54 and 57 of the EEA Agreement and Regulation 139/2004.

[8]M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 14.

[9]CFI, case T-353/94, *Postbank v Commission*, ECR 1996 II-921, pt 87.

[10]CFI, case T-474/04, *Pergan Hilfsstoffe für industrielle Prozesse v Commission*, ECR 2007 II-4225, pt 65.

On 8 June 2016, the European Parliament and the Council adopted the Directive 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (hereafter, the "Trade Secrets Directive").

Pursuant to Article 2. (1) of this Directive, "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 Directive entered into force on 5 July 2016 and must be implemented in national laws before 9 June 2018.

19.1.3 Belgian Level

Not only is there no uniform definition of trade secrets under Belgian law, but moreover there does not seem to be a unique expression of "trade secrets" as such. Indeed, depending on the field of law we look at, the protected confidential information is qualified as a "manufacturing secret" ("*secret de fabrique*"/"*secret de fabrication*"), a "business secret" ("*secret d'affaires*") or simply identified as "confidential information":[11]

– Article 309 of the Belgian Penal Code[12] (hereafter "Penal Code") prohibits the disclosure of "*manufacturing secrets*" by individuals working or having worked in a factory;
– Article 17, 3° of the Belgian Act of 3 July 1978 on Employment Contracts[13] (hereafter "AEC") provides that an employee may not disclose, either during his employment or after the termination thereof, "*manufacturing secrets*, *business secrets* or secrets in respect to any personal or *confidential matters* which he may have obtained in the framework of his professional activity". This broad definition covers technical information, commercial data such as clients and prices, as well as information pertaining to the organisation of the business.

[11] Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, Belgium, pp. 5-6.

[12] Belgian Penal Code of 8 June 1967, published in the Belgian OJ on 9 June 1867.

[13] Belgian OJ, 22 August 1978.

– A broader definition of "trade secrets" is applied in cases where the courts are seized to rule on whether the misappropriation and use of confidential information of a competitor constitutes an unfair trade practice in the sense of Article VI.104 of the Belgian Code of Economic Law[14] (hereafter "CEL"). This case law at least implicitly seems to apply the definition provided in Article 39 (2) TRIPS[15] which, even if it does not enjoy direct effect in Belgium, does however not preclude an interpretation of national law in accordance thereof.[16] Examples of protected information include detailed customer lists, data in respect to the date that maintenance and repairs were conducted for particular clients, the spare parts delivered to a particular client[17] and confidential e-mail correspondence.[18]

19.1.4 Common Features

In view of the above, for the purpose of this study, the concept of "trade secret" (in the broad sense of the word) can be defined as:

(i) technical, commercial or organisational information related to the business;
(ii) that is "secret"; that is to say that is not generally known or easily accessible (even if shared by several person);
(iii) which has economic value, i.e. it confers a competitive advantage to the owner;
(iv) which if disclosed to a competitor would be such to cause significant damage to the owner;
(v) lastly, it is commonly agreed that secrecy must be achieved and/or maintained due to the owner's reasonable efforts.[19]

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[14] Book VI CEL cancelled and replaced the Belgian Law of 6 April 2010 on market practices and consumers protection (see Law of 21 December 2013, Belgian OJ, 30 December 2013).

[15] See Sect. 19.1.1 above.

[16] D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 369; M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 13.

[17] Ghent Court of appeal, 18 February 2004, D.C.C.R., 2005, p. 67.

[18] Ghent Court of appeal, 30 March 2009, D.A.O.R., 2009, p. 180.

[19] M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 14.

19.2 Legal Framework

As already underlined in Sect. 19.1, to date, Belgian law does not provide for a unique comprehensive set of rules governing the protection of trade secrets as such.[20]

To this day, trade secret owners can rely on the following provisions of Belgian law, used alone or in combination with one and another.[21]

19.2.1 Criminal Law

Trade secret violation constitutes a criminal offence under Article 309 of the Penal Code:[22]

> Whoever communicates in a deceitful or malicious way, manufacturing secrets of the factory where it is working or has worked, shall be punished with imprisonment from three months up to three years and a fine from EUR 50 to EUR 2,000.

The protection offered by this provision is rather limited. Its scope is indeed strictly delimited by the five following conditions:

– The protected information must be a *manufacturing secret*, *of the factory*:
  (i) This notion is narrower than the general notion of trade secrets. To this day, there is no uniform legal definition thereof. We must therefore turn to the case law, where, in a decision of 27 September 1943, the Belgian Supreme Court ruled that a *manufacturing secret* comprises "technical data which, in contributing to the realisation of operations put in place in a factory to obtain a certain product, are liable to provide to the manufacturer technical advantages and which ensure a competitive superiority over its competitors so that the manufacturer obtains an economical benefit by not disclosing the information to his competitors".[23] In its decision of 26 June 1975, the Court of cassation also ruled that, absent a legal definition of "manufacturing secret", it is up to the court ruling on the merits of the case to decide whether, in a given case, a manufacturing process qualifies as a

[20]Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1, Intellectual Property and Commercial Law—Country Report, Belgium, p. 6; D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 370.

[21]Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 2, Member States' responses to initial trade secrets questionnaire, Belgium, pp. 9-11.

[22]Belgian Penal Code of 8 June 1967, published in the Belgian OJ on 9 June 1867.

[23]Supreme Court, 27 September 1943, Pas., I, p. 1043.

"manufacturing secret".[24] Recent case law still applies the definition set out in the abovementionned judgment of 27 September 1943.[25]

(ii) By specifying that the protected secret must be *of the factory*, Article 309 does not only aim at protecting secrets which the employee has acquired knowledge of consequently to its functions within the company—as it is the case in labour law (see Sect. 19.2.2 below)—but all the manufacturing secrets of the company it has worked in, whatever the reasons it has acquired knowledge thereof.

– Only the effective disclosure ("communication") of the secret is incriminated. The simple risk of dissemination or disclosure of trade secrets as such is not sufficient to give rise to criminal liability.[26] Furthermore, the use of the secret merely for its own account, without the secret being divulged, is not penalised.[27]
– Communication of the secret must be made to a third party.[28] Yet, only the author of the illegal communication will be punished under Article 309 whereas the third party which has benefited there from can freely use the manufacturing secret unless it is proven that it has been an accomplice of the illegal communication (see Sects. 19.2.5 and 19.6 below).
– This provision is not limited to employment agreements as such. It applies against any person who works or has worked for the company under a contract, regardless of its legal status.
– To establish trade secret violation as a criminal offence, the illegitimate disclosure must have taken place and the offender must have acted purposely, knowingly or recklessly ("in a deceitful or malicious way"), to prejudice the company and/or to gain illicit advantage for oneself or for a third party.[29] Disclosure out of mere indiscretion, carelessness or ignorance will not suffice.

Besides what precedes, a person invoking a violation of Article 309 of the Penal Code must have taken all necessary measures with a view of protecting the manufacturing secrets vis-à-vis third parties.[30]

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[24] Supreme Court, 26 June 1975, Pas., I, p. 1043.

[25] Liège Court of appeal, 2 September 2004, J.L.M.B., p. 508; Antwerp Court of appeal, 31 March 2009, I.C.I.P., 2009, p. 133; Brussels Court of appeal, 31 March 2009, I.C.I.P., 2009, p. 137.

[26] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 3, "Criminal Law - Country Report", Belgium, p. 9.

[27] B. Tilleman, L'obligation au secret et à la discretion des administrateurs de sociétés, J.T., 1993, p. 549; A. Van Mensel, De bescherming van fabrieksgeheimen of technische know-how naar Belgisch recht, R.W., 1981-1982, col. 2001 sq.; M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 15.

[28] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 3, Criminal Law—Country Report, Belgium, p. 11.

[29] See for example Antwerp Court of appeal, 31 March 2009, I.C.I.P., p. 133.

[30] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 3, Criminal Law—Country Report, Belgium, pp. 9-11.

19.2.2 Labour Law

Pursuant to Article 17, 3° AEC, an employee must "refrain, during the term of the employment contract as well as after its termination:

a) from divulging the manufacturing secrets, trade secrets, as well as secrets in respect to personal or confidential matters, which he may have obtained in the framework of its professional activity;
b) from performing or collaborating to any act of unfair competition".

The scope of this provision is quite broad:

– The legal obligation of confidentiality covers:
  (i) *manufacturing secrets* (see Sect. 19.2.1 above);
  (ii) *trade/business secrets*: any commercial and/or financial information which belong to the undertaking and the secrecy/non-disclosure of which brings it an advantage over its competitors;
  (iii) *secrets in respect to personal or confidential matters*: any information relating to people and/or matters linked to the undertaking. In other words, any confidential information which comes to the knowledge of the worker during the course of its employment.[31]
– The (ex-)worker must refrain from *divulging* the secret: this notion must be interpreted broadly. The mere use of confidential information can be considered as a divulgation in the sense of Article 17, 3°, a) AEC. Moreover, the mere use of confidential information is considered as an act of unfair competition pursuant to Article 17, 3°, b).[32]

  Employees are therefore under a legal duty of confidentiality/confidence even if this is not expressly set out in their employment agreement.

  The employer is entitled to add a confidentiality clause in the employment agreement to describe in more details what is meant by trade or manufacturing secrets, as well as the information that is covered by the confidentiality duty.[33] However, this does not entitle the employer to broaden the scope of the legal obligation.[34] It is therefore not possible to prevent an employee from using in the future the knowledge/techniques it has acquired in the course of its employment, providing of course that said use does not imply disclosure of a trade secret.[35] Moreover, a confidentiality clause may not result in a mere non-compete

[31]Brussels Court of appeal, 10 September 2013, 2011/AR/3155, pp. 17-18, unpublished.

[32]Brussels Court of appeal, 10 September 2013, 2011/AR/3155, p. 18, unpublished.

[33]Brussels Court of appeal, 10 September 2013, 2011/AR/3155, p. 19, unpublished.

[34]In this sense, see Article 6 AEC: "Any stipulation contrary to the provisions of this Act and of its implementing decrees is void insofar as it seeks to restrict workers' rights or to worsen their obligations".

[35]Ghent Court of appeal, 19 February 2007, Ann. Prat. Comm., 2007, p. 425.

obligation because the validity and enforceability of the latter clause is subject to specific conditions set out in the law (must be limited in time, geographically, etc.).

In principle, there is no time limitation to the confidentiality duty of the employee: it lasts as long as the secret remains. However, if the employer decides to add a confidentiality clause to the employee's employment agreement, it could contractually provide for a specific period of time during which the employee would at least be bound by the confidentiality duty.

19.2.3 Tort Law

The general law of tort, encompassed in Article 1382 of the Belgian Civil Code[36] (hereafter "Civil Code") can also be invoked to compensate trade secret misuse:

> Any act of a person which causes a prejudice to someone else, obliges the one who committed the fault to repair such prejudice.

According to this provision, a person who does not behave as a normal, cautious and forward-looking person placed in the same circumstances (this includes the mere negligence) and who, by such tortious behaviour, causes a prejudice, is obliged to repair such prejudice.

The misappropriation and use of trade secrets belonging to a third party can constitute tortious behaviour in the meaning of Article 1382 of the Civil Code.

19.2.4 Unfair Competition

Where the misappropriation and use by an undertaking of trade secrets belonging to another undertaking causes or threatens to cause prejudice to this undertaking, the latter can rely on Article VI.104 CEL, which provides for a general prohibition of unfair trade practices among economic actors (undertakings):

> Any act contrary to the fair market practices whereby an undertaking causes or threatens to cause prejudice to the professional interests of one or more other undertakings is prohibited.

This rule can be seen as a specific application in the field of business of the general principles of tort (see Sect. 19.2.3 above).

19.2.5 Contract Law

Articles 1134 and 1135 of the Civil Code respectively provides that:

[36]Belgian Civil Code of 21 March 1804, published in the Belgian OJ on 3 September 1807.

– “Legally concluded agreements take the place of law for those who made them. They can be revoked only by mutual consent or for causes authorized by law. They must be performed in good faith”.
– “Conventions oblige the parties not only to what is expressed in it but also to all the consequences which equity, usage or law confer to the obligation according to its nature”.[37]

A contract may provide protection to the trade secret owner. However, third parties to whom the information is divulged in breach of said contractual provisions will only be liable in case they were aware, or should have been aware, of the contractual obligations of the party having disclosed the information (see Sect. 19.6).[38]

19.2.6 Constitutional and Fundamental Rights

It is unanimously accepted that an undertaking can protect its trade secrets based on the European and constitutional provisions protecting privacy. Articles 8 of the European Convention on the protection of Human Rights (hereafter “ECHR”) and Article 22 of the Belgian Constitution can therefore be invoked.[39]

Moreover, the European Court of Justice (hereafter “ECJ”) has acknowledged protection of trade secret as a general principal of law.[40]

19.2.7 Other Rules

Various other rules address, in more or less details, the issue of protecting trade secrets (expressly or, more generally, through the protection of “confidential information”), such as:

– professional secrecy applicable to some regulated professions;[41]
– financial regulation regarding inside trading;

[37]This provision echoes the duty of loyalty referred to in Article 17, 3°, b) AEC.

[38]D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 374.

[39]See Constitutional Court, 19 September 2007, R.A.B.G., 2008, p. 382; which refers to CEDH, 16 December 1992, *Niemietz c. Germany*, pt 29 and CEDH, 16 April 2002, *Société Colas Est e.a. c. France*, pt 41; see on this decision M. Buydens, La protection des secrets d’affaires et la procédure en saisie-contrefaçon, Cah. Jur., 2011, pp. 13 sq.

[40]ECJ, case C-53/85, *Akzo Chemie et Akzo Chemie UK v Commission*, ECR 1986 I-1965, pt 28; ECJ, case C-36/92, *SEP v Commission*, ECR 1994 I-1911, pt 37.

[41]See for example Article 458 of the Penal Code concerning the professional privilege for medical doctors, health officers, etc.

– criminal provisions concerning IT theft, breach of confidence,[42] bribery,[43] etc.;[44]
– competition law;[45]
– public procurement law;[46]
– pre-contractual information exchanged in the context of trade partnership agreements;[47] etc.

The abovementioned rules are not addressed in the present study.

19.2.8 Trade Secrets as Intellectual Property Rights?

In Belgium, as in most of the Member States, trade secrets are not considered to be intellectual property rights and are therefore not protected as such.[48] Consequently, the Enforcement Directive is not applicable to trade secrets in Belgium.[49]

In addition, some courts even consider that trade secrets should enjoy less legal protection than intellectual property rights as they are not intellectual property rights and are therefore not limited in time. In this sense, the Liège Court of appeal stressed that manufacturing secrets could only enjoy limited protection. Indeed, while one can prevent parties from disclosing such secret, it cannot be used to prevent parties from using a similar manufacturing process, when the secret has not been breached. This would otherwise allow the owner of the manufacturing secret to enjoy a similar, or even stronger, protection than a patent owner (see Sect. 19.5.1).[50]

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[42] Article 491 of the Penal Code.

[43] Article 504*bis* of the Penal Code.

[44] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 8, Country Specific Questionnaires—Criminal Law, Belgium, pp.10-17.

[45] Book IV CEL ("protection of competition"); see more in particular Articles IV.4, IV.42, IV.58, IV60 and IV.64.

[46] See Article 11 of the Belgian Act of 15 June 2006 on public procurement and on certain contracts for works, supplies and services, Belgian OJ, 15 February 2007.

[47] Article X.31 CEL.

[48] Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 2, Member States' responses to initial trade secrets questionnaire, Belgium, p. 12.

[49] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1, Intellectual Property and Commercial Law—Country Report, Belgium, p. 7.

[50] Liège Court of appeal, 12 June 2008, I.R.D.I., 2008, p. 339.

19.3 Enforcement

19.3.1 Elements to Prove to Initiate Legal Action in Case of Trade Secret Misappropriation

To be able to judicially enforce its rights, and to possibly obtain compensation of the infringement thereof, a trade secret owner must prove that:

(i) It is the owner of a trade secret: As seen in Sect. 19.1.4 above, trade secrets can be defined as business, organisational or technical information, which is liable to provide its owner certain advantages and which ensure a competitive superiority over its competitors, so that its owner obtains an economical benefit by not disclosing the information to his competitors. As a trade secret is valuable only if it remains secret, the owner of the confidential information should also prove that it suffers a prejudice from its disclosure.
(ii) The confidential information which has allegedly been infringed is duly protected: As outlined in Sect. 19.2, trade secrets can be protected under different provisions of law (alone or combined with one and another). Therefore, depending on the legal provision invoked, the trade secret owner will have to establish that the considered confidential information can qualify as a manufacturing secret and/or business secret, trade secrets, etc.
(iii) The information has been disclosed in breach of this protection: The elements to be proven depend on the protection ground invoked:[51]

– The criminal offence under Article 309 of the Penal Code requires the evidence that:
  (i) the defendant is a (former) employee of the company;[52]
  (ii) he disclosed a manufacturing secret to a third party;
  (iii) the defendant acted with fraudulent intent;
  (iv) the trade secret owner can establish that he had adopted reasonable steps to keep it secret.

– Article 17, 3°, a) AEC implies that the following elements are established:[53]

[51] Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 2, Member States' responses to initial trade secrets questionnaire, Belgium, pp. 12-13; Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1, Intellectual Property and Commercial Law—Country Report, Belgium, pp. 7-8.

[52] In the broad sense of the word; see Sect. 19.2.1 above.

[53] For an example of the elements which the trade secret owner must establish to get relief and, where possible, compensation, see Brussels Court of appeal, 10 September 2013, 2011/AR/3155, pp. 21 sq., unpublished.

(i) the defendant is a (former) employee;
(ii) who has disclosed manufacturing secrets, business secrets and/or any other confidential information of he acquired within the course of its work,
(iii) to persons who had no knowledge of the secret.

– Under Article 1382 of the Civil Code, the plaintiff has to prove that the three following conditions are met:
  (i) the defendant has committed a civil "fault" ("tortious behaviour");
  (ii) which has caused a prejudice to the plaintiff;
  (iii) there is a causal link between the tortious behaviour and the prejudice.
– Pursuant to Article VI.104 CEL, to start proceedings against an undertaking for unfair practices resulting from the misappropriation, unauthorised use or disclosure of trade secrets, the plaintiff has to prove that:
  (i) The defendant and the plaintiff are both "undertakings" in the meaning of Article I.1, 1° CEL ("individual or company durably involved in an economic activity");
  (ii) the defendant committed an act contrary to fair market practices. The misappropriation, disclosure or use of trade secrets of another undertaking is considered by case law and legal doctrine as an act contrary to such practices;
  (iii) This misuse or disclosure causes or threatens to cause prejudice to the professional interests of the plaintiff.[54]

19.3.2 Burden of Proof

The burden of proof in a trade secret violation case is governed by the general Belgian civil law principles.

According to Article 1315 of the Civil Code[55] and Article 870 of the Belgian Judicial Code[56] (hereafter "Judicial Code")[57], each party must prove what it alleges.

In principle, the claimant would first have to demonstrate what rights it has and that the alleged trade secret can be considered in fact as a trade secret (see Sect. 19.3.1 above). As a means of defence, the defendant would have to prove that it legitimately gained access to the trade secret.

Regarding the proof of the confidential nature of the litigious trade secret, the claimant must demonstrate that the trade secret cannot easily be accessed

[54]Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, Belgium, p. 1.

[55]"Whoever claims the performance of an obligation must prove it. Reciprocally, one who claims to be released, must justify the payment or the fact which terminated its obligation".

[56]Belgian Judicial Code of 10 October 1967, published in the Belgian OJ on 31 October 1867.

[57]"Each party has the burden of proving the facts it alleges".

materially, intellectually and legally speaking. Here again, as a means of defence, the defendant would have to prove that it gained access to the trade secret through a legitimate way.

Eventually, when seeking damages, the claimant has to prove the prejudice suffered. Indeed, the sole fact that a trade secret and/or a confidentiality clause might have been breached is not sufficient as such to establish that the trade secret owner has effectively suffered a prejudice justifying compensation.[58]

19.3.3 Legal Measures to Secure Evidence of Trade Secret Misappropriation

Because of the ease with which information can be copied (for instance, by using electronic means), a general problem facing plaintiffs in trade secret actions is proving that their trade secrets have been misappropriated and identifying the nature and scale of misuse. If the victim cannot prove the “theft”, it cannot institute legal proceedings.

Belgian law provides for procedural devices that the trade secret owner can use to secure evidence of the alleged infringement of his rights:

19.3.3.1 Production Orders Within the Course of Pending Proceedings

Under civil procedure law, the court can order that a specific document containing evidence of a relevant fact be submitted by a party to the proceedings (Article 871 of the Judicial Code).[59] Such an order may even be addressed to a third party to the pending proceedings (Article 877 of the Judicial Code).[60] For such an order to be allowed, there must be serious, precise and concordant presumptions that the party in question has such document in his/her possession. If, the party which has been ordered to produce a document refrains to do so without a due justification, he may be condemned to damages. Such production order is close to a common law “discovery”, though its scope is narrower.

19.3.3.2 *Ex Parte* Measures to Secure Evidence

The Judicial Code also includes a general provision allowing the presiding judges of civil, commercial and labour courts to take various kinds of (provisional) orders based on *ex parte* proceedings (Article 584, 4th indent of the Judicial Code). Such orders may be requested with the view to obtaining and securing evidence of facts, including, arguably, the violation of trade secrets, the unlawful divulgation (or use) of confidential information, and yet other acts of unfair competition.

[58] Brussels Court of appeal, 10 September 2013, 2011/AR/3155, p. 23, unpublished.

[59] “The judge may order any party to the procedure to produce the evidence available to it”.

[60] “If there are precise, serious and strong presumptions that a party to the procedure or a third party has in its possession a document containing the proof of a relevant fact, the judge can order the production thereof”.

The threshold to obtain such orders in *ex parte* proceedings is, however, rather high: in addition to the requirement for normal summary proceedings, namely urgency, the petitioner must demonstrate the existence of an *absolute necessity* not to make use of *inter partes* (summary) proceedings. Besides cases of extreme urgency (i.e. where any delay would cause irreparable harm to the right holder), such absolute necessity exists, according to leading legal scholars, when there is a demonstrable risk of evidence being destroyed, and a surprise effect is hence necessary.[61]

In addition to the abovementioned conditions, the *ex parte* measures aiming at securing evidence likely to be obtained in application of Article 584, 4th indent of the Judicial Code must meet the requirements set out in Article 877 of the Judicial Code. In other words, the considered *ex parte* measures will only be granted if the trade secret owner has established that "there are precise, serious and strong presumptions" that another party has in its possession a *specific* document containing the proof of a fact relevant for the solution of the case. If the trade secret owner fails to do so, the requested *ex parte* measure should be denied as fishing expedition are not allowed under Belgian civil procedural law, outside the specific procedure of seizure in matter of counterfeit which is not available to trade secret owners (see Sect. 19.3.3.6).

In this sense, in an unpublished judgment of 17 December 2008,[62] the Brussels Court of Appeal cancelled an *ex parte* order (granted by the judge in first instance pursuant to Article 584, 4th indent of the Judicial Code) which had allowed the collecting of computer data, by a bailiff and an expert, from the computers of a company suspected of unfair competition and its directors. According to the Court of Appeal, the actual purpose of the petitioner was to search or identify undetermined elements of evidence, which was not allowed under Belgian civil procedural law. Likewise, in a judgment of 8 March 2011,[63] the Liège Court of Appeal confirmed the cancellation of an *ex parte* judicial order which had allowed the collecting of evidence by an expert concerning the sales of biscuits the packaging whereof was allegedly in breach of fair market practices. The court held that there was no absolute necessity for such an order to be granted, within the meaning of Article 584, 4th indent of the Judicial Code. Moreover, the court underlined that the request for such order, based on the latter provision, constituted an attempt to circumvent the requirements under Article 1369*bis* of the Judicial Code (see Sect. 19.3.3.6 below).[64]

[61] H. Boularbah, Requête unilatérale et inversion du contentieux, Bruxelles, Larcier, 2010, pp. 486 and following.

[62] Brussels Court of appeal, 17 December 2008, *One Solution/HP*, 2008/AR/90, unpublished.

[63] Liège Court of appeal, 8 March 2011, *Lotus Bakeries/Brichard*, 2010/RF/135, unpublished.

[64] O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p.285.

19.3.3.3 Judicial Sequestration

Belgian law provides for a general device called "judicial sequestration" (Articles 1955 and following of the Civil Code), whereby any kind of object can be confiscated and put into the hands of a third party (trustee). According to case law, the conditions for sequestration to be granted are that two or more persons invoke conflicting rights in a same object.[65]

Judicial sequestration may be requested in *ex parte* proceedings, under Article 584, 4th indent of the Judicial Code, subject to the condition of absolute necessity and might arguably be used in the context of violation of trade secrets, where documents or other confidential items have been diverted. There is however no settled case law in this respect.

19.3.3.4 Measures Specific to Criminal Proceedings

Whenever a criminal offence (including the violation of trade secrets) is suspected to have been committed, the police, and in some cases other public agents, may, under the supervision of an investigating magistrate, take, on a pre-action stage, any measures necessary to secure evidence of the crime and prevent its continuation (seizures, seals, witness hearings, etc.).

As seen in Sect. 19.3.3.6 below, a trade secret owner cannot secure evidence via an *ex parte* search order, as available under Article 1369*bis* of the Judicial Code for IP right holders. Yet, in criminal proceedings, the examining magistrate has the widest investigative powers which implies that it can order all necessary measures, including ordering a search of the premises and computer systems for misappropriated data and requiring the defendant to provide information as to the whereabouts of the documents and files containing such data.[66]

19.3.3.5 Other Measures

The infringement may be proven by any legal means, including confessions, testimonials,[67] expert evidence, presumptions, etc., provided that these have been legally acquired.

19.3.3.6 Exclusion of IP Devices

As trade secrets are not considered as intellectual property rights (see Sect. 19.2.8 above), the specific procedural devices put in place, mostly in implementation of the Enforcement Directive, to allow the IP right holder to gather evidence of the existence and the scope of the infringement to its rights are not available to trade

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[65] Supreme Court, 16 April 1984, Arr. Cass., 1983-84, p. 1097; Bull., 1984, p. 1036; Pas., 1984, I, p. 1036; R.W., 1984-85, p. 1986; Supreme Court, 28 April 1994, A.J.T., 1994-95, p. 267, note P. Hofstrossler, Arr. Cass., 1994, p. 427; Bull. 1994, p. 418; J.L.M.B., 1995, p. 5, P.&B., 1994, p. 158; Pas., 1994, I, p. 418; R. Cass., 1994, p. 324, note K. Broeckx; R.W., 1994-95, p. 812.

[66] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 3, "Criminal Law - Country Report", Belgium, p. 12.

[67] Comm. Ghent (Pres.), 5 January 2015, C/14/00029, unpublished.

secret owner. In this respect, it can be referred to the following procedural devices:[68]

– Article XI.334 (3) CEL, implementing Article 8 of the Enforcement Directive which entitles the judge, when finding infringement of an IP right on a commercial scale, to order the infringer (or the user or holder of the infringing goods or services) to provide the claimant with all information and data in its possession about the origin and the distribution networks of the infringing goods or services. Such measure will be granted only if it is justified and proportionate.
– Article 1369*bis*/1 sq. of the Judicial Code provides for a specific *ex parte* order called "seizure in matter of counterfeit". Such an order aims both at obtaining and securing evidence of a suspected infringement (description of facts and taking of samples, pictures and copies of documents on premises of the alleged infringer—descriptive measures) and, under stricter conditions, at preventing counterfeit goods from entering into circulation, and production means to be further used (effective seizure measures).
  To this day, this *ex parte* order is not available to the trade secret owners.[69] In this respect, it is worth noting that the Trade Secrets Directive does not include any provision regarding the collecting and safeguarding of evidence, so that there is little (if any) chance that the trade secret owner will benefit from a measure similar to the "seizure in matter of counterfeit" in the near future.

19.3.4 Available Proceedings

Under Belgian law, action against the misappropriation of trade secrets can be categorised in criminal and civil proceedings.

19.3.4.1 Criminal Proceedings

As seen in Sect. 19.2.1 above, criminal action pursuant to Article 309 of the Penal Code is reserved for fraudulent disclosure of manufacturing secrets by individuals working or having worked in a factory.

The public prosecutor may prosecute the offender *ex officio*. The trade secret owner may also introduce a claim by filing a report about the offence. Upon

[68] O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, pp. 282-284.

[69] Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 2, Member States' responses to initial trade secrets questionnaire, p. 15; Ghent Court of appeal, 1 December 2008, I.R.D.I., 2009, p. 58; Comm. Antwerp (Pres.), 28 April 2015, C/14/00079, pp. 15-16, unpublished; *contra*: the author Carl De Meyer who considers that the procedure of "descriptive seizure" should also be available for know-how for Belgian law to be compliant with the TRIPs agreement (Beschrijvend beslag en knowhow, in Liber Amicorum Ludovic De Gryse, Larcier, Bruxelles, 2010, pp. 117-129).

receiving the report, criminal investigations may be initiated, but the initiative is left to the public prosecutor. After the investigation, it will again be the public prosecutor who will decide whether the case will be referred to the criminal court or not.[70]

In case the proceedings are initiated, the trade secret owner can decide to become a civil party, which means, among other things, that it will be informed of the investigation, that it can suggest some investigation measures, and that, if the offender is convicted, it may claim damages within the framework of the ongoing criminal proceedings.

19.3.4.2 Civil Proceedings

Civil enforcement can take several forms:[71]

– *Summary/preliminary injunctions*

Preliminary injunctions may include courts orders to (temporarily) stop using or disclosing the trade secret, precautionary measures, appointment of an expert, hearing of witnesses,[72] etc.

Preliminary relief can be sought in summary proceedings (Article 584 of the Judicial Code) or in the framework of regular action on the merits (Article 19, indent 3 *juncto* Article 584 of the Judicial Code), if the claimant can establish that:

– the matter is urgent and the said urgency is not due to his own negligence;
– his rights are *prima facie* valid;
– the relief sought is a preliminary measure which does not affect the merits of the case.

In cases where extreme urgency is established (rather exceptional), an *ex parte* motion can lead to relief in summary proceedings (see Sect. 19.3.3.2 above).

– *Cease-and-desist action*

Cease-and-desist actions consist in a court's decision on the merits handed down by the President of the Commercial Court under an expedite procedure to prevent a defendant from committing further infringements.

[70] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 3, Criminal Law—Country Report, Belgium, p. 12.

[71] Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 2, Member States' responses to initial trade secrets questionnaire, pp. 13-14; Appendix 3, Member States' responses to second trade secrets questionnaire, pp. 1-2.

[72] Comm. Ghent (Pres.), 5 January 2015, C/14/00029, unpublished.

The cease-and-desist action brought under the Unfair Competition Law (book VI of the CEL) is only available if (i) the claim is not based on a breach of contract by the defendant or (ii) the claimant can establish that the defendant's actions are illegitimate for reasons other than the breach of contract.[73]

Cease-and-desist orders may be accompanied by accessory measures that can contribute to the cessation of the infringement (e.g., publication of the court's decision), which will generally be ordered under penalty of a fine in case of non-compliance.

Within the framework of such an expedited cease-and-desist procedure, no damages can be allocated to the trade secret owner, even if the violation of its secret has been established.[74]

– *Action on the merits*

In a regular action on the merits, the plaintiff can seek both an injunction *and* damages. However, it is already worth noting that Belgian courts are quite reluctant to grant orders prohibiting the use of misappropriated trade secrets (see Sect. 19.5.1 below).

19.4 Protection of Trade Secrets in the Course of Proceedings

Although laws are in place to protect trade secrets, trade secret owners face serious problems in enforcing their rights or in safeguarding their trade secrets in the course of court proceedings, whether of civil or criminal nature.[75] National procedural rules are not always adapted for the preservation of the secrecy of information during or after litigation: Court hearings (and decisions) are public; to get relief, the owner must usually describe its trade secret in open court and/or might be forced by the Court to do so; when issuing an injunction based on a trade secret, the court must in principle describe the considered trade secret in its judgment; etc. So, there are many possibilities leading to dissemination of the trade secret.[76]

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[73] Ghent Court of appeal, 9 February 2009, www.cass.be (not a trade secret case).

[74] Antwerp Court of appeal, 27 September 2007, Ann. Prat. Comm., 2008, p. 527.

[75] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Final Study, pp. 6-7, published at http://ec.europa.eu/internal_market/iprenforcement/docs/trade/201201-study_en.pdf.

[76] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Final Study, pp. 6-7, published at http://ec.europa.eu/internal_market/iprenforcement/docs/trade/201201-study_en.pdf.

To this day, in the absence of a legal specific framework,[77] protection of trade secrets in the course of proceedings is mainly, if not only, to be obtained on a case by case basis.

19.4.1 (Restricted) Access to the Hearing

According to Article 148 of the Belgian Constitution, civil proceedings are public.[78] This principle is also to be found in Article 6.1 ECHR.

As hearings are public, any third party can attend the hearing and hear the arguments and explanations brought by the parties, including the trade secrets.

Yet, Article 148 itself slightly tempers this principle by allowing the courts to order that the hearing will not be public if the "*public access can endanger morals or public order*" or in case the right to privacy pursuant to Article 6 ECHR is at stake. If it is thus not excluded that trade secrets as such might justify a "closed trial", we have to this day little knowledge of such decision, both in civil and in criminal proceedings.[79]

In civil proceedings, it is commonly accepted that should a "closed trial" be ordered to ensure trade secrets protection, all parties should have consented thereto. Eventually, it is interesting to note that in some rare occasions, the 18th chamber of the Brussels Court of Appeal held hearings in the absence of one of the party's counsel, but again with both parties' agreement.[80]

[77] Despite Article 42 TRIPS which stipulates that "The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements"—yet, this Article is not directly applicable.

[78] Supreme Court, 9 November 2012, www.cass.be: "When determining one's rights and duties, everybody is entitled, pursuant to Article 6.1 ECHR, to benefit from the different guarantees provided for in that provision, including the right to a public handling of one's case. This principle of publicity of the trial and the judgment can only be deviated from in case the party involved waives that right freely and unequivocally, and in conformity with national right" (free translation).

[79] Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, p. 3.

[80] Brussels Appeal Court, 30 June 2010, J.L.M.B., 2011, p. 1185; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1074; O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium -Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p. 266.

19.4.2 (Restricted) Access to Evidence

19.4.2.1 Balance of Interests Between the Right to Protection of Trade Secrets and the Right to a Fair Trial

Pursuant to Article 870 of the Judicial Code and Article 1315 of the Civil Code, each party has to prove its claims and file the documents evidencing its claims. This principle has to be read in the light of the principle set forth in Article 736 of the Judicial Code which stipulates that a party that intends to use an exhibit is obliged to communicate it to the other side, echoing the general principle of the right to an adversarial/*inter partes* trial.[81]

These principles imply that the plaintiff who alleges that a trade secret has been misappropriated has to prove (i) that it owns a trade secret, (ii) what this secret is and (iii) that it has indeed been misappropriated by the defendant. If he fails to do so:

– The court can dismiss the claim for lack of evidence;[82]
– The court can also force the plaintiff to file relevant evidence. Article 871 of the Judicial Code stipulates that "the court can order any litigating party to file the elements of proof in its possession". In particular, Article 877 of the Judicial Code provides that the court can order the filing of a relevant document "if there are precise, serious and strong presumptions that a party has in its possession a document[83] containing the proof of a relevant fact".[84]

  From the abovementioned procedural principles, it clearly appears that publicity of evidence is the rule. Yet, one can easily see how this rule is potentially contradictory, even harmful, to the protection of trade secrets: For example, the plaintiff who alleges that its trade secret has been misappropriated will have, pursuant to Article 870 of the Judicial Code, to describe its trade secret in its trial briefs and court's file, which contradicts the very nature of the trade secret. In the course of the proceedings, the plaintiff might even be forced to file a document that is considered relevant by the Court and which might contain certain of his trade secrets (Art. 877).

As such, two fundamental principles collide: on the one hand, the party's right to protect its privacy, including trade secrets[85] (Art. 8 ECHR) and, on the other hand,

[81]Right for each party to be heard and to have access and to reply to all the documents submitted to the Court by the other party: ECHR, 18 February 1997, *Nideröst-Huber/Switzerland*, Publ. Eur. Court. H.R. 1997, I, p. 101; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1064; E. Brewaeys, Zakengeheim verdraagt geen tegenspraak, Juristenkrant, 2013, p. 7; Supreme Court 14 January 2005, Arr. Cass., 2005, n°24.

[82]Supreme Court, 10 December 1976, Pas., I, p. 410.

[83]The word "document" encompasses written documents but also drawings, pictures, etc.

[84]This provision echoes Article 43 TRIPS.

[85]This right to privacy also applies to professional relationships and legal entities: ECHR, 16 December 1992, *Niemietz/Germany*, Publ. Eur. Court. H.R. 1993, Series A, p. 251-B; ECHR, 16 April 2002, *Société Colas Est et autres/France*, Publ. Eur. Court. H.R. 2002, III, p.131; ECJ,

the right to a fair trial set forth in Article 6 ECHR (and Art. 14.1 ICCPR), which encompasses the abovementioned procedural principles (the parties' obligation to participate diligently and loyally in the proceedings, the right to get access to evidence and the right to an adversarial/*inter partes* trial[86]). The solution usually suggested when two fundamental rights collide, is that the Court would balance the interests at stake.[87] This also seems to be the case with respect to the fundamental rights at issue.[88]

In this sense, in a decision of 2 November 2012, the Belgian Supreme Court has expressly acknowledged that the right to privacy, including the right to protection of trade secrets, can in some cases justify a limitation to the right to adversarial/*inter partes* trial, and that the trial judge will have to appreciate the need for such a limitation after having properly balanced the interests at stake.[89]

Considering that, to this day, there is no legal provision on which the judge may perform this balance of interests, guidance in that respect is to be found in the case law.

Primarily, the judge should always keep in mind the general rule pursuant which fundamental rights can only be deviated from in case it is absolutely necessary and if no less invasive alternative measure is available.[90] If, at first, the right to a fair *inter partes* trial was almost absolute, the ECJ, followed by the Belgian national Courts, acknowledged that a limitation could be brought to the adversarial/*inter*

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case C-450/06, *Varec/Belgische Staat*, ECR 2008 I-581; Constitutional Court, 19 September 2007, case 118/2007, Belgian OJ, 31 October 2007 ; R.A.B.G., 2008, p. 382; Brussels Court of appeal, 9 December 2005, R.G. 2004/AR/174, www.juridat.be.

[86]B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, pp. 1063-1066.

[87]ECJ, case C-438/04, *Mobistar/BIPT*, ECR 2006 I-6675; ECJ, C-450/06, *Varec/Belgische Staat*, ECR 2008 I-581.

[88]Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, p. 4; O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, pp. 267-268; D. Mougenot, Le secret des affaires et ses implications en droit judiciaire, I.R. D.I., 2009, p. 114; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1065; B. Allermeersch, Zakengeheim in burgerlijk proces en bewijs, in B. Allermeersch et al., Zakengeheim, Brugge, die Keure, 2012, p. 15; Brussels Court of appeal, 29 September 2006, Jaarboek Handelspraktijken & Mededinging, 2006, p. 870; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, pp.1063-1064; Liège Court of appeal, 25 June 1998, Jaarboek Handelspraktijken & Mededinging, 1998, p. 246; Brussel Court of appeal, 7 November 2013, T.B.H., 2014, p. 808; Supreme Court, 20 February 1975, Pas., 1975, I, p. 633.

[89]Supreme Court, 2 November 2012, J.T., 2013, p. 176, note E. De Lophem; T.B.O., 2013, p. 84, note T. Toremans and F. Dupon; Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1066.

[90]ECJ, case C-360/09, *Pfeiderer AF/Bundeskartellamt*, ECR 2011 I-5161; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1065.

partes character of the trial, and to the underlying principle that each party must be given access to all the evidence filed by the other(s), in so long as the evidence which was not submitted to the contradiction was not essential for the judge's final decision[91] and/or if the prejudice caused by the disclosure of a document containing a trade secret appears disproportionate to the little importance of the considered document for the solution of the case:[92]

- In a decision of 14 January 2000, the Liège Court of Appeal refused to order forced disclosure of some confidential documents, considering that the prejudice caused by the requested disclosure was disproportionate compared to the limited relevance of the considered document for the solution of the case;[93]
- In a judgment of 29 September 2006, the Brussels Court of Appeal found that the principle of loyal participation in the proceedings does not oblige a party to disclose allegedly relevant confidential evidence, if the requesting party itself had not produced any direct evidence to support its case.[94] This case law was confirmed later by that same court in a similar case, stating that an expert appointment or an order for production of documents cannot serve to compensate for a total lack of evidence by the plaintiff.[95] The same conclusion was reached in a case where the plaintiff's allegations were in fact contradicted by other evidence.[96]

The judge is not bound by the trade secrets qualification given by a party to some document. The judge should always be given the possibility to verify the confidential nature of the document invoked by a party and the relevance of said document for the solution of the ongoing proceedings in view of performing the balance of interests between the need to preserve (as much as possible) the confidential character of the alleged trade secrets and the need to ensure that all relevant information are communicated to each party.[97] In this respect, a judge could request an external expert to examine the alleged confidential documents to see if they can indeed, in whole or in part, qualify as trade secrets, if they are relevant for the

[91]ECJ, case C-450/06, *Varec/Belgische Staat*, ECR 2008 I-581.

[92]CFI, case T-271/03, *Deutsch telekom*, ECR 2008 II-477; Liège Appeal Court, 14 January 2000, J.L.M.B. 2001, p. 1289; M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 16.

[93]Liege Court of appeal, 14 January 2000, J.L.M.B., 2001, p. 1289.

[94]Brussels Court of appeal, 29 September 2006, Jaarboek Handelspraktijken & Mededinging, 2006, p. 870; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, pp. 1063-1064; see also Liège Court of appeal, 25 June 1998, Jaarboek Handelspraktijken & Mededinging, 1998, p. 246.

[95]Brussel Court of appeal, 7 November 2013, T.B.H., 2014, p. 808.

[96]Supreme Court, 20 February 1975, Pas., 1975, I, p. 633.

[97]B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1069.

solution of the case and, if yes, how they could be produced while preserving the confidential character thereof as much as possible.[98]

In this respect, some decisions provide practical guidance as to what aspects should be considered by the judge when performing the balance of interests. In this sense, for example, the Antwerp Commercial Court attempted to provide for some guidance when making an indicative list of elements that can be considered when performing the aforementioned balancing exercise, i.e. (i) whether parties are in a competitive relationship towards each other, (ii) what value the confidential information has for the other side, (iii) what information the other side has already in its possession, (iv) whether the other side could get hold of the information via alternative ways, (v) whether there is a risk that the information will be used for other purposes.[99]

One has however to keep in mind that to this day, the issue is case-based so that the criteria to be taken into consideration or not by the judge might vary from one case to the other.

Eventually, if the Court may, considering the case at hand, restrict the adversarial/ *inter partes* character of the proceedings, it should however also always ensure that the other party has sufficient access to the relevant information and, in this respect, determine the precise modalities for disclosing the evidence to the other party.[100] In other words, even if the right to protection of trade secrets is deemed to prevail in a specific case, the Court will have to put in place certain measures that compensate for the limitation of other fundamental rights and that, ultimately, guarantee the fairness of the proceedings.[101] In this respect, when possible, parties should be able to consult a non-confidential version of the exhibits.[102]

19.4.2.2 Suppression of Confidential Information from Evidence

Pursuant to Article 879 of the Judicial Code, the court issuing an order based on Article 877 of the Judicial Code can grant measures for protecting the trade secrets. In this sense, parties can agree to and/or the judge may order to provide for a non-confidential version of a document by blanking out the alleged trade secrets[103],

[98]D. Mougenot, Le secret d'affaires et ses implications en droit judiciaire, P&B, 2009, p. 116.

[99]Comm. Antwerp, 20 December 20012, unpublished, cited in B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1065.

[100]Supreme Court, 2 November 2012, J.T., 2013, p. 176; O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium -Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p. 268.

[101]B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1065; Brussels Appeal Court, 30 June 2010, J. L.M.B., 2011, p. 1185 (with reference to ECHR, 20 February 1996, *Doorson/Nederland*).

[102]Constitutional Court, 19 September 2007, case 118/2007, Belgian OJ 31 October 2007; R.A.B. G., 2008, p. 382.

[103]Comm. Antwerp, 19 February 1987, Ann. Prat. Comm., 1987, p. 225; Comm. Ghent, 8 January 1993, Ann. Prat. Comm., 1993, p. 60; Brussels Appeal Court, 30 June 2010, J.L.M.B., 2011,

provided however that this does not make the document impossible to understand or worthless:[104]

– In a case before the Hasselt Commercial Court, the judge allowed one of the parties to black line the purchasing price of certain of its products to safeguard the confidential nature of that information towards the other side;[105]
– In this sense also, the Brussels Commercial Court allowed the production of a non-confidential (redacted) version of a cinema exploitation agreement signed by one of the parties to protect that contracting party's interests in safeguarding certain confidential data described in the agreement. However, the Court expressly stated that the party which invoked its trade secrets had to justify each modification/suppression it made to the contract to safeguard the invoked trade secrets.[106] At a later stage, the Court checked whether the information blanked out was indeed confidential and was not essential to the solution of the case, and it turned out that the party which invoked secrecy did not respect the modalities set forth by the Court, as it also blanked out information which was relevant for the solution of the case.[107]
– Besides what precedes, it is also accepted that instead of completely suppressing the confidential information, one could replace it by corresponding non confidential information: for example, one could replace a specific number by a range of numbers.[108]

Suppression of confidential data from an original document in view of its communication (in a non-confidential version) to the opposing party has the benefit of being relatively cheap and effective, but is also possibly subject to abuse.

For that reason, some legal scholars suggest for the Court to take a more active approach to the matter and, in this respect, suggest that a complete bundle of exhibits would be produced to the Court upfront, albeit in confidential manner, for the judge to form its opinion as to the relevance of the exhibit for the solution of the case and the existence of trade secrets (and the need/possibility to protect

p. 1185; Comm. Hasselt, 11 October 1996, Jaarboek Handelspraktijken & Mededinging, 1996, p. 293.

[104]O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, pp. 269-270.

[105]Comm. Hasselt, 18 April 2001, Jaarboek Handelspraktijken & Mededinging, 2001, p. 284; Brussels Court of appeal, 30 June 2010, J.L.M.B., 2011, p. 1185.

[106]Comm. Brussels, 14 May 2009, A/08/05692, unpublished, cited in B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1071.

[107]Comm. Brussels, 3 December 2009, unpublished, cited in B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1072.

[108]B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1072.

them without unduly endangering the principle of adversarial/*inter partes* trial).[109]

Other scholars suggest that evidence ought to be produced to an intermediary (independent expert, special lawyer, bailiff, etc.) who would sort out the confidential from the non-confidential information.[110] Such a possibility appears especially appropriate in technically advanced fields where the judge could be out of its depth.[111] For instance in a matter involving two beer breweries, where one saw no issue in disclosing information to a court-appointed expert instructed to describe the cost structure of price calculation of one of the parties, but objected to the inclusion in the expert report of evidence that was not immediately useful for reaching a judgment on whether that party was unable to live up to its contractual obligations (deliver the quantities that were ordered).[112]

19.4.2.3 Disclosure of Confidential Information to a Limited Group of Persons and/or Under Specific Conditions

Sometimes, besides, or in place of, the communication of a non-confidential version of a specific document, the parties can further agree (or be ordered by the judge) to communicate the whole document—thus including the alleged trade secrets—to an "authorised person":

– In some cases, parties have come to a mutual agreement on the person to whom confidential information may or not be disclosed, as well as on the specific use that the receiving party may make of the information communicated.[113]
  (i) In a case before the Hasselt Commercial Court, parties agreed that a defendant would only communicate to the plaintiff purchasing orders that did not show the identity of the buyer, while it would produce the original copies of the purchasing order to the judge at the hearing;[114]
  (ii) In a case before the Antwerp Court of appeal, the expert drafted two versions of its descriptive-seizure report.[115] Only the courts, the claimant's counsels and its company lawyers got access to a confidential version of the descriptive-seizure report, whereas a non-confidential version of the report

[109] Supreme Court, 19 December 1994, R.W., 1994-95, note S. Van Overbeke.

[110] B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1073; see or example Liège Court of appeal, 22 May 2001, R.R.D., 2001, p. 468.

[111] O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p. 273.

[112] Comm. Tongeren (Pres.), 13 February 2007, R.D.J.P. 2009, p.110, note D. Mougenot, confirmed by Antwerp Court of appeal, 20 November 2007, R.D.J.P., 2009, p. 109, note D. Mougenot.

[113] Brussels Court of appeal, 20 June 2008, I.C.I.P., 2008, p. 566.

[114] Comm. Hasselt, 11 October 1996, Jaarboek Handelspraktijken & Mededinging, 1996, p. 293.

[115] Antwerp Court of appeal, 6 February 2008, I.R.D.I., 2008, p. 173 (this judgment was annulled by the Supreme Court on grounds unrelated to the restrictions of use).

could be shared with a wider group. In subsequent proceedings on the merits, parties always filed one confidential version of their written pleadings (referencing the confidential content of the expert report and annexes) and one non-confidential version (in which certain parts of the written pleadings were redacted).

– In some other cases, parties agreed on the preliminary signing of a confidentiality agreement before allowing the presence of the opposing party, its employees and/or its counsel at an *inter partes* expert mission in one of the other party' premises.[116]
– In a judgment of 29 June 2009, besides the signing of a confidentiality agreement, the Brussels Court of Appeal provided for specific safety measures by making the consultation of the confidential information subject to certain rules and limits: The confidential information was stored in a secured data room, access hours were well-determined, no copies or notes could be made, and visitation right was limited to the party's representatives or legal counsel. All of this was organised within the framework of a court-ordered *inter partes* expert mission.[117]
– Eventually, authorisation of certain individual is sometimes made subject to certain prerequisites, such as the existence of specific confidentiality obligation. In this sense, parties have sometimes agreed to give access to confidential data to a company auditor, which is bound by an obligation of professional secrecy.[118]

19.4.2.4 Legitimate Reasons to Refuse to Submit Certain Documents to the Court

Pursuant to Article 882 of the Judicial Code, a party who has been requested by the judge to submit a specific document might refuse to do so if it can prove that it has a "*legitimate reason*" to. The question is whether a trade secret can be considered as a "legitimate reason" in the sense of Article 882?

According to some scholars, this question should be answered negatively.[119] On the contrary, others consider that a trade secret might serve as a "legitimate reason". In this respect, they consider that the legitimate reason can be derived from the severe consequences that would be brought up when disclosing the document comprising the trade secrets to the defendant. Again, a balance has to be made by

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[116] Antwerp Court of appeal, 24 May 2006, 2005/RK/276, unpublished; Antwerp Court of appeal, 5 September 2007 2007/RK/32, unpublished.

[117] Brussels Court of appeal, 29 June 2009, R.W. 2012-13, p. 388; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1067

[118] Antwerp Court of appeal, 20 November 2007, P&B, 2009, p. 110, note D. Mougenot; Ghent Court of appeal, 11 April 2011, R.W., 2012-13, p. 468; B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, pp. 1068;-1069.

[119] D. Mougenot, Le charme discret des 'petites' mesures d'instruction, P&B, 2007, p. 245; Comm. Brussels, 14 May 2009, unpublished, cited in B. Allermeersch and W. Vandenbussche, Bewijs versus geheim in het aansprakelijkheidscontentieux, T.B.H., 2013, p. 1071.

the Court between these legitimate interests and the plaintiff's legitimate interest.[120]

In any event, the Court always has the last word and can decide that given the parties' obligation to collaborate to the proof and the right of defence of the plaintiff, the documents must nevertheless be filed, even if they contain trade secrets.[121] Such a decision cannot be appealed.[122]

19.4.3 Publicity of Judgement and Possibility to Limit Disclosure of Confidential Information

Pursuant to Article 149 of the Belgian Constitution, "every judgment must be pronounced in public hearing". There is no exception to this principle which is prescribed not only by Article 149 of the Belgian Constitution, but also by Article 6.1 ECHR and 14.1 ICCPR. Therefore, if a trade secret is mentioned in a judgment, it will automatically be disclosed.[123]

To prevent the disclosure of a trade secret in a judgment, one must therefore take action *before* the judge has made up his mind and has drafted his judgment. In this sense, a party to a dispute can file a request asking the court to treat certain information it has submitted as confidential, for example by suppressing the considered information from the judgment. In its judgment dated 20 June 2008, the Brussels Court of appeal granted such a request and expressly blanked out the stereotypes of GSK which were considered confidential.[124]

It has to be noted that to this day, the above judgment remains rather exceptional.

19.4.4 Do Safeguard Procedural Measures Apply Automatically?

In Belgium, there are only few legal provisions that expressly provide for an automatic safeguard of confidential information.

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[120] O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p. 269.

[121] Liège Court of appeal, 6 March 2000, J.L.M.B., 2000, p. 1728; A. Kohl, Les mesures d'instruction, in X., Actualités et développements récents en droit judiciaire, Brussels, Larcier, 2004, pp. 207 sq.

[122] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1,"Intellectual Property and Commercial Law – Country Report", Belgium, p. 9; Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, p. 4

[123] A. Verheyden and W. Derijcke, Secrets d'affaires et principe du contradictoire, in V. Cassiers and S. Gilson (coord.), L'entreprise et le secret, Brussels, Larcier, 2014, pp. 241-242.

[124] Brussels Court of appeal, 20 June 2008, I.C.I.P., 2008, p. 566.

In civil proceedings, we can refer to the safeguards set forth in Articles 1369*bis*/1, § 3, 1369*bis*/4, § 1, 1369*bis*/6 and 1369*bis*/7 of the Judicial Code:

– Article 1369*bis*/6 expressly provides that the court-appointed expert should take due care not to prejudice the alleged infringer's legitimate interests, "*in particular as far as the protection of confidential information is concerned*".[125] In practice, the expert should therefore not include in its report confidential information which are not strictly necessary to its mission;[126]
– Article 1369*bis*/7, §2 of the Judicial Code explicitly states that the ensuing expert report and all of its annexes are deemed to be confidential and that they can only be used within the framework of a judicial procedure;[127]
– Pursuant to Article 1369*bis*/4, the court order can authorise or deny the presence of the applicant or its counsel during the seizure.

Thus, in this specific discovery procedure, the law expressly provides for protection of trade secrets. Consequently, the confidential nature of some information of the seized party cannot prevent the granted discovery measures from taking place because the discovery is precisely supposed to reveal what would otherwise be kept confidential.[128]

There is ample case law on the role of the court-appointed expert in this delicate exercise of collecting evidence of intellectual property right infringement but at the same time safeguarding the seized party's interests, including the secrecy of its confidential information.[129]

When opposing the discovery in court in specific "*tierce opposition*" proceedings, the alleged infringer can further request that a variety of measures be taken to safeguard his legitimate interests.

Apart from what precedes, the trade secret holder should expressly invoke the protection of its trade secrets in the course of court proceedings and request the Court to treat certain information as confidential.

[125] D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 375.

[126] Brussels Court of appeal, 4 December 2009, I.C.I.P., 2009, p. 513.

[127] Brussels Court of appeal, 18 December 1998, I.R.D.I., 1999, p. 65; G. Glas, La saisie-description en matière de brevets en Belgique, in Jura Vigilantibus Antoine Braune, Bruxelles, Larcier, 1994, p. 193.

[128] Preparatory works of the Acts on civil and procedural law aspects of the protection of intellectual property rights, DOC 51 2943/001 and 2944/001, Exposé des motifs, p. 67; F. de Visccher, La preuve des atteintes – Réforme de la saisie-description, in F. Brison (ed.), Sanctions et procedures en droits intellectuels, Bruxelles, Larcier, 2008, p. 166; B. Vandermeulen, Les mesures de confidentialité entourant les rapports de saisie-description, I.R.D.I., 2009, p. 361; Brussels Court of appeal, 24 March 2010, I.R.DI., 2010, p. 157.

[129] Brussels Court of appeal, 4 December 2009, I.R.D.I., 2010, p. 146.

19.4.5 Use of Information Gained During the Proceedings After Termination Thereof

There is no general rule preventing someone from using an information gained during a judicial procedure after termination thereof. At most there is a general duty of care and/or of loyalty, which is not more stringent than the general rule of tort—would a reasonable person put in the same circumstances have acted differently?[130]

There are, however, certain specific provisions that limit a party's freedom to use information gained during the proceedings. For instance in descriptive seizure proceedings, parties are restricted in the use that they could possibility make of the evidence (confidential know-how possibly) obtained within the framework of the seizure. Pursuant to Article 1369*bis*/7, §2 of the Judicial Code, "the expert report, as well as all the annexes thereof, samples or information collected within the framework of the descriptive measures are confidential and can only be disclosed or used by the plaintiff or its right-holders within the framework of a procedure, in Belgium or abroad, on the merits or in summary proceedings". If no such action is introduced within the time frame referred to in Article 1369*bis*/9 of the Judicial Code, the claimant is no longer entitled to use the information gathered by the expert.

Echoing Article 1369*bis*/7 of the Judicial Code, the Antwerp Court of appeal ruled that information obtained by a competitor during discovery can only be used in the framework of the subsequent patent proceedings.[131]

Eventually, the parties may also come to a mutual agreement on the subsequent use of the information obtained.[132]

19.5 Remedies Available in Case of Trade Secret Misappropriation

Part III of the TRIPS Agreement sets out provisions on enforcement of intellectual property rights and under Article 1, paragraph 2 of TRIPS, "intellectual property" does include protection of undisclosed information ("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").[133] According to TRIPS, injunctions (Article 44), damages (Article 45) and other remedies such as destruction of infringing goods (Article 46) should be available as a minimum.

[130] O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p. 275.

[131] Antwerp Court of appeal, 6 February 2008, I.R.D.I., 2008, p. 173.

[132] Brussels Court of Appeal, 20 June 2008, I.C.I.P., 2008, p. 566.

[133] Agreement on Trade-Related Aspects of Intellectual Property Rights, see WTO website: https://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm.

19.5.1 Injunctions/Cease and Desist Orders

Given the particular nature of a trade secret, a restraining order prohibiting the use of the information may face serious problems:[134]

The first problem is that the plaintiff must bring sufficient evidence of its claim, which implies that it has to file the documents establishing that its claim is well founded or might even be forced to do so by the judge (Articles 870 and 877 of the Judicial Code and Article 1315 of the Civil Code). In trade secret matters, this usually implies that the plaintiff must describe its trade secret in its trial briefs and court's file, which contradicts the very nature of the trade secret (see Sect. 19.4.2 above).

The second problem arises from the fact that the judgment prohibiting a further use or disclosure of a trade secret, must describe the trade secret at stake (the decision prohibiting the use of "information X" would not be applicable and would contravene Article 11 of the Judicial Code). If the judgment describes the trade secret, this will disclose it again (see Sect. 19.4.3 above).

The third problem with cease and desist orders concerning trade secret results from the fact that the protection of trade secrets, contrary to that of IP rights, is not limited in time. The prohibition to use the trade secret could thus possibly last forever, which would grant the trade secret owner potentially broader protection than a traditional IP right. Case law has highlighted this problem and is therefore reluctant to issue orders prohibiting the use of misappropriated trade secrets.[135]

19.5.2 Accessory/Accompanying Measures

As stated in Sect. 19.3.4.2, a cease-and-desist order may be accompanied by measures that can contribute to the cessation of the infringing acts. In this respect, Article XVII.4 CEL[136] expressly provides for the possibility for the judge to order the publication of the judgment (or of a summary thereof) if such a publication is likely to contribute to the cessation of the infringement and/or of its effects. Such an order can be linked to the payment of penalties in the event of non-compliance.

According to some authors, within the framework of a cease-and-desist order, the judge could also order to the defendant to provide all information "on the origin and/or distribution channels" of the trade secret violation and/or of the products

[134]D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, pp. 376-377; Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, p. 2.

[135]Liège Court of appeal, 12 June 2008, I.R.D.I., 2008, p. 339; M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 15.

[136]Book XVII of the Belgian Code of Economic Law, Law of 26 December 2013, Belgian OJ, 28 January 2014.

resulting from its infringement (and possibly incorporating such trade secret).[137] Yet, this is subject to controversy considering the fact that to this day, the legal provisions providing for such a possibility only relate to IP rights (Article XI.334, §3 CEL) and registered names/designations (Article VI.126, §2 CEL). It is therefore doubtful that these provisions could also be applicable in case of violation of trade secrets (see Sect. 19.3.3.6 above).

19.5.3 Damages

In case a trade secret violation is established, besides an injunction, the trade secret owner can in principle also seek damages. Yet, as outlined in Sect. 19.3.4.2, damages are not available in expedite proceedings on the merits.

19.5.3.1 Absence of Specific Provision

There are no specific rules under Belgian law that specify that damages are available in case of breach of a trade secret (contrary to provisions on intellectual property rights, such as Article XI.335 CEL). Consequently, corresponding remedies will have to be based on general principles of civil law under which the injured party is entitled to full compensation for the prejudice it suffered so as, virtually, to be put back in the state it would have been had its rights not been violated.

19.5.3.2 Quantification of Damages

The prejudice must be evaluated *in concreto,* meaning that the party claiming compensation must prove the amount of damages it has incurred, including the defendant unjust enrichment resulting from its wrongdoing. Expert evidence may be helpful to support this claim.[138]

In most cases, the value of such kind of damage will not be easy to determine. The court is thus allowed to apply an *ex aequo et bono* calculation of damages.[139]

Damages are compensatory. In principle, punitive damages are therefore not recognised under Belgian civil law.

[137] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1, Intellectual Property and Commercial Law—Country Report, Belgium, pp. 8-9.

[138] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1, Intellectual Property and Commercial Law—Country Report, Belgium, p. 9; O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, pp. 277-278.

[139] Preparatory works of the Acts on civil and procedural law aspects of the protection of intellectual property rights, DOC 51 2943/001 and 2944/001, Exposé des motifs, p. 67.

To avoid the difficulties in proving the prejudice or damage suffered, parties to a contract may agree on a penalty clause, which determines the amount of damages due in case confidential information is illegitimately disclosed. Pursuant to Article 1231 of the Civil Code, the judge is nevertheless entitled to temper the penalty agreed on in case the amount does not correspond to the amount of damages the parties could have reasonably foreseen at the time the agreement was concluded or obviously exceeds the actual value of the damage.[140]

In practice, a claimant is entitled to seek damages to compensate the suffered prejudice based on the defendant's unjust enrichment resulting from the trade secret violation and/or the effective loss of profits, provided that the claimant is able to prove the causal link between the trade secret violation and the alleged unjust enrichment/lost profits. In most cases, this link will be quite difficult to prove, even though the evidence can be in any form, including suspicion alone or factual presumptions. For instance, the Brussels Court of Appeal held that an employee had breached the confidentiality obligation under Article 17 AEC when it copied confidential information before joining a competitor, but that the ex-employer had failed to show that the use or the disclosure of such information by the ex-employee could cause damage to its own interests.[141]

One presumption, which is often considered by the court, is the "unrealistically fast and massive success" gained by the defendant that could not have been achieved without the use of the litigious trade secret, as it is unbelievably achieved so fast and massively.

Lost profits are not easy to determine because the profit made by the defendant through the unlawful access/use of the trade secret might not be equal to the profit the claimant would have made. The claimant will have to identify the competitive advantage that its trade secret presents and then show for instance market shares gained by the defendant and to the claimant's detriment because of the unlawful access/use of the trade secret. Concepts commonly used in the field of intellectual property rights such as the assessment of the lost profits based on the "counterfeiting mass" could also be helpful, as well as the royalty fee that the claimant used to request for the use of its trade secret as an indicator for an *ex aequo et bono* assessment.

19.5.3.3 Possible Damages for Moral Harm

General civil law principles governing damages for trade secret violation do not exclude compensation of moral prejudice *per se*, as the main rule is that the prejudice must be compensated in its entirety.

Generally speaking, moral prejudice is the damage that affects a (legal) person's reputation, integrity or honour. In the context of intellectual property rights, moral

[140] D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 378.

[141] Brussels Court of appeal, 10 September 2013, 2011/AR/3155, unpublished.

prejudice could be, for instance, the damage to an author's reputation, the banalisation of an artistic work, the popularisation of a trademark or the violation of a patent holder's monopoly.

As regards trade secrets, moral prejudice could be caused to the owner of a trade secret only when its identity is disclosed with the trade secret; such disclosure could then have an impact on the image or reputation of the holder.[142]

To our knowledge, there is no published case law on this subject.

In any event, should moral prejudice be held by the court, it would most likely be quantified on an *ex aequo et bono* basis.

19.5.4 Reimbursement of Attorney's Fees

The claimant is also entitled to seek reimbursement of lawyer's fees and costs, the sum of which are determined by law and are quite low (Article 1022 of the Judicial Code). The question concerning whether this provision is compatible with Article 14 of the Enforcement Directive has already been raised a few times. In a recent patent litigation, this question has finally been referred to the CJEU, whose answer could also have an impact on trade secret litigation.

19.5.5 Possibility to Obtain Remedies Against Third Parties

In principle, liability resulting from of the breach of trade secrets does not extend to third parties who are innocent recipients of trade secrets.[143]

The independent inventor, the competing parties with their own research laboratories, or others who accidentally happen to receive the confidential information, do not have any obligation towards the rightful owner of the trade secrets. They are therefore in principle not subject to any civil or penal liability if they use in good faith an invention that happens to be a trade secret of another company.[144]

On the other hand, the new employer of a former employee (who has knowledge of trade secrets deriving from his former job) is in quite a delicate situation. It is not subjected to a duty of confidentiality itself, but by acquiring and using this information, it could be held liable.

[142] O. Hottat, D. Kaesmacher, S. Lens, A. Mottet, D. Op de Beeck, P.Y. Thoumsin and B. Vanbrabant, Les travaux de l'AIPPI – Question 247 – Belgium - Trade secrets: overlap with restraint of trade, aspects of enforcement, I.C.I.P., 2015, p. 280.

[143] D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 374.

[144] Proposal for a Directive on the protection of undisclosed know-how and business information (trade secrets), Study on trade secrets and confidential business information in the internal market, April 2013, MARKT/2011/128/D, Appendix 1, Intellectual Property and Commercial Law—Country Report, Belgium, p. 10.

According to Belgian law, third parties helping others to breach their contractual obligations can indeed be liable. The complicity of breach of contract requires (a) the existence of a (valid) contract; (b) that the third party knew or ought to have known of the contract; (c) a breach of contract and (d) the third party has participated in or contributed to the breach of contract.[145]

19.6 Protection of Know-How in Confidentiality or Non-disclosure Agreements

Undertakings in Belgium adopt various practical solutions to protect trade secrets and know-how, including, in particular, licensing,[146] non-disclosure agreements, non-use agreements, etc.

The adoption of such practical solutions is not only justified to provide for protection where no specific provision exists, but can also serve as additional protection where specific provision already exists. In this respect, for instance, employers often include a confidentiality and/or a non-compete clause in the employment contract to precise the terms of Article 17, 3° AEC and further improve the protection of their trade secrets.[147]

Prevailing enforcement with regards to non-disclosure and non-use agreements and/or to non-compete clause in Belgium is provided by contract law: Since the judgment of the Supreme Court of 7 December 1973, in case of concurrence between contractual and extra-contractual (i.e. tort or unfair competition) liability, a claim based on the latter is only possible if the fault (in this case the misuse or misappropriation of trade secrets) does not amount to a breach of contract, but only to a breach of the duty of care, and to the extent the damage is different from the damage resulting from the poor performance of the contract.

As regards the enforcement of non-disclosure and non-use agreements and/or non-compete clauses, there is little case law available. One known precedent concerns the violation of a confidentiality agreement concluded between GSK Biologicals and Sanofi Pasteur, two pharmaceutical companies.[148] GSK sought the revocation of Sanofi's patent covering a multivalent vaccine composition for the

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[145] D. Kaesmacher, P. Maeyaert, A. Mottet, G. Philipsen, L. Ryckeboer and K. Neefs, AIPPI – Question 215 – Protection of trade secrets through IPR and unfair competition law, I.C.I.P., 2010, p. 378; Supreme Court, 24 November 1932, Pas., 1933, I, p. 19; Supreme Court, 21 April 1978, R. W., 1978-1979, p. 1961; For an application in an intellectual property case, see Liège Court of appeal, 27 May 2007, I.C.I.P., 2007, p. 635; Hogan Lovells International LLP, Report on Trade Secrets for the European Commission, Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D, Appendix 3, Member States' responses to second trade secrets questionnaire, pp. 4-5.

[146] For your perfect information, licenses involving know-how are in principle subject to EU Regulation 316/2014 (see Sect. 19.1.2) which prevails over contractual arrangements.

[147] The enforceability of a non-compete clause in an employer-employee relationship is subject to the payment of an economic compensation, must be limited in time and geographically and must relate to similar activities (see. Article 65 AEC).

[148] Brussels Court of appeal, 20 June 2008, I.C.I.P., 2008, p. 566.

prevention and treatment of infections caused by certain pathogenic agents. During the proceedings, Sanofi's counsel requested information from GSK, expressly confirming that the requested information would be treated as strictly confidential and that its client would only use it to evaluate the opportunity of introducing a counterclaim for infringement. According to the Court of Appeal, the said correspondence between the parties' counsels qualified as a confidentiality agreement. Further on in the procedure, Sanofi submitted an amended set of claims which seemed to be inspired from the information obtained through GSK. The Court of Appeal ruled that amending claims to escape revocation did not qualify as use "to evaluate the opportunity of an infringement claim" and that Sanofi's amendments were thus a breach of contract. On these grounds, the amended claims were rejected in the Belgian revocation proceedings.

19.7 Misuse of Trade Secret Protection

The freedom to exercise one's right, including the right to protection of trade secrets, is never absolute as it necessarily takes place next to the freedom of others to exercise they own (maybe contradictory or concurrent) right. In this respect, it can be referred to the famous saying according to which "the freedom of one ends where the right of another begins".

Therefore, even though subjective rights, sometimes qualified as "selfish rights", are created in favour of their owner/holder—so that the latest can in principle exercise its rights in its own "selfish" interest –, their exercise can sometimes be limited if it appears to be abusive and/or contrary to the doctrine of good faith.[149]

The Supreme Court defines the abuse of right as any use of a right which "obviously exceeds the limits of a normal exercise thereof by a normally cautions and diligent individual".[150]

To qualify as abusive, the exercise of a right has to meet one of the following conditions:

- the predominant motive for exercising the right is to cause harm to another party; or
- no serious or legitimate motive exists for exercising the right in the considered way; or
- the exercise of the right is against moral rules, good faith, or elementary fairness; or
- the right is exercised for a purpose other than that for which it was granted.[151]

[149]Supreme Court, 8 February 2001, R.G.D.C., 2004, p. 396.

[150]Supreme Court, 17 September 1971, Pas., 1972, I, p. 28; Supreme Court, 17 October 2008, Arr. Cass., 2008, p. 2281.

[151]G. De Leval, "Traité des saisies", Fac. Dr. Liège, 1988, p. 13; P. Van Ommeslaghe, Abus de droit, fraude aux droits des tiers et fraude à la loi, R.C.J.B., 1976, p. 303 sq.; Supreme Court, 29 November 1962, Pas., 1963, I, p. 406.

Considering what precedes, the possibility of an abuse/misuse of a trade secret right is not excluded *per se*:

– possible misuse to circumvent legal obligations to disclose specific information;[152]
– possible misuse to conceal information within the framework of (judicial) proceedings;
– possible misuse to gain access to a competitor's confidential information (through right to access public records, right to attend public hearing, etc.);
– possible misuse to unfairly delaying or restricting a competitor's access to the market;
– possible misuse to unfairly intimidating or harassing a competitor; etc.

If the abuse of right is established, the trade secret owner can be held liable under Article 1382 of the Civil Code, and consequently see the exercise of its right limited and/or be condemned to pay damages if the abuse caused prejudice to a third party.

Where it is established that the trade secret owner abusively started judicial proceedings against a third party, the latter could request its condemnation to damages for frivolous and vexation action. The right to initiate litigation to defend one's right (protection of trade secret for instance) can indeed constitute a "fault" pursuant to Article 1382 of the Civil Code when the action is diverted from its initial purpose and is used negligently/carelessly and/or to prejudice another party.[153] Pursuant to Article 780*bis* of the Judicial Code, besides damages, the trade secret owner could also be condemned to a fine from EUR 15 up to EUR 2500.

Recital 22 of the Trade Secrets Directive[154] expressly acknowledges the risk for a trade secret owner to abuse its right to protection and, consequently, expressly underlines the need to adopt appropriate measures to prevent such abuse and/or, at the very least, to allow the authorities (administrative, judicial, etc.) to "bypass" and/or to limit the protection of trade secrets when it is established that such protection is invoked abusively:

> The smooth functioning of the internal market would be undermined if the measures, procedures and remedies provided for were used to pursue illegitimate intents incompatible with the objectives of this Directive. Therefore, it is important to empower judicial

[152]As expressly reminded on the European Commission's website on Trade Secrets, companies cannot invoke their trade secrets with the sole purpose to hide information on matters of public interest, such as public health, the environment or the safety of consumers (http://ec.europa.eu/growth/industry/intellectual-property/trade-secrets/index_en.htm).

[153]G. Van Dessel, La vie du droit. Contre l'abus procédural, J.T., 1997, pp. 680-682; Brussels Court of appeal, 24 September 1992, J.T., 1993, p. 361; Supreme Court, 31 October 2003, J.T., 2004, p. 135, note J.-F. van Drooghenbroeck; Supreme Court, 12 May 2005, R.A.B.G., 2005, p. 1683; L. Lamine, B. Schoenaerts and C. Vaes, Het tergend en roekeloos geding, Anvers, Intersentia, 2003, p. 4

[154]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, 9870/14, General approach of the European Council adopted on 26 May 2014.

> authorities to adopt appropriate measures with regard to applicants who act abusively or in bad faith and submit manifestly unfounded applications with, for example, the aim of unfairly delaying or restricting the respondent's access to the market or otherwise intimidating or harassing the respondent.

19.8 Conclusion as to the Possible Inadequacies of the Protection of Trade Secrets in Belgium

As seen above, protection of trade secrets is scattered over different provisions of law. There is not a uniform definition and terminology of "trade secrets", "confidentiality" and "confidential information", which may impact on the assessment of different situations and generate interpretative doubts. It would therefore be advisable to adopt a harmonised and uniform definition and terminology.

Another issue is related to the fact that trade secrets are not considered to be "intellectual property" and are, therefore, not limited in time, which makes it difficult to obtain a cease-and-desist order or search-order. In this respect the author M. Buydens suggests that the problem could be solved by limiting the cease-and-desist order to the time necessary to the amortisation (or the obsolescence) of the considered trade secret (supposing that it can be defined).[155]

Finally, it would also be useful to provide rules/guidelines concerning the balance to be made between the rights of the trade secret owner and the rights of the defendant and adopt a clear set of rules on how to deal with confidential documents in regular court proceedings.

[155] M. Buydens, La protection des secrets d'affaires et la procédure de saisie en matière de contrefaçon, Cah. Jur., 2011, p. 15.

Brazil

20

Felipe Barros Oquendo

20.1 Legal Protection of Trade Secrets in Brazil

The current legal protection of trade secrets and confidential information in Brazil derives from the TRIPS Agreement, signed in 1994 and enforced in the country since January 1, 1995.

As a response to the need of protection set forth in Article 39 as well as to define legal remedies to comply with PART III of the TRIPS Agreement, a new Industrial Property Act was enacted—Federal Act No. 9,279/1996, effective from January 1, 1997, which is currently enforced.

The Brazilian Industrial Property Act (henceforth "BIPL") establishes that disclosing, exploiting or using, "without authorization, confidential knowledge, information or data, which can be used in industry, in trade or in the providing of services, except that which is public knowledge or is obvious to a person skilled in the art, to which access was had by means of a contractual or employment relationship, even after termination of the contract" is a crime of unfair competition, as well as a civil violation[1].

The same is true to the acts of disclosing, exploiting or using, without authorization, such undisclosed knowledge or information, if it has been obtained by unlawful or fraudulent means[2].

Besides these two express prohibitions of the law[3], the BIPL also stipulates that "[T]he injured party shall be assured the right to receive loss and damages in

[1]BIPL, Article 195, item XI.

[2]BIPL, Article 195, item XII.

[3]The criminal penalties—which do not detract from civil damage claims—are imprisonment for 3 (three) months to 1 (one) year, or a fine. Article 195, sole paragraph.

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compensation for the loss caused by acts of infringement of industrial property rights and by acts of unfair competition not provided by this Act, which tend to prejudice one's reputation or business, or to create confusion between commercial, industrial or service providing establishments, or between products and services offered in the course of trade". This broad compensation clause is typically applied in connection with the specifications of Article 39 (2) of the TRIPS Agreement, as well as Article 10bis of the Paris Convention[4] to encompass other kinds of violation of trade secrets, know-how and confidential information which would amount to unfair competition acts.

The BIPL establishes instances where a third party not in direct contact with the trade secret proprietor may be held liable for violation of trade secret rights. The already cited item XII of Article 195 determines that fraudulent or unlawful obtainment of trade secrets is a criminal offense, without requiring that the offender is in direct contact with the trade secret proprietor. Hence, a company that hires an ex-employee of a competitor with full knowledge that the ex-employee is carrying trade secrets to be disclosed and/or used to the benefit of the new employer is also liable—criminally and civilly—for the violation of the former employer's rights.

Even if the violation of the former employer's rights would amount merely to a breach of contract, the new employer would be held liable under the "third accomplice" theory which sets that a third party which is not a party to the agreement is liable for the breach thereof whenever he acts to stimulate, facilitate and materially aid the breaching party. Although trade secrets are protected under unfair competition law, Brazilian legislation does not confer upon the person in control of the trade secret, know-how or confidential information any right of property.

It should be noted that the BIPL is not the only source of protection of trade secrets in Brazil, even though it certainly is the main one. Brazilian Labor Act[5], long before the enactment of the current BIPL, has established in its Article 482, letter "g", that the violation of trade secrets (in the original text "secrets of the company") is a justifiable cause for dismissing the employee, implying that it is a basic duty of any employee to keep secret all undisclosed information which is valuable to the employer and can be considered as trade secrets.

The Brazilian Franchise Act[6] establishes in its Article 3, item XIV, letter "a", that the access to, conditions of use of, as well as the situation of the franchisee after the end of the franchise agreement relating to trade secrets must be set forth in the Franchise Offering Circular,[7] as well as in the franchise agreement, again implying

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[4]Brazil has been a signatory party of the Paris Convention since its original text, in 1883. The Stockholm revision entered into force in Brazil in 1975.

[5]Federal Decree-Act No. 5,452 of 1943.

[6]Federal Act No. 8,955 of 1994.

[7]A Franchise Offering Circular is a pre-contractual document whereby a potential franchisee may access financial and legal information about the franchise, the franchisor and the franchise agreement to be negotiated and eventually executed by the parties. Its delivery to the potential

that this kind of information is valuable, deserves protection and that the access to it by the franchisee and its employers must be regulated by agreement.

Ultimately, the Brazilian Civil Code,[8] even though not referring expressly to trade secrets or confidential information, prohibits the unjust enrichment (Art. 844) and sets forth the integral compensation principle (Articles 927 and 944), both of which act as a support in trade secret infringement cases.

20.2 Protecting Trade Secrets in Court: Proving Trade Secret Violation and Requesting Judicial Secrecy Under Brazilian Law

Brazilian Civil and Criminal Procedural Acts both require the claimant to prove in a lawsuit that he is the lawful holder of the rights which he claims are being violated.

This kind of evidence is typically more complex to establish in connection to trade secrets than in trademark and patent lawsuits, where an ownership document/title conferred by an Industrial Property Office is usually available.

Ideally, the claimant should be able to furnish evidence of his control over the information which is considered trade secret and of the information itself, which is usually based on written documents or visual, tangible media.

Also, the claimant must prove that he has taken reasonable steps to preserve the confidentiality of the information and that the access to it by the infringing party was fraudulent, unlawful or that the disclosure/use thereof resulted from breach of contractual or legal obligations.

The Act does not stipulate whether the claimant in a trade secret infringement lawsuit must submit *prima facie* evidence whether the information in question is non-obvious to a person skilled in the art, as established by Article 195, item XI of the BIPL. In practice, the claimant will detail how the information which is presented as a trade secret is not publicly known or obvious. However, more thorough evidence is produced further in the proceedings, usually by a court expert.

It is important to notice that this information may be submitted in court under the protection of procedural secrecy. Article 206 of the BIPL establishes that "in the course of a court action if, in order to defend the interests of any of the parties, information regarded as confidential, whether an industrial or a trade secret, is disclosed, the judge must determine that the case proceed in judicial secrecy, and the use of such information for other purposes shall be prohibited also to the other party". In legal practice, the judges are as a rule very respectful of the secrecy of trade secrets and know-how and typically determine that the procedural secrecy will extend to all the case files.

franchisee is mandatory and must happen at least 10 (ten) days before the execution of the franchise agreement (see Articles 3 and 4 of Federal Act No. 8,955 of 1994).

[8]Federal Act No. 10,406 of 2001.

The judges will usually grant the judicial secrecy upon request, without requiring that full evidence of the confidential and relevant character of the trade secret be submitted in court. However, if the defendant succeeds in proving that the information submitted by the claimant is not a trade secret—usually by providing evidence that the information is publicly known—the judge may reverse the judicial secrecy. Also, the decision which grants the judicial secrecy may be appealed.

This procedural secrecy includes restricted access to the case files—only the judge, his clerks and auxiliaries (such as the court expert), the parties and their attorneys-at-law may access the contents of the dockets. Judicial secrecy also demands restricted access to audiences and judgment sessions. Ultimately, only the public parts of decisions are published in the Official Gazette.

Usually, the most difficult aspect of setting a case and launching a trade secret misappropriation lawsuit is proving that the defendant has disclosed or used or will probably disclose or use the trade secret under control of the claimant, as these disclosures and uses are usually discreet and any evidence thereof is kept at the facilities of the defendant or even at his house/real estate.

Granted that the trade secret proprietor is able to provide evidence that (i) he is the rightful controller of the trade secret; (ii) that the adverse party has had access to the trade secret; (iii) that there is a reasonable chance—usually supported by indicia—that the defendant has violated, is violating or will violate the proprietor's trade secret rights, the trade secret proprietor may be granted *ex parte* injunction relief to obtain evidence that the adverse party is in possession of the trade secret or that he is using or has disclosed it to a third party.

This injunction relief usually takes the form of a Writ of Prevention (Portuguese: *Medida Cautelar*) which aims at anticipating the production of evidence and/or at seizing documents/products/media, etc. to establish whether a violation has occurred, is occurring or is at risk of occurring. The injunction relief may also be requested in the complaint writ of an infringement lawsuit, as a preliminary *ex parte* measure.

Besides these measures, the Judge may request that Government agencies (such as the Internal Revenue Service) and private companies (such as internet service providers, banks or telephone companies) provide information on the adverse party also in an attempt to establish evidence of a violation of trade secret rights.

Any of these measures must be appropriate and reasonable in relation to the need to protect trade secrets. In practice, the Brazilian judges are more inclined to determine seizures and anticipation of evidence rather than requesting from private companies or government agencies any private and confidential information on the defendant.

20.3 Valuation of Damages

The claimant may request compensation for material and moral damages in the lawsuit.

Material damages are divided into actual damages deriving from the violation of trade secret rights, as well as loss of profit. The compensation for actual damages, according to Article 208 of the BIPL, "shall be determined according to the benefits that the injured party would have gained had the infringement not occurred".

The compensation for loss of profits may be calculated by the most favorable and adequate of the following standards set forth by Article 210 of the BIPL:

I. the benefits that the injured party would have gained had the infringement not occurred; or

II. the benefits that were gained by the infringer of the right; or

III. the remuneration that the infringer would have paid to the holder of the infringed right for the grant of a license which would have enabled lawful use of the trade secret.

The claimant may choose from one of the three standards or leave the choice to the judge.

One should bear in mind that if the disclosure or use of the trade secret occurred because of non-gross negligence or misuse of the proprietor, the judge may proportionately reduce the value of the compensation due, in recognizing the claimant's partial guilt in the violation of his own trade secret rights.

Besides material damages, encompassing actual damages plus loss of profit, moral damages must also be compensated, according to Article 5, item X of the Brazilian Constitution, as well as to Article 186 of the Brazilian Civil Code.

Any person or legal entity is in theory entitled to compensation for moral damages. The possibility of moral damage of a legal entity was expressly established by the Superior Court of Justice in these terms: "The legal entity may suffer moral damages".[9] However, in practice, the judges are typically reluctant to consider that the violation of trade secret rights is able to cause relevant damages to the reputation, credit or objective honor of the legal entity or even of the natural person who is the proprietor of the infringed trade secret. In fact, contrarily to trademark infringement cases or lawsuits concerning the divulgation of false information or copy of trade dress, the prejudice to the trade secret proprietor's credit and reputation in trade secret rights infringement cases is not as evident.

This is especially so when the trade secret is not divulged to the general public or in cases where the infringement did not reach partners, investors, franchisees, licensees, i.e., it was kept at a discreet level.

We may conclude that under Brazilian law, the moral damage is compensated as a rule, yet the mere fraudulent or unlawful divulgation or use of the trade secret does not amount to moral damages of the trade secret proprietor. Other factors must come into play, such as damage to the claimant's reputation with clients, partners, franchisees, investors, furnishers and/or damage to the claimant's general credit.

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[9] Summula (summary of rulings) No. 227 of the Superior Court of Justice of the Federative Republic of Brazil.

20.4 Protection of Know-How in Confidentiality or Non-disclosure Agreements

As a rule, confidentiality agreements and clauses are enforceable under Brazilian contract law. However, if the information, which is secret under the terms of the agreement, is or becomes publicly known, the confidentiality agreement or clause will not be applicable. Of course, the agreement remains applicable if the publicity given to the information is because of a breach of contract by the recipient of confidential information.

In the event of breach of a confidentiality or non- disclosure agreement protecting know-how, the victim will have the same remedies available for protecting trade secrets in general, which we have already discussed in Sect. 20.2 above. In addition, the victim is able to request specific compliance with the confidentiality agreement/clause, including the application of fines established in the agreement or by the judge handling the case, without having to go through a typical procedure involving the production of evidence. In other words, the judge may grant relief to the infringed party only to force compliance with the NDA/ Confidentiality agreement/clause without having to first rule whether the information in question is indeed a trade secret. Of course, the defendant may provide evidence that the breach has not occurred or that there was an attenuating circumstance or that the information was made public by the trade secret holder himself.

To enable a request of compliance to NDA/Confidentiality agreements at court, the parties must have executed a written agreement signed by two witnesses.[10]

20.5 Misuse of Trade Secret Protection

In the generally called "information society", undisclosed information is deemed as one of the most valuable assets to corporations, as well as governments.

Thus, the protection conferred to trade secrets and the judicial remedies granted by law are a crucial element of a country or region's capability to provide a safe environment for investors and creative individuals and organizations. The infringement of trade secrets, as well as the infringement of intellectual property in general, usually causes irrecoverable damage and demand fast and efficient actions from government officials and the judiciary.

On the one hand, legal protection afforded to trade secret holders must be adequate to the nature of this asset, which typically involves the need for fast and effective measures. On the other hand, as pointed out in the previous titles, the measures must be proportionate and avoid excessive damage to the infringing party. Accordingly, a judge must request a minimal *prima facie* evidence that the claimant is the holder of the trade secret and that there is indicia of infringement.

[10]Article 585, item II of the Brazilian Civil Procedure Code.

Despite the cautions established by the BIPL, as well as Procedural Law, a claimant may misuse the legal protection afforded to him by, among others:

- requesting disproportionate relief measures;
- submitting as trade secret an information that is publicly known or obvious to a trained professional in the relevant field but not to a civil or criminal judge; and
- using trade secret protection to unlawfully restrict competition or to hinder the hiring, by a competitor, of an ex-employee.

Brazilian law does not establish what misuse of trade secret protection is. However, it does establish that the holder of a right will be responsible for damages caused by his misuse thereof—the Brazilian Civil Code, Article 187, employs the term “abuse of rights”.

Brazilian Antitrust Act[11] considers as infractions to competition the prejudice in any way of the free competition, to illegally impede or hinder the entrance of new companies in the market, to hinder or impede the legitimate use of intellectual property or technologies and to misuse (abuse) intellectual property rights and rights over technologies. All of these conducts may be undertaken in connection with trade secrets.

The misuse of trade secrets protection may be translated into sham litigation, i.e., the judicial harassment of competitors with the undeclared aim of illegally hindering or impeding their performance on the market.

Ultimately, Article 195, item XIII of the BIPL establishes that it is a crime of unfair competition to sell, display or offer for sale a product falsely declaring that it is protected by a pending or granted patent, or by an industrial design registration, or to mention in an advertisement that it is pending, patented or registered, when this is not the case. Even though the item does not mention “trade secrets”, which impedes considering the false claim of having a trade secret as a crime, this legal disposition may be applied analogically in civil lawsuits to consider that the false claim of trade secret is an act of unfair competition punishable by law.

The misuse of trade secret protection can lead to compensation for damages caused to a defendant, as well as to fines established by the Administrative Council of Economic Defence (CADE), which is the Federal Agency responsible for enforcing antitrust law in Brazil. If a judge concludes that a party has misused trade secret protection in bad-faith during the proceedings, he may also establish a fine[12].

If the misuse of trade secret protection generates a reasonable risk of unrecoverable damages for the victim, it may request *ex parte* injunction to stop the misuse in question.

[11]Federal Act No. 12.529/2011.

[12]Article 17 of the Brazilian Civil Procedure Code.

20.6 Personal Reflections and Conclusion

Besides the measures listed in Article 39 (2) of the TRIPS agreement, which are the conditions a person or legal entity must meet to have its information considered as a trade secret in Brazil, the trade secret holders should adopt additional cautions, especially in Brazilian territory.

The first measure is to classify the information according to its relevance and maintaining adequate and proportionate secrecy. This means affording high protection to highly relevant information which must be kept undisclosed, by means of setting both contractual, as well as technical/technological, barriers.

It is important to keep in mind that the Brazilian statutes do not establish a difference between trade secrets which are disclosed to an employee as a natural part of its employment experience—and therefore cannot be realistically "unlearned"—and the trade secrets which are not a necessary element of the work and the protection of which does not hinder the capability of an ex-employee who had contact with it to obtain employment with a competitor or to set up its own competing business. Moreover, the protection of workers in general is a constitutional value of the Brazilian Republic, which is reflected in the employee-protective nature of labor law and labor courts.

Hence, trade secret holders should draw specific NDAs and confidentiality agreement clauses with employees who have or may have access to trade secrets and confidential information. Non-legal measures such as restricting access to highly valuable trade secrets only to the most qualified employees (such as officers and managers), as well as technical barriers such as encryption and safekeeping documents should also be considered.

One of the difficulties in protecting trade secrets in court is providing evidence of the trade secret. Thus, whenever possible, the trade secret should be written down in a confidential document. Some registries of titles and deeds provide for recording of confidential documents, a measure which can raise the chances of the documents being accepted in court proceedings.

Finally, trade secret owners should take quick action when learning of infringement or risk of infringement of trade secrets. Failure to request judicial relief as soon as the knowledge of infringement is received may entail the rejection of *ex parte* relief measures because of a perceived lack of urgency.

21 Bulgaria

Teodora Tsenova

21.1 Legal Protection of Trade Secrets

21.1.1 Specific Provisions of the Bulgarian Legislation on Trade Secrets Protection

21.1.1.1 General Notes

The Bulgarian legislation does not contain a specific statutory act, regulating trade secrets and their protection. Further, trade secrets are not considered to be intellectual property and therefore the statutory rules on intellectual property are not applicable to trade secrets.

Rules on protection of trade secrets, production secrets, confidential information or similar may be found in different Bulgarian statutory acts. For the purpose of this report a general reference to “trade secrets” shall be considered to cover any of the variations of the term, used in various legislative instruments, while when discussing a specific act, the exact term of such act shall be used.

The existing rules may be divided into (1) rules providing for a substantive right to trade secret protection in the context of specific relations (*e.g.*, unfair competition torts, employment or commercial contracts) and (2) rules guaranteeing protection of trade secrets disclosed in the contexts of administrative or court proceedings, *i.e.* rules creating procedural rights. There are a number of statutory acts that provide for secrecy obligations of state and municipality officials, or other professionals (*e.g.*, attorneys, judges, medical doctors, bank employees, etc.). These rules are considered to be outside of the scope of this report and are not discussed below.

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21.1.1.2 Rules Creating a Substantive Right to Protection of Trade Secrets

Rules creating a right to protection of trade secrets may be found in different statutory acts. Below are discussed the statutory provisions, considered to be of greater significance.

Unfair Competition Rules

The Protection of Competition Act[1] (the “PCA”) prohibits unfair competition, which is defined as any act or omission to act in the course of a business activity that is inconsistent with fair business practices and harms or may harm the interests of competitors (Art. 29 PCA). The PCA further defines and prohibits specific forms of unfair competition, among which is the prohibition for disclosure of production or trade secrets (Art. 37 PCA).

To qualify as one of the specific forms of unfair competition, the relevant behaviour should fulfil not only the relevant special conditions but also the general elements of unfair completion specified in Art. 29 PCA. In particular, there should be (1) an act or omission to act in the course of business; (2) which is inconsistent with fair business practices; (3) the parties are competitors on the relevant market; and (4) the act or omission to act has harmed or may harm the interests of competitors.

Paragraph 1 of Article 37 of the PCA prohibits the obtaining, use or disclosure of production or trade secret, when inconsistent with fair business practices. Paragraph 2 of the same article provides that the use or disclosure of production or trade secret is prohibited also in cases, where the secret is obtained or provided under the condition not to be used or disclosed. The prohibition of misappropriation of trade secrets under the PCA covers cases of existing contractual relationships, as well as such where no contractual relationship exists, *i.e.,* the law provides for a right to trade secret protection where the trade secret has been disclosed or obtained in the context of contractual relations, as well as in all other cases where the obtaining or use of the trade secret by a competitor of the proprietor of the secret would be contrary to the customary business practices and (threatens to) harm(s) the interest of the trade secret proprietor. In this respect Art. 37 PCA creates a quasi-proprietary right over confidential information, which can be opposed to all third parties—competitors.

The Commission for Protection of Competition (the “CPC”) is the state authority, competent to decide on unfair competition claims under the PCA as a first instance. The CPC is an administrative body, whose decisions are subject to judicial review on two court instances—appeal before a 3-judges panel and subsequent cassation before a 5-judges panel of the Supreme Administrative Court (the “SAC”).

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[1]Promulgated in State Gazette, Issue No. 102 of 28 November 2011, last amended and supplemented State Gazette, Issue No. 56 of 24 July 2015.

Proceedings before the CPC may be initiated by: (1) a petition from anyone having legitimate interest in the case; or (2) the CPC's own initiative (ex officio). The proceedings under an unfair competition claim have adversarial character i.e. they follow closely the standard civil action proceedings. Two sides are formed: (1) petitioner—the aggrieved party and (2) respondent—the alleged infringer.

Trade or Production Secret

The PCA contains an express definition of a production or trade secret. §1, item 9 of the Supplementary Provisions of the PCA defines production or trade secret as "*facts, information or data, related to business activities, the keeping in confidence of which is in the interest of the right holders and they have taken due measures in that regard*". There is extensive practice of the CPC and of the SAC on the interpretation of production and trade secret under the meaning of the PCA.[2] There are no restrictions or limitation on the facts, information and data that may qualify for protection as production or trade secret, as long as such facts, information and data are not part of the public domain and relate to business activities. By way of example, this could be information on clients, price lists, used production technologies, offers, template documents, *etc*. To fall under the statutory definition, it is necessary that the proprietor of such information has determined in a clear manner what is considered to be production or trade secret. According to existing administrative and court practice this could be done by issuing an order, internal instruction or other document, listing the specific documents or types of data to be treated as secret. It is also possible to define the scope of trade or production secret in a contract between the trade secret proprietor and an employee or external contractor, or in a confidentiality affidavit, signed by the employee or external contractor. General references to broader categories, such as all company-related data, all data on company's business or similar, are not considered to satisfy the specificity requirement.[3] It is also necessary that the subjects to the confidentiality obligation be familiarized with the document that specifies what should be treated as production or trade secret.

In addition to the above elements, it is set administrative and court practice that to avail itself of the protection provided under the PCA, the proprietor should have undertaken adequate measures to preserve the confidential nature of the information designated as "secret". In general, such measures must restrict access to the information only to authorized persons. By way of example, measures satisfying this requirement are password controls, storage of the information in locked containers or premises, *etc*.

[2]Decision No. 354 of 13 January 2015 of the Supreme Administrative Court on adm. case No. 6073/2012, IVth Chamber.

[3]Decision No. 102 of 5 January 2010 of the Supreme Administrative Court on adm. case No. 13705/2009, VIIth Chamber.

Prohibited Activities
The scope of activities that may constitute a violation of trade secrets under Art. 37, paragraph 1 of the PCA is quite broad—"obtaining, use and disclosure" of confidential information. Still not all acts that represent "obtaining, use and disclosure" fall under the statutory prohibition, but only those that are inconsistent with fair business practices. *Fair business practices* are defined in §1, item 2 of the Supplementary Provisions to the PCA as the common rules that determine market behavior in line with established moral standards, which stem from the law and customary business practices. By way of example, use by ex-employees of client database of their former employer in a competing business established after termination of employment has been considered to be contrary to the fair business practices. On the other hand, if a client decides to follow an employee and start working with their new employer without any intervention of the employee to solicit or entice the termination of contractual relationship with the former employer, this would not be contrary to fair business practices.[4]

Paragraph 2 of Article 37 PCA covers the use or disclosure of someone else's trade secret, provided access to the relevant information was obtained in the course of performance of a contract between the parties under the express condition that the information may not to be used or disclosed outside the agreed upon scope of activities. In substance, the contractual arrangement under para. 2 replaces the condition in para. 1 that the act of use or disclosure is contrary to the fair business practices. Thus any act of use or disclosure not in accordance with an existing contract will violate the right of proprietors to demand protection of their trade secret.

In any event, it will be necessary that evidence be available on the illegal "obtaining, disclosure or use" of production or trade secret. For example, the mere fact that clients have started to work with the new employer does not constitute evidence that the employee has misappropriated trade secrets of their former employer.

The PCA does not provide for specific injunctive relief that could help the trade secret proprietor to secure evidence. However, it should be noted that in addition to the evidence submitted to the CPC by the petitioner, the CPC also conducts an independent investigation, during which it collects additional evidence and certifies the trustworthiness of the evidence submitted with the petition. In the course of its investigation the CPC may require information and documents from the parties to the proceedings, third parties, experts, public authorities, etc., and all private parties and governmental bodies are obliged to assist the authority and provide the requested information. In that regard, the fact that requested information represents trade or production secret may not be used as a reason, justifying refusal to provide

[4]Art. 37 of the CPA should be interpreted restrictively, taking into account the right of individuals to choose where to work and to use the gained professional experience. Please see: P. Nikolov (ed.), The new statutory rules for protection of competition, Labour and Law Publishing House, 2009, p. 393.

the information or documents. However, the disclosing party may claim procedural protection of the respective information under Art. 55 PCA (discussed below). All parties concerned have strong reasons to assist the CPC and to provide requested information given the powers of the CPC not only to impose sanctions for contempt of authority (refusal to comply) but also to accept as proven facts, regarding which a party to the proceedings or a third interested party impedes collection of evidence.

Labour Law Rules

Art. 126, item 9 of the Labour Code[5] (the "LC") sets forth the duty of loyalty of the employee, which encompasses among others the obligation of the employee not to disclose "confidential information" of the employer. The LC does not contain an express definition of "confidential information". The court practice considers as confidential any information that is clearly indicated as such, save for information which is in the public domain or at least is well known to the people working in a particular field.

Violation of the statutory obligation for confidentiality by the employee may lead to disciplinary sanctions and may trigger the employee's pecuniary (limited or full) liability.

The LC does not specify expressly the elements that should be established for a successful action against an employee. Besides illegal disclosure of confidential information, all other conditions listed in the law actually serve to determine the legal remedies, available to an employer against an employee. On the one hand, a violation of the confidentiality obligation represents a disciplinary violation and may lead to disciplinary sanctions. To impose a disciplinary sanction, the employer should only ascertain the fact of illegal disclosure of its confidential information irrespective of whether intentionally or negligently performed.[6] The intentional or negligent nature of the act will have relevance when determining the seriousness of the violation and the severity of the sanction to be imposed. Whilst harm is not a condition for imposing disciplinary sanctions—although it could be of relevance when determining the seriousness of the violation—proper evidence of the damage suffered is required to engage the pecuniary liability of the employee.

The proper conduct of a disciplinary sanctioning procedure under the LC requires adequate evidence, but the law does not prescribe to employers specific legal measures to secure evidence. The same applies regarding both cases of full and limited liability of the employee.

For cases where the employee bears liability for the caused damages in their full amount, the general tort rules under the Contracts and Obligations Act[7] ("COA")

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[5]Promulgated in State Gazette, Issue No. 26 of 1 April 1986, last amended State Gazette, Issue No. 61 of 11 August 2015.

[6]Ruling No. 1014 of 30 July 2013 of the Supreme Court of Cassation on civil case No. 3035/2013, IVth Civil Chamber, Civil Division.

[7]Promulgated in State Gazette, Issue No. 275 of 22 November 1950, last amended and supplemented State Gazette, Issue No. 50 of 30 May 2008.

are applicable. Tort liability under the COA is based on the legal principle that each person is liable to repair the damages caused to a third person in result of his/her unlawful activity.

The usual measures for securing evidence under the Civil Procedure Code[8] are available to the employer, including among others the right to request provision of evidence in possession of third parties or the other party to the proceedings, witness evidence, expert opinion, etc. Additionally, in the presence of threat that certain evidence could be lost, the Civil Procedure Code allows a party to initiate proceedings for securing evidence even before filing the principal claim. The defendant is notified of such preliminary proceedings and constituted as a party to them.

Commerce Act Rules

Under Art. 52 of the Commerce Act[9] procurators, commercial representatives, commercial agents and intermediaries must keep in confidence the trade secrets of the persons who have assigned them performance of specific work. Similar confidentiality obligations are imposed on members of the management bodies of joint stock companies (Art. 237, paragraph 5), as well as on the licensee regarding unpatented invention, utility model or know-how (Art. 593). The provision of Art. 52 (regarding corporate representatives) uses the term “trade secret”, while the provision of Art. 593 (regarding the obligations of the licensee) uses the term “secret”. With respect to the confidentiality obligation of the management bodies of joint stock companies, the law does not use a specific legal term but sets the confidentiality obligation in a descriptive manner. In particular, it prohibits the members of management bodies to disclose information that they have become aware of in their corporate capacity, when disclosure of such information may affect the business and development of the company. The confidentiality obligation continues to apply even after they are released from office. It does not cover information available to third persons by statute or already disclosed by the company.

The secrecy obligation is owed to the principal, the company, respectively—the licensor, and a violation thereof does not trigger the liability of third persons. Given that it is the usual case that there is a contractual relationship between the parties and the confidentiality obligation is part of the contractual relationship, violations thereof represent breach of contract and trigger liability under the rules of the COA. To the extent however that third parties competitors have taken advantage of the violation of the obligations under the Commerce Act, the rules of the PCA may trigger additional liability of the enumerated categories of persons.

[8]Promulgated in State Gazette, Issue No. 59 of 20 July 2007, last amended and supplemented State Gazette, Issue No. 50 of 3 July 2015.

[9]Promulgated in State Gazette, Issue No. 48 of 18 June 1991, last supplemented State Gazette, Issue No. 22 of 24 March 2015.

Trade Secrets and the Right to Access Public Information

The Access to Public Information Act (the "APIA")[10] regulates the procedure for access to public information. Under Art. 17, paragraph 1 of the APIA state and municipal authorities, and other public entities, must disclose the information created, collected or stored by them in relation to their activities. They however may not disclose information that represents trade secret and its disclosure may lead to unfair competition between merchants, unless a prevailing public interest requires disclosure. The Supplementary Provisions of this act list the cases in which no trade or production secret is deemed to exist. Based on these rules, one can derive the following definition of trade secret: "*facts, information, decisions and data, related to business activities, the confidentiality of which must be preserved in the interest of its proprietor*". Unless otherwise proven, public interest for disclosure of information is at place when the information: (1) allows citizens to form an opinion and take part in ongoing discussions; (2) facilitates the transparency and accountability of state and municipal authorities with respect to their decisions; (3) guarantees the legal and justified performance of statutory duties by the state and municipal authorities; (4) reveals corruption or abuse of powers or other illegal activities that affect the state or public interests, rights and obligations of other persons; (5) disproves publicly disseminated untrue information that affects significant public interest; (6) is related to the parties, subcontractors, the subject matter, price, rights and obligations, terms, penalties, set in a contract, to which a state or municipal body is a party. An *overriding* public interest demanding disclosure of the information will also exist where access to the information is requested with the aim to reveal corruption or abuse of powers, or to increase the transparency and accountability of state and municipal authorities.

In light of the APIA rules discussed hereinabove, it may be concluded that the law creates a substantive obligation for state and municipal authorities to protect trade secrets of private parties. The scope of this obligation covers all "facts, information, decisions and data, related to business activities, the preservation of which in confidence is in the interest of the respective proprietors", except in cases where there is an overriding public interest demanding disclosure (as per the exceptions noted in the preceding paragraph). The public authorities are obliged not to disclose trade secrets of private parties entrusted to them in relation to performance of their official duties. While this is not expressly stated in the APIA, because only the proprietors of the respective information may decide whether they have an interest in keeping it secret (which in turn triggers an automatic obligation for the authorities to refuse access to third parties in the absence of a valid exception), it appears that protection is granted only where the relevant information is clearly and expressly marked as confidential by its proprietor (at the time of submission or subsequently, where permitted by the applicable procedure).

[10]Promulgated in State Gazette, Issue No. 55 of 7 July 2000, last amended State Gazette, Issue No. 39 of 20 May 2011.

Liability for violations of the obligations under the APIA is regulated by the rules of the Act on the Liability of the State and Municipalities for Damages (the "ALSMD")[11]. Liability is based on the legal principle that each person must repair the damages caused to a third person in result of his/her unlawful activity.

21.1.1.3 Rules Creating a Procedural Right to Protection of Trade Secrets

A significant number of statutory acts contain rules restricting disclosure of information and/or documents that contain trade secrets, which have been submitted or obtained by the authorities in the context of administrative or court proceedings before them. These acts usually provide to private parties, when submitting documents to the authorities, the possibility to classify part of the submission as trade secret. They also set a confidentiality duty of the authorities with respect to trade secrets, either classified such by the information proprietor or by the authorities on their own motion. By way of example, such rules may be found in the Public Procurement Act,[12] the Electronic Communications Act[13], the Environment Protection Act[14], the Energy Act[15], the Radio and Television Act,[16] *etc*.

Liability for violations of the mentioned acts is regulated by the rules of the ALSMD.

21.1.2 Other Relevant Legal Rules

In addition to the rules regulating trade secrets expressly, contract law may be relevant, when obligations to preserve the trade secrets of another party are undertaken in a contract. Some of the rules of the Criminal Code may be applicable as well.

21.1.2.1 Contractual Confidentiality Obligations

While with respect to contractual confidentiality obligations nothing specific deserves any comment, confidentiality obligations undertaken by employees as part of their employment contract raise several interesting questions. The potential

[11]Promulgated in State Gazette, Issue No. 60 of 5 August 1988, last amended and supplemented State Gazette, Issue No. 98 of 11 December 2012.

[12]Promulgated in State Gazette, Issue No. 28 of 6 April 2004, last amended and supplemented State Gazette, Issue No. 17 of 6 March 2015.

[13]Promulgated in State Gazette, Issue No. 51 of 23 June 2006, last amended State Gazette, Issue No. 57 of 28 July 2015.

[14]Promulgated in State Gazette, Issue No. 91 of 25 September 2002, last amended and supplemented State Gazette, Issue No. 62 of 14 August 2015.

[15]Promulgated in State Gazette, Issue No. 107 of 9 December 2003, last amended and supplemented State Gazette, Issue No. 56 of 24 July 2015.

[16]Promulgated in State Gazette, Issue No. 138 of 24 November 1998, last amended State Gazette, Issue No. 107 of 24 December 2014.

issues are reviewed in this section, because they relate to contractually undertaken obligation for confidentiality by an employee, while the analysis contained in section "Labour Law Rules" above relates only to the statutory duty of confidentiality. By including a contractual confidentiality obligation in an employment contract, employers usually aim to broaden the statutory duty of the employee, and also agree in advance on the remedies in case of a breach, which are additional to the statutory rules. It is generally accepted that a broader obligation for confidentiality of the employee may be validly agreed in a contract.[17] Nevertheless, the question on the remedies that may be stipulated in advance for cases of breach of contractual obligations still remains open. The main reason for this uncertainty is the fact that Bulgarian employment legislation contains limitations on the liability of employees for damages caused to employers (see section "Labour Law Rules" above for further details). According to these rules in most cases the liability of the employee is limited to his/her monthly salary or three times this amount. The validity of a clause providing for liquidated damages in case of a contraction breach during the course of employment has been examined by the Bulgarian courts in this respect and found generally unenforceable beyond the statutory limit.[18] At the same time, the court practice indicates that agreements for payment of liquidated damages for breach of confidentiality obligations after termination of employment are valid and binding.[19]

Indemnification in case of breach of contract is regulated by the COA. Claims for damages or injunctive relief in relation to breach of contractual confidentiality obligations are reviewed by the general civil courts under the rules of the Civil Procedure Code. The legal measures available to secure evidence of trade secret misappropriation as a result of breach of a contractual obligation are those specified in section "Labour Law Rules" above.

21.1.2.2 Criminal Liability

While using someone else's trade secret does not constitute a crime in itself, certain criminal acts defined in the Bulgarian Criminal Code[20] pertain to unauthorised use of trade secrets. Under Art. 284 of the Criminal Code, dissemination or publication by an "official" of information that has been entrusted or made available to him or her in the course of his or her duties (referred to as an "official secret") is a crime, provided the official was aware that such information represents an official secret.

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[17]This question has been raised in view of the fact that the Bulgarian labour law is very protective to the employee and contractual arrangements placing the employee in a position that is worse than what is provided in the law, are considered invalid.

[18]Agreed liquidated damages may (and usually) exceed the statutory limitations on the liability of an employee and as such place the employee in a worse position.

[19]Ruling No. 8 of 16 January 2015 of the Supreme Court of Cassation on private civil case No. 6476/2014, II Civil Chamber, Civil Division; Decision No. 682 of 16 December 2010 the Supreme Court of Cassation on civil case No. 2132/2008, IV Civil Chamber, Civil Division.

[20]Promulgated in State Gazette, Issue No. 26 of 2 April 1968, last supplemented State Gazette, Issue No. 41 of 5 June 2015.

The legal theory and the existing court practice discuss this crime mainly in the context of public servants and corporate officials in organisations controlled by the state or other public entities. However, the Criminal Code uses a rather broad definition of the term “official”, covering any individual, who has been entrusted to carry out against remuneration or without pay, temporarily or permanently, management work, or work related to safeguarding or managing property for a legal entity. As a result there is a theoretical possibility that (apart from disciplinary, administrative or contractual/tort liability), misappropriation of protected information by individuals in the private sector could also result in criminal liability.

In addition, Art. 319a, paragraph 4 of the Criminal Code (Computer Crimes Section) incriminates the unauthorized copying of, use of, or access to computerized data in a computer system, protected by virtue of the law as a secret. Art. 319d, paragraph 1 of the Criminal Code also incriminates the mere dissemination of a password or an access key to computer systems or computerised databases, which has led to disclosure of information protected by virtue of the law as a secret. Unfortunately there is no published case law and it remains unclear under what circumstances the trade secrets proprietor could initiate criminal prosecution.

21.2 Persons Liable for Trade Secret Misappropriation

It is the general rule that actions for trade secret misappropriation may be undertaken against the infringer(s), i.e. the person(s) who has actually violated their obligation(s). An exception to that rule, extending the personal scope of application of existing rules on trade secret protection, may be found in the competition legislation.

The procedural rules of the PCA allow direct enforcement not only against the persons who illegally used a trade secret, but also against third persons who benefited from such illegal disclosure. In particular, unfair competition actions may be launched against the competitor (a legal or natural person), as well as against the individual that has assisted in the unfair competition act. A common example of prohibited assistance is the scenario where an (ex-)employee discloses production or a trade secret to a competitor. The liability of the employee—accomplice is accessory to the liability of the competitor. Thus, if the competitor’s conduct does not constitute a violation in itself, the accomplice may not be held liable for assisting an unfair competition act. Additionally, even if an act of unfair competition is found to be at place, the employee would not be held liable in person for assisting, if s/he did so in the capacity as employee or contractor of the competitor. In other words, personal liability is only present when at the time the respective act was performed, the individual did not have an employment or contractual relationship with the competitor.[21] If an ex-employee becomes a

[21]Decision No. 9954 of 9 April 2012 of the Supreme Administrative Court on adm. case No. 3900/2012., IInd Grand Chamber.

manager or employee of a competitor, or creates a competing business, then this competitor or newly created business could be sanctioned for unfair competition, but the ex-employee would not be personally liable, as it will be regarded as a legal or de facto representative of the perpetrator.

21.3 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

21.3.1 Available Mechanisms to Protect the Confidentiality of Information in the Course of Legal Proceedings

21.3.1.1 Unfair Competition Proceedings

Art. 55 of the PCA contains rules on restricting the access, disclosure and related actions with respect to information and materials collected in the course of unfair competition proceedings. Under paragraph 4 of the same article, the CPC has adopted Rules on the access, use and storing of documents that represent production, trade or other secrets protected by the law (the "Rules"), which regulate in further detail what information is confidential, as well as exceptions to the confidentiality obligation, *etc*.

Under the existing legislation, the parties to CPC proceedings and third parties who submit information to the CPC, have the right to mark certain documents or part thereof as (containing) production or trade secret or other information protected by the law as confidential. Such documents should be treated by the CPC as confidential and stored separately from "ordinary" case documents. The parties that identify (parts of) documents as confidential are obliged also to provide reasons for their claim and submit a "public version" of the relevant document, in which the confidential information is deleted. Pursuant to the Rules, confidentiality protection may not be granted to information that: (1) relates to an undertaking but is also known outside the respective undertaking; (2) is publicly accessible or subject to public disclosure (*e.g.,* financial statements of companies, which must be published in the Commercial Register) or (3) has lost its commercial value, by way of example, because of expiration.

Despite the fact that a party has classified in its submission certain data as confidential, the CPC may decide that it does not represent trade or production secret or other secret protected by the law and refuse protection. The refusal of the CPC is subject to appeal before the SAC. If the SAC confirms the ruling of the CPC, the information is treated as non-confidential.

Additionally, the CPC may decide that certain evidence, even though marked as confidential, should be disclosed to the parties to the proceedings, on grounds that it is of importance for proving the violation under investigation or for exercising their right of defence. To decide whether to order disclosure the CPC should weigh facts like the importance of the information for proving a violation—i.e. its evidentiary value, as well as the degree of sensitivity—*i.e.,* to what extent disclosure may harm the legitimate interests of the proprietor.

If the CPC decides to disclose confidential information upon its own motion, access is provided to all parties to the proceedings. It may also disclose information upon the request of one of the parties, in which case access is provided only to the party that requested disclosure. The CPC may also reject a disclosure request. In all cases the CPC decision is expressed in a ruling. Pursuant to the Rules, the ruling with which the CPC grants access may be appealed before the SAC by the proprietor of the information. However, a ruling rejecting a request for access is considered to be a ruling of procedural nature which is not subject to separate appeal.[22] The party that was refused access may challenge the refusal as part of an appeal against the final CPC decision on the merits of the case, claiming due process violation in the course of the administrative proceedings.

Except for the above described exception, information and documents marked as confidential, are not disclosed to third parties and not mentioned in official communication. Thus, after completion of the investigation stage, the parties are invited by the CPC to familiarise themselves with the materials collected on the case. But they will receive access only to the non-confidential materials and to the public versions of the confidential documents.

After completing the investigation and once the parties have had a possibility to familiarise themselves with the collected materials, the proceedings continue with a hearing. While with respect to other proceedings before the CPC (*e.g.,* antitrust, concentrations, *etc*.) the law provides for a possibility for a closed hearing, no such option is available with respect to hearings on unfair competition cases which are open to the public.

Confidentiality is also protected with respect to the public version of the final decision that the CPC issued on the case, where it may not cite or reproduce information from documents that have a confidential status. For this purpose the CPC actually issues two decisions—one complete confidential version and a second edited public version, where confidential information is deleted. The parties are normally provided only with the public version of the decision. If the decision is appealed before the SAC, the complete version of the decision is provided to the court, but this version is not disclosed to the litigating parties and preserves its confidential status, unless the court expressly authorises disclosure on motion by one of the parties.

Further, if the CPC decision is appealed, the confidentiality of the information constituting production and trade secret is also preserved because such information is accessible to the SAC only. It is worth noting, that even if a party to the proceedings has not requested access to information classified as confidential during the proceedings before the CPC, if the decision is appealed such party

[22] Decision No. 7116 of 20 May 2011 of the Supreme Administrative Court on adm. case No. 4516/2011, IVth Chamber.

may request to be provided with access by the SAC. In other words, failure to request access in the administrative stage of the proceedings does not automatically prejudice the rights of the parties in the judicial review phase, although this inaction could be interpreted in their disadvantage.

The court applies the same criteria for weighting legitimate interests when deciding whether to grant or not access to confidential information as those applicable in the administrative proceedings before the CPC. An example of a situation, justifying request for access at the judicial review stage, is where in its decision the CPC relied on certain confidential documents and materials, with respect to which at the stage of the administrative proceedings it was not clear whether and to what extent such documents were relevant and important for the final outcome. Therefore, only after issuance of the final decision of the CPC the importance of such materials becomes clear, and hence, it is only in the course of the subsequent judicial appeal that the party find access to the complete documents indispensable for its defence.

21.3.1.2 Other Legal Proceedings

The Civil Procedure Code regulates the confidentiality measures available to the parties in civil litigation, which is the only enforcement avenue available for cases of violation of the labour law rules when the employee bears full liability (see Sect. 21.3.2.2 below on limited and full liability of the employee) and an alternative course of action (together with unfair competition proceedings) for breach of the statutory or contractual duty of confidentiality in commercial setting. Pursuant to Art. 136 of the Code the court may rule ex officio or upon request of one of the litigating parties to hear the case in a closed session—i.e. in the presence only of the parties, their counsel, court-appointed experts, witnesses and persons expressly admitted by the court. Such closed hearing is available in relation to trade, production, invention-related, or tax secret, disclosure of which may harm legitimate interests of a party. The hearing minutes are also kept confidential and not disclosed beyond the narrow circle made of the participating parties. Unfortunately, while such procedural protection is possible for the hearing itself and the minutes from the hearing, the case file remains fully accessible.

In relation to the statutory acts discussed in Sect. 21.1.1.3 above that create procedural right to protection of trade secrets, it is important to note that the right to protect the confidentiality of trade secrets in the context of administrative proceedings developing before specific authorities, continues to apply also if the decisions of the respective authorities are appealed before the courts.

21.3.2 Available Legal Remedies

21.3.2.1 Unfair Competition Rules

If the CPC finds that a violation has been committed, it will order (a) discontinuation of the violation and (b) impose a pecuniary sanction of up to 10% of the turnover of the company for the previous financial year, payable to the state budget. The individual who is found to have contributed to the unfair competition act, is imposed a monetary fine in the range of BGN 500 to BGN 50,000. As the sanctions imposed are of a purely administrative nature, the CPC cannot award damages to the aggrieved party, even if it has found violation of the competition legislation and has sanctioned the perpetrator.

The possibility for sanctioning the infringer under the rules for protection of competition exists independently of any other remedies available to the party harmed by the unfair competition behaviour. The victim may claim damages based on the Bulgarian tort rules before the courts of law. If, however, a violation of paragraph 2 of Art. 37 of the PCA is found to be at place, then the available recourse would be a claim for compensation in damages for breach of contract.

A final decision of the SAC, confirming a decision of the CPC on unfair competition case, has binding effect on the civil courts regarding the existence of a violation—i.e. a civil court may not challenge the findings of the CPC. Moreover, a final decision of the CPC (not appealed or when the appeal is withdrawn) has the same binding effect on civil courts. The PCA introduces a special statute of limitations for damage claims which lapses 5 years from entry into force of the decision of the SAC or the CPC, as applicable.

21.3.2.2 Labour Law Rules

Violation of a confidentiality obligation gives the employer the right to impose disciplinary sanctions on an employee, including among others a disciplinary dismissal. Additionally, if the employer has suffered damages as a result of the employee's violation, it may claim indemnification. Pursuant to the LC, employees may bear either limited or full financial liability for violations during their employment. The liability of the employee is limited if the employee has caused the respective damage negligently, in the course of performance of employment duties. The employee's liability in such cases is limited to the monthly salary of the employee, or, respectively—three times the monthly salary if the employee holds a position with management functions or is assigned tasks related to collection, safeguarding, spending, or accounting of property. The procedure for recovering these damages is established in the LC and is carried out through deductions from the employee's remuneration.

The employee is liable to compensate the employer in full if the damages are intentionally caused in the course of performance of employment duties, or caused as a result of a crime, or caused not in relation to performance of employment duties. In such cases, the employer will be able to claim full compensation under the general tort rules for all damages, including loss of profit, incurred as an immediate and direct consequence of the violation. The LC prescribes specific procedural rules for out-of-court enforcement of limited liability, while full liability is enforced only on a civil claim made in accordance with the Civil Procedure Code.

21.3.2.3 Violations of a Statutory Obligation to Protect Trade Secrets

Liability for violations against protected secret committed by the state or a municipality or their officials is regulated by the rules of the Act on the Liability of the State and Municipalities for Damages (the "ALSMD") and by the general tort rules under the COA with respect to the obligations of private persons. Liability under both acts is based on the legal principle that each person is liable to rectify the damages caused to a third person in result of his/her unlawful activity. Basically, the elements triggering liability under both acts are the same. The only differences stem from the specific capacity of the infringer in the case of liability of the state and municipalities.

The ALSMD regulates the legal mechanisms available to individuals and legal entities to seek compensation for damages caused to them as a result of illegal acts of the state, municipalities and their officials. Liability under the ALSMD is triggered by the following cumulative elements: (1) illegal act or omission to act; (2) performed by a state or municipal authority or their officials; (3) final decision of the court or other competent body ascertaining the illegality of the act or omission to act; (4) damages and (5) link between the illegal act or omission and the incurred damages. Evidence of fault is not required. The proceedings develop before the administrative courts in accordance with the rules of the Administrative Procedure Code.

Under the rules of the COA, tort liability arises when all of the following elements are at place: (1) illegal activity/omission to act; (2) damages; (3) fault and (4) causal link between the illegal activity/omission to act and the incurred damages. The proceedings develop before the civil courts under the rules of the Civil Procedure Code.

In both cases, it is necessary to prove that there was a statutory duty to keep certain information as confidential and the activity that caused damages violated such statutory duty. In addition to the capacity of the infringer, the main difference between the two procedures is that in the case of liability of the state or municipalities, proof of fault is not required, while for cases of tort liability under the rules of the COA proving fault is an obligatory element. The law however contains a statutory presumption that fault is deemed to exist until the defendant proves otherwise.

21.3.2.4 Violations of a Contractual Obligation to Protect Trade Secrets

It should be noted that even if a confidentiality obligation is not included in a contract between parties, but the law recognises that a confidentiality obligation is applicable in relation to the contractual relationship at stake (e.g. licensee of know-how), the available remedies will be damages for breach of contract instead of damages in tort.

The usual remedy for breach of contractual confidentiality obligations is compensation for damages or alternatively—liquidated damages, if agreed by the parties. Subject to compensation are the damages suffered as a direct and immediate consequence of the breach, which damages have been foreseeable at the time of execution of the contract. For cases where the infringer has acted in bad faith, all pecuniary damages, direct and immediate consequence of the breach, should be compensated, even if not foreseeable at the time of contract conclusion. Based on the most recent interpretative decision of the Supreme Court of Cassation (which is mandatory for all civil courts), breach of contract entitles the aggrieved party to compensation not only for the suffered pecuniary damages, but also for the suffered non-pecuniary damages.[23] Non-pecuniary damages are determined based on the principle of equity. Depending on how essential is the confidentiality obligation for the contractual relationship, a breach may also serve as a ground for rescinding the contract.

21.4 Protection of Know-How in Confidentiality or Non-disclosure Agreements

The Bulgarian legislation does not contain a definition of know-how. Know-how is not considered to be intellectual property and there are no rules that provide for a statutory obligation to protect know-how. Therefore know-how may be protected only pursuant to a contractual undertaking of the parties defining what shall be considered to be know-how and under what conditions that know-how will be protected.[24] This means that to the extent the parties to a contract agree that certain information shall be treated as know-how and therefore—is confidential, such agreement shall be binding on them even if it appears that the information in question is known to other unrelated persons.[25]

As already noted above, the Commerce Act contains some limited regulation of know-how confidentiality obligations in the context of licensing agreements.[26] Pursuant to that act, use of know-how may be licensed by means of a licensing agreement. It also provides that a licensee has confidentiality obligations with respect to the licensed know-how. Considering however that what shall be treated

[23]Interpretive Decision No. 4/2012 of 29 January 2013 of the Supreme Court of Cassation, Plenary Session of the Civil and Commercial Divisions. Before adoption of this decision, the prevailing position was that non-pecuniary damages may not be awarded for breach of contract.

[24]Interestingly, for the purposes of personal income taxation, intellectual property is defined to also include know-how.

[25]This may not be the case from tax-law point of view, since as noted above, the tax legislation gives to know-how the same status as to intellectual property.

[26]Decision No. 13924 of 24 October 2013 of the Supreme Administrative Court on adm. case No. 3184/2013, Vth Chamber.

as know-how depends on the contractual arrangements between the parties (no statutory definition exists in this respect), the confidentiality provision of the Commerce Act regarding know-how does not change the fact that protection of know-how may only be achieved on contractual basis.

The law requires that licensing agreements, including among others for use of know-how, are executed in a written form. This is the only formal requirement that needs to be complied with and there is no need to register the agreement with any public authority to ensure its validity. Still, the Commerce Act requires that a license agreement regarding know-how is recorded with the respective register, kept by the Bulgarian Patent Office. While this is not a requirement for validity of the license, it should most probably be regarded as a condition to ensure effect towards third parties. The respective statutory provision covers primarily licenses to use industrial property and know-how and given that the registration of a license regarding industrial property (e.g. trademarks, patents, designs, etc.) is a condition for the effectiveness of the license towards third parties it may be assumed that the same applies to know-how licenses.[27]

The requirement for registration of a license of know-how is an interesting peculiarity of the Bulgarian legislation, the rationale of which however is not that clear. On the one hand, know-how undoubtedly does not enjoy protection as intellectual property simply by the fact of registration. On the other hand, given the scarce regulation of know-how, there are no rules on how the confidentiality of information provided to the Patent Office regarding know-how, will be preserved after registration. Moreover, the register of recorded license agreements for know-how is public. Therefore, the approach undertaken by the Patent Office is that it does not require detailed description of the licensed know-how, but only some limited description, which does not reveal the confidential elements.

Breach of the confidentiality undertaking regarding know-how will trigger the contractual liability of the infringer under the rules of the COA. Indemnification can be obtained in accordance with the applicable procedural rules of the Civil Procedure Code.

21.5 Misuse of Trade Secret Protection

Bulgarian law does not contain express rules on misuse of trade secret protection. Based on the existing legislation, misuse of trade secret protection may in some cases constitute an antitrust violation. Additionally, misuse of trade secret protection in the course of administrative or judicial proceedings may in some cases qualify as abuse of procedural rights.

[27] There is no court practice on the requirement for registration of know-how licensing.

21.5.1 Antitrust Violations

In theory, misuse of trade secret protection could represent an antitrust violation both in cases of collective action and with respect to unilateral conduct. The CPC has noted that under specific situations know-how licensing agreements between competitors may have market foreclosure effect or lead to prohibited exchange of sensitive information in violation of the rules of Art. 15 of the PCA (the national equivalent of Art. 101 of the TFEU). However, the authority has not yet faced such situations in its practice and there are no decisions that can clarify under what circumstances licensing and confidentiality agreements could be deemed prohibited.

Misuse of trade secrets by a single undertaking may constitute an antitrust violation in the context of Art. 21 of the PCA (the national equivalent of Art. 102 of the TFEU). Of course, such an infringement can be committed only by companies that enjoy a position of dominance. In this respect two distinct situations can be hypothesised: (1) dominance could result from the ownership of specific know-how and could be enforced by protection of such know-how as trade secret; or (2) the position of dominance can be a result of other circumstances, but actions of the dominant company with respect to protection or sharing of its trade secrets can be considered abusive.

So far the CPC has not encountered the first situation in its practice, but there are examples of the second scenario. Recently the CPC issued a statement of objections[28] against several subsidiaries of CEZ (one of the electricity distribution companies in Bulgaria), alleging abuse of dominant position by implementation of a common strategy on the market for supply of electricity towards end customers interconnected to the medium and high voltage power distribution grid, thereby discriminating independent suppliers outside CEZ group and limiting electricity trade by: (1) exchange of important information about clients switching from regulated supplies to the free market, and (2) creating obstacles to the process of switching to a free market supplier. Electricity distribution is subject to licensing regime and only one company can obtain a license for a specific region of Bulgaria. As a result of those legal barriers, CEZ (or more precisely—CEZ Distribution—the subsidiary managing the distribution grid) has monopoly over several regional markets for electricity distribution. In the process of managing supply to individual industrial customers, CEZ Distribution inevitably collects data on their consumption and load and its variations in time. This information is proprietary to CEZ Distribution, but it is extremely valuable to suppliers, who need to anticipate demand fluctuations and plan deliveries. According to the CPC's official press release, CEZ Distribution provides to CEZ Trade (the subsidiary managing free market supplies) access to its proprietary data for free, but refuses to grant access to

[28]The case has not yet progressed to a decision and there is only a limited amount of information publicly available. The official press release was made on 25 July 2014—available at: http://reg.cpc.bg/Dossier.aspx?DossID=300043217.

third party suppliers, or at least does so at prohibitively high prices. Consumption data cannot be regarded as an “essential facility” because traders are able to supply electricity without it, but they would need to rely on estimates and buffer capacity. In this respect access to consumption statistics provides a significant edge to CEZ Trade, as the latter can make much more accurate demand projections and thus could service a higher number of customers. Thus in the opinion of the CPC, by refusing to grant access to its database CEZ Distribution is distorting competition on the supply market. This case is still pending before the authority and it will be interesting to see what will be the final outcome.

21.5.2 Abuse of Procedural Rights

In the context of civil proceedings under the Civil Procedure Code there is no possibility to restrict the access of one of the parties to confidential information presented by the other party (the right of defence prevails over the right to protection of trade secret).

For proceedings under the PCA however, the access to production, trade or other secrets protected by the law may be restricted by the party providing the information, subject to a positive decision of the CPC (see Sect. 21.1.1.2 above). This procedural right is applicable with respect to all proceedings conducted before the CPC in accordance with the PCA—antitrust investigations, merger control, unfair competition, sector inquiries etc. However, when exercising their procedural rights to demand confidentiality, a party to the proceedings could prejudice the defence rights of other parties by expanding the protection available to trade secrets over non-sensitive data. The SAC has reviewed cases of such abusive application of the right to demand protection of trade secrets and noted that it would constitute a material breach of procedure, since as a result of the restricted access to evidence the other parties to the proceedings were not able to effectively defend themselves.[29]

As already noted, a procedural right to restrict access to trade secret is also provided in a number of other statutory acts in relation to specific administrative proceeding. In particular, the law allows that parties or the authorities, as the case may be, to classify certain information as trade secret, which will preclude access to the respective information by all or some of the parties to the proceedings. By requesting confidentiality protection with respect to information that objectively is not trade secret, the parties to administrative and court proceedings regulated by the Administrative Procedure Code could abuse their procedural right and prejudice the right to an effective defence of the other parties to the proceeding.

An interesting case of abuse of the procedural right by demanding protection of trade secrets was reviewed by the SAC in relation to the rules of the Public

[29]Decision No. 8584 of 25 October 2004 of the Supreme Administrative Court on adm. case No. 3977/2004, Vth Chamber.

Procurement Act. This statutory act permits the contracting authority not to disclose certain information in relation to an appealed public procurement procedure, which is deemed to represent trade secret. Additionally, the bidders in a tender may also indicate that some of the information submitted by them is confidential. Appeals against public procurement tenders are reviewed by the CPC acting as a first instance tribunal. The decision of the CPC is subject to cassation appeal before the SAC. During the CPC proceedings the contracting authority—in the capacity of defendant, stated that the tender file contains a lot of documents that are trade secret so the entire file should be treated as confidential. The CPC did not object and restricted appellant's access to the file. Not surprisingly, this also led to a decision in favour of defendant. On appeal the SAC found that by taking a passive approach with respect to the request of the contracting authority to qualify the whole tender file as trade secret the CPC committed a serious due process violation.[30] The SAC ruled that the contracting authority abused its procedural right to qualify some of the information as confidential, because a greater part of the tender file did not contain sensitive data and could not be regarded as a trade secret. Moreover, by taking a passive approach regarding such qualification of the information, the CPC violated the law, requiring that the parties to the proceedings are provided with access to all evidence pertinent to their defence. In result, the SAC concluded that the appellant was deprived of the right to organise its defence in an effective manner and for these reasons, the court quashed the CPC decision and reminded the case for de novo review.

21.6 Conclusion

The Bulgarian legislation contains different rules on protection of trade secrets. Part of these rules provide for a substantive right to demand protection of trade secrets towards a specific limited category of counterparties (e.g. competitors under the PCA, agents and contractors under the Commerce Act), and the rest—a procedural right to demand protection in the context of administrative or judicial proceedings (e.g. the Access to Public Information Act, the PCA in its Art. 55, the Public Procurement Act, etc.). With a few exceptions, most of these acts do not contain a clear definition of trade secrets. Additionally, the different acts use different legal terms in relation to information that should be granted protection because of its sensitive character. In some cases the same statutory act contains several terms to designate the same notion of trade secrets (e.g. confidential information, trade secret and their synonyms in the Bulgarian language). The differences in the legal terminology lead to uncertainty regarding the scope of application of the statutory act or the respective provisions. Additionally, different statutory acts (even those regulating in substance more-or-less the same matter—e.g. procedural right to

[30] Decision No. 15766 of 21 December 2010 of the Supreme Administrative Court on adm. case No. 14098/2010, IVth Chamber.

protection of trade secrets) provide for different sets of exceptions to scope of protection.

Furthermore, none of the statutory acts currently in effect in Bulgaria creates a general right of protection of trade secrets that can be opposed to all third parties, as all of them regulate specific fields of socio-economic relations (e.g. competition, employment relations). Therefore, it can be stated that in Bulgaria there is no universal protection of trade secrets and for fields where the effective legislation does not contain any rules on trade secrets, protection may be obtained only based on a contract—i.e. by way of a confidentiality agreement between the disclosing and the receiving party. For cases, however, where there is neither a contractual relationship at place nor a statutory duty of confidentiality, it is very likely that the affected party will not be able to obtain protection. The rules of tort will not apply because the principle that each person is obliged to remedy the damages illegally caused to another person requires a statutory duty that has been violated.

In the light of the variety of statutory rules and the lack of universal protection of trade secrets, the EU-wide initiative for adoption of a directive on trade secret protection to harmonise the legislation of the member states in this filed should be welcomed. The existence of general rules on trade secrets protection will guarantee to the parties to different types of relationships protection of their proprietary information, will prescribe common basis for determination which information qualifies for protection as “trade secret” and will guarantee greater predictability and legal certainty.

France

22

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22.1 Introduction

22.1.1 Lack of a Definition

To date, neither the French legislation nor French case law provides any definition of the notion of "trade secret".

Some authors make a difference between production secrets (recipes, techniques, processes, etc.) and situation secrets (market shares, financial data, commercial strategy, etc.).[1] Schematically, a distinction is made between information concerning a company's production activity, i.e. its know-how, on the one hand, and confidential information concerning the situation of the company, describing a matter of fact, on the other hand.

French law does not provide a definition of the notion of "know-how" either. Know-how generally includes turns of hand, processes, manufacturing methods, industrial secrets, technical and practical knowledge which may be protected by

[1] R. Saint-Alary, Le secret des affaires en droit français, in Le secret et le droit (journées libanaises), work by Association Henri Capitant, t. XXV, 1974, Dalloz, 1976, p. 264, quoted in Jean-Marie Garinot, Le secret des affaires, LexisNexis 2013, coll. Travaux du CREDIMI, vol. 41, pref. E. Loquin.

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patents if they can be considered as patentable inventions and the patent owner actually wishes to patent it.[2]

Because of this lack of definition, French authorities rely on the definitions provided by European and International texts of law.[3] Thus, in accordance with the EC exemption regulation on technology transfer agreements, know-how means a package of practical information, resulting from experience and testing, which is: (1) secret, i.e. not generally known or accessible, (2) substantial, i.e. significant and useful for the production of contractual products, and (3) identified, i.e. described in a sufficiently comprehensive manner to as to make it possible to verify that it meets secrecy and substantiality criteria.[4] Furthermore, according to Article 39 of the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), know-how may be protected if the information it contains is secret, has a commercial value because of its being secret and has been the subject-matter of reasonable protection measures to preserve its confidentiality by the owner.[5]

Finally, know-how represents a financial valuable asset which is transferrable.

22.1.2 Statutory Law Concerning That Notion

Despite being referred to in numerous isolated statutes (Articles L.430-10 & L.463-4 of the French Commercial Code; Article L.612-24 of the French Monetary and Financial Code; Article L.5-6 of the French Postal and Telecommunications Code, etc.), there is no specific statute dealing with the protection of trade secrets and providing for specific penalties in case they are infringed.

22.1.3 Attempts at Providing Specific Regulations

French lawmakers attempted to fill that gap on three occasions.

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[2] http://www.entreprises.gouv.fr/propriete-intellectuelle/savoir-faire-reglementation.

[3] http://www.entreprises.gouv.fr/propriete-intellectuelle/savoir-faire-reglementation.

[4] Regulation No 316/2014 of 21 March 2014 for the enforcement of Article 101, paragraph 3, of the treaty on the operation of the European Union to some categories of technology transfer agreements.

[5] Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Appendix to the Marrakech Convention of 15 April 1994 creating the WTO.

A first bill, n°3985, geared to punish infringements of trade secrets was submitted on 22 November 2011.[6] This bill which suggested criminal penalties was not carried through.[7]

A second bill, adopting a civil and no longer a criminal approach was submitted on 16 July 2014.[8] Creating a new section entitled "*About trade secrets*" in the French Commercial Code, the bill gave a definition of trade secrets in accordance with the criteria set forth in Article 39 of TRIPS Agreement[9]. However, that bill was not adopted either.

Finally, on 12 January 2015, an amendment to the act on growth, activity and equality of economic opportunities[10] set forth a general principle prohibiting the infringement of trade secrets to protect companies from economic espionage. It made provision for sentencing anyone obtaining, or revealing without permission or misappropriating any protected information to 3 years' imprisonment and a fine of EUR 375,000. It also provided that this penalty could go as high as 7 years' imprisonment and a fine of EUR 750,000 in case of breach of the security and essential economic interests of France.[11] That amendment was withdrawn on 30 January 2015 following strong opposition from the media expressing their fears for the freedom of the press and whistle-blowers.[12] A new bill should come out given the protection of the freedom of the press and whistle-blowers.[13]

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[6]See http://www.assemblee-nationale.fr/13/propositions/pion3985.asp.

[7]"It only concerned the disclosure of a trade secret, which was proving restrictive to say the least. In addition, it was very broadly based on national defence secret and therefore entailed cumbersome and weighty practices which would have unavoidably disqualified it in the eyes of economic world operators and put PME/PMI or ETIs in an unfavourable situation (in case of litigation especially) which are incapable of dedicating the human, financial and technical resources required to ensure the intended classification. The contemplated system also posed problems with regard to trade union freedom and freedom of the press. Finally, in proposing to rescind Act n°68-678 of 26 July 1968, it denied companies a precious tool to fight certain unfair international procedures", presentation of justification for bill n°2139 on the protection of trade secrets of 16 July 2014.

[8]AN, n°2139, 16/7/2014, http://www.assemblee-nationale.fr/14/propositions/pion2139.asp.

[9]See note n°5.

[10]http://www.assemblee-nationale.fr/14/amendements/2447/CSCRACTIV/SPE1810.pdf.

[11]This bill proposed to include, *inter alia*, the following provisions in the French Commercial Code: "Article L.151-3 (Commercial Code) – "If the claimant testifies to circumstances of a nature likely to impede the collection of compensation, the court may order the preventive attachment of the tangible and intangible assets of the alleged perpetrator of the infringement, including blocking its bank accounts and other assets, in compliance with standard law. In order to determine what assets may be confiscated, the court may order communication of banking, financial, accounting or commercial documents, or access to any relevant information."

[12]That bill and its withdrawal made the news headlines in France. See for instance, http://www.20minutes.fr/politique/1540455-20150213-assemblee-supprime-regret-secret-affaires-loi-macron et http://www.lemonde.fr/economie/article/2015/01/30/secret-des-affaires-le-gouvernement-retire-son-projet_4566657_3234.html.

[13]Source: http://fr.reuters.com/article/topNews/idFRKBN0L30PG20150130.

22.2 Statutory Protection of Trade Secrets

22.2.1 Statutory Provisions That Can Be Used to Protect Trade Secrets

Numerous provisions in the French legal system may be called upon to fight infringements of trade secrets. These provisions are found in criminal law (Sect. 22.2.1.1), intellectual property law (Sect. 22.2.1.2) and civil law (Sect. 22.2.1.3).

22.2.1.1 Criminal Law

Disclosure of Manufacturing Secret

Pursuant to Article L.1227-1 of the French Labour Code, disclosure of manufacturing secrets is punished[14] (which is also provided under Article L.621-1 of the French Intellectual Property Code, Title II, Book IV, concerning the protection of technical knowledge[15]).

Manufacturing secrets cover any manufacturing process offering a practical and commercial interest implemented by an entrepreneur, that it keeps secret from its competitors[16], and relating to "an industrial technical process, even for the execution of details, which is original, whether it is patentable or not"[17]. Non-technical or non-practical confidential information concerning the situation of a company, according to the distinction referred to above (Sect. 22.2.1) is not therefore concerned by this text of law.

The offence prosecuted is the act of disclosing or attempting to disclose the know-how used by the company, the manager or an employee of that company even though, at the time the offence is committed, the person committing the offence was no longer an employee of the company. The perpetrator must indeed have been an employee of the company when it became aware of the manufacturing secret in question.[18] On the other hand, the offence is not deemed committed when the information is disclosed by a third party who is not a manager or employee of the owner.

For the offence to be established, there must be a culpable intent, thus mustering both material element (transfer of manufacturing secret) and intentional element.[19]

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[14]Article L.1227-1 of French Labour Code: "The fact for a director or an employee to disclose or attempt to disclose a manufacturing secret is punished by 2 years' imprisonment and a fine of EUR 30,000. The court may also order in addition the loss for 5 years or more of civic, civil and family rights as provided for under Article 131-26 of the Criminal Code".

[15]Article L.621-1 of French Intellectual Property Code: "Penalties punishing the infringement of manufacturing secrets are set forth at Article L.1227-1 of the Labour Code".

[16]Cass. Crim., 19/9/2006, n°05-85360, for more information on the definition of secrecy, see 2 (iv).

[17]Cass. Crim., 7/11/1974: Bull. crim. 1974, n°323, CA Paris, 26/9/2008, n°06/03934, CA Paris, 5/6/2012, n°11/08851.

[18]CA Paris, 5/6/2012, n°11/08851.

[19]See note 28.

Breach of Professional Confidentiality

According to Article 226-13 of the French Criminal Code: "The disclosure of secret information by a person entrusted with such a secret, because of either its position or profession, or because of a temporary function or mission, is punished by 1 year's imprisonment and a fine of €15,000."

The breach of professional confidentiality offence concerns those who, because of their profession, become confidents by necessity and have access to secrets of third parties. This law applies to regulated professions (physicians,[20] chartered accountants, auditors and attorneys[21]). Disclosure simply consists in making a third party discover, know of or confirm something that was concealed, unknown, secret or uncertain for that third party.[22] There is only one accepted exception to this: professionals have the obligation to reveal facts they are aware of when keeping them secret would result in concealing frauds and offences.[23]

Breach of Trust

The breach of trust offence (Article 314-1 of French Criminal Code[24]) is the fact for a person, to the prejudice of other persons, to misappropriate funds, valuables or any property that were handed over to it and that it accepted subject to the condition of returning, redelivering or using them in a specified way.

As the existence of a material medium is not required, this offence may be committed in case of breach of a trade secret, i.e. the misappropriation of intangible property. Here again, proof of fraudulent intent is required.[25]

Thus, there may be breach of trust in cases involving disclosure of trade secrets, or "economic espionage". Several recent cases bear testimony to this trend. In the first case, a trainee who had copied electronic documents of the company was sentenced to 1 year's imprisonment (6 months' suspended sentence) and to pay damages in the amount of EUR 7000.[26] In the second case, an employee of Company A had offered to sell to competitor Company B confidential information about Company A. The court sentenced the defendant to 2 years' imprisonment, a

[20]Cass. Civ. 1st, 8/3/2005, n°03-12.044.

[21]Cass. Crim., 20/6/2006, n°05-83.659.

[22]Cass. Civ. 1st, 8/3/2005, n°03-12.044.

[23]CA Versailles, 11/12/2003, n°02/03131.

[24]Article 314-1, French Criminal Code: "Breach of trust is committed when a person, to the prejudice of other persons, misappropriates funds, valuables or any property that were handed over to him and that it accepted subject to the condition of returning, redelivering or using them in a specified way. Breach of trust is punished by three years' imprisonment and a fine of €375,000."

[25]Cass. Crim., 16/5/2001, n°00-86.923.

[26]T. cor. Versailles, 18/12/2007, 0511965021, *L. c/Valeo*, unpublished. V. CCE 20008, n°4, p. 41, obs. E. A. Caprioli, quoted in Jean-Marie Garinot, Le secret des affaires, LexisNexis 2013, coll. Travaux du CREDIMI, vol. 41, pref. E. Loquin.

fine of EUR 5000 and damages in the amount of EUR 7000[27]. And finally in the third case, the Cour de cassation (French Supreme Court) confirmed the sentence ordering the payment of a fine of EUR 10,000 by an employee who had misappropriated for its personal use computer files containing confidential information provided to him by its employer for professional use.[28]

Theft

When the misappropriation of a trade secret involves the misappropriation of the medium where it is stored, this can be considered as a theft (Article 311-1 of French Criminal Code[29]).[30] Theft comprises three elements: a material element, i.e. the appropriation of something belonging to someone else (1), dispossession (2), and fraudulent intent (3). If either of these elements is missing, the act committed cannot be considered as theft and no penalty may be ordered in that respect. But the act will probably be construed as something else, such as breach of trust or fraud for instance.

Corruption

Active or passive corruption (Article 445-1 of French Criminal Code[31]) concerns the situation in which a person who is contacted by a third party to do or fail to do any act pertaining to or facilitated by its position, accepts to do so.

Thus, disclosing information that an employee was aware of because of its position can, under certain circumstances, be considered as corruption.[32]

As the law considers both active and passive corruption offence, there are two perpetrators for the same offence: corrupter (active corruption) and corrupted (passive corruption). The corrupter may be any person, either belonging or not to

[27]T. cor. Clermont-Ferrand, 21/06/2010, unpublished, V. Th. Du Manoir de Juaye, Le secret des affaires: commentaire de décisions récentes, RLDI 2010, n°65, p. 69, quoted in dans Jean-Marie Garinot, Le secret des affaires, LexisNexis 2013, coll. Travaux du CREDIMI, vol. 41, pref. E. Loquin.

[28]Cass. Crim., 22/10/2014, n°13-82.630.

[29]Article 311-1, French Criminal Code: "Theft is the fraudulent appropriation of a thing belonging to someone else."

[30]Cass. Crim., 28/1/2014, n°12-84275.

[31]Article 445-1, French Criminal Code: "The fact for anyone of unduly making or tendering, at any time, directly or indirectly, offers, promises, gifts, presents or any other advantages, to obtain from a person who, although not being a public official or vested with a public service mission, or elected to a public position, holds or occupies, within the scope of its professional or social activity, a management position or any occupation for any person, whether natural or legal, or any other body, for the performance or non-performance of any act within its occupation or position or facilitated by its occupation or position, in violation of its legal, contractual and professional obligations, is punished by five years' imprisonment and a fine of EUR 500,000 which may be increased to double the amount earned from that offence.

The same penalties apply to the fact for anyone of giving in to any person referred to in the above paragraph who solicits, at any time, directly or indirectly, offers, promises, gifts, presents or any other advantages, to carry out or refrain from carrying out any act referred to in the above paragraph, in violation of its legal, contractual or professional obligations."

[32]Cass. Crim., 7/10/1969: Bull. crim. 1969, n°243.

the company in which the corrupted is employed. All it takes is for the corrupter to encourage the corrupted to do or refrain from doing any act pertaining to its position, or to thank him for doing or refraining from doing an act. Penalties are the same for both corrupter and corrupted.

Receiving

According to Article L.321-1 of the French Criminal Code, "Receiving is the concealment, retention or transfer of a thing, or acting as an intermediary in its transfer, knowing that that thing was obtained by a felony or misdemeanour. Receiving is also the act of knowingly benefiting in any manner from the product of a felony or misdemeanour. Receiving is punished by five years' imprisonment and a fine of €375,000."

Receiving is therefore an ancillary offence which cannot exist independently: a receiving offence can only be committed if the first offence has been confirmed. For instance, the offence consisting in receiving the proceeds of a breach of professional confidentiality cannot exist if it cannot be proven that secret information was disclosed by someone in whose custody it was.[33]

Receiving is particularly important in press matters. Indeed, case law is plentiful on the subject. Thus, the Cour de cassation considered on several occasions that despite freedom of expression it is still possible to consider that a receiving offence has been committed in the event of disclosure of information resulting from a breach of confidentiality of investigations or professional confidentiality.[34]

Other Offences

It is worth mentioning that the so-called "blocking statute" of 1968[35] may apply to trade secrets. According to this act, it is strictly forbidden to any person who is a French national or habitually residing in France to disclose 'to foreign public authorities economic, commercial, industrial, financial or technical documents or information of which the disclosure may be detrimental to the sovereignty, security, essential economic interests of France or to public order" and to request, seek or disclose, "economic, commercial, industrial, financial or technical documents or information intended to provide evidence for the purpose of foreign judicial or administrative proceedings or in connection therewith".[36]

The purpose of this statute includes preventing the disclosure of strategic information of companies or the State during the course of discovery procedures initiated in France. Anyone failing to comply with this statute may incur criminal penalties

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[33] Cass. Crim., 6/3/2012, n°11-80.801.

[34] Cass. Crim. 3/4/1995, n°93-81569; Cass. crim. 19/6/2001, n°99-85188; Cass. crim. 12/6/2007, n°06-87361.

[35] Act n°68-678 of 26 July 1968 on the communication of economic, commercial, industrial, financial or technical documents and information to foreign individuals or corporations, as amended by Act n°80-538 of 16 July 1980 on the communication of economic, commercial, industrial, financial or technical documents and information to foreign individuals or corporations.

[36] Articles 1 & 2, Act n°68-678 of 26 July 1968 above mentioned.

(6 months' imprisonment and a fine of EUR 18,000–90,000 for corporations)[37], and its enforcement has sometimes been confirmed by the Cour de cassation.[38]

Furthermore, if one works on the premise that most computer systems contain trade secrets, Article 323-1 of the French Criminal Code[39] which prohibits access to computer systems may be applicable in the event of breach of trade secrets.

Finally, subsidiarily, one could also mention banking secret (Article L.511-33 of French Monetary and Financial Code,[40] which provides that it is prohibited to bank employees to reveal to third parties any information about their clients, including civil judges), defence secret (Article L.413-10 of French Criminal Code,[41] according to which it is strictly prohibited to disclose or copy national defence secrets), secrecy of correspondence (Article L.226-15 of French Criminal Code[42]), and confidentiality of journalists' sources (Act of 29 July 1881 on freedom of the press, Article 2[43]), for which criminal penalties are incurred in case of breach.

[37] Article 3, Act n°68-678 of 26 July 1968 above mentioned.

[38] Cass. Crim., 12/12/2007, 07-83228.

[39] Article 323-1, French Criminal Code: "Fraudulently accessing or remaining within all or part of an automated data processing system is punished by two year's imprisonment and a fine of EUR 30,000. Where this behaviour causes the suppression or modification of data contained in that system, or any alteration of the functioning of that system, the sentence is three years' imprisonment and a fine of EUR 45,000. When the offences referred to above have been committed against an automated processing system of personal data implemented by the State, the penalty shall go up to five years' imprisonment and a fine of EUR 75,000."

[40] Article L 511-33, French Monetary and Financial Code: "I. – Any member of a Board of Directors and, where applicable, of a Supervisory Board, and any individual who, in whatever capacity, participates in the management or administration of a credit institution or of an entity referred to in paragraph 5 of Article L. 511-6, or who is employed by such an entity, shall be bound by professional secrecy [. . .]".

[41] Article 413-10, French Criminal Code: "A penalty of seven years' imprisonment and a fine of EUR 100,000 applies to the destruction, misappropriation, theft or duplication, as well as to the communication to the public or to an unauthorised person, by any person holding such a confidential information because of its position or occupation or any permanent or temporary mission, of any information, process, article, document, or computerised data or file which is a national defence secret. The same penalties apply to the holder who permits the access, destruction, misappropriation, removal, duplication or revelation of any information, process, article, document, computerised data or file referred to under the previous paragraph. Where the holder has behaved negligently or recklessly, the offence is punished by three years' imprisonment and a fine of EUR 45,000."

[42] Article 226-15, French Criminal Code: "Maliciously opening, destroying, delaying or diverting of correspondence sent to a third party, whether or not it arrives at its destination, or fraudulently gaining knowledge of it, is punished by one year's imprisonment and a fine of EUR 45,000. The same penalty applies to the malicious interception, diversion, use or disclosure of correspondence sent, transmitted or received by means of telecommunication, or the setting up of a device designed to produce such interceptions."

[43] Article 2, Act of 29 July 1881 on freedom of the press: "The secrecy of journalists' sources is protected in the exercise of their mission of information of the public."

22.2.1.2 Intellectual Property Law

The French Intellectual Property Code (IPC) includes a Title II, "Protection of technical knowledge" which deals with three specific items: manufacturing secrets, topographies of semi-conductor products and new plant varieties. As mentioned, there is only one article dealing with manufacturing secrets (Article L.621-1 of IPC).

Nevertheless, know-how is deemed part of intellectual property. Although it is not considered as an intellectual property right (IPR) as such, it is however regarded as an IPR according to the above mentioned exemption regulation of 2014 and to Article 39 of the TRIPS.

Know-how being considered as the expression of practical and/or technical knowledge, a patent is the intellectual property right most often used to protect know-how. Indeed, when know-how consists of a patentable invention, the patent owner may consider patenting it, which implies disclosing it to the public in exchange for the grant of statutory ownership rights for a period of 20 years. The owner may prefer not to patent the invention and keep the know-how secret as protection by keeping it secret lasts as long as secrecy is preserved.

Know-how may also be implemented by manufacturing a product with a specific design. The design of a product can also be protected by a copyright and/or a design and model right. Know-how may therefore be indirectly protected by an intellectual property right, in a way which is limited because it is associated to a specific layout and also uncertain if by simply examining the product the know-how used to make it is revealed to the public.

Patenting an Invention

A patent is a title delivered by an intellectual property office further to a more or less thorough review intended to check (1) that the invention is patentable, and (2) that it meets three conditions in terms of novelty, inventiveness and industrial application. Once the patent application has been published, the patent is registered and this allows the patent owner to prohibit third parties to implement the patented invention for a period of 20 years.

The owner of a patentable know-how therefore has to weigh the pros and cons of either obtaining a patent which will disclose to third parties a know-how that they may not normally use for 20 years, unless the patent is contested or "circumvented", or keeping the patentable know-how confidential. That questioning includes the assessment of a combined protection by patenting and keeping the know-how secret.

Some authors consider that a patent offers an indirect protection of trade secrets, and especially of know-how: "(the) appropriation which a patent allows is often effective enough to protect all around it a body of knowledge which may form an actual know-how. In that way the owner of that know-how can hold a patent covering the product it manufactures: thus, as master of the market, it will indirectly protect the know-how which allows him to manufacture the product in the best possible way. So therefore someone wishes to use know-how which is identical to its own, that person will be able to do so, provided the latter does not sell the products resulting from that manufacture in the territories protected by the patent. Often in fact, know-how goes with a patent for which it is a kind of ideal operating instructions. It is clear that when this dependency exists between patent and know-how, the second one is in fact protected by the first one."[44]

Copyright

In France, copyrights protect "all works of the mind, whatever their kind, form of expression, merit or purpose"[45] just by the mere fact of their being created, without any special formalities. This involves not only literary work, musical, graphic and visual creations, but also applied art creations, and software in particular.[46]

To have it protected by copyright, a work has to be original. Case law defines originality as the expression of a natural person's personality.

Therefore, copyright cannot arise from the mere implementation of some know-how[47]. Case law is consistent on that subject: "The protection conferred by copyright cannot apply to a technique, a method, a process, or a system, but only to a creation of the mind in accordance with the law on literary and artistic property, provided it is unrelated to the achievement of an industrial outcome."[48]

Only the expression of know-how that meets the relevant conditions as to form (material medium) and substance (originality)[49] may be protected by copyright.

In a decision of 2013, the Cour de cassation considered that, as it results from the mere implementation of know-how, a fragrance does not represent the creation of a form of expression which can enjoy the protection of works of the mind conferred by copyright.[50]

Finally, it should be noted that, pursuant to an act dated 3 July 1985 software (and preparatory material), has been included in the list of work that can be protected by copyright. The law does not make any distinction between executable object code and source code and the latter is only exceptionally disclosed by the software publisher when dealing with proprietary software. According to French law, source codes are considered as an integral part of the work (the software)[51]

[44] Fabre, R. & Sersiron, L., Fasc. 4200: Réservation du savoir-faire, in JurisClasseur Brevets, Lexis- Nexis, 2014, p. 28.

[45] Article L. 112-1, French Intellectual Property Code.

[46] Article L. 112-2, French Intellectual Property Code.

[47] Lucas, A., Traité de la propriété littéraire et artistique, LexisNexis, 2012, p. 68.

[48] CA Paris, 12/7/1974: Ann. propr. ind. 1975, p. 182.

[49] Cass. Crim., 5/10/2010, n°09-85.695.

[50] Cass. Com., 10/12/2013, n°11-19872; and also, Cass., Civ.1st 22/1/2009, n°08-11404.

[51] T. com. Paris, 15/10/2004, *Conex v. Tracing Server*: "Source programs are similarly protected by the Intellectual Property Code, as well as source code, in so far as they are the materialization of an intellectual effort in an individualized structuring". It should be noted that a similar interpretation has been given by the Court of Justice of the European Union (CJEU, case C 406/10, *SAS Institute Inc. v World Programming Ltd*).

which can be protected by copyright and as trade secrets as it is specified in most licence agreements.

Design and Model

By filing a design or model, it is possible to protect the appearance of all or part of a product (any industrial or handicraft object). The scope is very broad (auto parts, tableware or decoration, packaging, clothing, telephones and tablets, earphones, motorbike helmets, etc.), except for software and products of which the external appearance is solely dictated by their technical purpose.

Upon being validly registered and provided it is new and has individual character, the design or (3D) model entitles its owner to forbid the manufacture and sale of any product that includes its registered design or model, so long as the contentious product gives to the informed observer an overall visual impression which is not different from the already registered model.

Nowadays, the design of a product is very important when it comes to the conception and marketing of consumer goods and it often involves sophisticated experience, technical know-how and client understanding. The protection of designs and models, conferred for 5 years and renewable for up to 25 years maximum, may help protect know-how revealed in the external appearance of a product, for which its manufacture is made possible thanks to that know-how, although the latter did not dictate the external appearance. Even though the know-how is disclosed in the product and may be used for other products with a different appearance and not registered as designs or models, that know-how enjoys a minimum of protection for the registered models.

22.2.1.3 Tort Liability

When the parties are not bound by contractual obligations aimed at protecting the trade secrets, civil tortious liability may be called upon to protect trade secrets, or at least to obtain damages for the harm suffered as a result of the breach of a trade secret. This protection is based on the offence committed by the person who gained access to trade secrets by fraudulent means.

In this context, the victim has to file a claim for tortious liability which may be an "unfair competition claim" pursuant to Article 1382 of the French Civil Code.[52]

To file such a claim, the existence of an offence, of damage and the causal link between offence and damage must be established.

The "legitimate" owner of know-how wishing to act against an infringer must prove that it detained that know-how before the infringer, that the know-how was confidential, and that the circumstances or means through which the infringer managed to have access to the know-how were wrongful and unfair.[53]

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[52] Article 1382, French Civil Code: "Every act whatever of man that causes damage to someone else, obliges him by whose fault it occurred to repair it."

[53] See http://www.entreprises.gouv.fr/propriete-intellectuelle/savoir-faire-reglementation.

Unfair acts may for instance consist in a breach of confidentiality obligations,[54] industrial espionage,[55] misuse of information acquired during unsuccessful negotiations with the owner of the know-how.[56]

In the event a trade secret is not considered as know-how but rather as confidential information, all that needs to be proven is that it is confidential, the existence of illicit means used to access and use the know-how, and finally the fact that this breach caused actual damage, in the absence of contractual clause protecting it.

22.2.1.4 Contractual Liability

The contractual protection of know-how or trade secrets naturally leads to contractual liability. In practice, contractual clauses represent a very important way to protect know-how or trade secrets. In that case, the owner of trade secrets determines by agreement the terms of use, constraints on disclosure and technical means of protection of the secret information disclosed to its co-contractor (employee or other), thereby preventing any appropriation by the latter.

However, the only redress in case of breach will be to obtain that such breach ceases and that measures be taken to contain the extent of the breach and its adverse effects. Otherwise, the possessor shall only be able to obtain the payment of damages. The agreement may also provide for penalties (penalty clause) that can possibly come in addition to the damages awarded by the court.[57]

Contractual Liability of Employees

Employees are bound by a general and contractual duty of discretion and loyalty, in accordance with the general "good faith" principle set forth at Article 1134 of the French Civil Code.[58]

The contract may also include a non-disclosure or a confidentiality clause allowing the employer to forbid its employees to disclose trade secrets made available to them during the course of their employment. The employer can also stipulate that this obligation shall remain applicable once the employment contract ends[59]. In such occurrence, the non-disclosure and confidentiality obligation shall only remain valid so long as the trade secret has not become public knowledge. Failure to comply with the non-disclosure obligation may of course also lead to

[54]Cass. Com., 17/3/2015, n°13-15862.

[55]Cass. Com., 10/2/2015, n°14-11909.

[56]Cass. Com., 8/10/2014, n°12-18252.

[57]The penalty clause punishes non-compliance with a contractual obligation but does not repair the damage suffered: Cas. Civ. 3rd, 20/12/2006, 05-20065.

[58]Article 1134, French Civil Code: "Agreements lawfully entered into have the force of law for those who have made them. They may be revoked only by their mutual consent, or for causes allowed by law. They must be performed in good faith."

[59]Cass. Soc., 19/3/2008, n°06-45.322.

disciplinary penalties if such disclosure takes place during the performance of the employment contract.[60]

The non-compete clause also makes it possible for the employer to prevent the use of its trade secrets for the benefit of another company after the employment contract is terminated. In that case, the non-compete obligation becomes effective upon termination of the employment on whatever grounds. Such a clause, which restricts the employee's freedom, must comply with three cumulative conditions: it must (1) be limited in time and space, (2) consider the specificities of the employee's job, and (3) include the obligation for the employer to pay financial consideration to the employee.[61] Limits to the validity of a non-compete clause reside in the principle that it should not prevent the employee from working,[62] using its competence and professional skills, and that prohibitions should not be of a general nature.

Contractual Liability of the Other Party

Different situations may occur, depending on the various stages of the contractual relationship.

During negotiations, the owner of a trade secret often has to disclose to its potential partner all or part of the characteristics of its process, at least the most significant parameters so that this potential partner can accurately assess its interest in entering into a contractual relationship with the owner.

Two methods are frequently used: either the intended recipient of the information agrees in writing to comply with strict contractual obligations, or the parties meet to enter into a first agreement specifically addressing these issues. In both cases, the agreement will essentially contain two obligations which the potential future partner must comply with: a non-disclosure obligation and a non-use obligation, whatever the issue of their negotiations.[63]

If negotiations are successful, the parties generally enter into a know-how communication agreement which provides for the same confidentiality obligation.

22.2.2 Provisions Applicable in the Case of Indirect Misappropriation

22.2.2.1 Third Parties Acting in Good Faith

When a third party becomes aware of a trade secret through a person who is not the owner/legitimate possessor of that trade secret (e.g.: new employer,

[60]CA Paris, 10/3/1987 & CA Paris, 19/11/1986.

[61]Cass. Soc., 29/4/2003, n°01-42.026; Cass. soc., 18/32003, n°00-46.358.

[62]Cass. Soc., 18/9/2012, n°00-42.904.

[63]Fabre, R. & Sersiron, L., Fasc. 4200: Réservation du savoir-faire, in JurisClasseur Brevets, Lexis- Nexis, 2014, pp. 41-42.

sub-contractor), the above mentioned statutory provisions may apply, depending on whether or not that third party acts in good faith.

The issue here is to know whether the new employee/main contractor giving access to that trade secret to the new employer/sub-contractor has lawfully obtained that secret or not, and/or had the right to disclose it.

According to existing case law, a claim for unfair competition filed against the third party possessor of the trade secret will only be successful if the information was acquired without consent and by unfair means. In principle, a third party who acquired information in good faith will not therefore be held liable.[64] Thus, the possessor of the trade secret must prove the wrongful use of means which gave access to that secret. There are usually two possibilities: the possessor either gained access to the know-how with the owner's consent but subsequently disclosed it without the latter's consent (breach of a confidentiality or non-competition obligation), or had access to the information without the owner's consent and knowing it.[65]

22.2.2.2 Statutory Provisions of Criminal Law

Among statutory provisions applicable when a trade secret was not directly appropriated from its owner, one can mention the disclosure of a manufacturing secret (*"secret de fabrique"*) right which can apply when an employee left the employer at the time the trade secret was disclosed to him. Indeed, it makes no difference if the perpetrator was no longer employed at the time of the wrongful disclosure[66]. Furthermore, the recipient of the wrongful disclosure may also be sentenced for collusion (Article 121-7 of French Criminal Code) or receiving (Article 321-1 of French Criminal Code).

Indirect infringement of a trade secret can also be qualified as breach of trust (see Sect. 22.2.2.1 above) and theft (see Sect. 22.2.2.2 above). These offences apply independently from the existence of a contractual relationship between perpetrator and victim of the offence.

22.2.2.3 Statutory Provisions of Civil Law

Under civil law, unfair competition claims (tort liability) brought against third parties can arise in particular when a competitor unfairly hires the "key employees" of another undertaking[67]. This also applies to third parties who misuse information acquired while they were in a commercial relationship with the victim[68]; or a

[64]Francis Hagel, Secret et droits de propriété intellectuelle, un tour d'horizon, Revue Lamy Droit de l'Immatériel – 2009 53.

[65]Joanna Schmidt Szalewski, Savoir-Faire, Répertoire de droit commercial Dalloz, February 2009.

[66]CA Paris, 5/6/2012, n°11/08851.

[67]Cass. Com. 8/10/2013, n°12-25296.

[68]Cass. Com. 26/6/2012, n°11-19520.

magazine publishing information found in a book not yet published and covered by a confidentiality agreement between the author and the publisher of that book.[69]

In a recent case, the Cour de cassation applied the principle of privity of contract (article 1165 of the French Civil Code), ruling that in the absence of contractual stipulations providing otherwise, the communication or transfer of know-how to an entity belonging to a group does not benefit the other entities of the group. The entity which failed to comply with its confidentiality obligation may be sentenced on contractual grounds, whereas the entity which received this know-how and carried on with its business after being informed of the content of the agreement may be held liable on the ground of tort.[70]

22.2.3 Required Evidence

To be able to file a useful claim for misappropriation of its trade secret, the owner must prove both the existence and the content of its secret, and the steps taken to safeguard its confidentiality.

22.2.3.1 Identifiable Character

First, the secret must be identifiable. For this purpose, a "written" document is usually required. It is recommended that the owner of the know-how should regularly, throughout the period of creation and development of the know-how, file records establishing the date, content and developments, using for instance a "Soleau" envelope or sealed envelopes deposited with the French IP Office ("INPI" "*Institut national de la propriété intellectuelle*") a bailiff, a notary public or an authors' society.

A "Soleau" envelope, named after its creator Eugène Soleau, is a simple and inexpensive (EUR 15) way of providing evidence that, on the date of dispatching the envelope, its concealed content was known of the dispatcher, which may help him to claim later that it predates alleged subsequent inventors/authors or lawful users of the content of the envelope. It may be used for any technical and commercial information even if it cannot be considered as know-how *per se*, so long as it is deemed valuable or strategic enough for the company in question[71]. That envelope can be obtained from the INPI, then registered with the same and kept for 5 years. This filing may be renewed once.[72]

[69] Cass. Civ. 1st, 17/10/2000, n°97-22498.

[70] Cass. Com., 17/3/2015, n°13-19307.

[71] MEDEF practical guide, La protection des informations sensibles des entreprises, 2013.

[72] See http://www.inpi.fr/fileadmin/mediatheque/pdf/brochure_enveloppe_soleau.pdf.

It is also advisable to keep laboratory notebooks, dated and signed documents describing the various stages in the development of an innovation, with which it is possible to track all developments in real time.[73]

The creation of a file containing various technical, legal, financial documents testifying to content, value and confidentiality is another way of justifying one's rights in the event of a dispute but also upon signing a contract.[74]

22.2.3.2 Confidentiality and Substantial Character

Second, the information or process must be confidential. This means that the process is not normally accessible or easily available to anybody. It is not in the public domain. Thus, there is no disclosure of manufacturing secret when industrial manufacturing processes of the products in question do not have any specific originality and no secret formula is used for their preparation. Its knowledge supposes that some work or some thinking went into it[75]. Confidentiality may however be quite relative because it may be shared by several people.

Furthermore, the secret must be substantial. It must be a manufacturing process which is not known to the general body of knowledgeable people in the matter, and which provides an advantage over competitors.

22.2.3.3 Legitimate Possession

Finally, the owner of the know-how shall prove its legitimate possession of its secret. It has to prove in particular that the process was obtained thanks to its own research or that of a third party who gave it the permission to use it.

22.2.4 Measures Available to Secure Evidence of Misappropriation

22.2.4.1 Private Investigation Measures

Under French law, before initiating court proceedings, any individual may ask a judge to order investigation measures to establish the facts on which the issue of forthcoming dispute will depend (Art. 145 of French Code of Civil Procedure).

In practice, with these provisions it is possible for a company to obtain a surprise effect and avoid the disappearance of evidence, whilst a bailiff is appointed, accompanied by police officers if necessary, and/or a computer specialist upon request, who may, in accordance with the order issued by the judge, make copies of

[73] http://www.entreprises.gouv.fr/propriete-intellectuelle/savoir-faire-reglementation (especially §5. *La preuve*).

[74] http://www.entreprises.gouv.fr/propriete-intellectuelle/savoir-faire-reglementation.

[75] Cass. Crim., 19/9/2006, n°05-85.360.

a number of documents of the undertaking subject to these measures. This possibility is often used prior to unfair competition lawsuits in particular.

In addition, since a 1999 judgment, trade secret may not defeat such an investigative measure,[76] which implies that the proceedings provided for in article 145 of the code of civil procedure can allow a company to get to know the trade secrets of another company.

However, to avoid that certain companies make use of these provisions to get access to trade secrets of competitors without legitimate reasons, the judge may order that the designated bailiff be appointed receiver of the confiscated documents. In that case, a request will have to be filed with the interim relief judge to obtain the release of these documents. These proceedings will call for a hearing during which the judge may look at the confiscated documents, with the parties attending. But, as investigation measures most often involve the confiscation of computer documents, in very significant numbers, the judge will appoint an independent expert who will be in charge of sorting confidential documents from other documents useful as evidence for the claimant who requested the investigation measures. This process, while limiting the undue disclosure of trade secrets, is not however statutory nor systematic.

22.2.4.2 Specific Provisions for Infringement of IPRs

When there is both infringement of an intellectual property right (i.e. a patent) and associated misappropriation of know-how (see Sect. 22.2.2.1 above), the owner of the intellectual property right can have this dual violation established by way of a seizure of documents and objects establishing the infringement of an IPR (streamlined and strengthened in France with Act n°2014-315 dated 11 March 2014 reinforcing the fight against counterfeiting).

The "saisie-contrefaçon" (seizure-infringement) procedure is a specific evidence method (but non-exclusive) provided for by law[77] in the field of violation of Intellectual Property rights.

It consists in filing a request with the president of the Court to have an ex parte order delivered, authorising a bailiff, accompanied by police officers if necessary, to look for and to proceed to the seizure of infringing objects and related technical or commercial documentation.

The bailiff can get into any premises, including private ones, without prior notice to and consent of the concerned party to preserve the surprise element. The bailiff may confiscate objects or documents evidencing the existence and the extent of the infringement, within the limits of the powers conferred to him by the court order.

[76] Cass. Civ., 2nd, 7/01/1999, 15-21934.

[77] I.e., concerning copyright (Articles L.332-1 to L.332-3 & R.332-1 to R.332-3 of IPC); software (Articles L.332-4 & R.332-4 of IPC); designs and models (Articles, L.521-4 R.521-2 to R.521-5 of IPC); patents (Articles L.615-5 & R.615-1 to 615-5 of IPC); plant varieties (Articles L.623-27-1 & R.623-50-1 to R.623-53-1 of IPC); and trademarks (Articles L.716-7 & R.716-2 to R.716-5 of IPC).

Because of the exceptional character of this evidentiary procedure, statutory provisions governing the substance and authorisation set forth by the presiding judge in its order must be strictly interpreted and applied. For this reason, the courts tend to set aside evidence obtained pursuant to Articles 145 and 812 of the French Code of Civil Procedure[78] if in fact the rightholder/plaintiff should have used the seizure-infringement procedure to establish an IPR infringement.[79]

22.3 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

22.3.1 Measures Available in the Course of Proceedings

Whereas the rules of standard French civil procedure do not provide for specific measures to protect trade secrets (Sect. 22.3.1.1), tax procedure on the other hand provides for a specific scheme to protect these secrets (Sect. 22.3.1.2). The same is true before some independent administrative/public authorities such as the competition authority, the financial markets authority, the electronic communications and postal service regulating authority and the high authority for the distribution and protection of creative works on the Internet (Sect. 22.3.1.3).

22.3.1.1 Standard Judicial Procedure

French judicial law does not provide for specific measures applicable during proceedings, intended to protect the parties' trade secrets. Furthermore, there is no such thing as "discovery" in the French judicial system as there is in Anglo-Saxon law for instance. Indeed, French law favours the principles of adversary proceedings[80] and open court proceedings[81] to the protection of trade secrets. Yet the parties may attempt to agree with the court on ways to avoid the leaking of trade secrets during the court proceedings.

[78] Article 812, French Code of Civil Procedure: "The matter is referred to the president of the court by way of petition in the cases specified by law. It may also order such urgent measures where the circumstances so demand that they must not be taken after adversarial proceedings." [. . .]».

[79] Stenger, J-P., Fasc. 4631: Saisie contrefaçon. Introduction. Ordonnance autorisant la saisie-contrefaçon, in JurisClasseur Brevets, Lexis- Nexis, 2015, pp. 6-9.

[80] Article 15 of French Code of Civil Procedure: "The parties must disclose in due time to one another factual arguments supporting their claims, the means of evidence they produce and the legal arguments they rely upon so that each party may organise its defence."; Article 16 of French Code of Civil Procedure: "In all circumstances, the judge must supervise the compliance with, and he must himself comply with, the adversarial principle."

[81] Articles 22 and 433 of French Code of Civil Procedure: "Hearings are public except where the law requires them to be held in the judge's chamber." This principle is also confirmed by Article 6-1 of the European Convention on Human Rights.

Professional Secrecy

It should be remembered that for health professionals, attorneys, bankers and any other persons who are entrusted with secrets because of their profession or as a result of a temporary position or assignment, professional secrecy is a statutory obligation under any and all circumstances, including in the context of judicial proceedings (Article 226-13 of French Criminal Code). Hence, trade secrets disclosed to professionals remain secret and therefore protected, unless the professional violates its secrecy obligation.

Arbitration

Because of the difficulty to preserve the confidentiality of trade secrets involved in disputes, hearings and exhibits under standard civil procedure rules, in some instances, companies tend to prefer arbitration which is confidential by nature ("Subject to legal obligations and unless the parties provide otherwise, arbitration proceedings are strictly confidential": Article 1464 of French Code of Civil Procedure).

22.3.1.2 Tax Proceedings

Before tax judges, specific procedural rules apply, ensuring compliance with professional secrecy, and indirectly therefore, the protection of trade secrets: "Documents and exhibits of the authorities enclosed in the case file submitted to the administrative court and concerning specifically named companies or persons can only consist of average turnover or income figures in order to protect professional secrecy, except when they involve indications that must be made available to the public by filing at the registry of the commercial court. If it requests so at the hearing, the administrative court shall be provided, in the judge's chamber, during its deliberations, and to reach its final decision, with a full set of all documents or exhibits concerning specifically named companies or persons" (Article L.201 of French Book of Tax Procedures).

22.3.1.3 Proceedings Before Independent Administrative Authorities

The Competition Authority ("*Autorité de la concurrence*"), the Financial Markets Authority ("*Autorité des marchés financiers*", hereafter "AMF"), the Electronic Communications and Postal Service Regulating Authority ("*Autorité de régulation des communications électronique et des postes*", hereafter "ARCEP") and the High Authority for the Distribution and Protection of Creative Works on the Internet ("*Haute autorité pour la diffusion des oeuvres et la protection des droits sur internet*", hereafter "HADOPI") are vested with significant investigation powers to identify the practices they are in charge of punishing. Trade secrets are not binding for these authorities.

But to make sure that trade secrets are not revealed, agents acting for these authorities are bound by professional secrecy, subject to criminal penalties (Article

226-13 of French Criminal Code). The protection of secrets is extended by professional secrecy.

Furthermore, proceedings conducted by these authorities (competition authority, AMF, ARCEP and HADOPI) comprise mechanisms for the protection of the trade secrets of the companies under investigation.

Competition Authority

Trade secrets cannot be opposed to the agents of the Competition Authority[82], but it may be opposed to the undertakings involved in the proceedings.

However, in front of the competition authority, the following provisions for the protection of trade secrets applies: "Save for cases in which the discovery or consultation of such documents is necessary for the exercise of the rights of defence of a party involved, the general rapporteur of the Competition Authority may refuse a party disclosure or consultation of documents or certain elements contained in these documents which affect the trade secrets of other persons. In this case, a non-confidential version and a summary of the documents or elements in question shall be made available to the party involved." (Article L.463-4 of French Commercial Code).

The French Commercial Code also provides for specific provisions that must be complied with under this scheme (Articles R.463-13 *et seq.* of French Commercial Code). An application for the protection of trade secrets must be substantiated. Together with its application, the applicant must provide a summary list of the elements for which it is claiming protection, as well as a non-confidential version of these elements (where only confidential elements are blacked out). The application letter is then forwarded to the parties (Article R.463-13 *et seq.* of French Commercial Code). It must not contain any trade secrets.

Appeal against decisions made by the general rapporteur of the competition authority granting protection of trade secrets (classification) or refusing to lift such secret (refusal to declassify) is only possible together with the final decision of the authority on the merits of the case.[83]

On the other hand, it is possible to lodge an appeal against the decision refusing protection (refusal to classify) or lifting secrecy (de-classification) with the Council of State ("Conseil d'Etat"), the French administrative Supreme Court. Indeed, the Council of State considered that the absence of any specific recourse set forth at Article R.464-29 of the French Commercial Code before its amendment of 11 May 2015, was an infringement of the right to effective legal appeal resulting from Article 16 of the Declaration of the Rights of Man and of the Citizen.[84]

[82]Cass. Crim., 13/01/2010, 07-86228.

[83]Article R 464-29, French Commercial Code, as amended by Decree n°2015-521 of 11 May 2015.

[84]CE, 10/10/2014, *Syndicat national des fabricants d'isolants en laines minérales manufacturées*, req. n°367807.

Similarly, with respect to merger control, the French Commercial Code provides that when the Competition Authority questions third parties regarding a concentration and make public their decision, it shall not disclose trade secrets of notifying parties and that of the parties cited (Article L.430-10 of French Commercial Code). However, the applicable regime is different from the above mentioned regime (Article R463-15-1 of French Commercial Code). That regime is described in the guidelines of the competition authority on merger control.[85]

Nevertheless, although the guidelines of the competition authority on merger control provide indications which help determine what can be construed as a trade secret (§ 239 *et seq.*), the notion of trade secret is not defined. It is thus open to interpretations and stalling tactics.

ARCEP

ARCEP is an independent administrative authority in charge of regulating electronic communications and postal services in France. In that context, it has the power to inflict penalties (Article L5-3 of French Postal Services and Electronic Communications Code—FPSEC) and to rule on disputes between operators on network access issues (Article L.36-8 of FPSEC).

ARCEP considers trade secrets when publishing its decisions and it can refuse to disclose exhibits involving trade secrets (Articles L.5-6 and L.36-8 of FPSEC).

Dispute Settlement Proceedings

In the context of dispute settlement proceedings, the companies involved may request that some documents of the case be protected as trade secrets. It is the ARCEP which decides whether the documents in question should be disclosed to the parties or taken out of the file (Article L.36-8 of FPSEC).

If another party to the proceedings denies that the documents in question involve trade secrets, this is decided by ARCEP as part of the dispute settlement proceedings.

Furthermore, since decisions by the ARCEP are published on its Internet site "subject to secrets protected by the law" (Articles L.36-8 of FPSEC and 16 of ARCEP internal rules), it is common practice, to indicate to the ARCEP, before publication, which parts of the decision have to be concealed.[86]

Appeals against decisions by the ARCEP concerning trade secrets made in the context of dispute settlement proceedings are lodged with the Paris Court of Appeal although they do not give rise to immediate specific proceedings: the appeal is examined at the same time as the claim filed against the decision on the substance of the case (Articles R11-2 and L.5-6 of FPSEC).

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[85] Competition Authority, Guidelines on Merger Control of 10/07/2013, § 225 *et seq*.

[86] ARCEP Letter, La protection du secret des affaires devant l'ARCEP, January-February 2009, p. 17.

Sanctioning Procedure

Within the context of the sanctioning procedure, the decisions may be published once they have been notified to the person in question and that person has been able to apply for the protection of secrets protected by the law. The person making such application shall provide separately a non-confidential version of the elements it considers as secret (Article D.599 of FPSEC).

Concerning oral proceedings, the president of the restricted commission may, either automatically or at the request of the person in question, limit publishing to the hearing in the interest of public order, or when required for the protection of secrets protected by the law (Article D.597 of FPSEC).

Mediation Procedure

For the mediation procedure, the ARCEP appoints a mediator chosen among its members. The mediator is in charge of preparing a recommendation that the parties can discuss.

The parties' decision to accept or refuse the recommendation is recorded in minutes reporting their agreement or disagreement, signed by the parties and the mediator.

The mediator's recommendation may be made public "subject to trade secret" (Article 19 of ARCEP internal rules).

AMF

In the context of controls and investigations by AMF agents, trade secrets are not binding, except by officers of the court (Article L.321-9-3 of French Monetary and Financial Code).

Nevertheless, proceedings before the AMF do respect the confidentiality of data covered by professional secrecy, especially attorney's memoranda and correspondence, as well as trade secrets and secrets of private life.[87]

Furthermore, access to hearing of the penalty commission may be banned by the president in charge when required for the protection of trade secrets.[88]

HADOPI

The HADOPI is an independent administrative authority exclusively dedicated to the circulation and protection of creative works on the Internet.[89]

The HADOPI is also in charge of preventing technical protection measures from hindering the interoperability of creative work and resulting in additional restrictions coming on top of those decided by the owner of the rights. In the event access to information essential to interoperability is refused, the operators can ask the authority to guarantee that interoperability. The HADOPI may accept

[87] AMF, Investigation charter, 30/09/2014.

[88] AMF, The Penalty Procedure, 21/12/2010.

[89] http://www.hadopi.fr/la-haute-autorite/lhadopi-en-bref.

commitments from the parties, make decisions (injunctions), and order significant financial penalties (up to 5% of worldwide turnover of company in question).[90]

In proceedings before the HADOPI, when one of the parties claims that documents are covered by secrecy protected by the law—including trade secrets—it files an application to have such secret classified as confidential, along with a non-confidential version and a summary of these documents (Art. R.331-65 of the French Intellectual Property Code). It can also designate the companies to which that secrecy would be likely to apply.

When elements likely to involve a secret protected by the law are disclosed to the HADOPI by someone else than the person who is likely to rely on that secret, and the latter has not applied for classification, the rapporteur shall invite the latter to apply for such classification in the above mentioned conditions.

The documents in questions are taken out of the file, or some passages are blacked out. The non-confidential version of the documents and their summaries are included in the file.

The president of the high authority may refuse classification of documents as confidential.

When the rapporteur considers that an exhibit included in the confidential appendix is necessary for the proceedings, it informs the person who applied for its classification, and that person may refer the matter to the president of HADOPI if it does not want that exhibit to be used in the proceedings. If the latter does not reply, the exhibit shall be used, but only for proceedings before the HADOPI and appeals against these decisions.

When one of the parties considers that an exhibit included in the confidential appendix is necessary to exercise its rights, it can request its disclosure or consultation by submitting a substantiated claim to the rapporteur. The rapporteur shall then inform the person who applied for classification that in case of opposition it has to refer the matter to the president of the high authority. If the President does not reply, the document shall be used, but only for proceedings before the HADOPI and appeals from its decisions.[91]

22.3.2 Available Remedies

The chief "remedies" available to victims of a violation of their trade secrets are to claim compensation (Sect. 22.3.2.1). Other measures may however be ordered by the court (Sect. 22.3.2.2).

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[90] Article L 331-31, French Intellectual Property Code and Lamy Droit du Numérique, 2014, §3091 – HADOPI.

[91] Article R 331-65, French Intellectual Property Code.

22.3.2.1 Damages

There is no pre-determined method to calculate compensation in French law. Case law however sets forth a series of general rules to globally help assess maximum compensations.

First, the amount of compensation must correspond to the actual and direct damage that was suffered and it cannot be a *lump sum payment*.[92] The actual damage has to be assessed concretely.

Second, compensation for damages consists in restoring as precisely as possible the balance that was destroyed by the damage that was suffered and placing back the victim in the situation where it was before the damage occurred.[93]

Third, and in accordance with standard law, the compensation must cover both the loss sustained and the lost profit.

In the case of know-how, the owner of know-how suffers a first damage when its content has been unlawfully disclosed to a third party. That damage stems from the loss in value of the know-how. Indeed, the value of know-how resides in the fact that it is secret: the higher the number of people having access to it, the lesser the value of the know-how.

In addition to the damage resulting from disclosure of its know-how, the victim also suffers damage as a result of the use, if any, of that know-how by whoever misappropriated it. In this case, that use generally leads to the unlawful sale of products and/or diversion of commercial outlets and clientele.

The assessment of the damage resulting from the use of know-how generally consists in lost profit/loss of earnings. One method that can be used to assess the loss consists in assessing the quantum of missed sales and calculate the corresponding missed profit margin (selling price less production costs), as was done by the designated expert assessor in a case concerning a ring.[94]

One may have expected that the investments made which benefitted the infringer would be taken into consideration when assessing harm. However, the Cour de cassation held that “the damage suffered due to unfair competition and parasitism acts does not correspond to the savings made by the perpetrator of such acts”.[95]

In the event of misappropriation, so-called “situation” trade secrets (as opposed to know-how, see Sect. 22.2.1) that have been disclosed loses any kind of value. However, it seems difficult to demonstrate any damage because of this sole fact if the third party who unlawfully obtained the information did not take advantage of it one way or the other. In that case, the victim will have to prove that it was made use of the disclosed trade secret to substantiate the damage it suffered.

[92]Cass. Com. 23/11/2010, 09-71665.

[93]CA Paris, 10/11/1994, PIBD 1995 582 III 100.

[94]Cass. Com. 23/03/1999, 96-21039.

[95]Cass. Com. 21/02/2012, 10-27966.

The courts often rely on the notion of commercial disturbance which can result in customer' diversion[96], drop in sales and slump in the market because of delisting[97], or when customer diversion is not proven, mistaking one company for its competitor.[98]

Whereas judges' ruling on substance regularly accepts the possibility that a legal entity may suffer non-material damage, it was only in 2012 that the Cour de cassation expressly accepted it[99]. Thus, when the victim cannot substantiate the material and commercial damage it suffered, the judge may consider that it is enough to compensate its non-material damage.[100] But non-material damage may also come on top of material damage resulting from the fact the products were not marketed.[101]

It is also fair to repair the damage because of the competitive advantage gained by the infringer who deprived the victim of income it could have legitimately expected from the sale of its products derived from the know-how during that period of time.[102]

The remedy granted is sometimes symbolical: like EUR 1,[103] or much more significant: EUR 9,091,880.[104]

22.3.2.2 Other Available Remedies

The court may take any and all measures required to make wrongful acts cease and issue an injunction for that purpose, including in interlocutory proceedings (Articles 809 & 873 of French Code of Civil Procedure).

Injunction to Do Something

This may be an injunction to do something: e.g. to destroy misleading packaging.[105] However, destruction may be denied when the product is not protected by a patent or is not a slavish imitation.[106] The court can also demand to cease manufacturing and distributing a product made using the wrongfully acquired know-how.[107]

[96]Cass. Com., 22/05/1984, 82-13482.

[97]Cass. Com., 16/05/2000, 97-22515.

[98]Cass. Com. 18/10/1994, 92-18114.

[99]Cass. Com., 15/05/2012, 11-10278.

[100]Cass. Com., 6/01/1987, 85-14434: 100 000 F.

[101]CA Paris, 10/11/1994, PIBD 1995 582 III 100: 4 000 000 F for non-material damage resulting from loss of leader position due to unfair practices.

[102]CA Paris, 10/11/1994, PIBD 1995 582 III 100.

[103]CA Paris, 9/12/1992, D 1994 somm. 223.

[104]CA Paris, 7/05/2015, 10/19361.

[105]Cass. Com. 16/05/2000, 97-22515.

[106]CA Paris, 9/04/1992, PIBD 1992 532 III 570.

[107]Cass. Com., 12/12/1995, 94-14003.

Injunction to Refrain from Doing Something, Subject to Penalty
When disclosure of the information was immediate and is definitely confirmed, compulsory enforcement and even an injunction to refrain from disclosing the information is irrelevant.

In that case, the court may issue an injunction to prevent further dissemination of the trade secret, if possible. For instance, the court may order to cease commercial distribution within a specific radius around the registered office of the aggrieved company suffering from the competition for 5 years (in a case involving former employees who registered a competing company in the same area as their former employer to deal with the same clients).[108]

Publishing
The court can also order the publication of the decision at the defendant's expense,[109] generally on the defendant's website.[110]

In any case, the enforcement of the court's decision is usually subject to penalty in case of non-compliance within the prescribed deadline.[111]

22.4 Protection of Know-How in Confidentiality or Non-disclosure Agreements

Know-how may procure a competitive advantage, and there is therefore an interest in protecting it, whilst it is secret. Once in the public domain, it is no longer secret and becomes freely accessible: it is not therefore possible to protect it contractually.

Hence, the transmission of a trade secret is usually based on a contract that will contain all necessary provisions to ensure that the recipient will maintain its continued secrecy and will use it only for agreed upon purposes.

Confidentiality/non-disclosure agreements are often entered in view of the negotiation of important deals and partnerships involving the use of confidential information deemed trade secrets. The kind of disclosure, the scope of disclosure, the timing of disclosure, the duration of the NDA, the penalties and liquidated damages in case of breach, are usually detailed. The NDA itself or its provisions will be incorporated in the main agreement if the negotiation is successful.

A party to a confidentiality agreement may obtain compensation in case of breach of its obligations by the other party.

First, if that agreement provides for an obligation to refrain from doing something (from taking, from disclosing, etc.), the mere breach of that obligation may justify the payment of compensation, even in the absence of damage.[112]

[108]Cass. Com. 28/04/1980, 78-15051.

[109]Cass. Com., 8/05/1979, 77-15294.

[110]TGI Paris, 9/05/2001, RJDA 1/02 n°112.

[111]CA Versailles, 5/02/1991, RJDA 4/91 n°363.

[112]Cass. Civ. 1st, 14/10/2010, n°09-69928.

Second, when a party suffers damage as a result of the stealing, disclosure or use of a secret or know-how, it can also claim, independently, the payment of compensation.[113] A contractual penalty clause may provide higher monetary compensation than the amount which would be awarded by a judge in a standard assessment of compensation damages. However, if the penalty clause is excessively high or low, the court has the power to reduce or increase it (Article 1152 of French Civil Code).

Third, the victim may also seek from the judge an injunction for specific performance of the confidentiality obligation, when the breach threatens or has just started. This will be possible only if the disclosure was not immediate and irrevocable.

When a breach of the confidentiality clause results in effective use of the trade secret (e.g.: illicit use of manufacturing secret or know-how in its own business), the court may order the breaching party to stop using the trade secret and, for that purpose, may order the recall of the products manufactured using the diverted manufacturing secrets or know-how,[114] or, for instance, forbid continued use of software borrowing from a former secret program.[115]

These injunctions may be obtained in interlocutory proceedings (summary proceedings provided for under Articles 809 & 873 of the French Code of Civil Procedure) and ordered subject to penalty until the injunction has not been complied with.

Finally, when the confidentiality clause was a determining element of the parties' will to contract, or when its breach makes it impossible to carry on with the contract, the breach of said confidentiality clause may lead to the termination of the agreement. Thus, upon a breach of its contractual confidentiality obligation by a franchisee, the franchisor may be entitled to immediately and unilaterally terminate the franchising agreement[116]. Similarly in relation to an employment contract, such breach may give rise to disciplinary action which can go as far as dismissal for misconduct.[117]

If the know-how is no longer secret because of reasons alien to the party bound by the confidential obligation, said party may challenge the continuation of the contract and the payments for use of trade secrets that have been disclosed publicly.

[113] Cass. Civ. 1st, 31/5/2007, n°05-19.978.

[114] Cass. com., 12/12/1995, n°94-14003.

[115] TGI Paris, 3rd ch., 19/3/1993, PIBD 1993, n°548, III, p. 439.

[116] CA Rennes, 2nd ch. com., 19/10/2010, n°09/05428.

[117] Cass. soc., 3/3/2009, n°07-43.222.

22.5 Misuse of Trade Secret Protection

22.5.1 Remedies for Misuse of Its Trade Secrets by the Owner of Trade Secrets

The proprietor or holder of a trade secret may incur contractual or tortious liability for misuse of its own trade secrets. Several examples illustrate this situation.

For instance, in the context of patent co-ownership, one co-owner who made improvements to the co-invention may disclose these improvements without consulting its co-owner and/or without considering the option to patent the improvement, possibly in violation of a provision of the co-ownership agreement. The other co-owner may be in a position to claim damages for the loss suffered, on contractual grounds. The quantum of that compensation will depend on the nature of the improvement and, if any, on the stipulations of the co-ownership agreement. Similarly, the owner of a manufacturing secret or know-how who has contractually granted its use, or the person who contractually acquired its use, may be held liable for breach of their contractual obligations (as to exclusivity, scope, improvements etc.).

Furthermore, a company officer bound by a loyalty obligation who uses a trade secret or know-how in its own interest or in the interest of third parties, for a purpose which runs contrary to the policy and development of the company or its partners, may be held liable for misuse. Company officers have also been sentenced for insider dealing on the grounds of fraudulent use of unlawfully disclosed or non-disclosed information, as in the course of share transfers.[118]

Finally, the situation of employees also provides examples of misuse of trade secrets. Whilst former employees are free to use the expertise they have acquired or developed with their former employer, they are not permitted to take away client listings,[119] source programs or computer tools.[120]

22.5.2 Critical Remarks on the Scope of Protection of Trade Secrets

According to the "Carayon" report dated 11 January 2012, "Existing criminal offences seem (. . .) inadequate and actions for compensation are of limited value. The protection of trade secrets of companies in judicial proceedings, whether French or foreign, is also flawed."[121]

Indeed, on the criminal side, theft only applies to tangible documents and not to information: it cannot therefore be established without a tangible support. Breach of trust is not limited to misappropriating tangible goods.[122] However, it implies a

[118]Cass. Com., 27/2/1996, n°94-11.241; Cass. com., 12/52004, n°00-15.618.

[119]Cass. Com., 25/6/1991, n°89-20.506.

[120]CA Paris, Ch. 1, Sect. G, 12/9/2001, n°2000/02431.

[121]See National Assembly Report N°4159.

[122]Cass. Crim., 16/11/2011, n°10-87.866.

prior transfer of confidential data. Breach of professional secrecy is also inappropriate because it only concerns persons legally bound by professional secrecy and only concerns the disclosure of facts discovered while exercising that activity. Finally, disclosure of a manufacturing secret is an offence which can be committed only by the employees and officers of the company in question.

On the civil side, although actions for damages are useful, their effectiveness remains limited: they cannot remedy the harm caused by a disclosure of a trade secret. Furthermore, failing actual use of the trade secret, the damage is often difficult to assess.

Therefore, in the absence of an appropriate legal regime, companies must include confidentiality clauses in their contractual documents (business agreements or employment contracts in particular). However, "these provisions do not fit in well with standard obligations law: since intellectual restitution of information is impossible, the discretion obligation cannot be achieved by the nullity of the contract, for fear of being devoid of any effectiveness"[123].

22.6 Conclusion

French law offers useful tools to protect trade secrets that are found in standard criminal and civil Law.

However, the offences found in French criminal law can prove to be inefficient for two main reasons. First, according to the circumstances of the case, the violation of a trade secret does not necessarily fall within the scope a particular criminal offence. Second, criminal proceedings are led by the Public Prosecutor exclusively, who is free to refuse to engage any action (discretionary power principle) in spite of the complaint filed by the victim.

The tools provided by Civil Law (contractual and tort liabilities), on the other hand, can be implemented directly by the victim.

As in any other field of law, the best way to protect trade secrets is to conclude a specific agreement with the person to whom that secret is disclosed to fix the boundaries of the use of such trade secrets. Obviously, when the violation of trade secrets occurs by the act of a third party, who has no relationship whatsoever with the victim, then tort liability applies.

French civil procedure also provides for useful tools to collect evidence of violation of trade secrets (article 145 of the code of civil procedure and seizure-infringement when applicable, *inter alia*). However, these specific tools can be "hijacked" by a user seeking to access and misappropriate the trade secrets of another person.

Finally, French civil emergency procedures apply to the case of a violation of trade secrets.

[123]Garinot J.-M., *Le secret des affaires*, thesis Dijon 2011, LexisNexis, 2013, p. 201.

The safeguards and specific procedures protecting trade secrets applied in front of French independent administrative authorities, and that are, globally, quite similar, have proven to be very efficient and should be used as a model of a larger system that could apply in front of French courts.

In fact, the main difficulty in France relies in the absence of a clear definition of trade secrets. One can regret that to claim a violation of its trade secrets, a company has to resort to a definition that is provided by a Block Exemption Regulation, scope of which is, in principle, limited to competition law, while the scope of trade secrets is much broader and flexible.

The extent of legal protection of trade secrets has raised issues relating to the protection of the freedom of expression, protection of the press in particular (and the source of the information), as well as of whistle blowers. To date, attempts to legislate in France on these issues have not come to fruition yet.

Germany

23

Thomas Hoeren

23.1 Introduction

In today's economy, trade secrets are of inestimable value. For many businesses the value of trade secrets even exceeds the value of industrial or intellectual property rights.[1] Therefore, trade secrets constitute a major part of any company's capital and assets. Due to their confidentiality, trade secrets cause legitimate commercial advantages and further advances towards competitors. For this reason, it is crucial for proprietors to be able to rely on statutory and legal protection of the trade secrets. Without legal protection any investments in knowledge, technical progress and development that lead to information considered as trade secrets are worthless for a company. Hence, it would not cause any economic advantages if the information becomes accessible and available for the competitors as well. A legal system that offers a reasonable protection of trade secrets therefore boosts and stimulates innovation and is crucial for any fair competition.

The following elaboration is supposed to give a brief overview of the legal protection of trade secrets in Germany and the most important rules concerning this matter.

[1]German Federal Court of Justice, Decision of 25 January 1955, Case No. I ZR 15/53, NJW 1955 (17), pp. 628, 629; German Federal Court of Justice, Decision of 6 October 1962, Case No. KZR 11/61, GRUR 1963(4), pp. 207, 209 et. seq.; H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG Para. 2.

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23.2 Legal Protection of Trade Secrets in Germany: Brief Overview

There is no specific law or statute which serves to protect trade secrets in Germany. Instead, there are various provisions in different German statutes and regulations whose purpose it is to protect trade secrets (see Fig. 23.1). The most important statutes are regulations as Sec. 17 of the German Act against Unfair Competition[2] (§ 17 UWG), Sec. 202 et seq. and 355 of the German Penal Code[3] (§§ 202 ff., 355 StGB), Sec. 6 of the German Freedom of Information Act[4] (§ 6 IFG), Sec. 172 of the German Judicature Act[5] (§ 172 GVG), Sec. 90 of the Commercial Code[6] (§ 90 HGB) and Sec. 52 of the German Labour Court Act[7] (§ 52 ArbGG). Those regulations are primary rules of German Criminal Law. However, the violation of criminal rules can cause claims for civil damages and injunctive relief in conjunction with Sec. 823 Para. 2 of the German Civil Code[8] (§ 823 Abs. 2 BGB) or with Sec. 4 No. 11 of the German Act against Unfair Competition § 4 Nr. 11 UWG).

German Civil Law	
§ 17 UWG	§ 823 Abs. 2 BGB
§§ 90, 93 HGB	§ 79 BetrVG
§ 172 GVG	§ 384 ZPO

German Criminal Law	
§§ 203, 204 StGB	§ 85 GmbHG
§ 404 AktG	§ 120 BetrVG

German Public Law	
§ 6 IFG	§ 30 AO
§ 30 VwVfG	§ 98 VwGO

Fig. 23.1 Legal protection of trade secrets in Germany—important rules [Further Statutes: Betriebsverfassungsgesetz, Works Constitution Act (hereafter “BetrVG”), Zivilprozessordnung, Code of Civil Procedure (hereafter “ZPO”), Aktiengesetz, Stock Corporation Act (hereafter “AktG”), GmbH-Gesetz, Limited Liability Companies Act (hereafter “GmbHG”), Verwaltungsverfahrensgesetz, Administration Procedure Act (hereafter “VwVfG”), Abgabenordnung, Tax Code (hereafter “AO”), Verwaltungsgerichtsordnung, Administrative Court Procedure Code (hereafter “VwGO”)]

[2] Gesetz gegen unlauteren Wettbewerb, Act against Unfair Competition (hereafter “UWG”).

[3] Strafgesetzbuch, Penal Code (hereafter “StGB”).

[4] Informationsfreiheitsgesetz, Freedom of Information Act (hereafter “IFG”).

[5] Gerichtsverfassungsgesetz, Judicature Act (hereafter “GVG”).

[6] Handelsgesetzbuch, Commercial Code (hereafter “HGB”).

[7] Arbeitsgerichtsgesetz, Rules of the Labour Courts (hereafter “ArbGG”).

[8] Bürgerliches Gesetzbuch, Civil Code (hereafter “BGB”).

23.2.1 Defining 'Trade Secrets'

All of these statutes use the term 'trade secret' without giving a definition. Although German law lacks a legal definition for the term trade secret, a common definition does exist. According to case law, a trade secret in Germany consists of a fact which relates to a certain business concern, is only known to a limited group of persons and has to be kept secret according to the explicit or implied will of the proprietor.[9] Furthermore, the company must have a legitimate interest in keeping the fact secret. Consequently the definition comprises commercial data, methods of production and other information that is significant for the economic activities and purposes of the company.

Based on the definition given above, the German definition of trade secrets consists of the following four components.

23.2.1.1 Secret

A secret is a fact known to a limited number of people, that is to say not obvious. It is obvious if it is generally known which means that people with an average amount of common sense have notice of this information or can obtain it from generally accessible sources.[10] The maximum number of persons permitted to know the secret depends on the individual case as well as on its circumstances and is determined by the judge. The secret does not have to be a novelty. That is why a fact that used to be known in former times but is not noticed at present anymore can be a secret.[11] It does not have to be of any financial value either. It is rather crucial that the secret holder suffers a disadvantage if a third person gains knowledge of the information.[12] Even if a fact (e.g. a process) itself is not secret but no one knows that a certain company uses it and this company does not want competitors to know about the use, the criteria of the secret is met.

23.2.1.2 Related to Business

The secret has to be related to a certain business company. This condition is fulfilled even if products which embody the secret are resold or if the secret is thrown out.[13]

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[9] Among many decisions from the Bundesgerichtshof, German Federal Constitutional Court, Decision of 14 March 2006, Case No. 1 BvR 2087/03 and 1 BvR 2111/03, MMR 2006(6), pp. 375, 376; German Federal Court of Justice, Decision of 15 March 1955, Case No. I ZR 111/53, GRUR 1955(8/9), pp. 424, 425 et. seq.; Decision of 26 February 2009, Case No. I ZR 28/06, NJW 2009(20), 1420, 1421 et. seq.

[10] German Federal Court of Justice, Decision of 14 July 1954, Case No. 6 StR 180/54, NJW 1954 (44), pp. 1656 et seq.

[11] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 8a.

[12] German Federal Court of Justice, Decision of 27 April 2006, Case No. I ZR 126/03, GRUR 2006 (12), pp. 1044, 1046 et seq.

[13] H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, para. 5.

Conversely, neither scientific knowledge and data of state, university and similar institutions, nor data of public administration is related to a company and is therefore not subject to the above mentioned definition of a trade secret.[14]

23.2.1.3 Will to Maintain Secrecy

The proprietor or the organ responsible for the management of the company must have declared their interest in keeping the information secret or at least made it recognizable outwardly.[15] The requirements are modest: If the nature of the matter demands such interest, the condition is fulfilled.[16] Consequently, the intention to keep the knowledge secret is presumed regarding the internal information of the company which is not obvious.[17] The secret does not have to be used currently. The secret holder does not have an interest in the secrecy only if he plans to never use it again in the future.[18]

23.2.1.4 Legitimate Interest in Keeping the Fact Secret

A legitimate interest in keeping the secrecy of the information exists if the protected information affects the competitiveness of the enterprise or may cause economic damage in another way. In the first case, the public knowledge of the secret information therefore must be capable of improving the market position of other competitors or of weakening the position of the proprietor.[19]

23.2.2 Business and Industrial Secrets

Furthermore, German law subdivides trade secrets into business and industrial secrets.[20] Business secrets are the facts referring to the commercial side of the company. Those are e.g. customers lists, production sources, market strategies and calculations, whereas industrial secrets concern technical questions such as production methods, computer programs (including program codes), formulas and

[14]H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 12.

[15]German Federal Court of Justice, Decision of 26 November 1968, Case No. X ZR 15/67, GRUR 1969(7), pp. 341, 343.

[16]German Federal Court of Justice, Decision of 10 May 1995, Case No. 1 StR 764/94, NJW 1995 (35), pp. 2301, 2302.

[17]H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, para. 10.

[18]German Federal Court of Justice, Decision of 19 November 1982, Case No I ZR 99/80, GRUR 1983(4), pp. 179, 181.

[19]H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 14 et seq.

[20]E.g. Sec. 17 of the Act against Unfair Competition, Sec. 333 of the Commercial Code, Sec. 203, 204 of the Penal Code (§ 17 UWG, § 333 HGB, §§ 203, 204 StGB).

composition and functional characteristics of devices.[21] Despite the statutory distinction, both types of trade secrets are equally protected. Therefore, the following elaboration will only refer to business and industrial secrets collectively as 'trade secrets'.

23.2.3 Public International Law

German Law is also bound and influenced by Public International Law. Regulations have to be interpreted consistently with the rules of Public International Law. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement that was enacted by the World Trade Organization (WTO) and is supposed to set down a minimum standard for a numerous fields of IP Law. Article 39 Para. 2 TRIPS provides a basis for the protection of undisclosed information and offers the possibility to natural and legal persons to lawfully prevent information within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices. To be protected by Article 39 Para. 2 TRIPS 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.[22]

A comparison with the definition of trade secrets according to German case law shows that the definitions are mostly congruent with each other. However, the definition given by Article 39 Para. 2 TRIPS does not refer to the owners' will to keep the information secret as a condition for protection of the information as a trade secret and is therefore more comprehensive.

23.2.4 Protection of Trade Secrets in Basic Law of the Federal Republic of Germany (Grundgesetz)

The German Grundgesetz[23] does not provide a specific provision on the protection of trade secrets, but case law and the relevant professional literature have deduced the protection from Article 2 (general freedom of action) in conjunction with

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[21] H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, para. 4a; D. Quedenfeld, In: Münchener Kommentar zum HGB, 3rd edition, 2013, § 333 HGB, para.15.

[22] Article 39 Para. 2 S. 2 TRIPS.

[23] The German Basic Law, Grundgesetz, is the German constitution since 1949 (hereafter the "Grundgesetz").

Article 14 (constitutional guarantee of ownership) of the Grundgesetz respectively from Article 12 (professional freedom). Because of this extension of the constitutional protection, the principle of proportionality has to be observed by the authorities, e.g. in cases when the authorities assert claims for disclosure against companies.[24]

Article 12 of the Grundgesetz protects not only the freedom to choose an occupation but also occupational behaviour and professionalism of people and companies. From this, it follows that the constancy of trade secrets is also protected.[25]

Article 14 of the Grundgesetz protects the guarantee of ownership. In Germany it is controversial whether Article 14 protects trade secrets as part of the industrial establishment among the physical properties of a company (e.g. machines, estates). The German Federal Constitutional Court[26] leaves this question unanswered and affirms the protection of trade secrets under Article 12. However, the protection under Article 14 may not be more extensive than under Article 12.[27]

The constitutional protection of trade secrets mainly applies to state-owned institutions as the obliged party. As an exception, it also affects the relationship between the beneficiary and third parties in Civil Law (Horizontal effect of Constitutional Rights).

23.2.5 Protection of Trade Secrets in the German Act Against Unfair Competition (UWG)

Sec. 17 UWG is a criminal provision. In 2013, the German Federal Office of Crime Investigation registered 425 criminal cases of violation of Sec. 17 UWG, 401 of which could be elucidated.[28]

In the last century, the Act against Unfair Competition consisted of a clause in Sec. 19[29] that provided an independent basis of a civil claim. By now, actions for civil damages and injunctive relief have to be based on the Sec. 17, 18 UWG in conjunction with either Sec. 823 Para. 2 BGB or Sec. 3, 4, 8, 9 UWG. Claims for damages consist in the payment of an amount to compensate the aggrieved party whilst claims for injunctive relief aim at remedying an omission or ending any violating activity or likelihood of such activity in the future.

[24] C. Wodtke and S. Richters, Schutz von Betriebs- und Geschäftsgeheimnissen, Erich Schmidt Verlag 2004, p. 45.

[25] German Federal Constitutional Court, Decision of 14 March 2006, Case No. 1 BvR 2087/03 and 1 BvR 2111/03, MMR 2006(6), pp. 375, 376.

[26] Bundesverfassungsgericht, German Federal Constitutional Court.

[27] German Federal Constitutional Court, Decision of 14 March 2006, Case No. 1 BvR 2087/03 and 1 BvR 2111/032006, MMR 2006(6), pp. 375, 376.

[28] Police Crime Statistic of the Federal Republic of Germany, German Federal Office of Crime Investigation, 2013.

[29] § 19 UWG a.F.

The UWG as the Act against Unfair Competition provides a claim for civil damages and injunctive relief[30] as well as a penal sanctions consisting of imprisonment up to 3 years in its Sec. 17, 18 UWG in case of intentional betrayal of trade secrets by an employee to a third party during the period of the employment, e.g. the disclosure of a trade secret. In the same way, the punishment applies to anyone who intentionally uses technical means, produces a physical reproduction or commits a seizure of the reproduction to spy out a trade secret. Even the inciting to misappropriate a trade secret can be punished with an imprisonment up to 2 years or a fine.[31] Any attempt to misappropriate a trade secret is subject to penal sanctions as well.[32]

In case of a civil claim by the aggrieved party, the offender may be compelled to pay damages for the harm caused. For such an action, the illegality of the interference with the trade secrets has to be established by carefully balancing the interests of the parties.[33]

23.2.5.1 Applicability

In times of globalization and technical progress it is crucial for the functionality of legal systems not only to protect trade secrets against national misappropriation but also against any interventions from businesses that are located in foreign countries anywhere in the world. The protection of trade secrets by the rules of the UWG is independent from the geographic location of the violation. Therefore the rules are applicable to any foreign action as long as a domestic company is affected. A domestic company can be any company with a place of business in Germany. The rules also apply to companies without a place of business in Germany as long as they depend on a company with a place of business in Germany and both represent a corporate concern.[34]

23.2.5.2 Personal Scope of the Regulation

Sec. 17, 18 UWG not only apply to competitors but also to the proprietor's own employees.[35]

The prohibition of trade secrets misappropriation is also applicable to other parties, such as the former proprietor of a business[36] or neutral administrators,

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[30]Sec. 17, 18 UWG in conjunction with Sec. 823 Para. 2 BGB.

[31]Sec. 19 UWG.

[32]Sec. 17 Para. 3, 18 Para. 2 UWG.

[33]German Federal Court of Justice, Decision of 21 December 1962, Case No. I ZR 47/61, NJW 1963(19), 856, 857 et. seq.; H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, para. 53.

[34]Sec, 19 Para. 5 UWG in conjunction with Sec. 3, 5 No. 7 StGB.

[35]H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 18.

[36]German Federal Court of Justice, Decision of 25 January 1955, Case No. I ZR 15/53, NJW 1955 (17), pp. 628, 629.

e.g. liquidators.[37] However, the prohibition does not apply to third parties that lack any legal relation to the business owner, especially if they only gained their knowledge of the information by coincidence. German law does not prevent these third parties from using or passing on the trade secrets for their own advantage.[38] However, there are restrictions to this: Firstly, the misguidance by a third party to a breach of contractual confidentiality and, secondly, the utilization by third parties of a breach of contract by the secret holder as long as the third party has or must have notice of the violation of contractual confidentiality.[39]

23.2.5.3 Requirements and Action Alternatives

Sec. 17 UWG protects the individual interests of a concern as well as the common interest in the efficiency of competition[40] and consists of three different alternatives of acts: the betrayal of trade secrets by an employee of the proprietor during the period of the employment (Sec. 17 Para. 1), industrial espionage (Sec. 17 Para. 2 No. 1) and the unauthorized trade or misappropriation of trade secrets that have been spied out (Sec. 17 Para. 2 No. 2). The consent of the proprietor precludes the application of those rules hence the offender does not act unauthorized and is not punishable.

The German Act against Unfair Competition does not define the term trade secrets but the above definition is applicable as well. Novelty or a high economic value of the information is not required for information to be protected. Even if a number of companies use the exact same knowledge, that knowledge can still be considered as a trade secret that is covered and protected by Sec. 17.[41]

Betrayal of Trade Secrets by an Employee (Sec. 17 Para. 1 UWG)

Sec. 17 Para. 1 UWG applies to any employed person from the highest to the lowest ranking employee, including trainees.[42] These employees must have either

[37] H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, Para. 62.

[38] German Federal Court of Justice, Decision of 10th July 1963, Case No. Ib ZR 21/62, 1964 GRUR 31, 32; H. Köhler in Köhler/Bornkamm, Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 62.

[39] H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, para. 62.

[40] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 18; A. Ohly, In: Ohly/Sosnitza (eds), Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para. 1.

[41] German Federal Court of Justice, Decision of 15 March 1955, Case No. I ZR 111/53, GRUR 1955 (8/9), pp. 424, 425 et. seq.; Decision of 1 July 1960, Case No. I ZR 72/59, NJW 1960(44), pp. 1999, 2000; H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 8a.

[42] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 18; H. Köhler, In: Köhler/Bornkamm (eds), Gesetz gegen den unlauteren Wettbewerb, 33rd edition, 2015, § 17 UWG, para 14; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig (eds), Gesetz gegen den unlauteren Wettbewerb, 3rd edition, 2013, § 17 UWG, para. 8.

somehow gained knowledge of the information or must have been entrusted with it during the period of their employment.[43] The regulation even applies to inventions or concepts for the company of the employee himself as long as they were made during the time of his or her employment.[44] During the employment criminal law is applicable to the disclosure of trade secrets whilst only civil remedies are available in case of disclosure after the determination of the employment.

Any kind of intentional disclosure to third parties, e.g. oral, written, by handing out documents etc., is covered by Sec. 17 Para. 1 UWG.

Furthermore, the disclosure has to be unauthorized and unjustified. Even disclosure to other employees of the same company can be unauthorized if those persons are not entitled to have access to the trade secret.[45]

The employee must not only act intentionally to fulfil Sec. 17 Para. 1 UWG. He must also act to influence competition or cause harm to the proprietor in his own interest or in favour of a third party.

Industrial Espionage (Sec. 17 Para. 2 Subpara. 1 UWG)

Sec. 17 Para. 2 No. 1 UWG not only applies to employees of the proprietor but also to any third party as well as to anybody—irrespective of the existing contractual relations.[46]

According to Sec. 17 Para. 2 Subpara. 1 UWG it is industrial espionage if the offender—without any authorization—procures or retains the information of a trade secret by using technical mediums (Subpara. 1a)), by creating a physical reproduction of the trade secret (Subpara. 1b)) or by withdrawing any existing physical reproduction of the trade secret (Subpara. 1c)). For retaining the trade secret, it is not necessary that the offender actually gains knowledge of the trade secret or uses the information afterwards.[47] Sec. 17 Para. 2 Subpara. 1a) UWG (the use of technical means) covers in particular usage of a camera, monitoring instruments

43 H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 20; A. Ohly, In: Ohly/Sosnitza (eds), Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para. 14.

44 H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 21; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig (eds), Gesetz gegen den unlauteren Wettbewerb, 3rd edition, 2013, § 17 UWG, para. 8.

45 H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 26; A. Ohly, In: Ohly/Sosnitza (eds), Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para 15.

46 H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 32; A. Ohly, In: Ohly/Sosnitza (eds), Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para. 17.

47 German Federal Court of Justice, Decision of 23 February 2012, Case No. I ZR 136/10, GRUR 2012(10), pp. 1048 et seq.; H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 33; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig (eds), Gesetz gegen den unlauteren Wettbewerb, 3rd edition, 2013, § 17 UWG, para. 20.

or printers, whereas Subpara. 1b) covers the production of a physical record of the trade secret to secure it permanently.[48] Subpara. 1b) does not necessarily require the use of technical means. Nowadays however, industrial espionage usually fulfils the conditions of the two subparagraphs. Sec. 17 Para. 2 Subpara. 1c) sanctions the stealing of existing physical reproductions of trade secrets or copies of the information such as paperwork, CD-ROM and any other databases.[49]

Like Para. 1, the employee must not only act intentionally to fulfil Sec. 17 Para. 2 Subpara. 1 UWG. He must also act to influence competition or to cause harm to the proprietor in his own interest or in favour of a third party.

Unauthorized Trade, Use or Misappropriation of Spied Out Trade Secrets (Sec. 17 Para. 2 Subpara. 2) UWG)

Furthermore, Sec. 17 Para. 2 Subpara. 2 UWG prohibits the unauthorized trade, use or misappropriation of trade secrets that have already been spied out.

Sec. 17 Para. 2. Subpara. 2 UWG is applicable to any person—not only current or former employees.[50]

Contrary to Sec. 17 Para. 2 Subpara. 1 UWG, the Sec. 17 Para. 2 Subpara. 2 UWG requires the unauthorized use or the disclosure of a trade secret to third parties. The offender has to have gained the information via one of the action alternatives described in Sec. 17 Para. 1, Sec. 17 Para. 2 Subpara. 1 UWG, or by any other unauthorized means—e.g. theft, blackmail or fraud.[51] Therefore, this subparagraph can also be applicable if a third party gained knowledge of a trade secret obtained via a breach of confidence by an employee of the proprietor; obtaining information that constitutes a trade secret may also be prohibited in cases of reverse engineering in circumstances when a competitor purchases any machine or device from the proprietor for the sole purpose of investigating it to obtain technical information and build an imitation of the device.[52] Sec. 17 Para. 2 Subpara.

[48] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 37; German Parliament Printed Papers 10/5058, S. 40; Rupp, WRP 1985 (12), pp. 676, 681.

[49] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 39; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig (eds), Gesetz gegen den unlauteren Wettbewerb, 3rd edition, 2013, § 17 UWG, para. 24.

[50] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 43; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig (eds), Gesetz gegen den unlauteren Wettbewerb, 3rd edition, 2013, § 17 UWG, para. 27; A. Ohly, In: Ohly/Sosnitza (eds), Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para. 20.

[51] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 48; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig (eds), Gesetz gegen den unlauteren Wettbewerb, 3rd edition, 2013, § 17 UWG, para. 31; A. Ohly, In: Ohly/Sosnitza, Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para. 21.

[52] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 49.

2 UWG is also applicable if the offender or a third party enhances, refines, or improves the information or the technical progress behind the trade secret as long as the access to the information was unauthorised.[53]

Again, the employee must not only act intentionally to fulfil Sec. 17 Para. 2 Subpara. 2 UWG. He must also act for the purpose of influencing the competition or causing harm to the proprietor in its own interest or in favour of a third party.

23.2.5.4 Legal Consequences

Violations of Sec. 17 UWG may be punished with a fine or imprisonment up to 3 years. In peculiar and serious violations, the imprisonment may go up to 5 years, especially if the offender has acted repeatedly to obtain financial profit or if the offender utilises the trade secret in a foreign country or is planning to do so.[54]

In conjunction with Sec. 823 Para. 2 BGB the offender is also liable for damages. The civil damages can be calculated in three different ways: they can be either based on the violator's profit, on the claimant's loss, or by application of the license analogy based on an adequate consideration.[55] Those claims for damages lapse within a period of 3 years.[56]

23.2.6 Protection of Trade Secrets in German Copyright Law

The German Act on Copyright and Related Rights[57] only protects works, not ideas. Written documents or computer programs (Sec. 2 Para. 1 Subpara. 1, Sec. 69a et seq. UrhG) as well as engineering or technical drawings such as maps, drawings, drafts, or charts (Sec. 2 Para. 1 Subpara. 7 UrhG) or as a database (Sec. 2 Para. 2, 4, 87a et seq. UrhG) are protected against unlawful dissemination, disclosure or utilization.[58] However, according to Sec. 1 Para. 2 UrhG, for protection it has to be an individual, i.e. human, mental creation. A mental creation means that it has to be the result of a direct and intended creation and design process.[59] Furthermore, the work must reach a certain level of creation. It is given if it reaches a sufficient degree of creativity and aesthetic and people familiar with similar works of art

[53] H. Diemer, In: Erbs/Kohlhaas (eds), Strafrechtliche Nebengesetze, supplement 201, January 2015, § 17 UWG, para. 50; A. Ohly, In: Ohly/Sosnitza (eds), Gesetz gegen den unlauteren Wettbewerb, 6th edition, 2014, § 17 UWG, para. 22.

[54] Sec. 17 Abs. 4 UWG.

[55] German Federal Court of Justice, Decision of 18 February 1977, Case No. I ZR 112/75, GRUR 1977(8), pp. 539, 541 among others.

[56] Sec. 195, 199 BGB.

[57] Urheberrechtsgesetz, German Act on Copyright and Related Rights (hereafter "UrhG").

[58] Sec. 2 Abs. 1 Nr. 1, Nr. 2, Abs. 2, 69a et. seq., 84a et. seq. UrhG.

[59] G. Schulze, In: Dreier/Schulze (eds), Urheberrechtsgesetz, 4th edition, 2013, § 2 UrhG, para. 17.

would qualify it as an "artistic" achievement.[60] The author of a copyrighted work has the exclusive right to disseminate, copy, disclose, and utilize its work which may contain a trade secret (Sec. 15 et seq. UrhG). Besides, the author can provide to anyone the right to use some or all of the rights according to Sec. 31 UrhG. If someone violates its rights or the rights to use, the UrhG provides the possibility to enforce it by filing a lawsuit aiming omission, damages or abolition (Sec. 97 UrhG). According to Sec. 101 UrhG, the author has a right to be informed about the extent of unauthorized utilisation by the violator but only if the disclosure of such information is not disproportionate in the particular case (see Sec. 101 Para. 4 UrhG). This provision may affect trade secrets but does not lead to an obligation to disclose all existing business documents.[61] Usually the information regards the origin and chain of distribution (producer and outlets) of the unauthorized copies as well as the amount of produced or sold copies (see Sec. 101 Para. 1, 3 UrhG).

23.2.7 Protection of Trade Secrets in German Commercial Law

Trade secrets are also protected by German Commercial law.

Sec. 90 HGB[62] prohibits a commercial agent from using or publishing trade secrets received from the principal or obtained whilst representing the principal where this conflicts with the ethics of his profession. The agent's obligation does not expire with the end of the representation but survives the termination of any contractual relationship until the information loses its status as a trade secret.[63] Under Sec. 90 HGB, the agent is for example not allowed to use client's data for its own business or for its new employer.[64] If the agent violates its obligation, the proprietor can demand damages[65] as well as remedies and injunctive relief.

Sec. 93 Para. 1 of the German Stock Corporation Act and Sec. 85 of the German Limited Liability Companies Act bind members of the management to secrecy. Both of them provide penalties for the misuse of trade secrets.

With regard to other employments, protection of trade secrets arises from the labour contract and its implicit obligation to the rules of good faith which means that the obligation ends with the contract if the parties have not otherwise agreed. Generally, the employee is not prevented from using the know-how gained during

[60] German Federal Court of Justice, Decision of 13 November 2013, Case No. I ZR 143/12, MMR 2014 pp. 333, 334.

[61] M. Bohne, In: Wandtke/Bullinger (eds), Praxiskommentar zum Urheberrecht, 4th edition, 2014, § 101 UrhG, para. 20, 22; G. Schulze, In: Dreier/Schulze (eds), Urheberrechtsgesetz, 4th edition, 2013, § 101 UrhG, para. 21, 23.

[62] Sec. 90 of the German Commerical Code.

[63] K. Hopt, In: Baumbach/Hopt (eds), Handelsgesetzbuch, 36th edition, 2014, § 90 HGB, para. 4.

[64] K. Hopt, In: Baumbach/Hopt (eds), Handelsgesetzbuch, 36th edition, 2014, § 90 HGB, para. 7.

[65] Based on § 280 Abs. 1 BGB in conjunction with § 90 HGB.

his employment. However, in some ways the labour contract continues to have an effect especially concerning seriously disloyal behaviour.

23.2.8 Protection of Trade Secrets in the German Civil Code (BGB)

In addition to the specific provisions of the various laws, proprietors have the possibility to claim damages under the Civil Code for breach of a contractual duty (Sec. 280, 311 and Sec. 241 Para. 2 BGB) as well as for tort (Sec. 823, 826 BGB). Employees are obliged to keep the employer's trade secrets confidential. This duty arises from the general obligation to act in good faith (Sec. 242 BGB) which is synonymous with loyalty, sincerity and candour. Any violation of that duty can cause claims for damages (Sec. 280 BGB in conjunction with Sec. 242 BGB).

The proprietor can also claim for injunctive relief under Sec. 1004 BGB.

As mentioned above, Sec. 823 Para. 2 BGB provides damages if any protective law has been violated. Such protective laws may be found in Sec. 17 UWG or Sec. 79 of the German Works Constitution Act.[66]

23.2.9 Protection of Trade Secrets in the German Freedom of Information Act (IFG)

In general, everyone has a right to obtain from public authorities access to administrative information.[67] Public agencies can easily have access to various sensitive trade secrets, for example during administrative procedures in tax law or patent applications. Therefore, Sec. 6 IFG prohibits the transfer of trade secrets by public agencies without explicit consent from the proprietor. Hence the right of access is limited as soon as it affects confidential trade secrets. Confidentiality can outweigh the interest of the public to have access to public information. Sec. 6 IFG not only applies to the trade secret itself but also to information that lead to a conclusion about the content of the trade secret.[68] The motive behind this regulation is to encourage invention by leaving the advantage and advance of innovation to the proprietor. Innovation would be inhibited if any competitor had a right to access the content of e.g. patent applications as soon as they are filed without making the same financial investment as the proprietor.[69] It also increases the cooperation between the public authorities and business companies.[70]

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[66] Sec. 79 BetrVG.

[67] Sec. 1 IFG.

[68] German Federal Administrative Court, Decision of 24 September 2009, Case No. 7 C 2/09, NVwZ 2010(3), pp. 189, 193.

[69] German Federal Constitutional Court, Decision of 21 October 2014, Case No. 2 BvE 5/11, NVwZ 2014 pp. 1652, 1661; German Federal Constitutional Court, Decision of 14 March 2006, Case No. 1 BvR 2087/03 and 1 BvR 2111/03, MMR 2006(6), pp. 375, 376.

[70] C. Helbach, Der gestufte Schutz von Betriebs- und Geschäftsgeheimnissen, Duncker & Humblot 2012, p. 30.

23.2.10 Further Protection of Trade Secrets in German Criminal Law

In addition to Sec. 17 et seq. UWG trade secrets are also protected by the German Penal Code itself and by further rules of the German Commercial Code and Company Law.

23.2.10.1 German Penal Code (StGB)

Penal provisions to protect trade secrets can be found in Sec. 203, 204, 355 StGB. Furthermore, Sec. 202, 202a, 202b, 202c StGB have an impact on the protection of trade secrets as they prohibit violation of privacy of correspondence, spying out data and capturing such data using technical measures. They only apply to certain professional categories that enjoy particular confidence such as doctors, lawyers and public officers. The potential sanction is imprisonment up 1 year as well as a fine. The penalty may be increased if the offender acts with intent to enrich himself or a third party or if it acts with the intent to harm someone else.

Especially Sec. 204 StGB is designed to penalize the commercial exploitation of trade secrets. Like Sec. 203 StGB, Sec. 204 StGB only applies to professions inherent dealing with certain confidence, for example if a patent lawyer uses the patent of its client to produce the patented invention.[71] Prosecution requires the filing of a complaint by the entitled trade secrets proprietor.[72] The penalty can be an imprisonment up to 2 years or a fine.

Sec. 355 StGB applies specifically to tax collectors or fiscal authorities that have access to trade secrets during the administrative procedure. Sec. 355 StGB also penalizes the transfer or the exploitation of trade secrets with an imprisonment up to 2 years or a fine.

23.2.10.2 German Commercial Code (HGB)

Sec. 333 HGB sanctions the violation of trade secrets of stock corporations by annual auditors with imprisonment up to 1 year or a fine. It is not necessary that the company actually suffers harm.[73] According to Sec. 203 StGB, the penalty can be increased if the offender acts with the intent to enrich himself or a third person or if he acts with the intent to harm someone else.

23.2.10.3 German Company Law

The German Company Law provides further criminal regulations to protect the confidentiality of trade secrets.

[71] T. Lenckner and J. Eisele, In: Schönke/Schröder (eds), Strafgesetzbuch, 29th edition, 2014, § 204 StGB, para. 4f.

[72] Sec. 205 StGB.

[73] D. Quedenfeld, In: Münchener Kommentar zum HGB, 3rd edition, 2013, § 333, para. 3.

Sec. 404 AktG prohibits the unauthorized disclosure of secrets of a stock corporation, especially trade secrets, by board members, members of the supervisory board or annual auditors. In case of the disclosure of trade secrets by an annual auditor, Sec. 404 AktG is subsidiary to the above mentioned Sec. 333 HGB.

Sec. 85 GmbHG penalizes managers, members of the supervisory board or liquidators of the limited liability company for the unauthorized disclosure of secrets, especially trade secrets. Opposed to Sec. 404 AktG, Sec. 85 GmbHG does not apply to annual auditors. The same prohibitions apply to members of the work council.[74]

All of these regulations contain a fine or an imprisonment up to 1 year.

23.2.11 Further Protection of Trade Secrets in German Public Law

Trade secrets often also need to be protected against acts of administrative authorities or during administrative procedures. German law provides regulations for this case.

According to Sec. 30 VwVfG[75], parties involved in an administrative procedure have a right to confidentiality of their personal or trade secrets. Public authorities are not allowed to disclose trade secrets without authorization. This protection also applies to trade secrets of third parties such as family members, witnesses or representatives of the parties.[76] But the duty of confidentiality can be limited by duties to disclose information.

Sec. 30 Para. 1 AO[77] contains the obligation for public officers to protect fiscal secrets during criminal or administrative tax procedures. A public officer violates this duty in any case of unauthorized disclosure or misappropriation of trade secrets, if he has gained the information during a tax procedure (Sec. 30 Para. 2 Subpara. 2 AO). However, Sec. 30 AO provides several exceptions in Para. 4. The disclosure or use can be permitted, e.g. if the proprietor has given its consent or if legal exceptions apply.[78]

In 2013, the German Federal Court of Justice decided that a company is not obliged to send intra-company information to the cartel authorities via unencrypted email.[79] This ruling has an impact on information that might contain trade secrets, although the German Federal Court of Justice left open the question whether trade

[74]Sec. 120 BetrVG.

[75]Sec. 30 German Administration Procedure Act.

[76]D. Kallerhoff, In: Stelkens/Bonk/Sachs (eds), Verwaltungsverfahrensgesetz, 8th edition, 2014, § 30 VwVfG, para. 24.

[77]Abgabenordnung, German Tax Code (hereafter “AO”).

[78]Such as Sec. 4 Abs. 5 Nr. 10 S. 1 of the Income Tax Law (Einkommenssteuergesetz, EStG); another regulation to protect trade secrets in administrative procedures is Sec. 9 of the Environmental Information Act,UIG).

[79]German Federal Court of Justice, Decision of 26 February 2013, Case No. KVZ 57/12, ZD 2013 (6), 273.

secrets were affected. Preliminary to the ruling in this, the cartel authority of the Federal State Brandenburg in Northeastern Germany had asked a company to provide internal information regarding the calculation of electricity tariffs, but only offered an e-mail address for an account that was not able to receive encrypted and electronically verified e-mails. Therefore, the company's management did not disclose the information. The German Federal Court of Justice ruled in this case that authorities cannot expect companies to use a rather unsafe way to transfer information even if the requested information does not contain any trade secrets but other intra-company information. Therefore, companies are even less obliged to transfer information that actually contains trade secrets to the authorities by using unencrypted and unverified e-mail correspondence.

23.2.12 Civil Law Consequences

With regard to Civil Law, the legal consequences of a violation of a trade secret include the right of the claimant to demand disclosure, remedies, injunctive relief and damages. They do not include damages for moral prejudice which only applies to pain or suffering. Punitive damages are not granted either.

To be able to file a claim for damages, the defendant is obliged to disclose any information about the misappropriation of the trade secret and the profit obtained from the violation.[80] Furthermore, it is obliged to allow the claimant to inspect its business offices or data (Sec. 809 BGB). This procedure is only allowed, if the actual existence of the claim is probable to a certain degree.[81]

As a remedy, the losing party has to destroy all records and material connected with the trade secret. The claimant may also demand that the documents are handed over to itself.[82]

The claim for omission covers the use and transfer of the trade secret as well as the use or production of any machines or goods that the defendant produced based on the trade secret. The claim only arises if a risk of first or recurrent infringement exists or if the infringement lasts.[83]

[80] Sec. 242 BGB.

[81] Higher Regional Court Hamm, Decision of 31 January 2013, Case No. 4 U 200/12, GRUR-RR 2013(7), pp. 306 et seq.

[82] H. Köhler, In: Köhler/Bornkamm (eds), Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 65.

[83] H. Köhler, In: Köhler/Bornkamm (eds), Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 64, 65b.

23.3 Protection of Know-How

If technical knowledge and invention meets certain criteria it can be registered as a patent. According to Sec. 1 Para. 1 of the PatG[84], patents can be granted for technical inventions that are new, involve an inventive step and are susceptible of industrial application. The German Patent and Trademark Office reviews whether the conditions are fulfilled or not. The patent application is disclosed after 18 months.[85] At this stage, the information becomes public and does no longer meet the requirements for the statutory protection of secrets. Therefore, some businesses decide to keep the information secret instead of registering for a patent.

However, if the knowledge considered as know-how does not meet the criteria for a patentable invention or has willingly not been registered as a patent, it will be protected by German law only if it meets the above defined criteria for the protection of trade secrets. Therefore, know-how has to be considered as a trade secret according to the common definition.

23.3.1 Defining Know-How

In 1949, Gilbert Ryle stated that any knowledge is based on proficiency. By distinguishing between knowing that and knowing how, he gave a distinct meaning to the term 'Know- How'.[86] Nowadays, the term know-how is still an open and economic distinction instead of a legal term.[87] Due to its value for businesses and the economy, it might require statutory regulation and protection.

German statutes are missing a common definition of the term know-how or specific rules for the protection of know-how. However, Article 1 lit. (1) (i) of the Commission Regulation No. 772/2004[88] defines know-how as

> a package of non-patented practical information, resulting from experience and testing, which is secret, that is to say, not generally known or easily accessible, substantial, that is to say, significant and useful for the production of the contract products, and 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.

Similar definitions can be found in Art. 1 Para. 1 lit. g) of the Commission Regulation No. 330/2010[89] and in Art. 1 Para. 1 lit. i)-l) of the Commission

[84] Patentgesetz, German Patent Act (hereafter "PatG").

[85] Sec. 34 Abs. 4, 32 Abs. 2 PatG.

[86] G. Ryles, The Concept of Mind, Penguin Classics 2012.

[87] A. Ohly, In: Ohly/Sosnitza (eds), Kommentar UWG, 6th edition, 2014, § 17 UWG, Vor §§ 17-19, para. 1.

[88] Commission Regulation (EC) No. 772/2004 of 27 April 2004.

[89] Commission Regulation (EU) No. 330/2010 of 20 April 2010.

Regulation No. 1217/2010[90]. Indeed, all these definitions refer to antitrust law and cannot be extended to other areas of law.[91]

In accordance with decisions of the German Federal Court of Justice regarding the breach of confidentiality agreements covering know-how, know-how can be defined as ‘facts that are only known to a limited group of people and that are kept secret in accordance with the will and the reasonable interest of the proprietor since their disclosure might cause commercial harm to the proprietor.’[92]

In the area of the legal protection of secrets the law exclusively ties in with the term ‘trade secret’. The term ‘know-how’ originates from business practice and is used to describe a factual asset which can come within the legal protection of a trade secret, if it meets the legal requirements. Considering this distinction between the two terms, know-how can be defined as knowledge and experience that can be practically applied in the operation of a business.[93] Partly, the term is interpreted more narrowly by case law and pertinent professional literature; therefore the conditions of the term are only fulfilled if it is commercial, technical and/or secret knowledge.[94]

23.3.2 Know-How as a Trade Secret

Not every legal system offers protection for know-how due to the fact that it often does not meet the criteria for protection by IP law. As the German law often differs between business and industrial secrets as trade secrets, it has to be determined if know-how is covered by one of these two terms. Industrial secrets cover the knowledge regarding technical operations, especially production or manufacturing processes.[95] Therefore, from the definition contained in Article 1 of the Commission Regulation No. 772/2004[96], know-how is an industrial hence a trade secret in the sense of German law and is protected in the same way.

[90]Commission Regulation (EU) No. 1217/2010 of 14 December 2010.

[91]B. J. Kalbfus, Know-how-Schutz in Deutschland zwischen Strafrecht und Zivilrecht – welcher Reformbedarf besteht?, Carl Heymann 2011, p. 7.

[92]I. Westermann, Handbuch Know-How-Schutz, C. H. Beck 2007, p. 2; German Federal Court of Justice, Decision of 10 May 1995, Case No. 1 StR 764/94, NStZ 1995(11), pp. 551 et seq.; German Federal Court of Justice, Decision of 25 November 2010, Case No. Xa ZR 48/09, GRUR 2011(5), pp. 455 et seq.

[93]B. J. Kalbfus, Know-how-Schutz in Deutschland zwischen Strafrecht und Zivilrecht – welcher Reformbedarf besteht?, Carl Heymann 2011, pp. 7 et seq.; A. Ohly, In: Ohly/Sosnitza (eds), Kommentar UWG, 6th edition, 2014, § 17 UWG, Vor §§ 17-19, para. 1.

[94]Cf. G. Henn, Patent- und Know-how-Lizenzvertrag, C. F. Müller 2003, p. 19; R. Schulte, Patentgesetz Kommentar, Carl Heymanns 2014, 9th edition, § 15, para. 14.

[95]German Federal Court of Justice, Decision of 15 December 1987, Case No. 3 AZR 474/86, NJW 1988(27), p. 1686; H. Köhler, In: Köhler/Bornkamm (eds), Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 4a.

[96]Commission Regulation (EC) No. 772/2004 of 27 April 2004.

Business and industrial secrets are facts referring to a certain undertaking that are not public but known to a limited number of persons and which must be kept confidential according to the expressed economic will of the owner.[97] If the relevant know-how does not fulfil these requirements, especially the non-public nature, it is not protected legally.

23.3.3 Legal Protection of Know-How in Germany

In the same way as the proprietor of trade secrets, the owner of know-how is entitled to request injunctive relief as well as removal of any disturbance from the betrayer of the trade secret (see Sec. 1004 Para. 1 S. 1, S. 2 BGB, Sec. 8 Para. 1 UWG). It can also claim damages if the betrayer acted culpable.

23.3.4 Contractual Protection of Know-How

The protection of trade secrets is legally regulated by various specific provisions; a dedicated trade secret statute does not exist. Therefore, the legal protection is often considered to be deficient and fragmentary. Indeed, it is possible to supplement the protection by contractual arrangements.[98] In contractual relationships, the contractual partner of the proprietor of know-how has to observe a general duty of confidentiality. This obligation results from the principle of good faith.[99] For certain situations and people it is determined by specific rules like Sec. 93 Para 1, Sec. 116 AktG or Sec. 323 HGB. In addition, it is possible to protect know-how by confidentiality agreements. With regard to licensing agreements, confidentiality terms can prohibit and serve to limit the disclosure of know-how to a certain group of people.[100] Contracts can define the subject, nature and scope of know-how, raise the attention of the obliged party on its confidentiality duties and close gaps in the protection afforded by the above mentioned statutes. These provisions can be part of the respective main contract or be formulated in an independent contract.[101] A confidentiality agreement can also prevent the registration of the know-how as a patent by the obliged party. If the obliged party files a patent application, this behaviour can be considered as unauthorized utilization of the knowledge.

[97] German Federal Court of Justice, Decision of 26 February 2009, Case No. I ZR 28/06, NJW 2009(20), pp. 1420 et seq.

[98] C. Wodtke, S. Richters and M. Pfuhl, Schutz von Betriebs- und Geschäftsgeheimnissen, Erich Schmidt 2004, p. 133.

[99] I. Westermann, Handbuch Know-How-Schutz, C. H. Beck 2007, pp. 80 et seq.

[100] I. Westermann, Handbuch Know-How-Schutz, C. H. Beck 2007, pp. 87 et seq.

[101] D. v. Diringshofen, Know-how-Schutz in der Praxis, GRUR-Prax 2013(11), pp. 397 et seq.

In case of violation of the confidentiality agreement, the parties can determine contractual penalties.[102] The proprietor can use the penalties as an incentive to ensure confidentiality. A penalty also relieves the proprietor from the obligation to demonstrate its damage. Because the primary obligation of a confidentiality agreement is to prevent any disclosure of the trade secret, the proprietor has to prove the violation of this duty by the obliged party.[103] It also carries the burden of proof regarding the existence of a confidentiality agreement as well as the burden of proof regarding damages that exceed the agreed amount stipulated in the contractual penalty. If the contractual penalty has been arranged as a commercial deal in line with Sec. 343 HGB, a disproportionately high penalty cannot be adjusted.[104]

The parties can also agree on a non-competition clause to protect the know-how after the termination of the contractual relationship. This may prevent the obliged party from using the know-how afterwards for his own or third parties' business purposes. Nevertheless, the opportunity to agree on a non-competition clause is limited by antitrust law and the principle of good faith (Sec. 138 BGB). Non-compete clauses can also be combined with a contractual penalty.

23.3.5 Breach of Confidentiality or Non-disclosure Agreements

The protection of know-how by means of confidentiality or non-disclosure agreements is meaningful to regulate the creator's claims, to effectively prevent any unintended appropriation of the know-how and its free use by third parties, and to obtain legal instruments against such unauthorized use of the know-how (closing of statutory protection gaps). In this way, the holder of the right gets tortious as well as contractual claims in case of breach of the confidentiality/non-disclosure agreement. If the contracting party infringes the provisions of the contract, it shall be liable according to the principles of breach of contract of the German law (Sec. 280 et seq. BGB).[105] To calculate the compensation for damages, the right holder can demand the information which the contracting party would have been obliged to provide under the contract if the contract had been carried out properly.[106]

[102]§§ 339 et seq. BGB.

[103]§ 345 BGB.

[104]§ 343 BGB is limited by the indispensable § 384 HGB.

[105]H. Köhler, In: Köhler/Bornkamm (eds), Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 54.

[106]German Federal Court of Justice, Decision of 25 November 2010, Case No. Xa ZR 48/09, GRUR 2011(5), pp. 455 et seq.

23.4 Misuse of Trade Secret Protection

As a matter of fact, some companies are attempting to misuse the law for their own purposes to get access to know-how, trade secrets or any other information of commercial value. For example, it is imaginable that a competitor only presses a charge against someone with the aim to force the prosecution into investigations which is their obligation corresponding to Sec. 152 and Sec. 160 of the German Code of Criminal Procedure (StPO)[107]. The competitor is then able to gain useful information through its right to access the procedural records (Sec. 146 StPO) and the right to be present at the public hearing (Sec. 169 GVG). Thus, the competitor gets access to trade secrets only by pressing charges. Therefore, a competitor may conduct industrial espionage with the help of the prosecution.[108]

There is a regulation in Nr. 260b of the German Code of Criminal Procedure and Summary Proceedings[109] that allows trade secrets to be included into the records only if this is essential to the procedure and hearings. Furthermore, the right to access the records can be restricted. However, Nr. 260b RiStBV is not a law but a guideline whose execution is in the sole discretion of the court and prosecution. According to Sec. 406e StPO, a party that seeks access to the records—except for an accessory prosecutor—must show that it has a justified interest. According to case law, a justified interest includes the interest of investigating someone else.[110]

Furthermore, companies and administration often complain about applicants who demand access to trade secrets or information without any apparent reason. The information claims under the IFG and the UIG[111] (and further statutes of the federal states) do not require justifying of a legal interest.[112] Even an extremely high number of applicants normally cannot be considered as an abuse of law.[113] Requests, the unique and exclusive purpose of which is to gain a competitive advantage, do not necessarily constitute an abuse. There is no absolute rule whether a request can be considered as an abuse of law. Rather, it remains to be seen whether

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[107] Strafprozessordnung, Code of Criminal Procedure (hereafter "StPO").

[108] M.-A. Stein, Der Schutz von Betriebs- und Geschäftsgeheimnissen im Strafverfahren, LIT 2013, p. 35.

[109] German Code of Criminal Procedure and Summary Proceedings (hereafter "RiStBV").

[110] District Court Mühlhausen, Decision of 26 September 2005, Case No. 9 Qs 21/05, Wistra 2006 (2), pp. 76 et seq.; District Court Bielefeld, Decision of 7 December 1994, Case No. Qs 621/94 IX, Wistra 1995, 118; disagreeing: H. Hilger, In: Löwe/Rosenberg, StPO, 26th edition, 2012, § 406e StPO, Para. 7; B. Schmitt, In: Meyer-Goßner/Schmitt, Strafprozessordnung, 57th edition, 2014, § 406e StPO, Para. 3.

[111] Informationsfreiheitsgesetz, Federal Freedom of Information Act (IFG) and Umweltinformationsgesetz, Environmental Information Act.

[112] German Federal Administrative Court, Decision of 21 February 2008, Case No. 20 F 2.07.

[113] Higher Administrative Court Koblenz, Decision of 30 January 2014, Case No. 1 A 10999/12, BeckRS 2014, 50555; Higher Administrative Court of Schleswig-Holstein, Case No. 4 L 222/95, ZUR 1997, pp. 43 et seq.

the request is marked by the harassment against the other (or a third) party.[114] Therefore, it is controversial whether the rules about the misuse of requests should be changed. In part, the lack of adequate protection in the StPO is criticized, in particular because of the right of access to files.[115]

It is also controversial which aspects and information can be protected at all. In addition to what has been said above, it has to be considered that trade secret proprietors can misuse the protection of trade secrets to conceal corruption, (tax) fraud etc. Some courts suspend the protection of trade secrets for these cases entirely, others only in relation to violations of important legal principles.[116]

Predominantly, protection of trade secrets is seen as guaranteed no matter if it concerns an illegal behaviour.[117] This is guaranteed by Article 12 of the Grundgesetz, protecting the free exercise of profession and the free competition. This protection is not dissolved if some elements of professionalism are unlawful. Trade secrets can influence competition even if they concern illegal behaviour.[118] Therefore, only immoral behaviour cannot lead to the exclusion of protection of trade secrets. Other legal experts think that the trade secret proprietor does not have the required legitimate interest in cases of illegal behaviour.

After all, publishing a trade secret that concerns a crime can be justified by Sec. 34 StGB if legally protected rights are in danger.[119]

A trade secrets proprietor cannot be prosecuted for the ownership itself. But trade secret owners are bound to observe the same antitrust regulations as all companies, if they achieve a significant position. If a company reaches a dominant position, it cannot abuse its position (Sec. 19 Para. 1 of the German Law against Restraints on Competition[120]). For example, an abusive use is the different treatment of another company without any objective reason (Sec. 19 Para. 2 No. 1 and 2 GWB).

[114] K. Fischer and J. Fluck, Informationsfreiheit versus Betriebs- und Geschäftsgeheimnisse, NVwZ 2013(6), pp. 337 et seq.

[115] M.-A. Stein, Der Schutz von Betriebs- und Geschäftsgeheimnissen im Strafverfahren, LIT 2013, pp. 233 et seq.

[116] Cf. T. Hoeren, Der Schutz von Betriebs- und Geschäftsgeheimnissen und das IFG, In: Dix et al. (eds), Informationsfreiheit und Informationsrecht, Jahrbuch 2008, pp. 105, 116 et seq., (http://www.uni-muenster.de/Jura.itm/hoeren/veroeffentlichungen/hoeren_veroeffentlichungen/schutz_von_betriebsgeheimnissen.pdf), accessed 11 June 2015.

[117] H. Köhler, In: Köhler/Bornkamm, Kommentar UWG, 33rd edition, 2015, § 17 UWG, Para. 9; A. Ohly, In: Ohly/Sosnitza, Kommentar UWG, 6th edition, 2014, § 17 UWG, para. 12.

[118] M. A. Mayer, Geschäfts- und Betriebsgeheimnis oder Geheimniskrämerei, GRUR 2011(10), pp. 884 et seq.

[119] H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig, Kommentar UWG, 3rd edition, 2013, § 17 UWG, para. 6.

[120] Gesetz gegen Wettbewerbsbeschränkungen, Law Against Restraints on Competition (hereafter "GWB").

23.5 Procedural Aspects

If the confidentiality of a trade secret has been violated, there are several procedural options to obtain an injunction or damages from German courts.

23.5.1 Civil Court Proceedings

Firstly, companies should serve a notice to the betrayer of a trade secret. If the betrayer is not an employee of the proprietor, that is not an option. Secondly, any proprietor can seek interim relief and file an ordinary claim. Amicable settlements are often of little help, because immediate protection is needed as a result of the sensitivity of the betrayed information.

23.5.1.1 Immediate Legal Protection

Immediate legal protection does not provide the same relief as final decisions. For instance, damages cannot be awarded temporarily. Immediate legal protection should be sought especially to order the betrayer to refrain from disclosing the trade secret until the court reaches a final decision. Petition for such protection should be filed as soon as possible after the discovery of the violation of the confidentiality. Rulings in such procedures can contain the threat of a fine or detention.[121]

A decision in an immediate legal protection procedure can be reached without a hearing. Therefore it is a timesaving way of legally securing the confidentiality of a trade secret.

Another advantage of an immediate legal protection for the proprietor is to alleviate his burden of proof. Usually, strict rules of proof apply. In procedures for immediate legal protection, the claimant does not bear the full burden of proof. It is sufficient, if it can establish an adequate likelihood of the alleged circumstances.[122] Any sort of evidence can be used, e.g. documents or certificates, witnesses, inspections etc. but also an affirmation in lieu of oath (statutory declaration). The proprietor has to prove the existence of a trade secret, the knowledge and the continuous duty of the defendant to preserve confidentiality to this effect as well as the violation or threatening violation of this duty. Furthermore, it usually has to justify the need for an immediate decision such as urgency or the possible repetition of the violation. In case of violation of the Act against Unfair Competition (UWG), an exception applies. Sec. 12 Para. 2 UWG relieves the claimant's burden of proof and stipulates a legal rebuttable presumption regarding the existence of a reason for necessity. However, this exception does not apply to other fields of law, in which

[121]Sec. 980 Abs. 2 ZPO.

[122]Sec. 920 Abs. 2, 936 ZPO.

the likelihood of the existence of a reason for necessity has to be established by the claimant.

Difficulties for the proprietor can arise when phrasing its conclusions. A demand for injunctive relief has to be phrased as accurately as possible to ensure its compulsory execution.[123] The extent of the omission needs to be specifically described. Typically, that postulates the description of the information that must not be disclosed. For trade secrets, an exception can be made. Therefore, the proprietor is allowed to paraphrase the information without revealing the trade secret.[124]

23.5.1.2 Legal Recourse

If the dispute cannot be resolved amicably or by immediate legal protection, the proprietor can file a lawsuit and claim damages as well as injunctive relief. The amount of damages can be claimed based on either the loss of the claimant, the profit of the defendant or by license analogy. To determine the amount of damages based on the profit of the defendant, the claimant applied for staged relief. In a first stage, information about the amount of the betrayer's profit must be provided. In a second stage, the proprietor can demand the verification of the achieved information, e.g. by affirmation in lieu of oath by the defendant. In the last stage, the proprietor can claim for action payment of damages.

23.5.1.3 Constitutional Complaint

If the claimant reaches the opinion that a court's decision violated its fundamental rights (regarding the protection of trade secrets, especially Article 2, 12 or 14 Grundgesetz), the appellant can file a Constitutional Complaint at the German Federal Constitutional Court in Karlsruhe within a month after the decision. The Constitutional Complaint is an extraordinary remedy to protect rights provided by the Constitution and derives from Article 93 Para. 1 No. 4a) Grundgesetz. As the Constitutional Complaint is a subsidiary remedy, it can only be filed if the appellant has already exploited all other procedural remedies available. However, as it is a complaint against the judicial decision as an act of the state itself, the Constitutional Complaint cannot grant the appellant with any claims for damages or omission against the betrayer. It can only check whether the appellants' constitutional rights have been violated by the decision of the civil court.

[123] Sec. 253 Abs. 2 Nr. 2 ZPO.

[124] German Federal Court of Justice, Decision of 25 of June 1992, Case No. I ZR 136/90, GRUR 1992(12), pp. 858 et seq.; German Federal Court of Justice, Decision of 1 July 1960, Case No. I ZR 72/59, GRUR 1961(1), pp. 40 et seq.

23.5.2 Preservation of Evidence and Right to Information

In many cases, the trade secret proprietor does not have all of the information about the misappropriation of the trade secret and the traitor's profit. To put the trade secret proprietor in the position to file a lawsuit and to request for a reasonable amount of damages, there are different claims existing in German Civil Law, which contain the right to information and the right to examine against the trade secret violator.

If someone misappropriates or utilizes a trade secret, the proprietor has the right to demand information about modality, time and extent of the misappropriation.[125] This claim results from the principle of good faith in Sec. 242 BGB, which can be used in the area of trade secrets to secure the trade secret proprietor's interest to be enabled to gain a complete overview of the violation. The consideration between the interests of the trade secret proprietor and the defendant often demands that the defendant presents the identities of the recipients, otherwise the complete damage cannot be estimated,[126] for example the loss of profit.[127] The right to information in this case can also be based on Sec. 687 Sec. 2 BGB in conjunction with Sec. 681 BGB and Sec. 666 BGB.[128] The principle of damage calculation demands that the given information must be so detailed that the trade secret proprietor is able to evaluate the infringer's profit.[129] As far as the damage is calculated based on the license analogy, the trade secret proprietor is enabled to demand the defendant's accounting which means that it is obliged to provide reviewable calculation of income and outlays.[130] To assess the lost profits, the defendant has to disclose its accounting as well. This means that the claimant is entitled to demand for example cost prices, delivery quantity or labour costs.[131] Concerning the damage calculation based on the concrete calculation of harm, the defendant has to provide information about price, delivery quantity and time, but in most cases it has the right to provide the information to a certified public accountant and not to the counterparty.[132]

In Germany, it is highly controversial whether a person without confidentiality obligation, can be compelled to reveal the unknown identity of the person who misappropriated it. The German Federal Court of Justice denied this claim in one

[125] H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig, Kommentar UWG, 3rd edition, 2013, § 17 UWG, para. 64.

[126] H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig, Kommentar UWG, 3rd edition, 2013, § 17 UWG, para. 64.

[127] German Federal Court of Justice, Decision of 23 February 2012, Case No. I ZR 136/10, GRUR 2012(10), pp. 1048 et seq.

[128] German Federal Court of Justice, Decision of 23 of February 2012, Case No. I ZR 136/10, GRUR 2012(10), pp. 1048 et seq.

[129] H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig, Kommentar UWG, 3rd edition, 2013, § 17 UWG, para. 64.

[130] I. Westermann, Handbuch Know-How-Schutz, C. H. Beck 2007, p. 124.

[131] I. Westermann, Handbuch Know-How-Schutz, C. H. Beck 2007, p. 124 (with further examples).

[132] I. Westermann, Handbuch Know-How-Schutz, C. H. Beck 2007, p. 124.

case.[133] But it is probable that the claim is justified if the trade secret proprietor fulfilled all of its duties in keeping trade secrets confidentially and if the betrayer and the third party intentionally cooperated.[134]

In addition to the right to information, the trade secret proprietor has a right to demand for inspection. The legal basis is Sec. 809 BGB. This type of claim can be important if an object possibly has been produced in violation of trade secrets and the secret proprietor therefore claims damages.[135] The plaintiff can demand that the defendant hands the concerned product over to him or that it receives a permission to inspect it or to carry out the aforesaid inspection. It is allowed to investigate it (e.g. putting into service, taking apart) as long as it does not damage the product.[136]

Two prerequisites for a claim arising from § 809 BGB have to be fulfilled: Firstly, the trade secret proprietor has a claim or wishes to obtain certainty as to whether he has a claim. In the latter case, there must be some likelihood that such right exists, which means that the trade secret proprietor must have a reasonable suspicion of an infringement of rights. The condition is satisfied if, for example, the concerned object looks similar or works in a similar way to the trade secret proprietor's product and a person who has worked for the trade secret proprietor is now employee of the defendant.[137]

Ultimately, the probability of the claim must be so high that the inspection is just an instrument to obtain definite clarity.[138] Otherwise, the plaintiff could explore and appropriate the results of the defendant's work. Sec. 809 BGB aims to prevent such explorations. To take the defendant's interest in keeping information of its business secret adequately into account, the parties can commission a neutral expert to inspect the product who is only allowed to inform the court and the plaintiff about certain similarities or dissimilarities.[139] The object to which the claim relates does not need to be the subject matter of the claim. It is sufficient that the claim depends on the existence or the structure of the product.[140]

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[133] German Federal Court of Justice, Decision of 4 July 1975, Case No. I ZR 115/73, GRUR 1976 (7), pp. 367 et seq.

[134] H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig, Kommentar UWG, 3rd edition, 2013, § 17 UWG, Para. 64.

[135] Higher Regional Court Hamm, Decision of 31 January 2013, Case No. 4 U 200/12, GRUR-RR 2013(7), pp. 306 et seq.

[136] German Federal Court of Justice, Decision of 2 May 2002, Case No. I ZR 45/01, NJW-RR 2002 (23), pp. 1617 et seq.

[137] H. Köhler, In: Köhler/Bornkamm, Kommentar UWG, 33rd edition, 2015, § 9 UWG, para. 4.44.

[138] Higher Regional Court Hamm, Decision of 31 January 2013, Case No. 4 U 200/12, GRUR-RR 2013(7), pp. 306 et seq.; A. Ohly, In: Ohly/Sosnitza, Kommentar UWG, 6th edition, 2014, § 17 UWG, para. 55.

[139] German Federal Court of Justice, Decision of 2 May 2002, Case No. I ZR 45/01. NJW-RR 2002 (23), pp. 1617 et seq.; H. Harte-Bavendamm, In: Harte-Bavendamm/Henning-Bodewig, Kommentar UWG, 3rd edition, 2013, § 17 UWG, para. 65.

[140] German Federal Court of Justice, Decision of 2 May 2002, Case No. I ZR 45/01. NJW-RR 2002 (23), pp. 1617 et seq.; M. Habersack, In: Münchener Kommentar zum BGB, 6th edition, 2013, § 809 BGB, para. 5.

The second requisite is the legitimate interest of the trade secret proprietor to inspect the object. Such interest can be affirmed if the proprietor needs the inspection to prove the infringement of its rights and if there is no other way to gain knowledge of it.[141]

23.5.3 Protection of the Confidentiality of Trade Secrets During Court Procedures

Generally, court hearings in Germany are open to the public.[142] However, if a dispute is about a trade secret, the court can decide to exclude the public according to Sec. 172 No. 2 GVG[143] ('in camera'), but only if it is an important secret whose public discussion would injure predominant protectable interests of the proprietor. The court can decide itself or due to an application of one of the parties. The court has absolute discretion deciding if the public will be excluded. A party cannot appeal against the court's decision.[144] For Sec. 172 No. 2 GVG it is not necessary that the proprietor is one of the parties to the trial.

Decisions in procedural hearings regarding the relationship between an employer and an employee often depend on information that can constitute trade secrets. Proof and documentary evidences are likely to contain such information. Therefore, during trials in labour courts, the public can be excluded on request of one of the parties if a public hearing might endanger the confidentiality of a trade secret.[145]

To ensure that nothing discussed in the proceedings is published, the court can oblige all participants to the proceedings such as experts, witnesses, lawyers.[146] Acting in violation of the obligation can be punished according to Sec. 353 lit. d) StGB.

Sec. 383 ZPO and Sec. 384 ZPO provide a right to refuse to give evidence on trade secrets for both parties and witnesses under certain circumstances. Sec. 384 No. 3 ZPO provides the right of witnesses to refuse to give evidence on questions regarding business secrets. This right only applies to secrets of the witness or a third party to which the witness is legally obliged to secrecy. It does not apply to secrets of one of the parties of the litigation.[147] Those principles of the ZPO also have to be considered in cases of administrative jurisdiction in Public Law.[148]

Usually, the relief sought and the conclusions of a judgment have to be as precise as possible to ensure the compulsory execution. To protect trade secrets, the judge

[141] H. Köhler, In: Köhler/Bornkamm, Kommentar UWG, 33rd edition, 2015, § 9 UWG, para. 4.45.

[142] Sec. 169 of the German Judicature Act (GVG).

[143] Sec. 172 No. 2 of the German Judicature Act.

[144] W. Zimmermann, In: Münchener Kommentar zur ZPO, 4th edition, 2012, § 172 GVG, para. 15.

[145] Sec. 52 ArbGG.

[146] Sec. 174 Abs. 3 GVG.

[147] J. Damrau, In: Münchener Kommentar zur ZPO, 4th edition, 2012, § 383 ZPO, para. 13.

[148] Sec. 98 VwGO.

can make an exemption to this principle and paraphrase the secret without revealing it entirely.[149]

23.5.4 Calculation of Damages

The content of the claim for damages is determined by Sec. 249 et seq. BGB. According to Sec. 249 Para. 1 BGB, the defendant can be obliged to rectify the consequences arising from the infringement of the trade secret. This includes the obligation to provide information about the persons to which the defendant offered the secret.[150] Furthermore, according to Sec. 242 of the BGB, it has to reveal any information about the misappropriation of the trade secret and its profit that arises from the violation.

These declarations are important to calculate the damages suffered by the secret proprietor. The plaintiff can choose between three types of calculation of the damages:[151] It can claim the actual damage suffered including the loss of profit (§§ 249 et seq. BGB). While it often can be difficult to prove such profits, it is easier to claim an adequate license fee for using the trade secret (second option). In other words, the defendant must replace the amount which it would have paid in return for the consent of the entitled person. The license fee is adequate if reasonable contractual partners had usually agreed upon it.[152] The third possibility is that the defendant surrenders the profits achieved through the infringement of the right.

According to Sec. 287 ZPO, it is on the courts to assess the amount of damages. They can subtract the costs actually incurred by the defendant that are directly attributable to the objects produced based on the trade secret.

Triple damages calculation has been established in legal practice[153] and e.g. can be found in Copyright Law (Sec. 97 Para. 2 UrhG).

23.6 Conclusion

As shown above, the standard of protection of trade secrets and know-how in Germany is reliable. Because the claims for a proprietor arise from the existing general law, there is no need for a special statute dedicated to trade secret protection in Germany. However, to protect its trade secrets, a proprietor in Germany must not

[149] German Federal Court of Justice, Decision of 1 July 1960, Case No. I ZR 72/59, GRUR 1961 (1), pp. 40 seq.; H. Köhler, In: Köhler/Bornkamm, Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 64.

[150] German Federal Court of Justice, Decision of 23 of February 2012, Case No. I ZR 136/10, GRUR 2012(10), pp. 1048 et seq.

[151] H. Köhler, In: Köhler/Bornkamm, Kommentar UWG, 33rd edition, 2015, § 17 UWG, para. 58.

[152] German Federal Court of Justice, Decision of 26 March 2009, Case No. I ZR 44/06, GRUR 2009(7), pp. 660 et seq.

[153] German Federal Court of Justice, Ruling of 19th March 2008, Case No. I ZR 225/06, WRP 2008, pp. 938 et seq.; German Federal Court of Justice, Decision of 18th February 1977, Case No. I ZR 112/75, GRUR 1977 (8), pp. 539 et seq.

only rely on legal protection. Every company can take measures and if needed can invest to increase and optimize the protection. As most of the information that constitute trade secrets are located and stored in databases, the security of the information technology should be reinforced. Electronic communication containing information about trade secrets should be sent encrypted only. By using high standard IT-Security as recommended by the Federal Office for Information Security[154] proprietors can try to effectively protect the confidentiality of trade secrets against external attacks like mal- and spyware, observation of communication and theft as well as against acts of nature beyond control or software defects.

Furthermore, a proprietor should not disclose any information regarding trade secrets during initial business contacts without signing an agreement of confidentiality that sanctions any disclosure.

The law cannot protect preventively against the betrayal of trade secrets by (former) employees. It can only try to determine and penalize such behaviour, but it cannot prevent the betrayal of trade secrets reliably. Proprietors rely on their employees' compliance with their duties of confidentiality and integrity. This leads to a paradox under which on the one hand, the circle of secret holders must be kept as restricted as possible to minimize the risk of betrayal whilst on the other hand, it must be kept as capacious as necessary in order not to interfere with the functionality of the industrial process. Secret holders can be sensitized and instructed in the field of IT-Security and the necessity to preserve the confidentiality of trade secrets for the company. They can also be bound to protect secrecy by contract. Confidential and Non-Disclosure Agreements must be updated on a regular basis and must be kept as accurate as possible. However, an observation of employees and analysis of their communication can cause problems in light of the German Data Protection Law[155], especially Sec. 6b, 9, 32 BDSG.[156] If an employee discloses trade secrets, the employer is usually entitled to an extraordinary as well as an ordinary dismissal, especially if the employee violates Sec. 17 UWG. The infringer should be banned from the company's property combined with an order to stay away from the premises and to hand back any devices such as keys etc. Furthermore, the proprietor should consider complaining the offense to criminal investigation.

In conclusion, although German law does not contain a statute established for the sole purpose of protecting trade secrets, there is a sufficient protection of trade secrets in Germany arising from the existing regulations. In some cases, the protection is fragmentary, but the standard of protection of trade secrets in Germany is nevertheless reliable for companies. However, an EU-wide regulation as provided by the European Commission in November 2014 is a worthwhile and desirable aim to guarantee a consistent and equal protection of trade secrets in the EU.

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[154] Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik), IT-Grundschutz-Standards, https://www.bsi.bund.de/DE/Publikationen/BSI_Standard/it_grundschutzstandards.html. Accessed 11 June 2015.

[155] Bundesdatenschutzgesetz, Federal Data Protection Act (hereafter "BDSG").

[156] Sec. 6b, 9, 32 BDSG.

Hungary

24

Miklós Boronkay

24.1 Legal Protection of Trade Secrets

Hungarian law contains specific provisions on trade secrets. The protection is manifold: trade secrets enjoy protection *inter alia* under civil law, competition law, criminal law and various procedural laws. The notion of 'trade secrets' is identical in the civil and competition law regimes.[1] In the Civil Code, trade secrets are considered as a subcategory of 'private secrets' and are regulated as a type of personality rights. Know-how, which is referred to in the Civil Code as a 'protected information', is a subcategory of trade secrets to which specific rules apply.[2]

[1]Section 2:47(1) of Act V of 2013 on the Civil Code (hereafter "the Civil Code") defines trade secret as follows: "Trade secrets include any fact, information and other data, or a compilation thereof, connected to economic activities, which are not publicly known or which are not easily accessible to other operators pursuing the same economic activities, and which, if obtained and/or used by unauthorized persons, or if disclosed to others or published is likely to imperil or jeopardize the rightful financial, economic or commercial interest of the owner of such secrets, and provided the lawful owner acted in a manner as may be expected in the given circumstances in order to keep such information confidential." This definition shall also be applied in competition law cases by virtue of Section 4(1) of Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (hereafter "the Competition Act"). The Criminal Code (Act C of 2012) and the procedural codes do not contain any specific definition, therefore the above definition is applicable for the purposes of these laws as well.

[2]Section 2:47(2) of the Civil Code.

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24.1.1 The Notion of Trade Secrets

Under the Civil Code, the following conditions must be fulfilled for the provisions of trade secrets to apply.[3]

24.1.1.1 Subject Matter of Protection

Trade secrets include any fact, information and other data, or a compilation thereof, which are not publicly known or which are not easily accessible to other operators pursuing the same economic activities. It is sufficient if the fact, information or data are relatively secret, *i.e*. available to a limited number of people.[4] If the information is in the public domain, protection is excluded.[5]

24.1.1.2 Connection to Economic Activities

The secret must relate to the owner's economic activities; however, the commentaries suggest a broad interpretation of this requirement. It is not necessary that the economic activities are aimed at profit making, therefore associations and foundations may also have trade secrets.[6]

24.1.1.3 Violation of the Owner's Lawful Interests

As a further condition of protection, the obtaining and/or the using of the secret by unauthorized persons, its disclosure to others or publication must impair or jeopardize the legitimate financial, economic or commercial interest of the owner of such secrets. In short: the secret must be significant.[7]

24.1.1.4 Duty to Keep Confidential

The owner of a trade secret must act in a manner as may be expected in the given circumstances to preserve the confidentiality of the subject matter of the secret (see Sect. 24.1.1.1 above). This corresponds to the requirement under the TRIPS that the

[3] Section 2:47(1) of the Civil Code.

[4] G. Bacher, 4. § In: M. Juhász, D. Ruszthiné Juhász, A. Tóth, Kommentár a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról szóló 1996. évi LVII. törvényhez, HVG Orac, 2015, pp. 68-69.

[5] G. Faludi, Az üzleti titok és a know-how (védett ismeret). In: L. Vékás (ed.): A Polgári Törvénykönyv Magyarázatokkal, Complex 2013, p. 61.

[6] G. Faludi, 2:47. § In: L. Vékás, P. Gárdos (eds), Kommentár a Polgári Törvénykönyvhöz, Wolters Kluwer, 2014, pp. 150-151.

[7] G. Faludi, Az üzleti titok és a know-how (védett ismeret). In: L. Vékás (ed.): A Polgári Törvénykönyv Magyarázatokkal, Complex 2013, p. 62.

trade secret must be subject to reasonable steps made under the circumstances, by the person lawfully in control of the information, to keep it secret.[8]

24.1.1.5 Special Rules on Know-How

In the case of know-how, which is a subcategory of trade secrets, protection is afforded to technical, economic and other practical knowledge of value held in a form which enables identification, including accumulated skills and experience and any combination thereof.[9]

24.1.2 Protection of Trade Secrets in the Civil Code

Pursuant to the Civil Code, trade secrets are protected against all unauthorized acquisition, disclosure, making public or use (exploitation). The existence of a breach is independent from the culpability of the party in breach (*i.e.* whether or not the party in breach acted wilfully or negligently). As an exception, the protection does not apply against *bona fide* third parties who acquired the trade secret in the course of trade, for consideration.[10] It follows *a contrario* that trade secrets are protected against third parties to whom the secret is disclosed by someone other than the secret's owner.

The protection of know-how is much narrower. The Civil Code protects only against acquisition, use (exploitation), disclosure or publishing if this act is committed in violation of the principle of good faith and fair dealing (*Treu und Glauben*). In addition to the general exception of acquisition by *bona fide* third parties indicated above, there are two specific exceptions to the protection of know-how. It is not prohibited to obtain the know-how, or any knowledge which is essentially a substitute of the know-how, by means of independent development or reverse engineering of the lawfully acquired product or lawfully received service incorporating the know-how.[11]

24.1.3 Protection of Trade Secrets in the Competition Act

The Competition Act prohibits the unfair acquisition and use, and the unauthorised disclosure or making public of trade secrets.[12] In particular, unfair acquisition of trade secrets takes place where access to trade secrets has been obtained without the

[8] Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Art. 39(2)(c).

[9] Section 2:47(2) of the Civil Code.

[10] Section 2:47(3) of the Civil Code.

[11] Section 2:47(2) of the Civil Code.

[12] Section 4(1) of the Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (hereafter "the Competition Act").

owner's consent through a party in a business relationship or a confidential relationship with the owner. Business relationships extend to information given in the course of negotiations and bidding, if no contract was concluded afterwards. Persons in confidential relationships encompass employees, persons performing work by way of a similar contract and members (shareholders) of a company.[13] Thus, if an ex-employee discloses the trade secret of its former employer to the new employer, this will qualify as a breach of trade secrets under the Competition Act. The new employer may act either *bona fide,* in this case there is no trade secret infringement on his side, or may act in an unfair way and may be held liable for the infringement. However, unless acting upon their own account, natural persons (such as employees or shareholders) are not considered as economic operators under the provisions of the Competition Act; therefore their employer, as an undertaking, shall be liable for their conduct.[14] According to the court practice, employees are allowed to use the technical, business and commercial knowledge acquired when they worked at their previous employers.[15] The former employer may protect its trade secrets by concluding a non-compete agreement with the employee, but this agreement must not unduly limit the employee's possibility to find new employment or unduly restrict competition.[16]

24.1.4 Trade Secrets in Other Statutes

There are several other statutes which contain provisions related to trade secrets. We can mention the procedural codes,[17] the Labour Code[18] and the Data Protection Act,[19] amongst others. Trade secrets also enjoy the protection of criminal law: breach of trade secrets is a crime punishable with imprisonment of up to 3 years, while prohibited access to information (including trade secrets) may be punishable with imprisonment of up to 5 years.[20]

[13]Section 4(2) of the Competition Act.

[14]See 6:540 of the Civil Code, as well as the milestone decisions EBH 2002.640, BH+ 2007.3.132, BH+ 2009.12.556.

[15]Cases no. BDT 2012. 2720., BH 1995. 231., BH 1997. 407. and BDT2010. 2248.

[16]Case no. ÍH 2015.13.

[17]See Act XIX of 1998 on Criminal Proceedings, the APA and Act III of 1952 on the Code of Civil Procedure (hereafter "the Code of Civil Procedure").

[18]Sections 8 and 228 of Act I of 2012 on the Labour Code.

[19]Act CXII of 2011 on the Right of Informational Self-Determination and on Freedom of Information (hereafter "the Data Protection Act").

[20]Sections 418 and 422 of the Criminal Code.

24.2 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

24.2.1 Burden of Proof

As a general rule, the owner of a trade secret has to prove all the facts which it relies on, *i.e*. those facts in the case of which it is in the proprietor's interest that the court accepts them as true.[21] The plaintiff has to prove the existence of trade secret protection, as well as the defendant's conduct forming the basis of the plaintiff's claim.[22] The court practice emphasises that the trade secret proprietor bears the burden to prove that, in particular, it is the proprietor of the information,[23] the information is connected to a commercial activity,[24] the information is kept secret and that the proprietor took the necessary measures to keep the information confidential.[25] A legal action claiming trade secret infringement, without specific details of the protected information, is not admissible.[26]

If the trade secret proprietor brings a damages claim against the infringer, the trade secret proprietor has to prove the conditions of its claim for damages, in particular the existence and amount of the damage and the causal link between the infringement and the damage. Once the preconditions of the damages claim are proved, it is for the infringer to exculpate itself, the rules of which are different in the case of contractual and extra-contractual liability (see Sect. 24.2.4.2 below).[27]

24.2.2 Securing Evidence

Before filing a trade secret infringement lawsuit based on the Civil Code, the trade secret proprietor may initiate a preliminary evidence taking procedure either before the court[28] or a notary public.[29] Such a procedure may be initiated if it is likely that the evidence taking will not be successful or would be substantially impaired later in the course of the lawsuit.[30] Alternatively, preliminary evidence taking may also take place if it is likely that it may facilitate the timely completion of the lawsuit.[31] The trade secret proprietor may choose to apply for preliminary evidence taking

[21] Section 164(1) of the Code of Civil Procedure.

[22] Case no. BH+ 2011.3.121.

[23] Case no. BH 2002.52.

[24] Case no. BH+ 2013.7.277.

[25] Case no. BH+ 2014.7.296.

[26] Case no. BH+ 2012.12.507.

[27] Sections 6:142. and 6:519. of the Civil Code.

[28] Sections 207-211 of the Code of Civil Procedure.

[29] Sections 17-20 of XLV of 2008 on certain notarial non-litigation proceedings.

[30] Section 207(a) of the Code of Civil Procedure.

[31] Section 207(b) of the Code of Civil Procedure.

before a notary if any of the above conditions are fulfilled, or if it has a legal interest in obtaining the evidence.[32] If the trade secret infringement lawsuit has already been initiated, it is only the court which is competent for preliminary evidence taking.[33]

If the lawsuit is based on the Competition Act, the trade secret proprietor may secure and obtain evidence more easily than in a lawsuit based merely on the Civil Code. In the case of a lawsuit brought under the Competition Act, preliminary evidence taking is always allowed if the trade secret proprietor demonstrates the fact of the trade secret infringement or the threat thereof to the extent required (*i.e.* made it probable, actual proof is not required).[34] Furthermore, the trade secret proprietor may request the court to issue interim measures and oblige the defendant to provide banking, financial and commercial data, as well as the relevant documents.[35] Finally, if any of the parties to the lawsuit has sufficiently demonstrated its allegations, the court may oblige the other party to produce documents or items in its possession or to enable their inspection, and to provide banking, financial and commercial data and the documents pertaining to such data.[36]

Hungarian law does not provide for a system of discovery. The court may order a party to produce documents which the opposing party is entitled to, based on the rules of civil law, in particular if the document was issued for the opposing party's benefit or proves a legal relationship with the opposing party or pertains to negotiations related to such legal relationship. If the document is in a third party's possession, the third party has to be summoned as a witness and then ordered to show the document.[37] The limited possibility to obtain documents from the other party urged the legislator to adopt special rules in the case of trade secret lawsuits based on the Competition Act. These special rules are inspired by the so-called EU Enforcement Directive.[38]

24.2.3 Interim Measures

If the trade secret infringement lawsuit is based on the Civil Code, interim measures may be obtained to prevent any imminent threat of damage, to preserve the *status*

[32]Sections 17(1)(b) of XLV of 2008 on certain notarial non litigation proceedings.

[33]Section 208(1) of the Code of Civil Procedure.

[34]Section 88(7) of the Competition Act.

[35]Section 88(5) of the Competition Act.

[36]Section 88(6) of the Competition Act.

[37]Section 190(2)-(3) of the Code of Civil Procedure.

[38]Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, Art. 6. Á. Tibold, 88. §. In: M. Juhász, D. Ruszthiné Juhász, A. Tóth, Kommentár a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról szóló 1996. évi LVII. törvényhez, HVG Orac, 2015, p. 714.

quo giving rise to the dispute or to protect the plaintiff's (*i.e.* the trade secret owner's) rights requiring special legal appreciation. As a further condition, disadvantages of the interim measures caused to the defendant cannot supersede the plaintiff's advantages. The plaintiff must demonstrate the facts underlying its request for interim measures (*i.e.* prove that the facts are probably true, actual proof of these facts is not required).[39] Interim measures may not be requested before filing the statement of claims.[40] As a general rule, the Court gives an opportunity to the defendant to reply to the plaintiff's request for interim measures. However, in the case of extreme urgency, the court may grant interim measures *ex parte* (*i.e.* without asking or hearing the opposing party).[41] We note that *ex parte* interim measures are extremely rare.[42]

If the trade secret infringement lawsuit is based on the Competition Act, special rules apply to interim measures which provide more effective protection to trade secret proprietors. First of all, interim measures may be requested before filing the statement of claims,[43] and it is sufficient to file the statement of claims within 15 days as of the court's decision on interim measures.[44] The court has to decide on the request for interim measures within 15 days, and in case of an appeal, the second instance court also has 15 days to render its decision.[45] What is more, the court may decide on the request for interim measures *ex parte* if a delay would cause irreparable damage or if there is a probable risk of destroying evidence.[46] Finally, in its decision on interim measures, the court may in particular order the seizure of goods and materials used in connection with the infringing conduct. Furthermore, the trade secret proprietor may request the court to grant precautionary measures if it is able to demonstrate that there is a threat that it will not be able to satisfy its claim for damages or restitution of the unjust enrichment achieved through the infringement later.[47] Protective measures may consist of securing a monetary claim or the seizure of assets.[48] Securing monetary claims means that the debtor has to pay the secured amount to the bailiff as a security; otherwise, the bailiff may seize the debtor's assets or block the respective amount on the debtor's bank account.[49]

[39] Section 156(1) of the Code of Civil Procedure.

[40] Section 156(2) of the Code of Civil Procedure.

[41] Section 156(4) of the Code of Civil Procedure.

[42] We are aware of only one such published case (no. BDT 2011. 2418, which was not a trade secret infringement case).

[43] Section 88(8) of the Competition Act.

[44] Section 88(10) of the Competition Act.

[45] Section 88(9) of the Competition Act.

[46] Section 88(11) of the Competition Act.

[47] Section 88(5) of the Competition Act, Sections 185-189 of Act LIII. of 1994 on judicial enforcement.

[48] Section 185 of Act LIII. of 1994 on judicial enforcement.

[49] Sections 191-192 of of Act LIII. of 1994 on judicial enforcement.

24.2.4 Remedies in the Case of a Breach of Trade Secrets

24.2.4.1 Objective Remedies

On the Civil Code, the right to the trade secret qualifies as a personality right. Therefore the same remedies are available in the case of trade secret misappropriation as in the case of the infringement of any other personality rights. The majority of these remedies are 'objective', *i.e.* independent of the infringer's culpability (intention or negligence).[50] First of all, the trade secret proprietor may request the court to declare that there has been an infringement of trade secrets rights.[51] The proprietor may also request the discontinuation of the infringement and the restraining of the infringer from further (future) infringements.[52] It is possible to request the infringer to give appropriate satisfaction, which is in most cases a public statement acknowledging the infringement.[53] The infringer may be obliged to put an end to the situation resulting from the infringement, to restore the original *status quo* which prevailed before the infringement, and to destroy items produced as a result of the infringement or to deprive them of their infringing nature.[54] As a new objective remedy introduced by the Civil Code, the court may order the infringer or its successor to surrender the financial advantage acquired as a result of the infringement, according to the principle of unjust enrichment.[55]

On the Competition Act, additional remedies are available. The trade secret proprietor may demand destruction of any special devices and facilities used for the manufacture or production of infringing products.[56] It may also request the court to order the defendant to disclose information about the parties participating in the manufacturing and marketing of the infringing products and about the business relations it has established to distribute such products.[57] The trade secret proprietor may demand the seizure of the means and materials used solely or primarily for the infringement, as well as the products affected by the infringement, or demand to have them handed over to specific persons, or recalled or withdrawn from commercial circulation, or destroyed.[58] In addition, the trade secret proprietor may demand to have the court's resolution disclosed at the expense of the infringer, *e.g.* its

[50] L. Székely, Személyiségi jogok. In: L. Vékás, P. Gárdos (eds), Kommentár a Polgári Törvénykönyvhöz, Wolters Kluwer, 2014, p. 168.

[51] Section 2:51(1)(a) of the Civil Code.

[52] Section 2:51(1)(b) of the Civil Code.

[53] Section 2:51(1)(c) of the Civil Code, L. Székely, Személyiségi jogok. In: L. Vékás, P. Gárdos (eds), Kommentár a Polgári Törvénykönyvhöz, Wolters Kluwer, 2014, p. 169.

[54] Section 2:51(1)(d) of the Civil Code.

[55] Section 2:51(1)(e) of the Civil Code.

[56] Section 86(2)(d) of the Competition Act.

[57] Section 86(2)(g) of the Competition Act.

[58] Section 86(3)(b) of the Competition Act.

publication in a national daily newspaper or on the internet.[59] Finally, the trade secret proprietor may claim restitution of gains obtained as a result of the infringement.[60] However, this restitution claim is different from the one based on the Civil Code. In the case of the restitution claim based on the Competition Act, the rules on unjust enrichment do not apply. This means that restitution may be claimed even if the trade secret proprietor did not suffer any loss. In such case, the amount of the restitution would be equal to the license fee which would have been applied had the trade secret proprietor given authorisation to the infringer in advance (a so-called fictive license fee).[61]

It is important to note that the trade secret proprietor may choose to bring its claim on either the Civil Code or the Competition Act.[62]

24.2.4.2 Subjective Remedies: Damages

On both the Civil Code and the Competition Act, the trade secret proprietor may claim compensation for its pecuniary[63] and non-pecuniary damage.[64] These are 'subjective' remedies because the infringer may exculpate itself. The rules of exculpation are different in case of contractual and extra-contractual liability. If the infringement of trade secrets is independent from any contract between the parties, the rules of extra-contractual liability apply. In this case, the infringer (tortfeasor) may exculpate itself by proving that it acted in a manner which may be generally expected in the given situation.[65] Practically, this means that it did not act either wilfully or negligently. On the other hand, if the infringement of trade secrets was a result of or happened in connection with a breach of contract, the rules of contractual liability apply. According to these stricter rules, the party in breach is relieved of liability only if it is able to prove that the damage occurred as a consequence of circumstances beyond his control, that such circumstances were unforeseeable at the time of the conclusion of the contract, and that it could not be expected from him to prevent such circumstances or the damage.[66] In effect, the contractual liability rules are based on and correspond to the similar rules of the CISG.[67]

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[59] Section 86(3)(c) of the Competition Act.

[60] Section 86(3)(a) of the Competition Act.

[61] G. Bacher, 4. § In: M. Juhász, D. Ruszthiné Juhász, A. Tóth, Kommentár a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról szóló 1996. évi LVII. törvényhez, HVG Orac, 2015, pp. 74-75.

[62] G. Faludi in G. Faludi, P. Lukácsi (eds), A védjegytörvény magyarázata, HVG Orac, 2014, p. 689 and G. Bacher, 4. § In: M. Juhász, D. Ruszthiné Juhász, A. Tóth, Kommentár a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról szóló 1996. évi LVII. törvényhez, HVG Orac, 2015, p. 74.

[63] Section 2:53 of the Civil Code, Section 86(2)(e)of the Competition Act.

[64] Section 2:52 of the Civil Code, Section 86(2)(e)of the Competition Act.

[65] Sections 6:519 and 1:4(1) of the Civil Code.

[66] Section 6:142 of the Civil Code.

[67] United Nations Convention on Contracts for the International Sale of Goods (Vienna, 1980) (CISG), Art. 79(1).

As far as the amount of damages is concerned, Hungarian law is based on the principle of full compensation. Accordingly, the aggrieved party must be restored to the position he would have been in if the infringement had not been committed.[68] Generally, damages may be claimed for the diminution in the value of assets (*damnum emergens*), for lost profits (*lucrum cessans*) as well as for expenses incurred as a result of the infringement.[69] Benefits gained as a result of the damaging event have to be deducted, unless this would be unjustified.[70] Unforeseeable losses do not have to be compensated.[71] In exceptional cases the court may award partial compensation (*e.g.* because of the defendant's poor financial situation, although such cases are extremely rare).[72] Special rules apply for the calculation of damages in the case of contractual liability. The damage caused to the subject matter of the contract has to be compensated in full, whereas other consequential losses may only be compensated if the aggrieved party proves that these were foreseeable at the time of concluding the contract.[73] In the case of an intentional breach of contract, full compensation is payable.[74]

Compensation may be claimed for non-pecuniary damage suffered as a result of the trade secret infringement. The Civil Code fundamentally changed the previous legal regimes and introduced the new sanction called '*sérelemdíj*', which is difficult to translate into English and corresponds to the German expression '*Schmerzensgeld*' (*i.e.* payment due to the injury). The main difference between the previously applicable sanction (called '*nem vagyoni kártérítés*', *i.e.* compensation for non-pecuniary damage)[75] and the new '*sérelemdíj*' is that, according to the new rules, it is not necessary for the injured party to prove that it suffered non-pecuniary damage (detriment).[76] Thus, theoretically even trivial infringements may trigger the payment of compensation for non-pecuniary damage. Since the Civil Code entered into force on March 15, 2014, there has been no court practice and thus it remains to be seen how the courts will handle trivial cases.[77] In any event, when the court determines the amount of the compensation for non-pecuniary damage, it has to consider the effects which the infringement had on the trade secret proprietor. Other relevant factors influencing the amount of the

[68] Section 6:522(1) of the Civil Code, Á. Fuglinszky, Kártérítési jog, HVG Orac, 2015, pp. 44-47.

[69] Section 6:522(2) of the Civil Code.

[70] Section 6:522(3) of the Civil Code.

[71] Section 6:521 of the Civil Code.

[72] Section 6:522(4) of the Civil Code.

[73] Section 6:143(2) of the Civil Code.

[74] Section 6:143(3) of the Civil Code.

[75] Sections 355(1) and 355(4) of Act IV of 1959 on the Civil Code (not in force since 15 March 2014).

[76] Section 2:52(2) of the Civil Code, L. Székely, Személyiségi jogok. In: L. Vékás, P. Gárdos (eds), Kommentár a Polgári Törvénykönyvhöz, Wolters Kluwer, 2014, pp. 172-176.

[77] See Á. Fuglinszky, Kártérítési jog, HVG Orac, 2015, pp. 838-843., L. Székely, Személyiségi jogok. In: L. Vékás, P. Gárdos (eds), Kommentár a Polgári Törvénykönyvhöz, Wolters Kluwer, 2014, p. 174.

compensation include, in particular, the weight of the infringement, its repetition and the degree of the infringer's culpability.[78]

24.2.5 Preserving Trade Secrets in the Course of Proceedings

In Hungary both administrative and civil procedural rules acknowledge the right of trade secret proprietors to keep certain information undisclosed and inaccessible. In this section we only summarise the rules of the civil and administrative proceedings, with special emphasis on competition supervisory proceedings carried out by the Hungarian Competition Authority (hereafter "HCA").[79] With respect to administrative procedures the Act on the General Rules on Administrative Procedure imposes the general obligation on Hungarian authorities to ensure that trade secrets are not disclosed to the public and cannot be obtained by unauthorized persons.[80] The Code of Civil Procedure does not contain any such general obligation; instead, it provides for the protection of trade secrets by way of specific rules.

In the course of Hungarian administrative proceedings and civil lawsuits, trade secret protection takes place basically on three levels. First, when granting authorisation to access the documents of the proceedings, information qualifying as trade secrets are generally not covered by the authorization and thus cannot be inspected. Second, procedural provisions on witness testimonies and oral hearings also consider the importance of keeping trade secrets confidential. Third, certain rules on the drafting, disclosure and communication of decisions and orders also contribute to an effective protection of trade secrets during administrative and civil proceedings.

24.2.5.1 Restricted Access to the Documents of the Proceeding

In Hungarian administrative proceedings the authorities are obliged by law to ensure the confidentiality of trade secrets when authorizing access to the documents of the proceedings.[81] As a general rule, clients are allowed to access the documents of the proceedings at any time during administrative procedures.[82] However, documents containing trade secrets can only be accessed if the lack of knowledge of privileged information would impair the client in exercising his rights conferred by law.[83]

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[78] Section 2:52(3) of the Civil Code.

[79] (*Gazdasági Versenyhivatal*)

[80] Section 17(1) of Act CXL of 2004 on the General Rules of Administrative Procedures and Services (hereafter "the APA").

[81] Section 5(4) of the APA.

[82] Section 68(1) of the APA.

[83] Section 69 (1)(d) of the APA.

Clients may request that access to the relevant documents be restricted to preserve the confidentiality of their trade secrets by expressly specifying the data concerned and by referring to their business interests. The competent authority approves the request, upon carefully weighing the relevant circumstances of the case, and provided the lack of knowledge about the data concerned will not impair the persons being granted access to documents in exercising their rights conferred by law.[84]

In administrative procedures, before granting access to the documents of a proceeding, the authority renders the trade secrets, to which the authorization of the person inspecting documents does not pertain, unrecognizable.[85]

The Competition Act also grants clients the right to inspect the documents of the relevant competition supervision proceedings.[86] Access to the documents of the proceedings conducted by the HCA *ex officio* may be permitted only following the conclusion of the investigation, as a main rule.[87] Up to that time, access to documents may be granted only if this is considered to be absolutely necessary for exercising the right of appeal against a ruling adopted in the course of the proceedings.[88]

Access to certain documents may be restricted on the grounds of trade secret protection only if the person providing the document to the HCA, or the secret proprietor, requested in due time that the data should be treated as a trade secret.[89] When requesting certain data to be treated as trade secrets, the proprietor should specify the exact data concerned and include a detailed reasoning for each separate piece of data. The reasoning should contain in particular the interests that need to be protected and which would be harmed if they were disclosed to an unauthorized person.[90]

During the dawn raids carried out by the HCA, it is not unusual for whole data media and storage devices to be either seized or copied by the investigators. With respect to the information stored on such data mediums, it is important to note that a so-called evidence brief is prepared by the investigators, which contains the data relevant for the facts of the case. All other information stored on the data medium is blocked and will not be included in the case files. Only the evidence brief will be part of the documents of the competition supervision proceeding. The evidence brief is sent to the client or the data proprietor in order that the client can issue a statement in connection with the trade secret classification of the relevant data stored on the seized data medium.[91]

[84]Section 69(2) of the APA.

[85]Section 69(3) of the APA.

[86]Section 55(1) of the Competition Act.

[87]Section 55(5) of the Competition Act.

[88]Section 55(5) of the Competition Act.

[89]Section 55/A(2) of the Competition Act.

[90]Section 55/A(4) of the Competition Act.

[91]Section 65/B(3) of the Competition Act.

If a document contains trade secrets, the HCA generally refuses to grant access to it. However, even if that is the case, access will be granted if the lack of knowledge about the information contained in such documents would impair the client in exercising his rights conferred by law (especially its right to defense).[92] In such cases the competent competition council will permit the inspection of documents upon weighing the circumstances justifying the right of the client requesting access to the documents against the right of the data proprietor to keep the data confidential.[93] In case access to such documents is granted, the information inspected in connection with the documents concerned may be used solely for the purposes of the given competition supervision proceeding and the related judicial review.[94]

When the competition council grants access to information qualifying as trade secrets, it may also limit the right to make copies or abstracts of the documents to prevent unauthorised persons from gaining access to the data in question. In exceptional cases the competition council may order that the right of access may be exercised only by the client's lawyer or by an expert retained by the client and that the data concerned may not be disclosed to anyone, including the client.[95]

When approving a request aimed at treating certain data as trade secrets, the HCA obliges the person providing information or the data proprietor to prepare and make available a version of the relevant documents which do not contain any trade secrets.[96] To provide guidance in connection with the preparation of the versions of the relevant documents which do not contain trade secrets, the HCA has published a notice on its website on that issue.[97] If the investigator or the proceeding competition council detects that the proprietor of a certain trade secret may be other than the person providing it, the trade secret proprietor will be requested to make a statement as to the classification of the potential trade secret.[98] As an important procedural guarantee, trade secret proprietors have the right to request judicial review of the HCA's rulings relating to the authorization of access to the documents as trade secrets, independently in the course of the proceeding.[99] On the other hand, if the HCA refuses to grant access to certain documents due their confidential nature, the undertaking requesting access is also entitled to the judicial review of the HCA's respective procedural order.[100]

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[92] Section 55/A(1)(d) of the Competition Act.

[93] Section 55/B(3) of the Competition Act.

[94] Section 55/B(6) of the Competition Act.

[95] Section 55/B(4) of the Competition Act.

[96] Section 55/A(5) of the Competition Act.

[97] Tájékoztató az üzleti titokra, illetve magántitokra vonatkozó nyilatkozatokról és a titokmentes iratok benyújtásáról [Notice about declarations concerning trade secrets and private secrets, as well the submission of non-confidential documents] http://www.gvh.hu//data/cms1027494/szakmai_felhasznaloknak_ut_tajekoztato_2014_08_26.pdf. Accessed 11 May 2015.

[98] Section 55/A(3) of the Competition Act.

[99] Section 55/B(7) of the Competition Act.

[100] Section 55/B(1) of the Competition Act

In the course of civil lawsuits the parties, the public prosecutor and other affected persons can exercise their right to access documents and to make copies according to specific rules and conditions laid down by the judge of the case. In case the said documents contain trade secrets, the signing of a confidentiality agreement is required in advance. If, however, the proprietor of the trade secret made a statement in due time in which it refuses to allow access to the documents containing trade secrets, only the court and the transcriber are allowed to have access to the relevant part of the documents containing trade secrets.[101] Third parties can be granted access to documents of civil proceedings containing trade secrets only where the data proprietor gave its consent.[102]

24.2.5.2 Restrictions Relating to Witness Testimony and Oral Hearings

In the course of clarifying the facts in administrative procedures, a person who was not released from its confidentiality obligations concerning trade secrets cannot be required to testify.[103] If a testimony is taken in violation of this rule, the testimony concerned may not be admissible.[104] However, in competition supervision proceedings witnesses can also testify about information which qualifies as trade secrets.[105] In such cases, the rules applicable to the authorisation of access to documents apply to the recording of the testimony, too.

According to the Code of Civil Procedure, the witness may refuse giving a testimony in connection with questions the answer to which would result in a breach of the witness' confidentiality obligation. However, giving a testimony cannot be refused if the person bound to keep trade secrets was granted an exemption by the data proprietor, or if the subject matter is not treated as a trade secret pursuant to specific legal regulation. Giving a testimony may not be refused based on trade secret protection, if the subject matter of the action lies in the decision about whether or not a data qualifies as information of public interest.[106]

In the case of hearings in the course of administrative procedures, the authority may decide to hold the hearing in closed sessions to ensure the protection of trade secrets.[107] Moreover, the examination of the witness cannot be attended by the client or any other parties to the proceeding if the witness testimony concerns trade secrets.[108]

[101] Section 119(2) of the Code of Civil Procedure.

[102] Section 119(3) of the Code of Civil Procedure.

[103] Section 53(3)(b) of the APA.

[104] Section 53(5) of the APA.

[105] Section 64/B(5) of the Competition Act.

[106] Section 170 of the Code of Civil Procedure.

[107] Section 62(4) of the APA.

[108] Section 54(4) of the APA.

Similarly, civil courts hold public hearings as a general rule, though certain sections or the whole hearing can be closed to the public if it is deemed to be necessary to protect trade secrets.[109]

24.2.5.3 Restricted Content of Final Decisions and Resolutions

The APA guarantees the confidentiality of trade secrets during the drafting and communication of final decisions and resolutions in the course of administrative proceedings. Where publicity of a decision is not restricted or excluded by law, the final resolution is disclosed to the general public after rendering trade secrets unrecognizable.[110] However, a decision may contain trade secrets of a type that can be made available to the person to whom the decision is communicated.[111]

In cases where a person requesting access to a decision is able to demonstrate that access to trade secrets disclosed in the decision is necessary for the enforcement of its right, or for the fulfilment of obligations conferred upon it by the relevant legislation or an official ruling, the corresponding trade secrets cannot be rendered unrecognizable.[112]

Decisions passed in the course of competition supervision proceedings should be drafted in a way that avoids disclosing trade secrets to the addressee of the decision or other persons who have a right to access documents.[113] After the final conclusion of proceedings conducted by the HCA, all trade secrets processed in the course of the proceedings are blocked. In the case files it is clearly indicated which information qualifies as trade secrets and documents containing trade secrets are kept separately from other data.[114]

In the case of civil lawsuits, copies cannot be made of resolutions passed in the course of civil proceedings that contain trade secrets, or in an action that was held fully or partly in closed sessions which excluded the public.[115] Trade secrets are also protected when publishing the judgement. As a general rule, the Supreme Court and the Courts of Appeal have to publish their judgements, as well as the lower instance decisions in the same case, in digital format on the internet. However, the names of the parties have to be substituted with their procedural position (*e.g.* plaintiff).[116] If the public was excluded from the whole or part of the hearing, and the protection of the interest underlying the exclusion (*e.g.* protection

[109] Section 5(1)-(2) of the Code of Civil Procedure.

[110] Section 69/A(1)–(2) of the APA.

[111] Section 73(1) of the APA.

[112] Section 69/A (4) of the APA.

[113] Section 55/C(2) of the Competition Act.

[114] Section 55/C(3) of the Competition Act.

[115] Section 119(9) of the Code of Civil Procedure.

[116] Sections 163 and 166 of Act CLXI of 2011on the Organization and Administration of the Courts.

of trade secrets) cannot be guaranteed otherwise, the respective part of the judgement has to be omitted from the published version.[117] Therefore, if the court held a closed hearing to protect trade secrets, those parts of the judgement which contain these trade secrets cannot be published on the internet.

24.3 Protection of Know-How in Confidentiality or Non-disclosure Agreements

The rules on contract law of the Hungarian Civil Code are dispositive. This means that the parties can freely determine the contents of their contract provided that it is not contrary to any legal rules.[118] Consequently, the parties can impose an obligation about treating certain information as confidential and can prohibit disclosing such information to any third party, even if such information would not qualify as a trade secret under the Civil Code. For example, if a company engages a subcontractor to perform research activities and product development under an R&D agreement, and even if the result does not constitute intellectual property or a trade secret, the contract can prohibit the subcontractor from disclosing the results.

Nevertheless, in the case of disclosure, the proprietor of the 'trade secret' (which does not enjoy statutory protection) can enforce claims against its contractual partner only, based on breach of contract, but no claim can be enforced against a third party based on acquiring the 'trade secret' unlawfully.

In case of a breach of the confidentiality or non-disclosure agreement, the general rules of civil law apply. Basically, the aggrieved party may request the court to order the other party to perform its contractual obligation.[119] If the breach of contract resulted in damages and the party in breach cannot exculpate itself, the aggrieved party may claim compensation for these damages.[120] The burden of proof lies on the aggrieved party in relation to the breach of contract and the other preconditions of its damages claim. Furthermore, the agreement may contain specific sanctions for the breach of the confidentiality obligation (*e.g.* penalty clauses[121]). In our view, such sanctions will not be considered as illegal even if the information (know-how) does not meet the strict statutory standards.

[117]Section 166(3) of Act CLXI of 2011on the Organization and Administration of the Courts.

[118]Section 6:1(3) of the Civil Code.

[119]Section 6:138 of the Civil Code.

[120]Sections 6:142 and 6:143 of the Civil Code.

[121]Section 6:186 of the Civil Code.

24.4 Misuse of Trade Secret Protection

24.4.1 Critique Regarding the Scope of Protection

The current provisions of the Civil Code on the protection of trade secrets entered into force on 15 March 2014.[122] According to the transitional provisions, unlawful acts against trade secret protection committed before the entering into force of the presently in force provisions shall be treated under the respective previous law in force at the time of the acts committed.[123] Therefore, there is no case law available under the new provisions which might have inspired a critique in the relevant legal literature. For the sake of completeness we mention that, before the entry into force of the Civil Code, there was an academic debate in Hungary about whether know-how should enjoy protection as an exclusive right or merely as a trade secret.[124] The final text of the Civil Code chose the latter solution (protection as a trade secret, see Sect. 24.1.1.5 above).

The conflict between the trade secret protection and freedom of information legislation is often subject to critiques by local NGOs as well as by investigative journalists in Hungary. Hungarian freedom of information laws provide a right for anyone to access recorded information held by public sector organizations. The protection of trade secrets does not apply, *inter alia,* to data relating to the central budget, the budget of local governments, and the use of EU funds. However even these data may not be published if the publication is disproportionately detrimental to the business operations to which it is related, provided that the lack of disclosure does not interfere with the access to information of public interest.[125] The freedom of information disclosure requirements also apply to natural and legal persons (private entities) entering into a financial or business relationship with the central or local governments budget, which involves the publication of the data (such as financial data) relating to such relationship.[126]

According to the court practice, the data controller has the burden of proof to demonstrate that the data is covered by trade secret protection,[127] the publication of

[122] Section 8:4 of the Civil Code.

[123] Section 8(1) of Act CLXXVII of 2013 on the transitional and empowering provisions relating to the entry into force of Act V of 2013 on the Civil Code.

[124] In favour of a protection with an exclusive right: Gy. Boytha, Reflexiók dr. Bobrovszky Jenő "Rejtélyek és fortélyok" című tanulmányához, Polgári Jogi Kodifikáció, 2006(5) pp. 16-27, against such protection J. Bobrovszky, Rejtélyek és fortélyok: hozzászólás az üzleti titok és a know-how kérdésköréhez a Ptk. Javaslat kapcsán, Polgári Jogi Kodifikáció, 2006(4) pp. 22-38. For the summary of the main arguments: G. Faludi, Megjegyzések az új Ptk. tervezet know-how-ra vonatkozó szabályaihoz, Polgári Jogi Kodifikáció, 2006(5) pp. 27-32. For a general overview see M. Görög, A know-how jogi védelmének alapvető kérdései, HVG Orac, 2012, pp. 67-80. and G. Faludi in G. Faludi, P. Lukácsi (eds), A védjegytörvény magyarázata, HVG Orac, 2014, pp. 671-672.

[125] Section 27(3) of the Data Protection Act.

[126] Section 27(3a) of the Data Protection Act.

[127] Case no. Metropolitan Appeal Court 2.Pf.20.708/2008/7.

which would be disproportionately detrimental to its business operations[128] and that the withholding of information does not interfere with the access to information of public interest.[129] If a private entity having a financial relationship with the central or local budget refuses to comply with a request for information based on the protection of trade secrets, the requesting party may initiate proceedings with the authority delegated to exercise judicial oversight over the private entity.[130] This provision is criticized by local NGOs as not being an effective legal remedy, as it is unclear if court action may be initiated against the data controller or if the judicial oversight is a prerequisite for filing a court action.[131]

24.4.2 Illegal Misuse of Trade Secrets?

There are no express provisions in the Hungarian law on 'illegal misuse' of trade secrets, and we are not aware of any relevant case law. In fact, Hungarian law does not even use the term 'illegal misuse'. However, there are several legal provisions which may be invoked in case of a potential 'illegal misuse' of trade secrets.

According to the Civil Code, any abuse of rights is forbidden[132] and any exercise of rights has to be done in accordance with the requirements of good faith and fair dealing.[133] Furthermore, according to the general clause of the Competition Act, engaging in unfair economic activities is prohibited, particularly if it infringes or jeopardises legitimate interests of customers, users and competitors, or is contrary to the requirements of business fairness.[134] These provisions may also be applied to any illegal acts of a proprietor concerning its trade secrets.

We believe that the very nature of the trade secret, *i.e.* the fact that it is in the exclusive possession of the lawful proprietor, makes it quite impossible for the proprietor to misuse. However, in theory, two types of misuse might be envisaged.

24.4.2.1 Withholding Trade Secrets as a Potential Misuse

The first type is a situation where the misuse lies in the withholding of a trade secret. Of course, such a misuse can occur only when there is an obligation for the

[128] Case no. Metropolitan Appeal Court 2.Pf.20.559/2011/3.

[129] Case no. Metropolitan Appeal Court 2.Pf.22.192/2012/3., Metropolitan Appeal Court 2. Pf.22.156/2011/5.

[130] Section 27(3b) of the Data Protection Act.

[131] M. Ligeti, B. Romhányi, A. Szloboda, Mit választunk? Az intézményrendszer és a költségvetés átláthatósága Magyarországon, Transparency International, 2014, p. 63. http://transparency.hu/uploads/docs/MitValasztunk_Az_intezmenyrendszer_es_a_koltsegvetes_atlathatosaga_Magyarorszagon.pdf, Accessed 11 May 2015. See also http://www.ugyvedvilag.hu/rovatok/szakma/az-uzleti-titok-vedelme-es-a-kozerdeku-adatok-nyilvanossaga. Accessed 24 March 2015.

[132] Section 1:5(1) of the Civil Code.

[133] Section 1:3(1) of the Civil Code.

[134] Section 2 of the Competition Act.

proprietor to disclose its trade secret. Generally, there is no such obligation because of the mere existence of the trade secret. Even important technological information, *e.g.* a pioneer invention, can be kept secret by the inventor or the proprietor, respectively, if it has chosen this option (instead of applying for patent protection).

It seems that, with respect to trade secrets, some other activity or engagement on the part of the proprietor is necessary for a withholding to qualify as misuse.

If a trade secret relates to an employee's invention, the employee-inventor may be under the obligation to disclose it without any delay to its employer.[135] Failure to do so constitutes a breach of a civil obligation. The employer may claim damages and, if the inventor has filed a patent application or obtained a patent, request that the patent application or patent be assigned to it.

If a trade secret relates to an invention not yet published and the proprietor is seeking patent protection, the invention should be disclosed in the patent application in a manner which is sufficiently clear and complete for it to be carried out by a person skilled in the art.[136] In the case where the applicant withholds information that would be necessary for carrying out the invention, the application may be rejected or the patent, if granted, may be nullified.[137]

Withholding important information concerning marketed goods or services may constitute an unfair economic activity or may qualify as a deception of customers,[138] or as a misleading commercial practice.[139]

Pursuant to transparency regulations in public law, national public authorities are obliged to disclose data of public interest. Such data may include business-related information. According to the Data Protection Act, such disclosure may not result in the access to secret data, in particular know-how, the knowledge of which would cause a disproportionate harm to the business activity, unless the withholding hinders the possibility for gaining knowledge of the data of public interest.[140] An untrue reference to such circumstances to avoid disclosure to the public may constitute an illegal misuse of trade secrets.

Finally, it is theoretically possible that the withholding of trade secrets could qualify as an abuse of a dominant position.[141] If the trade secret proprietor enjoys a dominant position on the relevant market, refusal to enter into an appropriate business relationship without objective reasons may qualify as an abuse.[142] It is

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[135] Section 11(1) of Act XXXIII of 1995 on the Patent Protection of Inventions.

[136] Section 60(1) of Act XXXIII of 1995 on the Patent Protection of Inventions.

[137] Sections 42(1)(b) and 76(3) of Act XXXIII of 1995 on the Patent Protection of Inventions.

[138] Sections 2 and 8(2) of the Competition Act.

[139] Section 7(1) of the Act No. XLVII of 2008 on the Prohibition of Unfair Business-to-Consumer Commercial Practices.

[140] Section 27(3) of the Data Protection Act.

[141] Section 21 of the Competition Act.

[142] Section 21(c) of the Competition Act, P. Miskolczi Bodnár, 21. §. In: M. Juhász, D. Ruszthiné Juhász, A. Tóth, Kommentár a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról szóló 1996. évi LVII. törvényhez, HVG Orac, 2015, pp. 301-303.

possible that, based on this provision, under certain circumstances a dominant undertaking may be obliged to disclose its trade secret to its contractual partner.[143] However, we are not aware of any such case.

24.4.2.2 Abuse of Exclusive Rights as a Potential Misuse

A second type of misuse may be an abuse of the exclusive rights in the trade secret by the proprietor. An unfounded claim concerning unlawful acquisition, use or disclosure of a trade secret, or legal proceedings initiated for such a claim in bad faith, would constitute an abuse. However, such abuse is not specific to trade secret protection, it may occur in litigation concerning any (intellectual property) right. There are no specific provisions in the Hungarian law with respect to bad faith litigation based on intellectual property rights or trade secret protection. According to the Code of Civil Procedure, it is a duty of the court to prevent any acts and behaviour of the parties in civil procedures which are against the requirement of good faith.[144]

In the case when the proprietor of the trade secret misuses its rights in a way which is against the requirements of good faith and honest conduct, or litigation may be regarded as an abuse of rights, the other party or respondent, respectively, may claim that the court enjoins the proprietor of the trade secret from such behaviour and may claim damages.

[143] Pursuant to Section 76(1)(h) the HCA is entitled to order the dominant undertaking to conclude a contract.

[144] Section 8(2) of the Code of Civil Procedure.

Italy 25

Anna Gardini

25.1 Legal Protection of Trade Secrets

The Italian Intellectual Property Code[1] ("IPC") contains specific provisions on the protection of trade secrets, i.e. Art. 98 and Art. 99.

Pursuant to Art. 98 IPC (*Scope of protection*), "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.

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 authorization of chemical, pharmaceutical or agricultural products implying the use of new chemical substances".

Article 99 IPC (*Protection*) provides also that, "without prejudice to the provisions on unfair competition, the legitimate owner of the information and business experience as per Art. 98, has the right to prohibit third parties, subject to its consent, from acquiring, disclosing to third parties or using those information and experience in an unauthorized manner, except for cases in which the third party

[1]Legislative Decree n. 30 of February 2005 as amended by Legislative Decree No. 131 of August 2010, hereafter IPC.

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has obtained them in an independent manner".[2] Moreover, additional provisions on the protection of trade secrets can be found in the Civil Code (Art. 2105 and Art. 2598, n. 3), as well as in the Criminal Code (Art. 621–623).

Trade secrets meeting the requirements set out in the IPC are regarded as intellectual property rights in Italy. It is interesting to observe that the IPC distinguishes between *registered ip rights*[3] (originating from patenting or registration) and *non-registered ip rights,*[4] amongst which there is secret information (as well as non-registered trademarks, geographical indications and denominations of origin), that may only be protected if the requirements set out in the IPC are met.

The first requirement for protection is that the information has to be not generally known or easily accessible, in a relative sense: this means that the circumstance that two undertakings know a specific information because both have developed it independently, does not exclude such information from protection towards third parties, until the information, because of the reduced number of the holders, can be still considered not generally known and the competitors cannot accede to them but for with laboured researches or obtaining them from the companies which own them.

The communication of the secret information to third parties bound by confidentiality by virtue of a contract or a regulation does not imply *per se* access to it.[5]

It is important to note that the information which can be obtained through simple observation, chemical analysis or mechanical exam (breakdown) of the competitor's product (reverse engineering) cannot be protected as secret. However, to avoid overprotecting information essential to manufacturers, the reverse engineering process considered here must remain an easy one for experts or other operators. Consequently, the information remains secret and protected as long as the reverse engineering is time consuming or costly in relation to the nature of the product at stake.

In consideration of the fact that the state of the art here is relative and not absolute (contrary to patents), the above reference is to experts or operators that have specific knowledge in the field of the holder of the secret (i.e. qualified operators).

That qualified expert will be aware of the information effectively known or easily knowable in the field, as well as those which can be inferred from them effortlessly. The qualified expert does not need to know all the information accessible in the abstract. As indicated by Art. 98 IPC, the requirement of not being generally known or easily accessible does not concern the single information (that, *per se*, could be also known or easily accessible), but rather the ensemble or the precise configuration and combination of the elements which compose it. This is the

[2]Paragraph as substituted by paragraph 1 of Article 48, Legislative Decree No. 131 of 13 August 2010.

[3]"diritti titolati".

[4]"diritti non titolati".

[5]Court of Appeal of Milan, 13 June 2007, in GADI 2007, 836.

case of the so-called clients' list, where the names of the single clients are generally accessible; the *know-how,* a coordinated complex of information in itself already known and directed to govern more efficiently a manufacturing process; the chemical formula, or secret recipes, where the components and their generic function are normally known and the secret is on their precise quantitative combination.

The second requirement is the economic value of the information: this means that the full or partial exclusivity derived from the secrecy of the information, guarantees to the holder a competitive advantage compared to the others operators in the field. Moreover, the communication of the secret information to determined third parties bound by confidentiality by virtue of a contract or a regulation does not imply a disclosure, consequently does not jeopardize the economic value of the information.

The third and final requirement is to adopt measures reasonably adequate to keep the information confidential, to show to the employees and the other parties who cooperate with the company, and who will use the information at issue, that they will keep them secret and also to prevent their disclosure to third parties.

However, Art. 98 IPC does not request to adopt measures (physical and contractual) which can make impossible the revelation of them or the spying, but "measures to be considered reasonably adequate to keep it confidential". The "reasonably adequate" concept is here again relative and imposes to evaluate the suitability of the measures adopted case by case, keeping into consideration the sector, the value of the information to protect, the connection between the costs of the possible measures and the efficacy of the same, as well as the technological evolution of the systems of protection (the entrepreneur has the duty to update to the last security techniques available on the market, although proportioned with the value of the information and the economic resources of the company).[6] The measures adopted should be objectively perceptible and verifiable (i.e. precautionary mechanisms of protection which pertain to the internal organisation[7] and the ways of circulation of the knowhow, like internal newsletters, protocols, service orders, non-competition agreements, non-disclosure agreements), and subjectively adequate, meaning to express unequivocally the will to keep them secret[8] (i.e. the entrepreneur is determined to maintain the information in range of the company). In any case the measures should not be too onerous in terms of costs economic and human, avoiding controls too intrusive towards the employees.

The third requirement of Art. 98 IPC performs different functions: first, it constitutes the logical and factual prerequisite of the misappropriation in an unauthorized manner of the information by a third party, impeding concretely to

[6] L. Mansani, La nozione di segreto di cui all'art. 6 bis l.i., Diritto Industriale, 2002, 218 ff.

[7] Court of Rome, 31 March 2004, in GADI 04, 997 identify them in to the meticulous attention adopted by the company in to the storage and classification of the documents and in to the instructions given to their employees.

[8] G. Sena, I diritti sulle invenzioni e sui modelli di utilità, Giuffrè, 2011, 275.

unauthorized third parties the access to the confidential information; second, it is the best "proof" of the existence of the economic value required by Art. 98 IPC, as the provision of adequate measures of secrecy has a cost which, as a scholar said[9], is incurred by the company only if the secret information has an economic value which endures as long as the secrecy endures, so the protection measures distinguish the economically significant secrets from those which, on the contrary, are not.

In the past the Italian Supreme Court and also some local courts[10] were of the opinion that some information, as that concerning clients and the commercial conditions reserved to them, is by their nature confidential and that consequently it is not necessary to demonstrate the adoption of special secrecy measures. This approach has been criticized by a scholar[11] who deems it obsolete. More recently the jurisprudence established that measures are necessary.[12]

As regard to Art. 99 IPC, it is interesting to underline that, in its first version, the legislator had deleted any reference to the fact that the acquisition and the use of the information are considered illicit when made "*in a manner contrary to honest commercial practice*", in contrast with Art. 6 bis of the previous Italian Patent law, which was congruent with Art. 39 TRIPs[13] and then has been abrogated because incorporated in to the IPC.

This choice by the legislator was largely criticized by the doctrine, because it contrasted with the Italian juridical tradition, reaffirmed by Art. 39 TRIPs, which connects the protection of the secret information with the rules inhibiting the unfair competitions behaviours (Art. 39 TRIPs refers to Art. 10 bis Paris Convention), limiting such protection to the misappropriation/use of secret information by third parties "*in a manner contrary to honest commercial practice*". It has been also observed that, moving away from this tradition, the IPC risked breaking the balance between the interest of the entrepreneur to the confidentiality and the patent system, because a protection of the secret potentially unlimited in terms of duration and free from the burden of description to which, instead, the grant of the patent is subject, is scarcely compatible with the *ratio* of the patent system, i.e. reward the research, stimulating it through the conferment to the inventor of an exclusive temporally limited, provided that this latter reveal the innovation to the public[14]. Lastly, some raised doubts as to the constitutionality of this rule.

[9]P. Auteri, G. Floridia, V. M. Mangini, G. Olivieri, M. Ricolfi and P. Spada, Diritto Industriale. Proprietà Intellettuale e concorrenza, III ed. Torino, 2009, 194.

[10]Italian Supreme Court, 20 March 1991, n. 3011; Court of Verona, 4 May 1996, GADI, 1996, 779.

[11]L. Mansani, La nozione di segreto di cui all'art. 6 bis l.i., Diritto Industriale, 2002, 218.

[12]Court of Milan, 31 March 2004, GADI, 2004, 979; Court of Brescia 29 April 2004, ivi, 1079; see also Court of Bologna 4 July 2008, ord.; Court of Florence 26 November 2008, ord.; Court of Venezia 20 November 2009; Court of Bologna 16 May 2006.

[13]Trade-Related Aspects of Intellectual Property Rights signed in Marrakesh on 15 April 1994 and ratified by Italy with Law n. 747 of 29 December 1994).

[14]G. Ghidini and V. Falce, Upgrading trade secret as IPRs – a recent break through in IP law, Dir. Aut., 2008, 121 onwards.

The debate was overtaken by Art. 18 of the Decree n. 131/2010 which introduced as condition of protection the fact that the acquisition, use or revelation of the secret information are occurred "in an unauthorized manner", adding also at the end of Article 99 IPC the clarification "except for cases in which the third party has obtained them in an independent manner".

According to the interpretation made by the Italian doctrine, the Italian wording "*in an unauthorized manner*" covers wilful misconduct or gross negligence and does not contemplate the mere "negligence" (the Italian legal system makes a distinction between the different levels of negligence). In particular, according to a scholar[15], the expression "in an unauthorized manner" should be interpreted by the Court as being the equivalent to the expression "in a manner contrary to honest commercial practice" pursuant to Art. 39 of the TRIPS agreement, since in the Ministerial Report regarding the decree which introduced this article in the IPC, it is expressly mentioned the wish to line up Art. 99 with Art. 39 of the TRIPs agreement.

The above mentioned author also emphasized that it could be useful to interpret the vague expression "in an unauthorized manner" to refer to the official note of Art. 39 (TRIPS), which specifies that "for the purpose of this provision, 'a manner contrary to honest commercial practice', 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".

This author concludes that the protection accorded by Articles 98 and 99 of the IPC "operates against those who have subtracted secret information illegally (for instance through industrial spying), and against those who have acquired the information with malice (i.e. with the knowledge that such subtraction was illegal) from the author of the misappropriation". Consequently, no protection is instead accorded against whom has autonomously accomplished the information and neither against whom has acquired the information in good faith (bona fide, i.e. without being aware of the illegal appropriation) from the subject from which the subtraction was made. Vanzetti affirms moreover that "nor is protection given to those who have acquired the information legally, for instance through reverse engineering (in fact if the reverse engineering operation is easy, the information is not protected because it lacks the requirement of secrecy; if it is not easy, the operation constitutes autonomous research activity and cannot be considered illegal)"[16].

As to the clarification added at the end of Art. 99 IPC ("except for cases in which the third party has obtained them in an independent manner"), probably introduced by the Legislator to expressly exclude the reverse engineering from the hypothesis of illicit acquisition, the same doctrine expressed perplexity about the fact that this clarification has been introduced by the Legislator as an exception to the general

[15] A.Vanzetti, La tutela 'corretta' delle informazioni segrete, in Riv. Dir. Ind. 2011, I, 95.

[16] A.Vanzetti and V. Di Cataldo, Manuale di diritto industriale, 2009, p. 481 ff.

rule (according to which any acquisition of the information "in an unauthorized manner" is illicit), because it is not possible to postulate an independent acquisition occurred in an unauthorized manner.

The prohibition to disclose the information concerns both those who came into possession of the secret information in an unauthorized manner and those who are legitimately aware of it because they contributed in developing it on behalf of the owner (i.e. employees), or because they had knowledge of it to conduct an activity of its interest (i.e. suppliers, consultants), or because they dispose of it or use it with the owner's consent (i.e. licensees).

The prohibition to acquire concerns the learning of the secret information violating the owner's confidentiality/secrecy and does not cover the autonomous discovery of the information, as well as the reverse engineering.

As to the prohibition to use, jurisprudence and doctrine have discussed whether this also concerns other information that can only be derived from the secret information or that can be more easily developed (in terms of time and costs) thanks to the knowledge of the secret information. With reference to this issue, the Court of Milan judged illicit the realisation of chemicals based on a formula different from those stolen, but that could not have been realized based on the state of the art, without knowledge of the stolen information.[17]

25.2 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

To be able to launch a legal action against trade secret misappropriation, the trade secret proprietor has to indicate and describe in detail the confidential information for which it claims protection as, in the absence of this description, it would be impossible for the defendant to reply and for the Court to judge the effective misappropriation and/or use of the information.

The trade secrets proprietor also has to establish the existence of the requirements of validity according to Art. 98 IPC and this could be especially difficult, in particular for the requirements (a) confidentiality and (b) economic value of the article. However, the owner of the trade secrets could resort to witnesses and opinions of experts, taking into consideration also the counterpart's behaviour on the market and during the proceedings (this latter according to Art. 116 of the Italian Civil Procedure Code) and, of course, the information acquired through the legal measures that are available to secure evidence of trade secret misappropriation.

These legal measures are order of exhibition (i.e. disclosure), as well as description and seizure, provided for by Articles 121 and 129 IPC respectively, which also provide that the Court, in taking the above mentioned measures, shall indicate the steps necessary to guarantee the safeguarding of the confidential information of the

[17]Court of Milan, 2 February 2000, in GADI 2000, 758.

subjects who undergo these measures and who could use different trade secret from those of the claimant and deserving protection as well. These steps generally consist in restricting access to the documents containing trade secrets/confidential information, in particular obscuring them and/or placing them in a closed envelope, sealed by the bailiff.

In such regard, the Court of Turin[18] recently stated that the purpose of the description is gathering evidence for the future proceedings on the merit. For this reason, keeping the confidentiality on the secret information of the defendant, would involve peculiar consequences for the completeness of the right to a fair trial on important facts of the controversy, as the lacking knowledge of the effective subject matter of the controversy for the subject who should begin the proceedings on the merit, although it has instituted the description proceedings to obtain essential evidence.[19] The Court has in any case reaffirmed that the lawyers and technical experts of the parties have to keep the professional secrecy and the parties are forbidden to use or/and communicate third parties/competitors data/information known because of the description proceedings.

However, this solution by the Court has been criticized, for the difficulty to re-establish the *status quo ante* in case the description order is revoked or ceases to have effect if the plaintiff does not initiate proceedings on the merits within the deadline provided by the law.

If a trade secret misappropriation is established, the remedies are interim injunction and the withdrawal from the market of the goods realized using the trade secrets (Art. 131 IPC); moreover, according to Art. 124 IPC, with the decision on the merit the owner of the trade secrets could obtain various remedies as a definitive injunction against the manufacture, sale and use of the items constituting an infringement of the trade secrets and their withdrawal from the market, as well as their destruction at the expense of the author of the infringement. The Court may also order that the items produced, imported or sold infringing the right and the specific means that univocally serve to produce them or to carry out the protected method or process, be assigned to the ownership of the owner of the right, without prejudice to the right to compensation for damages.

An injunction and order for definitive withdrawal from the market may also be issued against any intermediary who is a party to the proceeding and whose services are used to infringe an industrial property right. In issuing the injunction, the Court may set a sum due for any infringement or instance of non-compliance subsequently determined, and for any delay in carrying out the order.

As to the damages, Art. 125 IPC provides that the compensation due to the damaged party shall be set according to the provisions of Articles 1223, 1226 and 1227 of the Civil Code, considering all of the pertinent aspects, such as the negative economic consequences for the claimant, including lost income, the benefits achieved by the infringer, and in the appropriate cases, non-economic elements,

[18]Court of Turin 13 June 2012, in Il Diritto Industriale n. 3 2013.

[19]In the same sense Court of Milan, 21 February 2011, not published.

such as the moral damage caused to the owner of the right by the infringement. The judgment that rules on the compensation of damages may establish payment of an overall sum based on the proceedings in the case and the presumptions that result from them. In this case loss of profits shall not be less than the royalties that the author of the infringement would have had to pay, had he obtained a license from the owner of the infringed right. 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.

This last remedy is particularly effective because it obliges the author of the misappropriation to return to the owner of the trade secrets all the profits obtained using them, eliminating the economic and competitive advantage that the infringer has illegally achieved.

Finally, according to Art. 126 IPC the judicial authority may also dispose 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, or only the ruling of the judgment, considering the seriousness of the circumstances, in one or more newspapers, at the expense of the losing party.

Jurisprudence is of the opinion that the publication operates also as compensation of the damages suffered. Moreover, the publication operates as well as a precautionary function with reference to the worsening of the damages deriving from the misappropriation of the trade secrets and to the communication towards third parties of the restoration of the harmed rights.[20]

It is important to point out that the IPC also provide for a system of discovery: according to art 121 IPC, if a party has provided serious indicia that its claims are grounded and has identified documents, elements or information held by the other party that confirm these indicia, it may request that the Court order their production or request the information from the other party, including the production of the banking, financial and commercial documentation that is in the possession of the other party. The party may also request that the Court order the other party to provide the elements for the identification of the persons involved in the production and distribution of the goods or services that constitute an infringement of the industrial property rights. In taking the actions identified above, the Court has to adopt suitable measures to guarantee the safeguarding of confidential information, after consultation with the other party.

[20]Court of Brescia, 29 April 2004.

25.3 Protection of Know-How in Confidentiality or Non-disclosure Agreements

With regard to the protection of the know-how under contractual terms, for example under a license or confidentiality agreement, a specific issue has been raised about the juridical nature of the secret information contained in such agreement. In other words, whether the know-how does not meet statutory trade secret standards ex Art. 98 IPC, it has often been asked if the trade secret proprietor in any event is entitled to remedies under contracts law.

A scholar[21] observed how the answer is not easy and immediate, as a system that would make an *intellectual property right* of the information agreed as secret by the parties, would lead to an extension of their protection beyond the mere implementation of the agreement. In consideration of the peculiarity of this matter, he concluded affirmatively.

In fact, as far as the relationship between the parties is concerned and within the limits of the agreement, this scholar is of the opinion that such mutual and binding acknowledgment of the respective rights is not contrary to the general principles of Italian law. However, as to the delicate issue of the existence, through the above mentioned acknowledgment, of an intellectual property right enforceable toward third parties who have nothing to do with the agreement, this scholar considers it as valid both because the defaulting party will be responsible not only for the violation of the contract, but also for violation of the secret information, and because it will provide to a court who has to decide upon violations made by third parties a clue that could be sufficient in a first analysis about the likelihood of the existence of the right. In this regard, the jurisprudence denied that Art. 98 IPC was enforceable in consideration of the absence of "contractual" precautions implemented by the company which claimed the violation of its trade secrets by external third parties. In particular, the Court stated that the lack of the above mentioned measures was symptomatic of the company's awareness that it was not the legitimate owner of the trade secrets, so that it did not deem it necessary to implement particular measures to impede further dissemination of the trade secrets.[22]

In case of breach of a confidentiality or non-disclosure agreement, the owner of the confidential information could act against the contracting party for breach of contract and the resulting liability, as well as reimbursement of the damages suffered.

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[21] A. Camusso, La tutela del know-how, Giuffrè 2012, 62 ff.

[22] Court of Catania, 10 October 2005, GADI, 4984.

25.4 Misuse of Trade Secrets Protection

Where competent judicial authorities determine that a claim concerning the unlawful acquisition, disclosure or use of a trade secret is manifestly unfounded and the plaintiff, i.e. the trade secrets owner, is found to have initiated the legal proceedings in bad faith with the purpose of unfairly delaying or restricting the respondent's access to the market or otherwise intimidating or harassing the defendant, this latter has the right to ask for the condemnation of the plaintiff for vexatious litigation as per Art. 96 Italian Civil Procedure Code (CPC).

As a general rule, in Italy, the losing party also pays for the winner's legal costs, in compliance with existing professional fees. The losing party will also normally pay the costs of any party or court-appointed expert.

The Code of Civil Procedure, moreover, sanctions vexatious litigation with aggravated costs and it operates in proceedings on the merit, as well as in summary proceedings (preliminary injunctions). Vexatious litigation may be defined as the situation where the losing party is found to have either sued or defended itself in bad faith or inexcusable fault.

Theoretically on the counterpart's request, the Court may order the losing party to pay both legal costs and any damages it proves to have suffered (Art. 96 CPC). However, in practice, these principles are not applied in the fullest of their consequences, because it is very hard for the winning party to prove the bad faith or inexcusable fault of the counterpart, as well as that the winning part suffered some extra damages as a consequence of the dispute it had to bring or resist to.

However, the Statute no. 69 of 2009, added a new paragraph to Art. 96 CPC, stating that, in any case, when granting orders for costs, the judge may, even on its own motion, sentence the losing party to pay to the counterpart, a sum of money equitably awarded. This new provision is much more effective than the traditional one because there is no need to prove that the losing party has caused any actual damage to the counterpart. The mere fact that it was found to have sued or resisted in bad faith is deemed enough to condemn it to pay for these extra costs.[23] Moreover, the law does not fix any limit to the amount of money which the judge may award in this context: the Court now enjoys complete discretion in sanctioning vexatious litigation. Jurisprudence refers to this new sanction as a form of punitive award[24], to safeguard both private and public interests.[25]

Jurisprudence shows that judges are applying this new provision rather extensively (in general and not in the specific field of trade secrets protection), as a reaction to clearly abusive practices,[26] i.e. procedural behaviours in bad faith or

[23] A. Briguglio, Le novità sul processo ordinario di cognizione nell'ultima, ennesima riforma in materia di giustizia civile, Gisut. civ., 2009, II, 270; Court of Piacenza 7 December 2010, www.ilcaso.it.

[24] Court of Varese 23 January 2010, ord., www.ilcaso.it.

[25] Court of Piacenza 7 December 2010, www.ilcaso.it.

[26] See, e.g., Court of Salerno 27 May 2010, www.ilcaso.it and Court of Varese 23 January 2010, cit. which refer to an abuse of the right of action.

with the intent to disrupt of interfere with the fast and efficient dispatching of the case.[27] It is believed that, in the medium term, the application of the new Art. 96 (3) CPC may help to effectively curtail vexatious litigation in Italy. On the other hand, the advisability of granting the Court such wide discretionary powers is questioned because it may infringe upon the parties' right of action or defence when the judge adopts low standards of culpability[28].

25.5 Conclusions

A real protection of trade secrets requires the taking of precautionary measures in the management of the secret information. At this regard, these measures may aim at dealing with the risks related to the management of the undertaking itself, but also with external risks pertaining to third parties.

Part of the first group are the so-called "physical" barriers (for example the practice to keep in locked closet the most important technical projects, or to entrust to a third depositary chemical formula, or to create growing barriers for the employees and independent contractors depending on the level of confidentiality of the documents), measures to protect electronic documents from unauthorised access and in particular through the Internet (for example passwords and more sophisticated mechanism of defence), as well as measures which aim at communicating the entrepreneur's intent to preserve the confidentiality within the company itself (for example informative and internal newsletter, recommendations for the different staff departments regarding the filing system of the documents and also the procedures for the identification of confidential documents).[29]

Are part of the second group of protective and preventive measures all the initiatives of the entrepreneur directed to communicating to third parties (suppliers, clients, freelancers), with whom the company wants or has to share technical or commercial information, the confidential nature of the information. Consequently, the company will have to explicitly specify to the above mentioned external third parties that the information at issue, although disclosed, has to be considered as confidential and its use has to be strictly limited.

Among the protective and preventive measures are of great importance the non-disclosure/confidentiality agreements, as well as the confidentiality clauses

[27]For instance, many decisions mention the serious culpableness or malice of one of the parties: see Court of Salerno 27 May 2010, cit.; Court of Padua 10 November 2009, ord., Giur. mer., 2010, 1858; Court of Piacenza 7 December 2010, cit.; Court of Verona 1 July 2010, ord., Guida dir., 2010, No. 49-50, 24; Court of Modena 22 September 2010, n. 1208, www.giuraemilia.it.

[28]See for instance Court of Terni 17 May 2010, GM, 2010, 1834, stating that Art. 96(3) CPC may sanction also common culpability (*colpa comune*).

[29]The Court of Milan has decided that the imprint "Confidential" on an internal document makes its content worthy of protection as trade secret, independently from its novelty or from other characteristics of the information. See Court of Milan, 31 March 2004, GADI, 2004.

integrated in various typologies of commercial contracts (distribution, supply, settlement agreements, etc.) and also the non-competition agreements.

All the above mentioned measures are crucial for a solid and effective strategy of defence but, first, are essential for the existence of the same right on trade secrets. As observed by a scholar,[30] the preventive protection is a constitutive element of the matter in question. In fact, without measures actively put in place by the owner of the trade secrets, to protect its intrinsic characteristics, there would be no significant trade secrets from a legal point of view.

[30] A. Camusso, La tutela del know-how, Giuffré, 2012.

Japan

26

Takashi Koyama and Izumi Hayashi

26.1 Introduction

It is recommended in Japan that each of companies shall select the best mixture of "open & close" strategy considering the related factors such as the nature of the technology and the market.

Protection of trade secrets and know-how, or "undisclosed information" under Article 10bis of the Paris Convention and Article 39.2 of the TRIPS Agreement, has become increasingly important for proprietors. While a patent provides the relevant inventor with strong and exclusive rights and remedies for technological information or methods in exchange for disclosure of their invention thereof, such rights will generally expire in twenty years from its application. On the other hand, appropriate protection of trade secrets and know-how would allow a proprietor thereof to keep them confidential, while such proprietor can exploit them to apply its own products, methods, process etc., or grant license to a third party in exchange of royalties.

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In Japan, the Unfair Competition Prevention Law ("UCPL")[1] was enacted and enforced on January 1, 1935 to prohibit unfair competition practices when Japan ratified the Paris Convention for the Protection of Industrial Property on March 20, 1883, as revised at The Hague on November 6, 1925. However, the then UCPL had no protection of trade secrets and know-how until 1990, when specific unfair competition provisions regarding trade secrets were introduced. Before, certain types of remedies against misappropriation of trade secrets were available under general torts theory. Since then, several revisions have been made to strengthen the protection thereof in both civil and criminal remedies and to make such protection user-friendly.

Recent notable cases regarding the misappropriation of trade secrets in Japan are *Nippon Steel & Sumitomo Metal Corporation ("NSSMC") v. Posco,* 2015 and *Toshiba v. SK Hynix*, 2014[2]. The common character of both cases is that an ex-employee of the Japanese company began employment with the foreign (Korean) competitor namely *Posco* and *SK Hynix* respectively, bringing trade secrets from their previous Japanese companies, namely *NSSMC* and *Toshiba* respectively. The *Toshiba* case ended with settlement before the court where SK Hynix has agreed to pay Toshiba the settlement payment in the amount of 2.78 million U.S. dollars. The NSSMC case also ended with settlement before the court although its content was not disclosed. Japanese government has revised on July 3, 2015, UCPL to strengthen the protection of trade secrets in civil and criminal, which entered into force on January 1, 2016 ("Amended UCPL"). It is likely that the above two notable cases serve a strong basis for the government to do so.

26.2 Legal Protection of Trade Secrets

26.2.1 Legislation to Provide Specific Provisions on the Protection of Trade Secrets in Japan

We have the UCPL to provide specific civil and criminal provisions on the protection of trade secrets in Japan. The following types of wrongful acquisition and misappropriations of trade secret are prohibited as unfair competition practices under Article 2 (1) sections (iv) through (x) of the UCPL. Among others, the Section (x) was added by the Amended UCPL:

(iv) The act of acquiring a trade secret by theft, fraud, duress, or other wrongful means (hereinafter referred to as " act of wrongful acquisition") or the act of using or disclosing (including the disclosure to a specific person or persons:

[1]Unfair Competition Prevention Act, Act No. 47 of May 19, 1993. http://www.japaneselawtranslation.go.jp/law/detail/?id=2011&vm=04&re=01&new=1.

[2]The records of both cases are not disclosed because they were settled.

the same shall apply hereinafter) a trade secret through an act of wrongful acquisition;

(v) The act of acquiring a trade secret with the knowledge, or with gross negligence in not knowing, that there has been an intervening act of wrongful acquisition (i.e., the act of acquiring a trade secret by theft, fraud, duress, or other wrongful means), or the act of using or disclosing a trade secret so acquired;

(vi) The act of using or disclosing an acquired trade secret after having learned, or having been grossly negligent in not learning, subsequent to its acquisition, that there has been an intervening act of wrongful acquisition;

(vii) The act of using or disclosing a trade secret that has been disclosed by the business operator that owns said trade secret (hereinafter referred to as the "owner") for the purpose of acquiring a wrongful gain, or causing injury to such owner;

(viii) The act of acquiring a trade secret with the knowledge, or with gross negligence in not knowing, that such trade secret's disclosure is an act of improper disclosure (meaning, in the case prescribed in the preceding item, the act of disclosing a trade secret for the purpose prescribed in said item, or the act of disclosing a trade secret in breach of a legal duty to maintain secrecy; the same shall apply hereinafter) or that there has been an intervening act of improper disclosure with regard to such trade secret, or the act of using or disclosing a trade secret so acquired; and

(ix) The act of using or disclosing an acquired trade secret after having learned, or having been grossly negligent in not learning, subsequent to its acquisition, that such trade secret's disclosure was an act of improper disclosure or that there has been an intervening act of improper disclosure with regard to such trade secret.

(x) The act of assigning, delivering, displaying for the purpose of assignment or delivery, exporting, importing, or providing through a telecommunications line Things created by the acts listed in item (iv) to the preceding item (limited to an act of using a Technical Secret (meaning a Trade Secret which is technical information; the same applies hereinafter); hereinafter referred to as an "Act of Unauthorized Use" in this item) (excluding an act of assigning, delivering, displaying for the purpose of assignment or delivery, exporting, importing, or providing through a telecommunications line said Things by a person who has received said Things by assignment (limited to a person who, at the time of receiving said Things by assignment, had no knowledge that the Things were created by an Act of Unauthorized Use, and such lack of knowledge was not based on gross negligence))

26.2.2 Requirements to Launch a Legal Action

A trade secret proprietor must establish a cause of action set forth under Article 2.1 sections (iv) through (x) of the UCPL to launch a legal action against trade secret misappropriation.

26.2.2.1 Correspondence to "Trade Secret"

In so doing, it must first establish that subject information is "a trade secret" defined in the Article 2.6 of the UCPL.

> Article 2 (Definitions)
> (6) The term "Trade Secret" as used in this Act means technical or business information useful for business activities, such as manufacturing or marketing methods, that is kept secret and that is not publicly known.

"Trade Secret" means (i) technical or business information useful for business activities, such as manufacturing or marketing methods, (ii) that is kept secret and (iii) that is not publicly known.

Among the three requirements to meet trade secret under the UCPL, it is most difficult to prove in legal practice generally whether a plaintiff made proper measures to keep secret such information. Ministry of Economy, Trade and Industry ("METI")[3] has published the "Policy to Manage Trade Secrets" (so-called as "Guideline") in 2003 which has been revised in 2005 and 2010[4]. So far, the Guideline includes introduction of Japanese court decisions of over 100 cases as to the standard of the proper measures to keep secret, as well as "A to Z" guide to establish proper secrecy management system for Japanese companies. However, they are too complex or difficult for companies to understand or comply.

The latest revision of the Guideline has been made on January 28, 2015 to clarify interpretation of the three requirements to meet "trade secret". The new Guideline determines that the requirement of keeping secrecy may be satisfied if a company took reasonable measures to make its employees realize the secrecy of the information considering the circumstances such as the size of business. The rest of former Guideline has been revised on February 8, 2016 under the new title of "The handbook for protection of secret information", which introduced more practical manner for companies to establish reasonable measures to keep secret[5].

26.2.2.2 Proof of Misappropriation of Trade Secret

Further, plaintiff must establish relevant act of misappropriation set forth under Article 2.1 (iv) through (x) of the UCPL. Namely, the burden to prove

[3] Available at http://www.meti.go.jp/english/index.html.

[4] Available at http://www.meti.go.jp/policy/economy/chizai/chiteki/trade-secret.html.

[5] Available at http://www.meti.go.jp/policy/economy/chizai/chiteki/.

misappropriation of trade secrets is on the relevant trade secret proprietor. As mentioned below, Japan does not have a full disclosure system in the civil procedure like the U.S. does. Thus, it is too difficult for trade secret proprietor to secure necessary evidence to prove misappropriation of trade secrets prior to or through civil action. Although the issue of uneven distribution of the evidence is a common problem in Japanese civil litigation, it is more serious in trade secret cases.

To resolve the issue, the Amended UCPL establish the new Article 5-2 by relieving the plaintiff's burden to prove a relevant act of misappropriation of trade secrets.

> Article 5-2
>
> If any of the acts prescribed in Article 2, paragraph (1), item (iv), (v), or (viii) (limited to an act of acquiring a Trade Secret) has been conducted with regard to a Technical Secret (limited to a Technical Secret regarding manufacturing methods or other information specified by Cabinet Order; the same applies hereinafter in this Article) and a person who has conducted said act conducts production of Things created by the act of using said Technical Secret or other act specified by Cabinet Order as an act from which it can be understood obviously that Technical Secret has been used (hereinafter referred to as the "Production, etc." in this Article), said person is presumed to have conducted the Production, etc. as an act prescribed in each said item (limited to an act of using a Trade Secret).

The new provision is to allow the plaintiff to presume the defendant's use of trade secrets of the plaintiff, if the plaintiff provides proof (1) that the defendant has improperly acquired trade secrets of the plaintiff and (2) that the trade secrets are technical method of producing certain products in which defendant does related business. In this case, the products for which the defendant is suspected of having used the trade secrets are presumed to be those manufactured by the defendant incorporating the misappropriated trade secrets.[6] It is expected that the defendant will submit more evidences to rebut such presumption, including its own technology used for manufacturing of the defendant's product.

The reason why the application object of this Article 5-2 is strictly limited is the consideration of securing disproof possibility, not to obstruct a change of job and prevention of the reckless or searching complaint.

26.2.3 Legal Measures to Secure Evidence

26.2.3.1 Measures Under the Civil Procedure Law

Japan does not have a full disclosure system in the civil procedure like the U.S. does. However, for the purpose of securing documents in the course of civil litigation, several measures are available under the Civil Procedure Law ("CPL")[7].

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[6]Please see more information at: http://www.meti.go.jp/english/press/2015/0313_02.html.

[7]Code of Civil Procedure Act (No. 109 of June 26, 1996). http://www.japaneselawtranslation.go.jp/law/detail/?printID=&id=2053&re=&vm=02.

(i) **Inquiry to Opponent Party**

A party, while the suit is pending, may ask the opponent party to answer an inquiry in writing within a reasonable period with regard to the matters necessary for preparing allegations or proof, pursuant to Article 163 of the CPL. Because there is not compelling force, the system is hardly used.

(ii) **Commission to Send Document**

A party may request the court to ask a third party who owns relevant documents to provide the same to the court pursuant to Article 226 of the CPL. This measure is also available for drawings, photographs, audiotapes, videotapes and any other objects prepared for the purpose of indicating information.

(iii) **Court Order to Submit Document**

Further, a party may request the court to issue an order to the other party to submit certain documents pursuant to Article 221 of the CPL. The court may issue such order when it finds that a petition for an order is well-grounded pursuant to Article 223 of the CPL. This measure is also available for drawings, photographs, audiotapes, videotapes and any other objects prepared for the purpose of indicating information.

(iv) **Observation**

Furthermore, a party may request the court to observe or examine an object which is owned by the other party or any third party pursuant to Article 232 of the CPL. It has been construed that the other party or relevant third party must present or send such object to the court for this purpose in accordance with the court order unless he or she has a justifiable reason to refuse it.

Even before a lawsuit is filed, several measures are available to gather, examine, and, dispose of collections of evidence under the CPL.

(v) **Preservation of Evidence by Court**

Pursuant to Article 234 of the CPL, a party may request the court to examine evidence when the court finds that there are circumstances under which, unless the examination of evidence is conducted in advance, it would be difficult to use the evidence.

If necessary, during litigation, the court may also make an order of preservation of evidence by its own authority under Article 237 of the CPL.

(vi) **Disposition of Collection of Evidence prior to Filing an Action**

By giving the other party (a prospective defendant), an advance notice of filing a lawsuit, a party (a prospective plaintiff), may make an inquiry to the other party regarding necessary matters for the filing, and a request to the court to dispose of collections of necessary evidence including documents and objects under Articles 132-2 through 132-9 of the CPL. This measure was adopted in the reform of the CPL in the year 2003 (enacted and enforced in 2004).

If the prospective defendant replied to the prospective plaintiff on the requested matters, the former party can also request the latter party likewise. If requested matters are those related to trade secrets, the requested party can refuse to reply in this regard.

The Advisory Committee of IP Lawsuit in the Justice System Reform Council in the government has examined several possible measures, including certain level of discovery systems from 2002 to 2004. In the end, the Advisory Committee reached its conclusion that they will examine the effect of the measure, "Disposition of Collection of Evidence prior to Filing an Action," which was adopted in 2003. In practice, it is likely that the above newly adopted measure has not been effectively used.

26.2.3.2 Measures Under the UCPL

In addition to CPL, the following measures under the UCPL may apply to civil procedures of unfair competition cases.

(i) **Obligation to Clarify Specific Conditions (Art. 6 of UCPL)**

Article 6 of the UCPL[8] stipulates certain obligation to clarify specific conditions as follows. However, the system is not effective in securing evidence because there is no compelling force.

Article 6 (Obligation to Clarify Specific Conditions)

In litigation involving the infringement of business interests through Unfair Competition, if the opponent denies the specific conditions of the things or process which is being asserted, by the person alleging that his/her business interests have been infringed or are likely to be infringed by Unfair Competition, to have constituted an act of infringement, the opponent must clarify the specific conditions of his/her own acts; provided, however, that this does not apply when the opponent has reasonable grounds for failing to clarify this.

(ii) **Court Order to Submit Document (Art. 7 of UCPL)**

Article 7 of the UCPL[9] stipulates that, the court may, at the motion of a party, order the other party to submit any documents necessary for proving the act of infringement or assessing the amount of damages caused by such act of infringement. Provided, however, that this does not apply when the holder of the documents has justifiable grounds for refusing to submit them. In practice, issue of such order is rare as the court strictly examines necessity of such submission in consideration of the trade secret of the opponent party.

Article 7 (Submission of Documents)

[8]Unfair Competition Prevention Act, Act No. 47 of May 19, 1993. http://www.japaneselawtranslation.go.jp/law/detail/?printID=&id=2011&re=01&vm=02.

[9]Unfair Competition Prevention Act, Act No. 47 of May 19, 1993. http://www.japaneselawtranslation.go.jp/law/detail/?printID=&id=2011&re=01&vm=02.

> (1) In litigation involving the infringement of business interests due to Unfair Competition, the court may, at the motion of a party, order a party to submit any documents necessary for proving the act of infringement or calculating the amount of damages caused by said act of infringement; provided, however, that this does not apply if the holder of the documents has justifiable grounds for refusing to submit them.
>
> (2) If the court finds it necessary to determine the presence of the justifiable grounds prescribed in the proviso to the preceding paragraph, it may require the holder of the documents to present said documents. In such a case, no person may request disclosure of the presented documents.
>
> (3) In the case referred to in the preceding paragraph, if the court finds it necessary to disclose the documents prescribed in the second sentence of the preceding paragraph and to hear opinions with regard to whether the justifiable grounds prescribed in the proviso to paragraph (1) are present, the court may disclose said documents to the parties, etc. (meaning the parties (or if a party is a juridical person, its representative) or the parties' agents (excluding counsel or assistants in court), employees, or other workers; the same applies hereinafter), their counsel, or their assistants in court.
>
> (4) The provisions of the preceding three paragraphs apply *mutatis mutandis* to the presentation of the object of any observation that is necessary to prove said act of infringement in litigation involving the infringement of business interests due to Unfair Competition.

The provision shall apply *mutatis mutandis* to the presentation of the object of any observation that is necessary to prove the relevant act of infringement in litigation involving the infringement of business interests due to unfair competition.

26.2.3.3 Analysis

As mentioned above, the application object of the new Article 5-2 is strictly limited in consideration of i) securing disproof possibility, ii) not to obstruct a change of job and iii) prevention of the reckless or searching complaint. Therefore, it is still generally very difficult for a proprietor to secure necessary evidence to prove misappropriation of trade secrets prior to or through civil action. If criminal proceedings occur first, then the following civil action may use the criminal records and evidence. Provided that, trade secret criminal cases are generally very rare in Japan although the offence of trade secret may be prosecuted without complaint under Article 21.5 of the Amended UPCL.

Based on the above background, the enhancement of legal measures to secure evidence to prepare intellectual property infringement action, in particular, patent infringement action and trade secret misappropriation, has been discussed. The Advisory Committee of Intellectual Property Lawsuit in the IP Strategy Headquarters of Prime Minister of Japan and His Cabinet[10] is discussing several possible measures, including a certain level of discovery systems, comparing to those adopted in the U.S., U.K., Germany and France. Its report will be issued around 2016 spring.

[10] https://www.kantei.go.jp/jp/singi/titeki2/tyousakai/kensho_hyoka_kikaku/2016/syori_system/dai7/gijisidai.html.

26.3 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

26.3.1 Measures to Preserve Confidential Character of Information

There are several measures available to trade secrets proprietor under the UCPL and CPL to preserve confidential character of the information in the course of proceedings.

26.3.1.1 Protective Order

Article 10 of the UCPL stipulates that a party can request the court to issue protective order to the other party and its counsel, etc. not to use the trade secret for any purpose other than in conducting the litigation, or to disclose it to a person other than a person subject to the order.

Article 10 (Protective Order)

(1) In litigation involving the infringement of business interests due to Unfair Competition, if a prima facie showing has been made that a Trade Secret owned by a party to the litigation falls under both of the following grounds, the court may, at the motion of the party and by means of a ruling, order a party, etc., counsel, or an assistant in court not to use the Trade Secret for any purpose other than in conducting the litigation, or to disclose it to a person other than a person subject to the order under this paragraph which relates to said Trade Secret; provided, however, that this does not apply if the party, etc., counsel, or assistant in court had already acquired or owned the Trade Secret by means other than the reading of the brief prescribed in item (i) or the examination or disclosure of evidence prescribed in the same item by the time at which said motion was made:

(i) the Trade Secret owned by the party is written in an already-submitted or a to-be-submitted brief, or is included in the contents of already-examined or to-be-examined evidence (including documents disclosed pursuant to Article 7, paragraph (3) or a document disclosed pursuant to Article 13, paragraph (4)); and

(ii) the party's business activities that are based on the Trade Secret under the preceding item are likely to become hindered by the use of said Trade Secret for any purposes other than those for conducting the litigation or by the disclosure of said Trade Secret, and it is necessary to restrict the use or disclosure of said Trade Secret to prevent this.

(2) A motion for the order under the preceding paragraph (hereinafter referred to as the "Protective Order") must be made in writing and include the following matters:

(i) the person to whom the Protective Order would be issued;

(ii) facts that are sufficient for identifying the Trade Secret that would be made the subject of the Protective Order; and

(iii) facts that fall within the grounds listed in the respective items of the preceding paragraph.

(3) When issuing a Protective Order, the court shall serve a written ruling on the person to whom the Protective Order has been issued.

(4) A Protective Order takes effect when a written ruling is served on the person to whom the Protective Order has been issued.

(5) If the court dismisses a motion for a Protective Order, the party may file an immediate appeal against the judicial decision.

To this end, a relevant party must make a *prima facie* showing that (i) the trade secret held by the party is written in an already-submitted or a to-be-submitted brief, or included in the contents of already-examined or to-be-examined evidence and (ii) the relevant party's business activities based on the said trade secret are likely to become hindered by the use of said trade secret for purposes other than conducting the litigation or by its disclosure, and it is necessary to restrict the use or disclosure of said trade secret to prevent this.

26.3.1.2 Prohibition of Reading Case Records

In principle, any person can make a request to the court to read case records under Article 91 of the CPL. However, if a trade secret held by a party is stated or recorded in the case record, the relevant party may request the court, by making a *prima facie* showing in this regard, to issue an order to limit the persons who may make a request for reading or copying of the part of the case record stating the relevant secret, issuance of an authenticated copy, transcript or extract of such part or reproduction of such part to the parties.

Where the protective order under Article 10 of the UCPL and the above restriction order under the CPL has been issued, if a party who is not subject to the protective order requests the court to read etc., the portions of the case records including the relevant secret, the court clerk must immediately notify the party who filed the motion of the restriction order and must not allow the requesting party to do so until 2 weeks have passed from the date of the said request. This provision allows the party to request the court to issue the protective order to the requesting party.

26.3.1.3 Suspension of the Open Examination of the Parties

Under Article 13 of the UCPL, if the court, by the unanimous consent of the judges, finds that the party, its counsel or witness is unable to give a sufficient statement regarding such party's trade secret because it is clear (i) that making a relevant statement in open court would significantly hinder the party's business activities based on the trade secret, and (ii) that, without said statement, the court will be unable to make the appropriate judicial decision from other evidence on whether relevant infringement of business interests exists, the court may suspend a public examination on the matter.

Article 13 (Suspension of Open Examination of Parties)

(1) In litigation involving the infringement of business interests due to Unfair Competition, if a party, etc. is to be examined as a party to the case, statutory agent, or witness with regard to a matter that serves as the basis for determining the presence or absence of said infringement and falls under a Trade Secret held by the party, and if the court, by the unanimous consent of the judges, finds that the party, etc. is unable to give a sufficient statement regarding the matter because it is clear that giving a statement regarding the matter in open court would significantly hinder the party's business activities that are based on said Trade Secret, and that, without said statement by the party, etc., the court will be

unable to make the appropriate judicial decision solely from other evidence on the presence or absence of said infringement of business interests due to Unfair Competition which should be made based on the determination of said matter, the court may, by ruling, conduct an examination on the matter without opening it to the public.

(2) The court must hear the opinions of the Parties, etc. in advance before making the ruling under the preceding paragraph.

(3) In the case referred to in the preceding paragraph, if the court finds it necessary, it may order a party, etc. to present a document that outlines the matters to be stated. In such a case, no person may request disclosure of the presented document.

(4) If the court finds it necessary to disclose the documents under the second sentence of the preceding paragraph and to hear the opinions of the Parties, etc., the counsel, or the assistant in court, the court may disclose the document to said person.

(5) If the court will conduct an examination on a matter without opening it to the public pursuant to the provisions of paragraph (1), it must make a statement to that effect along with the reason therefor to the members of the public before having them leave the courtroom. When the examination on said matter ends, the court must allow the members of the public to re-enter the courtroom.

26.3.1.4 Special Measures to Preserve Confidential Character of Information for Criminal Proceedings

Special measures to preserve confidential character of information for criminal proceedings are stipulated in Articles 23 through 30 of the UCPL. The court can determine upon request by relevant victims and/or their attorney that certain information consisting of trade secrets must not be disclosed in an open court.

Under this protective ruling, for instance, a prosecutor must read out the relevant charge in an open court without disclosing the information determined by the court under Article 23 of the UCPL. Also, the court can limit examinations or statement to be conducted in the court and decide also that certain examinations should be conducted out-of-court.

26.3.2 Available Remedies Against Trade Secret Misappropriation

A trade secret proprietor can obtain the following remedies if the relevant trade secret misappropriation is established under Articles 3 and 4 of the UCPL:

(i) Compensation for damages incurred by the said misappropriation;

(ii) Injunction against the said misappropriation; and

(iii) Destruction of articles that gave rise to the act of said misappropriation, removal of equipment used for the act of the same, or other action required for suspending or preventing the same.

Article 3 (Right to Demand Injunction)

(1) A person whose business interests have been infringed or are likely to be infringed due to Unfair Competition may make a demand to suspend or prevent that infringement, against the person that infringed or is likely to infringe said business interests.

(2) When making the demand under the preceding paragraph, the person whose business interests have been infringed or are likely to be infringed due to Unfair Competition may demand the destruction of Things that constituted the act of infringement (including Things created through the act of infringement; the same applies in Article 5, paragraph (1)), removal of equipment used for the act of infringement, or other act required for suspending or preventing the infringement.

Article 4 (Damages)

A person who intentionally or negligently infringes the business interests of another person through Unfair Competition is liable to compensate damages resulting therefrom; provided, however, that this Article does not apply to damages resulting from the act of using a Trade Secret after the rights prescribed in Article 15 have extinguished pursuant to said Article.

However, it is unlikely that the trade secret proprietor can obtain compensation for damages of the moral prejudice suffered.

26.3.3 Calculation of Damages

In general, since trade secret misappropriation is a tortious act, a trade secret proprietor must establish its amount of damages caused by the trade secret misappropriation. In this regard, the burden of proof lies with the trade secret proprietor. Also, as stated above, there is no full discovery system unlike the U.S. However, we have certain provisions which may be useful for calculating damages in the event trade secret misappropriation is established.

26.3.3.1 Presumption of the Amount of Damage, etc.

There are several presumptions of the amount of damages under Article 5 of the UCPL which may be rebuttable though, if a technical secret (meaning a manufacturing method or other technical information useful for business activities, which is kept secret and not publicly known) proprietor suffers damages due to misappropriation thereof;

Article 5 (Presumption of Amount of Damage)

(1) When a person whose business interests have been infringed due to the Unfair Competition listed in Article 2, paragraph (1), items (i) to (x) or (xvi) (with regard to the Unfair Competition listed in items (iv) to (ix) of the same paragraph, limited to Unfair Competition that involves a Technical Secret) (hereinafter referred to as the “Infringed Party” in this paragraph) claims compensation of damages suffered by it due to said infringement, from a person who has intentionally or negligently infringed said business interests, if the infringer has assigned Things that constituted the act of infringement, the quantity of the Things assigned (hereinafter referred to as the “Assigned Quantity” in this paragraph) multiplied by the amount of profit per unit of the Things that the Infringed Party

could have sold in the absence of the act of infringement may be fixed as the amount of damages suffered by the Infringed Party, within the limits of an amount proportionate to the Infringed Party's ability to sell or conduct other acts concerning said Things; provided, however, that if there are circumstances that would have prevented the Infringed Party from selling a number of Things equivalent to all or part of the Assigned Quantity, an amount proportionate to the number of Things corresponding to said circumstances is

(2) When a person whose business interests have been infringed due to Unfair Competition claims compensation of damages suffered by it from a person who intentionally or negligently infringed said business interests, if said person has earned a profit through the act of infringement, said amount of profit is presumed to be the amount of damages that the person whose business interests were infringed has suffered.

(3) A person whose business interests have been infringed due to the Unfair Competition listed in Article 2, paragraph (1), items (i) to (ix), (xiii) or (xvi) may claim compensation of damage against a person who has intentionally or negligently infringed said business interests, in an amount equivalent to the amount of money that the infringed party should have been entitled to receive for the act prescribed in the relevant of the following items for the classification of Unfair Competition listed therein, as the amount of damages suffered by the infringed party:

(i) Unfair Competition listed in Article 2, paragraph (1), items (i) or (ii) – use of an Indication of Goods or Business pertaining to said infringement;

(ii) Unfair Competition listed in Article 2, paragraph (1), item (iii) – use of a Configuration of Goods pertaining to said infringement;

(iii) Unfair Competition listed in Article 2, paragraph (1), items (iv) to (ix) – use of a Trade Secret pertaining to said infringement;

(iv) Unfair Competition listed in Article 2, paragraph (1), item (xiii) – use of a Domain Name pertaining to said infringement; and

(v) Unfair Competition listed in Article 2, paragraph (1), item (xvi) – use of a Trademark pertaining to said infringement.

(4) The provisions of the preceding paragraph do not preclude a claim for compensation of damages exceeding the amount prescribed in that paragraph. In such a case, if the person who infringed said business interests did not do so intentionally or through gross negligence, the court may consider this in determining the amount of damages to be compensated.

Note that the above presumptions do not preclude a claim for actual compensation of damages exceeding the amount prescribed therein.

26.3.3.2 Submission of Documents

The court may order a party, at the motion of a party, to submit any documents necessary for assessing the amount of damages caused by such act of infringement under Article 7 of the UCPL (see Sect. 26.2.3.1).

26.3.3.3 Expert Opinion for Calculation of Damages

The court may order, at the motion of a party, an expert opinion on the matters necessary for calculating the damages. In this case, the parties must explain the matters necessary to form an expert opinion to the expert witness under Article 8 of the UCPL.

26.3.3.4 Determination of Reasonable Damages

If it is extremely difficult to prove the facts necessary to establish the amount of damages due to the nature of said facts, the court may determine a reasonable amount of damages based on the entire import of oral argument and the results of the examination of evidence pursuant to Article 9 of the UCPL.

26.4 Protection of Know-How in Confidentiality or Non-disclosure Agreements

Contractual remedies are available to protect the know-how which does not meet the statutory standard of the trade secrets under the UCPL. Non-Disclosure agreement, license agreement or equivalent provisions in a contract is commonly used to protect such know-how in Japan.

Also, employees are normally bound by confidentiality obligations under relevant employment contract and/or Articles of Incorporation of the company, while ex-employees may violate confidentiality obligations with the previous company usually imposed at the time of the termination of the employment contract.

In principle, the trade secret proprietor may claim monetary damages incurred by the violation of license provisions or confidentiality obligation under the contract etc. If a trade secret misappropriation is established, the remedies described in Sect. 26.3.2 are available under Articles 3 and 4 of the UCPL.

26.5 Misuse of Trade Secret Protection

In Japan, we assume that the number of trade secret infringement cases before the court is relatively small. This seems partly because (i) difficulty to establish trade secrets to meet the statutory standards under the UCPL, (ii) difficulty to collect necessary evidence to prove misappropriation of trade secrets, and (iii) party's fear of disclosing relevant trade secrets in a public litigation procedure, though certain measures are available as discussed.

Considering the above difficulties and fears, the Ministry of Economy, Trade and Industry has recently amended the UCPL to strengthen the protection of trade secrets in civil actions and criminal charges.[11]

On the other hand, due to the above difficulties of prevailing misappropriation cases under the UCPL, we have seldom heard any critique voicing the possibility of misuse or abuse of the protection of trade secrets in Japan.

In general, Article 1.3 of the Civil Code stipulates the principles of abuse of rights which is applicable to any and all civil claims (not criminal charges)

[11]Please see more detail at: http://www.meti.go.jp/english/press/2015/0313_02.html.

including trade secrets claims. However, as discussed above, there are no substantial arguments about illegal misuse of trade secrets at this point.

As mentioned in Sect. 26.2.3 above, a trade secret proprietor must first establish that subject information is a trade secret as defined in the Article 2.6 of the UCPL. For example, if a customer list argued as "trade secrets" by the plaintiff company is not kept secret, the defendant former employee who uses a similar list for his/her own new business could not reasonably know its secrecy nature. The court may dismiss the claim because it is not "trade secret". Such manner may work for the court to avoid misuse of protection of trade secrets from the view point of protection of accessibility to the employment market.

If claiming a certain trade secret protection is found to be an abuse of rights, such claim is rejected by the court.

26.6 Criminal Sanctions Against Trade Secret Misappropriation

The UCPL provides criminal sanctions against trade secret misappropriation under Article 21.1, sections (i) through (vii). Subject misappropriation by an individual shall be punished by imprisonment with forced labour for not more than 10 years, a fine of not more than ten million (10,000,000) Japanese yen, or both. If such misappropriation is made by a representative, agent, employee etc., of a juridical person (legal entity), such legal entity shall also be punished by a fine of not more than three hundred million (300,000,000) Japanese yen.

The revised UCPL in 2015 increase the maximum amount of the above fines: twenty million (20,000,000) Japanese yen for an individual and five hundred million (500,000,000) Japanese yen for a legal entity. In both cases, if relevant trade secrets are used overseas, or such trade secrets are obtained and/or divulged for the purpose of using them abroad, the respective maximum amount is thirty million (30,000,000) Japanese yen and one billion (1,000,000,000) Japanese yen. Attempted misappropriation is also subject to criminal sanctions under the UCPL.[12]

26.7 Personal Reflections and Conclusion

Primarily, contractual protection such as non-disclosure agreement should be taken whenever a trade secret is to be disclosed. More effective management of trade secrets and sub-contractors has been recommended by METI so far. Such management will be effective not only in protecting trade secrets but also in preventing the risk of contamination.

The more efficient system of evidence collection will be mostly paid attention in Japan.

[12]Please see more information at: http://www.meti.go.jp/english/press/2015/0313_02.html.

Luxembourg

27

Marianne Decker

27.1 General Background

The legal protection of trade secrets and know-how has increasingly come into focus the last years, among others in the European Union.

On the one hand, the authorities have realised that even though trade secrets are not protected as classical intellectual property rights, they do constitute an important tool for the protection of innovation and know-how in European companies. They also realised that information can, under certain circumstances, be protected as an intellectual property right, such as a patent for example, but very often the owner does not have the means to register it as a patent or chooses not to register it to keep it confidential.

On the other hand, the information very often does not qualify as an intellectual property right and cannot be protected as such, but still is very valuable commercial asset. This mainly concerns strategic commercial information such as information regarding clients and providers, prices, market or business strategies, know-how, etc.

From an international perspective, trade secrets and know-how are governed by Article 10bis of the Paris Convention and Article 39.2 of the TRIPs agreement. Under Article 10bis of the Paris Convention, the countries of the union shall assure protection against acts of unfair competition and specifically against any act of competition contrary to honest practices in industrial or commercial matters which constitutes an act of unfair competition (Article 10bis (2)).

Although there is (for the time being) no specific legislation on trade secrets in Luxembourg, this does not however mean that trade secrets are not protected at all, as will be seen below.

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27.2 Legal Protection of Trade Secrets

27.2.1 Specific Legal Provisions

Luxembourg law does not provide any specific legislation on the protection of trade secrets.

27.2.2 General Legal Provisions

However, different other provisions can be used to protect such trade secrets against misappropriation. These provisions relate to unfair competition law (Sect. 27.2.2.1), criminal law (Sect. 27.2.2.2) and tort law (Sect. 27.2.2.3).

27.2.2.1 The Protection of Trade Secrets Through Unfair Competition Law

The infringement of a trade secret constitutes a violation of Article 14 of the law of 30 July 2002 regulating certain commercial practices, forbidding unfair competition and implementing Directive 97/55/CEE of the European Parliament and the Council modifying Directive 84/450/CEE on misleading advertising as modified.[1]

According to Article 14 of the Unfair Competition Act, unfair competition is committed when a person who is exercising a commercial, industrial, skilled crafts or self-employed activity and who, by acts contrary to honest purposes in commercial, industrial, skilled crafts or self-employed activities, or to a contractual agreement, takes away or tries to take away from its competitors or one of them part of their clients or who interferes or tries to interfere with their competitive capacity.

27.2.2.2 The Protection of Trade Secrets Through Criminal Law

Article 309 of the Criminal Code provides that whoever, being or having been employee, worker or apprentice to a commercial or industrial company, with the intent to compete with or harm is employer, or to obtain an improper advantage, uses or discloses during the term of his contract or within 2 years after its expiration, trade or fabrication secrets of which he has knowledge by reason of its position, shall be punished with imprisonment from 3 months to 3 years and a fine of 251 euros to 12,500 euros.[2]

The same applies to the one who, having the knowledge of trade or fabrication secrets belonging to a person, being through an employee, apprentice or worker acting in violation of the requirements of the preceding paragraph, or by an act contrary to law or morality, uses or discloses the secret, either for the purpose of

[1] Mémorial A (Official Journal) n° 90 of 12 August 2002, page 1830 (hereafter the "Unfair Competition Act").

[2] Criminal Code, Les codes de la Pasicrisie luxembourgeoise, Tome 3.

competition or with intent to harm the person to whom they belong, or to obtain an improper advantage.

Furthermore, the same penalty is imposed to the one who, for the purpose of competition or with intent to harm the person to whom they belong, or to obtain an improper advantage, uses it without having the right or communicates to other models, designs or patterns that have been given to him carry out commercial or industrial orders.

Finally, according to the mentioned Article, the courts may order, in case of a conviction, display or publication through newspapers of the decision, at the expense of the person they designate.

27.2.2.3 The Protection of Trade Secrets Through General Tort Law

Article 1382 of the Civil Code sets out the general principle that any act of man that causes damage to another obliges the man by whose fault it happened to repair it.[3]

27.2.3 The Protection Against Trade Secrets Misappropriation Towards Third Parties

The protection of trade secrets applies towards third parties (like the new employer of an ex-employee) and more generally parties who gained access to the trade secrets through someone who is not the trade secret proprietor under certain circumstances.

Unfair competition and criminal law both apply to disclosures that have been made by an ex-employee to his new employer.

Pursuant to Article 309§2 of the Criminal Code, the use of trade secrets obtained through employees is punished with imprisonment of up to 3 years and a fine of up to EUR 12,500.[4]

Concerning unfair competition law, case law states that the use of trade secrets of a competitor obtained through ex-employees constitutes an unfair competition act.[5]

27.2.4 The Conditions to Take Action Against Trade Secrets Misappropriation

To be entitled to take action against trade secrets misappropriation, the claimant must prove the existence of a trade secret and evidence of the infringement.

Because there is no legal definition of trade secrets, the notion has been defined by case law as facts known only by a limited circle of people who have an interest in

[3]Civil Code, Les codes de la Pasicrisie luxembourgeoise, Tome 1.

[4]District Court of Luxembourg, 27 April 2000, n° 997/00, not published.

[5]Court of Appeal of Luxembourg, 15 November 2000, Pasicrisie 31, page 415.

keeping them secret, who are related to a commercial or industrial enterprise, and whose disclosure is likely to cause damages to the person they relate to.

Infringement evidence accepted by courts is constituted, among others, by emails, letters, written testimonies and expert statements.

Concerning the claim based on tort law, the claimant must prove a fault (wrongful misappropriation of the trade secret) and a prejudice which has been caused by this fault.

27.2.5 The Legal Measures to Secure Evidence of Trade Secret Misappropriation

As explained above, Luxembourg does not provide specific legislation on trade secrets.

Trade secrets are also not considered as intellectual property rights. Hence, the procedural measures specifically designed to gather evidence in intellectual property cases are not available for trade secrets misappropriations. The descriptive seizure, provided by Articles 23 to 26 of the Law of 22 May 2009 implementing Directive 2004/48 on the enforcement of intellectual property rights, is unfortunately not available for trade secrets.[6]

The Unfair Competition Act does not provide any legal measures to secure evidence either. The President of the commercial section of the District Court can however grant a permanent injunction to cease and desist based on an expedite procedure which is rendered on the merits.[7]

Ex-parte measures can of course be obtained in case of criminal proceedings where the Public Prosecutor and/or the Instruction Judge can order any measure to be carried out by the Police to find and secure evidence of the offence. Such measures should in theory also be available based on Article 350 of the New Code of Civil Procedure for civil cases.[8] This Article provides an interim injunction to obtain evidence before proceedings are started and which can in very special cases be obtained ex-parte. There is however to our knowledge no case law on this question regarding trade secrets.

[6]Mémorial A (Official Journal) n° 117 of 28 May 2009, page 1684 (hereafter the IPR Enforcement Act).

[7]See Article 23 of the law of 30 July 2002 on unfair competition.

[8]New Code of Civil Procedure, Les codes de la Pasicrisie luxembourgeoise, Tome 2.

27.3 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

27.3.1 Measures Available to a Trade Secrets Proprietor in the Course of Proceedings to Preserve the Confidential Character of the Information

There are no specific legal measures protecting the confidential character of the information during the proceedings, and it is in principle not possible to restrict the access to hearings and documents submitted to the Court.

Court proceedings are normally public and open, even though the judge may sometimes decide to conduct the hearing in camera. This occurs only in very special cases. Article 185 of the New Code of Civil Procedure provides that hearings are public but the Court may order that a specific hearing is secret if the public discussion of the case could cause a scandal or serious disadvantages to anyone involved. The parties could hence make a request for a closed hearing to the Court by explaining that trade secrets are extremely valuable assets that lose their value as soon as they become public. Because there is no legal basis for such a request, the Court would be free to accept or refuse such request. There is to our knowledge no case law on this question.

The confidentiality of evidence and other documents filed with the Court is not regulated either.

27.3.2 Remedies Against Trade Secret Misappropriation

According to Article 23 of the Unfair Competition Act, the trade secrets owner can request a cease and desist order before the President of the Commercial Court who can then issue a permanent injunction on the merits. However, in these proceedings, the judge cannot grant damages or compensation. It can be noted that non-compliance with an injunction to cease and desist from an unfair act is considered a criminal offence.[9]

The claim for damages has to be brought before the District Court based on tort law. Tort law is based on the principle of full compensation for the damage suffered. However, the damage must be proven and cannot be hypothetical. Compensation for the moral prejudice suffered could in principle be claimed but would be very difficult to prove. In practice, Courts tend to evaluate damages *ex aequo et bono* in those cases but they seem to become increasingly demanding regarding the proof of the damages suffered.

Finally, it can be added that Luxembourg law does not provide for a system of discovery.

[9]See Article 25 Unfair Competition Act.

27.4 Protection of Know-How in Confidentiality or Non-disclosure Agreements

Know-how may in addition be protected under contractual terms, such as confidentiality or license agreements. These agreements can also be used to protect know-how that would not meet the standards required by case law. The contract shall be binding for the parties. In case of a violation of such an agreement, such as a non-disclosure agreement, the trade secret proprietor will be able to claim damages in Court.

According to Article 1142 of the Civil Code, every obligation to do or to refrain from doing something (like not disclosing a trade secret), must be compensated by damages in case it is not executed. However, as in tort law, the owner of the know-how will have to prove an actual prejudice. The claim for damages has to be brought before the District Court.

The contract can of course also contain a penalty payment in case one of the parties violates one of its obligations as set out in the contract. The penalty payment can be claimed in case of a violation of the contract.

However, the judge has the power to moderate the penalty payment if the amount to be paid is deemed unreasonable.[10] The Court of Appeal has defined the methodology to be followed by the judge when applying this provision: "The manifestly excessive or derisory character of the penalty payment (. . .) results from the comparison between the prejudice effectively suffered and the amount of the penalty payment due (. . .)"[11]

The parties can finally also choose to submit the case to an arbitration procedure. This is also very often pre-determined in the agreement. The advantage of arbitration proceedings is that they are by nature confidential.

27.5 Misuse of Trade Secret Protection

As already explained above, there is no specific trade secrets legislation in Luxembourg. The scope of the protection awarded to trade secrets via unfair competition law and criminal law has not raised any critics of abuse. It is rather the contrary. The current legislation does not protect trade secrets very well. The general provisions used are not adapted to trade secrets.

Especially, the tools to enforce trade secrets and prove infringements are insufficient. However, although there is no case law on this question, it cannot be said that a trade secrets owner would abuse his trade secrets and/or the protection granted to them.

Illegal misuse of trade secrets could still be sanctioned by the civil law provisions on the abuse of rights. Article 6-1 of the Civil Code provides that any

[10]See Article 1152 of the Civil Code.

[11]Court of Appeal Luxembourg, 10 November 2010, n° 35743, not published.

act which manifestly exceeds the normal exercise of a right may engage the liability of its author and lead to an injunction to put an end to the abuse. As derives from the wording of Article 6-1 of the Civil Code, the conditions to be met are quite strict and there is very little case law on this question and none at all on the abuse of trade secrets rights.

Furthermore, the misuse of trade secrets against a competitor could under certain conditions be qualified as an unfair competition act and hence be sanctioned under Articles 14 and 23 of the law on Unfair Competition of 30 July 2002 mentioned above.

It must be noted that there is to our knowledge no case law on the abuse of trade secret rights in Luxembourg.

27.6 Personal Reflections and Conclusions

Trade secrets are very valuable company assets and very often exist in parallel with or in addition to intellectual property rights. Both the rights holders and the public authorities become increasingly aware of this value and the necessity to protect it.

On the one hand, it is up to the right holders to take all necessary measures to protect their trade secrets both internally (such as through security policies and employment contracts) and externally by drafting appropriate confidentiality agreements or clauses.

On the other hand, the authorities must provide the right holders with sufficient tools to enable them to enforce their rights in Court.

This could and should be improved in Luxembourg.

Given the similarity of trade secrets with intellectual property rights, introducing measures similar to those provided by Directive 2004/48 on the enforcement of intellectual property rights would seem very adequate.

The most significant failure in Luxembourg law concerns the measures to prove an infringement (descriptive seizure) and the grant of damages in case of a trade secrets infringement. This being said, with the availability of more intrusive measures to find evidence, the risk of trade secrets misuse and knowledge theft increases. This risk is particularly important with regard to trade secrets which lose all their value as soon as they are disclosed. It is therefore important to design such measures with great care and to include specific provisions to protect the confidential information of the respective parties and the defendant in particular.

The existing provisions on the descriptive seizure set out in Articles 23 to 26 of the law of the IPR Enforcement Act, are not very explicit in this respect. Those provisions could either be used as a model for new specific provisions on trade secrets, or, preferably, could be adapted to include trade secrets with additional provisions to offer a more efficient framework to protect the confidential information of all the parties involved.

To conclude, the author welcomes the Commission's proposal of 28 November 2013 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 which will both strengthen the protection granted to trade secrets in Europe and significantly enhance the legal certainty on this subject. The resulting harmonisation of the rules applicable to trade secrets in the European Union will hence be beneficial for all the stakeholders.

Romania

28

Cătălin Grigorescu and Cristina Mihai

28.1 Legal Protection of Trade Secrets

28.1.1 Legal Framework

Trade secrets are mainly regulated by the Romanian Unfair Competition Law[1] ("*Unfair Competition Law*"), which has been substantially amended on 6 August 2014 through Government Ordinance No. 12/2014.[2] The Unfair Competition Law aims at ensuring fair competition, with the observance of honest practices and the general good-faith principle.

The protection of trade secrets is ensured through the Unfair Competition Law, however there are various other Romanian laws and regulations which set out specific obligations and/or sanctions with a view to protect trade secrets or information that qualifies as trade secret under the definition provided by the Unfair Competition Law (*e.g.* in the public procurement field, labour relationships, investigations of anticompetitive agreements, patent applications, criminal legal framework). In addition, the protection of trade secrets is ensured through the general rules concerning tort liability and contractual liability provided by the Romanian Civil Code[3] ("*Civil Code*").

[1]Unfair Competition Law no. 11/1991, Official Gazette no. 24 of 30 January 1991, as subsequently amended and supplemented.

[2]Government Ordinance No. 12/2014 for amendment and supplementing of Unfair Competition Law no. 11/1991 and of other legal deeds regarding protection of competition, Official Gazette no. 586 of 6 August 2014.

[3]Civil Code, republished in Official Gazette no. 505 of 15 July 2011, as subsequently amended and supplemented.

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28.1.2 Definition of Trade Secrets

Trade secrets are defined by the Unfair Competition Law as any information which, either in full or in part, is not generally known or easily accessible to persons from the area usually dealing with this type of information and which gains a commercial value by being secret, and for which the legitimate holder of the information took reasonable measures, in consideration of the circumstances, to preserve its secrecy. Trade secrets are protected under the Unfair Competition Law as long as the aforementioned requirements are cumulatively met.

A definition of trade secrets is also provided by the guidelines concerning the rules on the access to the Romanian Competition Council's file[4] ("*Guidelines on access to file*") in cases referring to competition law infringements. According to such definition, any information concerning the economic activity of an undertaking the disclosure of which could severely harm such undertaking's interests shall be deemed as trade secrets. The following information is provided to exemplify the type of information that may qualify as trade secret: technical and/or financial information concerning the undertaking's know-how, cost evaluation methods, production processes and secrets, acquisition sources, produced and sold quantities of products, market shares, lists of clients and distributors, marketing plans, costs' structure, prices' structure, selling strategy.

28.1.3 Protection of Trade Secrets

Violation of trade secrets may result in civil, administrative or criminal proceedings.

Trade secrets are protected under the Unfair Competition Law as long as they meet the following cumulative criteria: (1) the information must not be public (generally known or easily accessible to persons from the area that usually deals with that type of information); (2) the information must have an actual or potential commercial value (it must confer some sort of economic benefit to its lawful holder, deriving from the fact that the information is secret); (3) the information must be safeguarded through appropriate means (the holder has to be able to prove that it took reasonable measures to preserve the secrecy of the information).

The Unfair Competition Law qualifies as unfair commercial practice any commercial practice that is contrary to honest practices and the general good-faith principle and which produces or may produce damages to participants on the market. Failure to act in good faith and in compliance with honest practices and the Unfair Competition Law may trigger civil, administrative or criminal liability.

[4]Guidelines regarding the rules for access to the Competition Council's file in the cases regarding arts. 5, 6 and 9 of the Competition Law no. 21/1996, art. 101 and 102 of the Treaty on the Functioning of the European Union, as well as in the merger control cases, Official Gazette no. 189 of the 18 March 2011, as subsequently amended and supplemented.

In relation to trade secrets, the Unfair Competition Law explicitly qualifies as unfair commercial practice the fact of undermining an undertaking's client base by a former or current employee/representative or by any other individual or legal entity through use of trade secrets, in relation to which the undertaking has taken reasonable measures to ensure their protection and the disclosure of which might damage the undertaking's interests.

Such unfair commercial practices involving the misappropriation of trade secrets are deemed as civil offences, as long as they do not meet the requirements of being deemed as criminal offences, and are subject to fines which vary from RON 5000 to RON 10,000 (approximately EUR 1140 to EUR 2300) in case of individuals and from RON 5000 to RON 50,000 (approximately EUR 1140 to EUR 11,400) in case of legal entities.

The Unfair Competition Law also includes certain categories of practices involving misappropriation of trade secrets that are deemed as criminal offences, namely: (1) the disclosure, acquisition or use of trade secrets by third parties, as a result of commercial or industrial espionage, if it affects the interests or the activity of a legal entity; (2) the disclosure or use of trade secrets by persons empowered by the legitimate holders of such secrets to represent them in front of public authorities or institutions, if it affects the interests or the activity of a legal entity; (3) the use by public servants of trade secrets of which they became aware while exercising their work duties, if it affects the interests or the activity of a legal entity; (4) the use for commercial purposes of the results of trials or of other confidential information in relation thereto, submitted to the competent authorities in view of obtaining the authorisations for trading pharmaceutical products or agricultural related chemical products, containing new chemical compounds. The aforementioned criminal offences are sanctioned by imprisonment from 3 months to 2 years or by criminal fine which varies from RON 1200 to RON 120,000 (approximately EUR 270 to EUR 27,300) and exceptionally (when it is intended that financial benefits are obtained) plus one third of the latter in case of individuals and from RON 12,000 to RON 1,200,000 (approximately EUR 2700 to EUR 273,000) and exceptionally (when it is intended that financial benefits are obtained) plus one third of the latter, but maximum RON 3,000,000 (approximately EUR 670,000) in case of legal entities.

The Romanian Competition Law[5] ("*Competition Law*") also includes relevant provisions regarding protection of trade secrets and other confidential information, according to which the courts of law shall ensure the observance of the confidentiality of the trade secrets and other confidential information made available by the Romanian Competition Council ("*RCC*") upon their request in private enforcement cases.

With respect to trade secrets and know how revealed during investigations of the RCC as per the Competition Law, the Guidelines on access to file ensure protection

[5] Art. 64 of the Competition Law no. 21/1996, republished in Official Gazette no. 240 of 3 April 2014, as subsequently amended and supplemented.

to a certain extent. However, the RCC has a decisive role as regards the extent of such protection. The interested party should address a grounded request for confidentiality to the RCC, who will be entitled to decide upon the request. Even if the confidentiality request is admitted by the RCC, the latter can withdraw its decision in case it deems that the disclosure of the concerned information is necessary for proving an alleged competition law breach or for dismissing accusations against a party. Should the confidential information holder deem it is prejudiced by the RCC's decision, it can address a complaint to the President of the RCC, whose decision cannot be argued separately from the final decision of the RCC with respect to the concerned investigation. On the other hand, the President of the RCC will decide also upon the request for access to the confidential information revealed by the other party during the investigation and its decision will be argued as well only together with the final decision of the RCC regarding the investigation.

Disclosure of professional secrets information or information that is not intended for public use is also sanctioned under the Romanian Criminal Code[6] ("*Criminal Code*"). Professional secrets are defined as information the disclosure of which is likely to cause damages to any public or private legal entity. The Criminal Code provides for (1) the criminal liability of the person that unlawfully discloses professional secrets information or information that is not intended for public use, of which the person became aware while carrying out the work duties, if such disclosure affects the interests or the activity of a legal entity, as well as for (2) the criminal liability of the person that unlawfully discloses professional secrets information or information that is not intended for public use, of which the respective person was aware. The aforementioned criminal offences are sanctioned (1) by imprisonment from 3 months to 3 years or by criminal fine and respectively (2) by imprisonment from 1 month to 1 year or by criminal fine.

In terms of the protection of trade secrets ensured through the rules on tort liability, the Civil Code stipulates that any person is compelled to observe the rules of conduct provided by the law or the local customs and to abstain from any action or inaction that would damage the legitimate rights or interests of other persons. Any infringer is compelled to fully compensate the prejudices caused as a result of failing to comply with such obligations.

The protection of trade secrets may be ensured also on a contractual basis. Confidential or non-disclosure agreements are not specifically regulated under the Civil Code or other legal deeds, being subject to the general legal provisions concerning contracts.

[6]Criminal Code of 2009, Official Gazette no. 510 of 24 July 2009, as subsequently amended and supplemented.

28.1.4 Legal Action in Case of Misappropriation of Trade Secrets

28.1.4.1 Civil Proceedings

To bring a legal action under the general rules concerning tort liability, the legitimate holder of the trade secret has to prove (1) the existence of a prejudice; (2) the existence of an illicit act; (3) the causality link between the prejudice and the illicit act; (4) the infringer's fault (including slight negligence).

In cases where the illicit act concerns misappropriation of trade secrets, the holder has to show in particular that (1) the information that was misappropriated falls under the category of trade secrets, as defined by the law; (2) the holder took reasonable measures to preserve the secrecy of such information; (3) the information was acquired, used or disclosed by the third party, which knew or ought to have known that the information was a trade secret belonging to the holder.

Usually, the holder of the trade secret will face difficulties in proving that the infringer has used or disclosed or that it is likely to use or disclose the trade secret. The reason for the aforementioned difficulties is that such proof of use or disclosure of trade secrets is normally available only to the respective infringer, which usually acts discreetly when making use of such information.

The Romanian Civil Procedural Code[7] sets forth the possibility for any interested person to secure evidence: any person interested in the urgent recording of a witness' testimony, of an expert's opinion, of the status of some assets or in the ascertainment of a document, a fact or a right can request to the court of law, both prior and during a litigation, for such evidence to be administered if there is a danger for the evidence to disappear or to be administered with difficulty in the future.

Moreover, it is possible for an interested person to request the urgent acknowledgement of a matter of fact that might cease or change until the date the evidence shall be administered, the procedure being performed by the competent judicial executor.

On another hand, the law sets forth the possibility of the court of law to order the submission of a document in court by one of the parties if the opponent shows that such party holds such evidence.

Moreover, if one of the parties refuses to answer the interrogatory regarding the existence or possession of a document, if there is any evidence that it has destroyed or hidden it or if it does not comply with the obligation of showing it in court, the court of law is entitled to deem that the allegations made with respect to the content of that document are proven.

If the document required for the settlement of the litigation is in the possession of a third party, such person shall be summoned as witness and the court will ask the respective party to present the document. Also, if the holder of such document is a public authority or a public institution, it can also be compelled to bring the

[7] Civil Procedural Code of 2010, Official Gazette no. 247 of 10 April 2015.

document in court. However, in such case, the public authority or institution can deny such request if the document refers to the national security, public safety or diplomatic relations.

28.1.4.2 Administrative Proceedings

Prior to bringing a legal action to court, the legitimate holder of a trade secret may file a complaint with the RCC for the latter to investigate and decide on whether such misappropriation represents an unfair commercial practice. To file such complaint, the trade secret holder shall have to provide detailed information as regards the alleged unfair competition practice such as: the manner and methods used to appropriate the trade secret, the intended purpose for such appropriation of the trade secret, the circumstances in which the deed was committed, the consequences that occurred or that could have occurred (the existence of a potential prejudice), the elements that define the degree of social danger, the market on which the unfair commercial practice was committed, the duration of the practice, the number of involved undertakings, the number of potential affected consumers. Also, the trade secret holder has to submit evidence as regards the alleged unfair competition practice, as well as evidence regarding the risk that a prejudice shall occur. If available, the trade secret holder has to indicate where the RCC may obtain relevant information and documents that are not available to the trade secret holder.

The RCC's final decisions by which it acknowledges or sanctions unfair commercial practices serve as evidence as regards the fact that an unfair commercial practice has been committed. Therefore, in case a legal action for claiming damages is filed in court after the issuance of a decision by the RCC, which became final by not being challenged in court or by being confirmed in court, the latter decision shall serve as evidence as regards the existence of the illicit act and the infringer's fault.

During the investigation of the alleged unfair commercial practice, the RCC may perform dawn raids based on prior court authorisation, if there are indications that this might lead to the finding of documents or information necessary for accomplishing its mission. Moreover, the RCC may request information and documents necessary for settling the complaints against unfair commercial practices from undertakings, as well as from public authorities and institutions.

Through its decisions, the RCC may order the alleged infringer to cease the unfair commercial practice during the investigation procedure, may prohibit the unfair commercial practice and may apply fines in case the unfair commercial practice is deemed as civil offence.

28.1.4.3 Criminal Proceedings

In case the unfair commercial practice is deemed as criminal offence, the legal action shall be subject to the trade secret holder's complaint, following the notification made by the territorial chamber of commerce and industry or another professional body or following the notification of the RCC.

To file a criminal complaint, the trade secret holder would have to describe the alleged illegal deed and to indicate the party that committed the deed and the supporting evidence, if such information is available. The rules on securing evidence in relation to a criminal offence are provided by the Romanian Criminal Procedure Code[8] ("*Criminal Procedure Code*") and are addressed to the prosecutor in charge with the respective criminal proceedings.

According to the Criminal Procedure Code, any aggrieved person may become a civil party claiming damages from the defendant in criminal proceedings.

28.2 Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

28.2.1 Confidentiality During Proceedings

28.2.1.1 Civil Proceedings

As a rule, all court hearings in Romania are public. By way of exception, if such publicity would undermine morality, public order, the interests of minors, the private life of the parties or the interests of justice, the court may order, on request or *ex officio*, that the public be excluded from the hearings.

Under the new rules of the Civil Procedure Code which apply starting 1 January 2016, the investigation of the pending litigation is performed *in camera*, at the finalisation of which the court sets a term for the public hearing to discuss the merits of the case. Based on the parties' agreement, the debate on the merits of the case can also be performed *in camera*.

In addition, the documents in the court files are available only to the involved parties. In practice, the court may even decide, including on request of the interested party, that some of the documents submitted by a party be available only to the court and not to the other involved parties, in cases where the disclosure would irremediably harm the respective party provided there are no other alternatives to disclose the documents without disclosing the trade secret or confidential information at issue.

28.2.1.2 Administrative Proceedings

In view of the administrative procedure under the Unfair Competition Law carried out in front of the RCC, the trade secret holder has to make in its complaint specific reference to the documents and information that it deems confidential or to constitute trade secrets, and has to substantiate its claim that information is confidential or has a trade secret nature.

[8] Criminal Procedure Code of 2010, Official Gazette no. 486 of 15 July 2010, as subsequently amended and supplemented.

Moreover, any decision issued by the RCC in relation to a breach of Unfair Competition Law and published according to the law, on the authority's website and in a newspaper, must not include trade secrets or other confidential information the disclosure of which could harm the interests of the parties.

As regards the trade secrets and know how revealed during investigations of the RCC regarding the alleged infringement of the Competition Law, a certain protection is ensured by the Guidelines on access to file, although the level of such protection is practically at the discretion of the RCC, as detailed in Sect. 28.1.3 above.

28.2.1.3 Criminal Proceedings

Because all court hearings in Romania are public as a rule, the Criminal Procedure Code exceptionally authorises the court to restrict the public's access to the hearings either on request of, a witness that invokes security, dignity or private life reasons, the prosecutor, the aggrieved party, the other parties or *ex officio*, in case the public hearing would endanger the confidentiality of certain information.

The Criminal Procedure Code also includes specific provisions on the protection of confidential documents and information submitted during the proceedings.

28.2.2 Remedies in Case of Trade Secret Misappropriation

A trade secret holder is entitled to full compensation for actual loss (*damnum emergens*) and for loss of profit (*lucrum cessans*), including loss of the chance to obtain an advantage. The Romanian law does not provide rules on computation of damages, reason for which claimants face difficulties in proving loss of profit; thus, actual loss is most commonly recovered in practice. Nevertheless, the actual loss arising from trade secret misappropriation remains difficult to prove unless a contractual penalty is established. To obtain compensation, the trade secret holder has to prove that it suffered a prejudice that is certain, direct, personal and results from the infringement or the harm of a right or a legitimate interest.

The compensation for moral damages is recognised under the Romanian law, however, there are no rules on the quantification of such damages. Moreover, in practice, moral damages are rarely compensated in situations other than those concerning body or health injury. The Civil Code provides that in case of moral prejudices, the court may compel the person in default to cease any form of infringement and to publish, on its own expense, the convicting court decision.

The trade secret holder may request the court to order the concerned party to cease further use or disclosure of the trade secret, by means of injunction in accordance with the Civil Procedure Code, provided it can prove that, in the absence of such remedy, the breach may cause impending prejudices that could not be avoided otherwise. Via an injunction procedure, only temporary measures may be taken (for instance, the party may be obliged to cease an action). Decisions taken by way of injunction do not solve the dispute on its merits.

The Unfair Competition Law provides that, on request of the trade secret holder, the court of law may order measures for the prohibition of the industrial and/or commercial exploitation of the products resulting from the illicit appropriation of the trade secret or to destroy such products. The prohibition ends when the information subject to protection becomes public.

From another perspective, even if the misappropriation is not the result of an act imputable to the misappropriating person, such person might be compelled to reimburse the value of its enrichment under a legal action for unjust enrichment.

28.3 Protection of Know-How in Confidentiality or Non-disclosure Agreements

Confidentiality and non-disclosure agreements or clauses are enforceable under the Romanian law, although the Romanian law does not explicitly regulate these types of agreements. Even if know-how would not meet statutory trade secret standards, the trade secret holder would still be entitled to remedies in case of breach of confidentiality in relation to such know-how, provided that the information is not or does not become public.

In case of breach of the confidentiality or non-disclosure agreement or clause, the trade secret holder can claim in court compensation both for actual loss and for loss of profit. In practice, a confidentiality or non-disclosure agreement or clause is usually accompanied by a penalty clause under which the parties agree in advance on a penalty to be paid by the party breaching the confidentiality or non-disclosure obligation. If such clause exists, the beneficiary can claim in court the payment of the penalty, without being compelled to prove any prejudice. However, the court is entitled to reduce the amount of the penalty when it deems that the penalty is clearly excessive compared to the damages that could have been foreseen by the parties on the conclusion date of the agreement.

Also, the owner of the confidential information may request the cease of the other party be enjoined from breaching the confidentiality clause in accordance with the Civil Procedure Code if it can prove that, in the absence of such remedy, the breach may cause impending prejudices that could not be avoided otherwise. As mentioned, decisions/ measures taken via an injunction procedure do not solve the dispute on its merits and are only temporary.

28.4 Misuse of Trade Secret Protection

Although there is no specific legal provision pertaining to misuse of trade secrets, the Civil Code regulates the abuse of a right stating that a person that causes a prejudice when exercising its own rights does not have to repair such prejudice, except for the situation when such right is abusively exercised. The abuse of a right refers to any sort of abnormal, excessive, unreasonable and in bad faith exercise of the right.

The abuse of a right shall trigger the liability of the holder of the right abusively exercised, its obligation to cease such abusive behaviour and its obligation to pay damages as to repair the prejudice. In such case, the liability of the holder of the right is irrespective of its guiltiness.

On another hand, the fact that a person falsely presents information as a trade secret can be classified as misuse of a right. If this information is publicly displayed as trade secret for commercial purposes, then such action can be deemed as representing a misdemeanour and can be sanctioned by fine. Moreover, a third party, prejudiced by such act, can claim damages, irrespective of the fact whether such act has been sanctioned as a misdemeanour or not.

This is different from the situation where the information is qualified as a trade secret in an agreement and such feature is considered as essential for the contracting party, *i.e.* it would not have concluded the agreement if it were not for a trade secret or it would have concluded under different terms. In this situation the agreement can be terminated and the party wrongfully disclosing the information can be held liable and compelled to pay damages.

Moreover, if, by its own wrongful act or omission, the trade secret holder contributed to the prejudice, the compensation due by the party misusing the trade secret shall be reduced accordingly. This provision also applies when the prejudice is caused in part by an event whose risk was assumed by the trade secret holder. The party misusing the trade secret shall not owe damages for the prejudice that the trade secret holder could have avoided with minimal care.

If the misuse of trade secrets is deemed as unfair commercial practice under the Unfair Commercial Law, the trade secret holder might also be subject to fines applied by the RCC.

28.5 Personal Reflections

To effectively protect its know-how or trade secrets and to ensure that effective sanctions can be taken in the event of misappropriation, a know-how and/or trade secret holder should implement cumulatively appropriate physical, technical and contractual barriers, as well as internal privacy policies to ensure that all personnel abides by the same confidentiality rules and understands the risks associated with the disclosure of confidential information. The physical barriers could involve the marking of the relevant documents as “confidential”, keeping them in a secured separate location, limiting the access to such location or limiting the access to know-how or trade secrets only to few trustful persons. Nowadays, the technical barriers to the know-how or trade secrets would be as well of great significance. Although the contractual barriers consisting in confidentiality or non-disclosure agreements or clauses are generally deemed as one of the best ways to protect trade secrets, especially when they include penalties for breach of the confidentiality obligation therein, their actual efficiency in preventing the disclosure of the confidential information does not always meet expectations.

Spain 29

Ana María Ruiz Martín

29.1 General Background

29.1.1 The Protection of Trade Secrets in Spain: Overview

Since 1991, Spanish Legislation has provided specific rules bestowing protection upon the trade secrets owners (proprietors) against misappropriation, as well as for the protection of the know-how as confidential business information, but in the Unfair Competition Act and not in a specific Trade Secret Act. Trade secret protection in Spain has its real inception with the enactment of the Spanish Unfair Competition Act (hereinafter, SUCA), when the Spanish Legislator went a step further endowing and enhancing protection with Articles designed for this kind of particular intellectual property (Articles 13 and 14 of the SUCA). According to Article 13 of the SUCA, there is no protection of an exclusive right of the trade secret however, this kind of right has analogies with other intellectual property rights such as the case of a patent proprietor. Hence, with the implementation of this Act in Spain the violation of commercial or trade secret as a legally determined unfair commercial behaviour was established.[1] Nevertheless, Spanish legislation went through several stages prior to the enactment of these specific articles to

[1] Act 3/1991, on Unfair Competition (Ley de Competencia desleal), of 10 January 1991, Official State Gazette 1991 [10]; amended in 2009 by Act 29/2009, of 30 December 2009, Official State Gazette 2009 [315] with the implementation of the Directive 2005/29 of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in internal market, OJ 2005, L 149, p. 22; See, *inter alia*, S. Barona Vilar, Competencia desleal. Tutela Jurisdiccional (especialmente proceso civil) y extra jurisdiccional. Doctrina, legislación y jurisprudencial, t. 1, Tirant Lo Blanch tratados, 2008, p. 560.

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protect the trade secret owners/proprietors, the most important feature of which was the appearance of provisions for the protection of trade secrets dispersed throughout many legal sources and fields of law. For this reason, the proprietor of trade secrets or know-how has always had to some extent, protection and remedies through a wide array of different legislations, such as the Spanish Patent Act,[2] the Workers' Statute,[3] the Public Limited Company Act[4] and also the former Spanish Trademarks Act, namely through its former general clause.[5] Even in the framework of criminal law, when the Spanish Legislator included in 1973, trade secret protection in the former Criminal Code. Nonetheless, after the SUCA came into force, the provisions pertaining to the prosecution of the misappropriation of trade secrets in the Criminal Code were not improved until 1995.[6] One of the reasons of this legal dispersion in Spain is due to trade secret and know-how protection, not always having been linked with the discipline of unfair competition, despite its characterization as unfair competition behaviour.

From the international standpoint, we should point out the importance and impact of the international standards for trade secret protection in Spain. As is well known, Spain is both a member of the Paris Convention, since the origins of the Convention, and a member of the World Trade Organization (hereinafter, WTO). Needless to say, as a consequence Spain is also part of the TRIPS Agreement. But in fact, trade secret protection in Spain does not start with the adhesion to the Paris Convention or with the participation as Member of the WTO. When Spain still had not enacted a special law on Unfair Competition with certain articles to protect the trade secrets, Spanish scholars were arguing that the owner or proprietor of the trade secret could get legal coverage under the general clause (Article 10*bis* (2)) of the Paris Convention.[7]

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[2]Law 11/1986 on Patents, of 20 March 1986, Official State Gazette 1986 [73], available in English here: http://www.wipo.int/wipolex/es/text.jsp?file_id=126698.

[3]Spanish Workers' Statute (promulgated by Royal Legislative Decree 1/1995, of 24 March), available in English here: http://www.vss.justice.bg/spain/5/Estatuto_Trabajadores_ENGLISH_pdf.pdf; prohibition on employees to make use of trade secrets since 1931.

[4]Spanish Consolidated Act on Joint-Stock Companies, Official State Gazette 1989 [310] and Royal Legislative Decree 1/2010, of 2 July 2010, approving the Consolidated text of the Corporate Enterprises Act, Official State Gazette [2010], of 30 August [210].

[5]Article 87 of the former Act 32/1998 on Trademarks (no longer in force); see Spanish Group of the AIPPI, Protecting Trade secrets by means of intellectual property rights and unfair competition statutes, Q215, AIPPI 2010, available here: https://www.aippi.org/download/commitees/215/GR215spain_en.pdf.

[6]Spanish Criminal Code, of 24 November 1995, Official State Gazette 1995 [281], articles 278 to 280, "On felonies related to the Market and Consumers"; available in English here: http://www.sanchezcervera-abogados.com/en/files/2012/06/Criminal_Code_C%C3%B3digo_Penal.pdf.

[7]Taking into account that being a Member of the Paris Convention, Spain should guaranteed the enforcement of the protection against any act of competition contrary to the honest practices under the prescribed article. See, A. Font Segura, La protección internacional del secreto empresarial, Eurolex 1999, pp. 95–97; J. A. Gómez Segade, El secreto industrial (Know-how). Concepto y protección, Tecnos 1974.

Generally, opinions in Spanish Academia challenged the effectiveness of the enforcement in some aspects, namely related to the great dispersion of proceedings to protect trade secrets. These opinions are relevant to grasp certain weaknesses in the Spanish procedure against the violation of undisclosed information.[8]

On the other hand, in all situations where trade secret proprietor could not find legal protection against misappropriation and misuse of its trade secret in the specific articles of the SUCA (Article 13 *in toto* and Article 14.2), this proprietor could obtain protection invoking the general prohibitive clause established by the SUCA.[9] As is generally recognised the prohibitive general clause of the SUCA acts as a safety net in the marketplace (in terms of criteria that determine the outlook of what is fair and unfair in the marketplace). However, this possibility only applies when the specific provisions do not provide the expected protection for trade secrets. This is because, there are Spanish case law precedents related to the use of the general clause in conjunction with the specific rules under the provisions of the SUCA, in which plaintiffs have tried to increase the claimed injury (unfairness) of the act by invoking both: the general clause and the specific rule which covers the certain unfair act. Spanish judges are prone to dismiss these kinds of claims based on the specific rule together with the prohibitive general clause. They only accept the use of the general clause when the affected party did not find enough legal protection under the other specific provisions of the SUCA.

29.1.2 Definition of Trade Secrets Under the Spanish Unfair Competition Act, Criminal Code and Other Special Laws

Initially, it should be stressed that the scope of the protection of trade secrets is wider than the concept set out in Article 13 of the SUCA because there is no customised concept in Spain regarding what constitutes or what is the trade secret. In this sense, for instance, Article 13 (infringement and violation of trade secrets/ non contractual liability) and Article 14.2 (unfair inducement to breach the contract of the parties have entered into with competitor/contractual liability) only set out the elements and scope of the protection of trade secrets.

In fact, the definition and concept of trade secrets is the outcome of a blend between the opinions of relevant scholars and Spanish case law.[10] Trade secrets

[8]M. L. Llobregat Hurtado, Aproximación al concepto de secreto empresarial en Derecho Español y Derecho Norteamericano, Cedecs Derecho Privado 1999.

[9]See Article 4, amended Act 29/2009 on Unfair Competition.

[10]For instance, J. A. Gómez Segade, El secreto industrial (Know-how). Concepto y protección, Tecnos 1974; J. Massaguer Fuentes, Comentarios a la ley de competencia desleal, Civitas 1999; A. Suñol Lucea, El secreto empresarial: un estudio del artículo 13 de la Ley de competencia desleal, Thomson Reuters 2013; S. Barona Vilar, Competencia desleal. Tutela Jurisdiccional (especialmente proceso civil) y extra jurisdiccional. Doctrina, legislación y jurisprudencial, t. 1, Tirant Lo Blanch tratados 2008, p. 562; A. García Vidal, La propuesta de la directiva sobre la protección del Know-how, Gómez Acebo & Pombo 2013. See *inter alia*, Judgment of Spanish

have been defined by these relevant scholars as "knowledge or overall technical knowledge that are not in the public domain and are necessary for the manufacturing or marketing of a product, for providing a service or for organizing a business unit or branch, so as to procure to its holder an advantage over competitors which he aims to preserve by preventing its disclosure". This situation, at least, existed in the first stage of its protection when the enforcement of Article 10*bis* PC could be used to guarantee the protection of the trade secret against the misappropriation and misuse of trade secrets.[11] Further, as we have mentioned above, after the enactment of the SUCA, the Spanish Legislator solved this situation only to a limited extent because even today there is no single concept and accurate definition of trade secrets in Spanish law. Regarding the concept of *know-how* (which in Spanish law is a different concept than trade secret) instead of making its own concept, the Spanish Legislator adopted the American term *know-how* without modification. This was an unfamiliar term in Spain and unlike other countries that translated the term into their own language such as France (savoir-faire), Spain did not translate the term into Spanish.[12]

Besides the definition given by the scholars (mentioned in the previous paragraph), another option that was used and still persists for filling this loophole regarding only the trade secret concept, the definition provided by the Article 39.2 of TRIPS Agreement was and is taken into consideration.[13]

In the same way, under the provisions (Articles 278 to 280) of the Spanish Criminal Code there is no accurate definition about what a trade secret is. However, under these articles one could find a better description insofar as trade secret information; notwithstanding, this is not enough to improve this issue. The concept of trade secret set out under Spanish provisions is widespread and should be differentiated from other analogous concepts such as know-how, commercial and industrial secrets.[14] As the Spanish Group of the AIPPI argued, we can conclude by

Supreme Court 754/2005, of 21 October, Civil Division, Rec. 2005/8274; Judgment Provincial Court of Barcelona, of 1 December 2001 [2001/2005]: *id.,* of 21 December 2001 [2003/1868]:of 13 June 2001 [2004/14067], etc.

[11]J.A. Gómez Segade, El secreto industrial (Know-how). Concepto y protección, Tecnos 1974; See Judgement Provincial Court of Cordoba, Sec. 3ª, of 12 December 2014, hereby the Court established a clear concept of trade secret in a criminal prosecution.

[12]E. Morón Lerma, F. Morales Prat, La tutela penal del secreto de empresa desde una teoría general del bien público, UAB 2002; J. A. Gómez Segade, En torno al concepto de Know-how. In: Estudios jurídicos en homenaje a Joaquín Garrigues, t.II, Tecnos, 1971, pp. 411–431.

[13]See Judgment of the Provincial Court of Zaragoza, Division 5, *Neck vs. Neck*, 316/2010, of 17 May 2010, [Rec. 2010/3888990] whereby this Provincial Court upheld that the use of the definition given by Article 39 TRIPS Agreement could be used for filling the gap in Spanish provisions. Taking into account under Spanish Constitutional System treaties are self-executing once have been published in the Official State Gazette. Article 39 TRIPS Agreement has been subject to have direct effect in Spain before Spanish Courts, A. Font Segura, La protección internacional del secreto empresarial, Eurolex 1999, pp. 125–134.

[14]E. Morón Lerma, F. Morales Prat, La tutela penal del secreto de empresa desde una teoría general del bien público, UAB 2002.

saying that the combination of all the definitions and academic contributions contained in different Spanish statutes gives way to a single *sui generis* concept the main features of which could be as follows: (1) Secret nature of the information (that would not be easy to have access to as a third party) contained in trade secrets; (2) Competitive and economic value of the trade secret; and, (3) Will of the owner to keep the information confidential.[15]

29.1.3 Nature and Scope of the Trade Secrets Under Spanish Provisions

29.1.3.1 Legal Nature of the Trade Secret in Spain

At first glance, the nature of the protection against the violation or misappropriation of trade secrets under Spanish provisions is economic. The economic interest relies and is enshrined in the Spanish Constitution through the freedom to exercise an economic or commercial activity,[16] as well as the freedom to conduct a business without interferences.[17] Basically, as in many other countries, which also bestow protection of the trade secrets in a special act against unfair competition, this economic interest constitutes the most important patrimonial asset of entrepreneurs. Trade secrets are a valuable asset (intangible asset) for the development of technology intertwined with another element: confidentiality. In fact, to obtain protection from unfair disclosure by third parties, proprietors must prove the economic value of the trade secret and its relevance as a competitive advantage. Otherwise, if the proprietors cannot establish the exclusivity and economic value of their trade secret, they do not trigger off any protection according to Spanish legislation.[18]

The nature of this unfair behaviour act can be contractual and/or tort liability; it will depend on the relationship of the parties. Spanish provisions have remedies for both.[19] Nonetheless, it is easier to litigate successfully the misappropriation of trade secrets stems from a contractual relationship. Likewise, it is possible that during the performance of the contract or pre-contractual phase (*culpa in contrahendo*) a

[15] Spanish Group of the AIPPI, Protecting Trade secrets by means of intellectual property rights and unfair competition statutes, Q215, AIPPI 2010, available here: https://www.aippi.org/download/commitees/215/GR215spain_en.pdf, 3.

[16] Articles 33 and 38 of Spanish Constitution 1978, available in English here: http://www.congreso.es/portal/page/portal/Congreso/Congreso/Hist_Normas/Norm/const_espa_texto_ingles_0.pdf.

[17] M.L. Llobregat Hurtado, Aproximación al concepto de secreto empresarial en Derecho Español y Derecho Norteamericano, Cedecs Derecho Privado, 1999; A. Font Segura, La protección internacional del secreto empresarial, Eurolex 1999; E. Morón Lerma, F. Morales Prat, La tutela penal del secreto de empresa, desde una teoría general del bien público, UAB 2002.

[18] See, Spanish Supreme Court 952/2011, Civil Division, of 4 January 2012.

[19] Under Spanish provisions we have protection against the misappropriation in labour relations within several fields of law: Workers' Statute, SUCA, and Article 2 of the Royal Decree 2485/1998, of 13 November (amended by Royal Decree 419/2006 of 7 April on Franchise contracts).

violation of the trade secret could happen. Bearing in mind that the existence of the *culpa in contrahendo* has room under the provisions of the Spanish Civil Code as a tort liability, the trade secret proprietor could find protection in this body of law and under the SUCA. According to Article 2 paragraph 3 of the SUCA: "The Act shall apply to any act of unfair competition committed before, during or after a commercial transaction or contract, regardless of whether the latter is finally entered into or not."[20]

29.1.3.2 Scope of the Protection of Trade Secrets

When a trade secret proprietor files a claim based on unlawful disclosure and exploitation by third parties without express consent/authorisation, it must consider that Articles 13 and 14 SUCA relate this unfair behaviour with certain conditions, which must be fulfilled to resort to this legal protection. Likewise, the mere use of business information that derives from the knowledge of a trade secret is not unfair *per se*. Under these provisions not every use, knowledge and disclosure of secret information would be considered unfair.[21]

On the contrary, Article 13 considers two specific situations for the protection of the trade secret against the unfair disclosure, exploitation and acquisition: Firstly, if the infringer has obtained the information legitimately with duty of reserve (by means of contract or under the forms described in Article 14.2); and secondly, when the infringer has obtained the information illegitimately (by means of industrial espionage or analogous methods). The access to the information therefore is twofold, either legitimate (fair) or illegitimate (unfair). However and as we detail below, the legal consequences will vary depending on the means used to get access to the trade secrets.

In any event, the infringer puts in jeopardy the position of the trade secret proprietor in the marketplace. Furthermore, what is truly unfair is not the acquisition of the trade secret and know-how and their mere disclosure, but the methods and procedures used by the offender to get this knowledge to disclose it without authorisation. Otherwise, unlike the protection endowed to a patent proprietor who

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[20] Last amended of the Act 29/2009 on Unfair Competition into English available here: https://webgate.ec.europa.eu/ucp/public/index.cfm?event=public.country.viewFile&lawID=29&languageID=EN. In such cases of *culpa in contrahendo*, the party who is looking for legal coverage against anyone who undisclosed its information before or during the performance of the contract, it could request the civil remedies under Spanish Civil Code, namely Article 1902, which is the general clause for every single civil tort as well as activate the remedies provided by the Article 32 of the SUCA. See, *inter alia*, R. Bercovitz-Cano, Manual de Derecho civil (Contratos), Bercal 2011, pp. 39 *et seq*.; Judgment of the Spanish Supreme Court 1762/2014, El Derecho Editores S.A., *vs* Wolters Kluwer España S.A., of 8 April 2014.

[21] See, *e.g*.: Judgment of the Spanish Supreme Court 952/2012, 4 of January 2012; National Court Order, Criminal Section n° 4, of 19 June 2001, rec. 248770/2001: S. Barona Vilar, Competencia desleal. Tutela Jurisdiccional (especialmente proceso civil) y extrajurisdiccional. Doctrina, legislación y jurisprudencial, t. 1, Tirant Lo Blanch tratados, 2008, pp. 560–561; H. Baylós Corroza, Tratado de Derecho Industrial, Civitas, 2009, p. 337.

can stand out against any use and legal exploitation of its patent to third parties, the trade secret proprietor only can stand out against the exploitation of the secret and confidential knowledge by third parties who are not authorised and under the scope and elements of the Articles 13 and 14.2 of the SUCA.[22]

From a criminal law perspective, Articles 278 and 279 of the Criminal Code state that misappropriation of the trade secret will be considered a criminal offence when the offenders obtain data, written or electronic documents, computer media or other objects related thereto to discover a company secret, as well as if the offenders use any of the means or instruments described in Article 197 paragraph 1.[23] Article 279 sets forth that diffusion, disclosure or communication of a company secret perpetrated by whoever bears a legal or contractual obligation of confidentiality, will be considered a criminal offence. If the trade secret is used only to the offender's own advantage, *i.e:* if they do not disclose or sell the trade secret to third parties or they do not make it public, the penalties shall be imposed in their lower half.[24]

29.1.4 Conditions

The trade secret proprietor will be entitled to file claims before Spanish Courts against violations of its trade secret, when the following conditions are present:

29.1.4.1 Objective and Economic Condition

Article 13 establishes the objective condition and scope of the protection. A trade secret should be a technical knowledge, which is exclusive and novel (innovative). This technical knowledge must be entirely secret and specific.[25] The most relevant elements therefore are novelty, secrecy and exclusivity.[26] The economic value of the trade secret constitutes a relevant competitive advantage against the other competitors and participants in the marketplace.

[22] C. Fernández-Nóvoa, El enriquecimiento injustificado en el Derecho industrial, Marcial Pons 1997, p. 102.

[23] Article 197.1 of the Criminal Code refers to discovery and revelation of secrets in general.

[24] See, fines and penalties of the Criminal Code in Section 3.1.

[25] P.A. De Miguel Asensio, Capitulo II.-Bienes inmateriales, Derecho de la Competencia y Responsabilidad extracontractual. In J. C. Fernández Rozas, R. Arenas García and P. A. De Miguel Asensio, Derecho de los negocios internacionales, 4th ed, Iustel 2013, p. 85; M.L. Llobregat Hurtado, Aproximación al concepto de secreto empresarial en Derecho Español y Derecho Norteamericano, Cedecs Derecho Privado, 1999, pp. 57–59.

[26] P. A. De Miguel Asensio, Capitulo II.-Bienes inmateriales, Derecho de la Competencia y Responsabilidad extracontractual. In J. C. Fernández Rozas, R. Arenas García and P. A. De Miguel Asensio, Derecho de los negocios internacionales, 4th ed, Iustel 2013; Judgment of the Spanish Supreme Court 952/2011, of 4 January 2012, whereby the Spanish Supreme Court dismissed the claim of the trade secret proprietor because there was no special duty of confidentiality.

29.1.4.2 Subjective Condition

Trade secrets can be subject to duty of reserve imposed on third parties or not; nevertheless, the subjective element constitutes the will of the proprietor to preserve the secrecy of the information. The will of the trade secret proprietor to maintain the secrecy of the confidential and technical information until further notice has to be clear. The proprietor has to prove that it acted with due diligence taking every measure to protect its trade secret against disclosure. Likewise, the subjective element is also related to the *animus* and the injury caused by the alleged infringer.[27]

Unlike other types of unfair commercial behaviour a violation of the confidentiality of the undisclosed information does not require that the act happen in the market as part of competitive relationship. One of the reasons is that the aim of this article as is set forth in its paragraph 3, is to protect every kind of confidential information regardless of its competitive or commercial nature.[28] However, it does not release from the necessity that the violation or the act be committed with negligence and bad faith (with the purpose of harming to the trade secret proprietor).

29.2 Protection and Control of the Trade Secrets Toward Third Parties Under the Unfair Competition Act and Other Special Laws in Spain

29.2.1 Legal Mechanisms to Protect Trade Secrets Against Third Parties in Bad Faith

As we detailed above, there are several mechanisms to protect the trade secrets against third parties in bad faith. When a trade secret proprietor has been subjected to an unfair exploitation, divulgation and therefore misappropriation of its trade secret (circumstances categorised under the SUCA), it may seek legal protection from a civil law prospective under Articles 13 and 14.2 of the SUCA. When a trade secret holder cannot obtain legal protection under the specific provisions, because the conditions required by the provisions are not met, the proprietor could still find protection under the general clause (if unfair competition can be demonstrated). Moreover, we should bear in mind that the access to the trade secret can arise legitimately (with duty of reserve, Article 13.1) or illegitimately by means of espionage or similar procedure (Article 13.2 and

[27] In relation to the importance of the *animus* of the tortfeasor (negligence or bad faith) see *e.g.*: Judgment of Provincial Court of Granada, of 25 March 2003 [2003/166396]

[28] S. Barona Vilar, Competencia desleal. Tutela Jurisdiccional (especialmente proceso civil) y extra jurisdiccional. Doctrina, legislación y jurisprudencial, t. 1, Tirant Lo Blanch tratados, 2008, p. 563.

Article 14.2). It is important to say again that not every use and misappropriation is unfair under these provisions.

In contractual infringements we have to read Article 13 in conjunction with Article 14 paragraph 2. According to Article 14 of the SUCA, trade secret proprietor may find protection against third parties when these parties would have induced the workers (either new employees or ex-employees), suppliers, clients and other legally binding parties, to breach basic contractual obligations they have entered into with a trade secret proprietor. The same applies when a third party leads any obligated party with the trade secret proprietor to breach the normal termination of the contract with the purpose of taking advantage for himself or for another person (divulging and exploitation the trade secret). As we are going to explain below one of the measures that a trade secret proprietor has at hand to prevent the unfair disclosure and later divulgation in labour or contractual relations is the insertion into the contract of non-competitive covenants, either the insertion of exclusive agreements (such as the case of License agreements on Trade Secrets).[29] Once again, it is relevant to point out that what is unfair is the means by which the trade secret is obtained.

As regards the Patent Act, Articles 15 *et seq*., labour inventions will be owned by the employer, when made by an employee during the period of his/her contract or employment or provision of services, if the invention results from research work included expressly or implicitly within the subject matter of his/her contract; otherwise the invention belongs to the employee.[30] Furthermore, the Spanish Intellectual Property Act[31] presumes that exploitation rights are granted to the employer exclusively for exercising a normal activity of the company during the time the employee is working for the company. For collective works under coordination the trade secret protection will fall upon the person in charge of the collective work.[32]

At the other end of the spectrum, the employer is protected from unfair disclosure or misappropriation by its employees under the provisions of the Workers' Statute, namely Articles 5 a, and b (labour duties), and Article 65 (duty of secret for Trade unions and for the members of the Works Council).[33] Article 21 (paragraphs 1 and 2), which establish an explicit prohibition whereby the employees should refrain from making any act of unfair competition against the

[29] See Sect. 29.4.2.

[30] Spanish Group of the AIPPI, Protecting Trade secrets by means of intellectual property rights and unfair competition statutes, Q215, AIPPI 2010, available here: https://www.aippi.org/download/commitees/215/GR215spain_en.pdf, p. 4.

[31] Royal Legislative Decree 1/1996, of 12 April.

[32] In case of software programs created by employees this Act grant the right of disclosure to the employees unless otherwise agreed that they belong to the employer.

[33] See also Article 37 of the Act 31/1995, of 8 November on Prevention of Occupational Risks, Official State Gazette 1995 [269], available in English at, http://www.insht.es/InshtWeb/Contenidos/Documentacion/FichasPublicaciones/LegisNormalizacion/TextosLegales/Ficheros/lprw-lprl-en-consolidado%20-CON%20CARATULA%20SIN%20NIPO.pdf.

employer,[34] is applicable in addition to Articles 278 and 279 of Spanish Criminal Code. This protection must find its origin in labour relations. There is somehow a conflict between the protection of trade secrets and the protection of the interests of the employees.

Likewise, the duty of secrecy imposed on directors of public limited companies has to be considered, even after expiry of their relationship as directors of the company (post-contractual obligation), as is established in the Article 232 of the Royal Decree Legislative on Capital Companies (Stock Corporations)[35]. Otherwise, if the former director of the company does not carry out its duty of secrecy (after severance), it could be sued by the partners or shareholders of the company (Article 238: "Corporate action to demand liability").[36]

29.2.2 Measures to Secure Evidence of a Trade Secret Misappropriation

Under SUCA and under certain provisions of the Spanish Civil Procedure Act (hereinafter, SCPA) trade secret proprietors may secure the evidence of the trade secret misappropriation. Nonetheless, before the proprietor triggers off the remedies contained in this body of laws, the judge will examine if the proprietor acted with the due diligence and duty of care to protect the trade secret against third parties, and foreseen possible collateral effect.[37] This is one of the required conditions to initiate a civil or criminal action.

29.2.3 Illegal Misuse of Trade Secrets in Spain

With respect to the term misuse and its legal treatment under Spanish provisions, it could be considered similar to the legal figure of abuse of right. We could argue that misuse under Spanish provisions against violation of trade secrets is also

[34]M. L. Llobregat Hurtado, Aproximación al concepto de secreto empresarial en Derecho Español y Derecho Norteamericano, Cedecs Derecho Privado, 1999, p. 131. This could be the cause of a right and proper dismissal or discharge, *e.g*. Judgment of the Superior Court of Madrid, Labour Division, of 13 May 1994, Rec. 1989.

[35]Spanish Corporate Enterprises Act, available in English at, http://www.mjusticia.gob.es/cs/Satellite/Portal/1292427002524?blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadervalue1=attachment%3B+filename%3DCorporate_Enterprises_Act_%28Ley_de_Sociedades_de_Capital%29.PDF.

[36]See for instance, Judgment of the Spanish Supreme Court 6150/2012, Civil Division, of 3 September 2012 (case "The Cluster Competitiviness Group S.A."); Judgment of the Provincial Court of Barcelona, of 9 December 2014 (case "SIVERNA CORPORACIÓ"); Judgment of the Provincial Court of Barcelona 354/2013, Sec. 15ª, 9 of October 2013.

[37]See, Guía para la protección de la propiedad industrial en Europea (only available in Spanish): http://www.ivace.es/impiva/images/noticias/patentesymarcas/el%20secreto%20industrial.pdf, p. 10.

misappropriation.[38] Under Spanish law, unfair competition is considered as an abuse of right on behalf of parties who compete contrary to the honest practices of commerce, by taking unfair advantage (Art. 10*bis* PC), or under the general clause of the Directive 2005/29, in any act contrary to the due diligence (Art. 5).

Therefore, trade secret proprietors will obtain protection if the misuse were made under these circumstances and by means of: industrial and commercial espionage, breach of contract (or other similar situations), breach of confidence, and breach of the duty of confidence (*e.g.:* infringement of the non-compete covenant or violation of the trade secret with breach of a license agreement). Likewise, it will be considered unfair when the unlawful exploitation and divulgation has been made without permission of the trade secret proprietor.[39]

On the other hand, there is no specific remedy if the proprietor of a trade secret misuses its trade secret; if the trade secret owner does not comply with its duty to take measures against the violation of its trade secret, this proprietor may not be able to obtain legal protection for failing to act diligently and to take the necessary measures to protect its own secret. Likewise, it may happen that a party obtains access to the secret in good faith, for instance when this party had access to a trade secret by mistake and subsequently sold this trade secret without negligence. Hence, it is possible that this party can use its innocence and ignorance regarding the knowledge of the confidentiality as a defence in the trial.

29.3 Procedural Aspects and Remedies Under Spanish Legislation

29.3.1 Remedies and Sanctions Available in Civil and Criminal Law to Trade Secrets Proprietors in the Event of Misappropriation and Misuse

According to Article 32 of the SUCA, trade secret proprietors have access to the following remedies:[40]

– Damages (economic and moral prejudice suffered).[41] This remedy usually can be requested in claims based on the tort (connected with Article 1902 Spanish

[38] See, Article 7 Spanish Civil Code.

[39] This requirement will be decisive in the course of the proceeding for violation of trade secret.

[40] S. Bacharach de Valera, Acciones derivadas de la competencia desleal (En torno al artículo 18 de la Ley 3/1991, de 10 de enero, de Competencia Desleal), Revista General de Derecho (562–563), 1991, pp. 6177–6215; M.A. Zurrilla Cariñaña, Acciones civiles en materia de competencia desleal, SPCS Documento de trabajo 2009 (1), available here: http://www.uclm.es/CU/csociales/pdf/documentosTrabajo/2009/01.pdf.

[41] Under Spanish Civil Law, damages remedy covers moral prejudice suffered when the unfair behaviour damaged the corporate image, the goodwill and honour, and so forth. See, Spanish Supreme Court, of 22 February 2001.

Civil Code) and contract breach (Article 1101 Spanish Civil Code) if there was bad faith or negligence by the alleged tortfeasor. Nevertheless, it is quite possible to seek damages in penal proceedings. According to Article 34.2 of the SUCA the estimation of damages and of the unjust enrichment must be found under the provisions of the Spanish Civil Code (*i.e.*: under the general Spanish civil principles) when employees or other collaborators committed the unfair competition act. A proprietor may claim consequential damage and lost profits (Article 1106) in a suit for misappropriation or misuse of trade secrets under the conditions set forth in relation to contract breach or tort liability. This remedy (under the SUCA) does not specify how to quantify the damages; only grants to the claimant or the parties affected by the unfair competition act, the possibility to request it. The quantification will be made according to what is established in Articles 1106, 1107 and 1108 of the Spanish Civil Code,[42]
– Declaratory judgment whereby the unfairness of the act is stated;[43]
– Rectification injunction of the unfairness and publication of the judgment (complete or partial publication);
– Cease and desist orders. Besides this the claimant could also request prohibitive injunctions;
– Removal of the effects produced by the unfair behaviour;[44]
– Unjust enrichment (restitution).[45] Unlike the damages when this remedy is requested, the claimant does not need to prove either bad faith or negligence on the part the alleged offender.

[42]See Sect. 29.3.3.; C. Lema Devesa, Posibilidades y remedies para reprimir la competencia desleal, Derecho de los negocios (1/2), 1990–1991, pp. 205–210.

[43]Declarative action can be positive and negative. However, Spanish legal system unlike other countries such as Germany does not specifically recognise negative declarative remedy. Further details, S. Bacharach de Valera, Acciones derivadas de la competencia desleal (En torno al artículo 18 de la Ley 3/1991, de 10 de enero, de Competencia Desleal), Revista General de Derecho (562–563), 1991, pp. 6177–6215; S. Barona Vilar, Competencia desleal. Tutela Jurisdiccional (especialmente proceso civil) y extra jurisdiccional. Doctrina, legislación y jurisprudencial, t. 1, Tirant Lo Blanch tratados, 2008, p. 700; once again opinions diverge widely in Academia with the possibility to request a negative declarative statement order, in favour of a negative declarative statement, R. Bellido Penarés, La tutela frente a la competencia desleal en el proceso civil, Comares 1998.

[44]In cases of disclosure of secrets the exercise of this remedy could be difficult, more than anything because it is difficult to restore the situation before the unfair disclosure was made, and the effects of the act are often irreversible; Spanish Group of the AIPPI, Protecting Trade secrets by means of intellectual property rights and unfair competition statutes, Q215, AIPPI 2010, available here: https://www.aippi.org/download/commitees/215/GR215spain_en.pdf, p. 9; as well as, AIPPI Spanish Group Report Q247, "Trade Secrets: Overlap with restraint of trade, aspects of enforcement", available here: https://www.aippi.org/download/commitees/247/GR247spain.pdf.

[45]See also Article 33.1 *in fine* (active legal standing) and Article 34.1 *in fine* and also paragraph 2 of the same Article (passive legal standing) of the SUCA. This remedy will be also possible inasmuch trade secret has a legally similar position than the other types of intellectual property, namely with the patent property as we have already detailed above; C. Fernández-Nóvoa, El enriquecimiento injustificado en el Derecho industrial, Marcial Pons 1997, pp. 99–110.

It should be noted that some of these remedies have been the subject matter of criticisms by Spanish Academia. The critics launched by scholars pertain to the lack of coordination with other remedies provided in the special laws that have been established before the enactment of the SUCA. One example is the case of the Articles 35 and 37 of the Spanish Law on Trademarks, bearing in mind that the Article 36 of this law was inspired by the Article 65 of the Patent Law. Spanish academics argue that this situation gives somewhat excessive and unnecessary protection. As far as Spanish Academia is concerned, it would have been more appropriate to give only one remedy because these remedies are very similar in nature and have the same purpose (*e.g.:* rectification and removal of the effects of the unfair behaviour).[46]

As regards to the remedy of unjust enrichment, one of the most relevant Spanish scholars, Otero Lastres, explained that the establishment of this remedy on the Article 32 of the SUCA made no sense for an act of unfair competition, inasmuch this remedy has a subsidiary and residual character which, in fact, entails the protection of an exclusive right. Under Spanish legal system, the SUCA is a complementary law in connection with the other Intellectual Property Laws. Therefore, it was quite surprising that Spanish Legislator included the unjust enrichment remedy in the SUCA whereas not under these bodies of law.[47] One could reply that when the claimant cannot obtain the damages (namely, when the evidence of negligence or bad faith were difficult to prove and the claimant was also the proprietor of any exclusive right) this would be a useful last resort unjust enrichment remedy.

– Finally, the total or partial publication of the court decision. It will depend on the confidential character of the trade secret and on the will of the holder to make it public.

Remedies in Spanish Criminal Law (Spanish Criminal Code) for the violation of the trade secret are mainly fines and imprisonment for the criminal offenders. In that sense, these penalties can be differentiated depending on the circumstances and the means used by the offender.

– Thus, Article 278 sets forth imprisonment from 3 to 5 years and penalty from 12 to 24 months; Article 279 imprisonment from 2 to 4 years and a fine of 12 to 24 months (paragraph 1) and if the secret was used to the own advantage of the offender only, penalties of paragraph one shall be imposed in their lower half. To conclude, Article 280 applies in the event that the offender does not take part in the discovery of the secret but perpetrates any of the actions described in the two

[46] M. L. Llobregat Hurtado, Aproximación al concepto de secreto empresarial en Derecho Español y Derecho Norteamericano, Cedecs Derecho Privado, 1999, pp. 148–149, see references at the footnotes n° 314 and 315.

[47] J. M. Otero Lastres, La nueva Ley sobre competencia desleal, Actas de Derecho industrial y Derecho de Autor (t. XIV), 1991–92, pp. 25–48; Nonetheless, opinions diverge widely in academia about this remedy and its implementation in unfair competition claims. Otero Lastres considers this remedy cannot be regarded, as an adequate remedy, under the SUCA.

preceding articles. The penalties are imprisonment from 1 to 3 years and a fine of 12 to 24 months.

- In addition to these remedies, as an accessory measure, the Investigating Judge may adopt measures to restrict the corporate activities such as the temporary closure of the company and the winding-up of the company if it were necessary (paragraph 3 of Article 129)[48].
- Furthermore, Article 288 also provides for the publication of the judgment in Official Journals and in other medium at the expense of the offender when the offended party requested it.

29.3.2 Cumulation of Civil and Penal Remedies

We have to consider that sanctions against trade secret misappropriation or misuse as an act of unfair competition can be administered through civil and penal action jointly under Spanish law. The plaintiff before a criminal court has the option to sue the defendant for damages and to bring a complaint invoking the criminal offense. It is possible to request the damages remedy in a criminal hearing. According to the dispositive principle, the plaintiff may *ex parte* request to the judge the publication of the judgment.

29.3.3 Abuse of Litigation and Fines against the Bad Faith Litigator

According to Article 247 (on procedural bad faith) of the Spanish Civil Procedure Act (hereinafter, SCPA),[49] parties involved in any kind of proceedings have to act in compliance with the rules of good faith. The Spanish judicial system has guaranteed in all types of proceedings either civil or criminal claims, against the abuse of litigation and abuse of law. Moreover, the judicial authorities can determine if a claim concerning a violation or infringement of the trade secret (disclosure, acquisition and misuse without the consent of the holder) was initiated or filed in bad faith deliberately or initiated in abuse of law and procedural laws impeding justice for the defendant/s. Furthermore, paragraph 3 of the Article 247, sets out the enforcement of fines for abuse of litigation and procedural bad faith. Parties who are acting in bad

[48] Article 129.3: "Temporary closure of premises or establishments, suspension of the corporate activities and judicial intervention might also be ordered by the Investigating Judge as a provisional measure during the investigation proceedings for the purposes established in this Article and within the limits stated in Article 33.7."

[49] See Spanish Civil Procedure Act, Law 1/2001, of 7 January, on Civil Procedure, Official State Gazette [7] correction of errors in Official States Gazettes [90], of 14 April 2000, and [180], of 28 July 28 2001, available here in English: http://www.mjusticia.gob.es/cs/Satellite/Portal/1292426983864?blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadervalue1=attachment%3B+filename%3DCivil_Procedure_Act_%28Ley_de_Enjuiciamiento_Civil%29.PDF.

faith may be subject to fines between EUR 180,000 and 6000.[50] Otherwise, paragraph 5 states that sanctions imposed under this article are subject to the system of appeals set forth in Title V, Book VII of the Organic Act on the Judicial Branch.

29.3.4 Specific Measures and Procedural Aspects related to the Protection of Trade Secrets and Know-How Before and During Litigation

A trade secret proprietor has a wide array of procedural measures available. Most are included and set out in the SCPA. One important aspect of these procedural measures changed when TRIPS Agreement came into force in Spain, as well as with the implementing rules enacted by the European Union in the Directive 2004/48/EC of the European Parliament and Council of 29 April 2004 (which complies with the procedural aspects provided by the Articles 41 to 50 of the TRIPS Agreement).[51]

The transposition of this Directive into Spanish legal system, under the Act 19/2006[52] supposed important changes and improvement for the protection of trade secrets as a “right to keep confidential the technical, commercial or financial information of the presumed infringer.”[53]

29.3.4.1 Procedural Measures Available to Secure the Evidence: Interim and Provisional Injunctions

Regarding the securing of the evidence of confidential information, interim injunctions are available to the claimant under SCPA and through the intellectual property laws considering trade secret as a kind of intellectual property reinforcing the protection of the trade secret holders.

Before the start of the proceeding the claimant can request an *ex parte* injunction (*inaudita parte contraria* injunction) above all when there is evidence of reasons of urgency, in due process of law to safeguard the prospective judgment on the merits.[54] Likewise, the plaintiff can request other kinds of measures as such seizures of documents to protect the confidential information before and during the hearing.[55]

[50] Paragraph 3 of the Article 247 reads as follows: “Should the courts deem that any of the parties has acted by breaching the rules of procedural good faith, they shall impose on such party through a separate file and respecting the principle of proportionality a fine that may reach one hundred and eighty-six thousand Euros. However, such fine may under no circumstances exceed a third of the amount at issue.”

[51] Spanish Group of the AIPPI, Protecting Trade secrets by means of intellectual property rights and unfair competition statutes, Q215, AIPPI 2010, available here: https://www.aippi.org/download/commitees/215/GR215spain_en.pdf, pp. 9–10.

[52] Act 19/2006 of 5 June 2006, Official State Gazette 2006 [134] on expanding means of protection of intellectual and industrial property.

[53] See reference at footnote 51.

[54] See Articles 730, 733.2 and 739 to 742 of the SCPA and Article 133 of the Patent Act 11/1986.

[55] See Article 134. 2 of the Patent Act 11/1986.

Additionally, the claimant can also request *ex parte*, advance examination and seizure of evidence (Article 293 *et seq*. of the SPCA) before the preliminary hearing. Once again, these measures must be requested by reasons of urgency and impossibility to practice the evidence in the stipulated procedural time.[56]

29.3.4.2 Preliminary Proceedings to Preserve the Confidentiality of Trade Secrets before Litigation

There are several kinds of preliminary proceedings (diligencias preliminares) and the gathering of information before the prior hearing or inquiries to substantiate facts (diligencias de comprobación de hechos)[57]. These pre-trial proceedings are dispersed in different bodies of law (Patent Act, SUCA and SCPA), but they are all fairly similar to each other in nature and purpose. It should be considered that all of these measures seek to preserve, as it were, the confidentiality of a trade secret before, during and after the hearing.

Article 36 of the SUCA does not enumerate or specify the kinds of preliminary proceedings that the claimant can request. This Article only provides the request of preliminary proceedings as is established in Article 129 *et. seq.,* of the Patent Act 11/1968 (where the kinds of preliminary proceedings are specified).[58] Hence, in claims based on unfair competition we should read in conjunction Article 36 of the SUCA in accordance with Articles 129 *et. seq*., of the Patent Act.

On the other hand, other preliminary proceedings are established under the Articles 256 to 263 of the SCPA.[59] However, preliminary proceedings under the SCPA are not applicable *ex officio* unlike the preliminary proceedings established under the Articles 129 *et seq.,* of the Patent Act 11/1986, which are applicable or *ex officio* either at the request of the party. Another difference between the inquiries to substantiate facts of

[56]E. García García, Las diligencias preliminares en los litigios sobre patentes, Jornadas de studio y actualización en material de patentes ("Los lunes de Patentes"), Oficina Española de Patentes y Marcas, 2011, pp. 1–31.

[57]Further details, M.I. Villar Fuentes, Las diligencias preliminares de los procesos de propiedad industrial y competencia desleal, monografías 919, Tirant Lo Blanch, 2014.

[58]Paragraph 2 of the Article 36 reads as follows: "Such procedures (pre-trial proceedings) shall be implemented in accordance with the provisions of Articles 129 to 132 of Law 11/1986, of 20 March, on Patents, and may include the company's entire business."

[59]Article 256.8 and paragraph 9 of the SCPA, paragraph 8 reads as follows: "8°. An application by the party intending to bring legal action for infringement of a right of industrial or intellectual property committed through acts carried out at a commercial level, for the exhibition of the (pertinent) banking documents, financial, commercial or customs documents issued within a specific period of time and assumed to be in possession of whom may be sued as liable. The application shall be accompanied by prima facie evidence of the existence of the infringement, which may consist of the presentation of a sample of the specimens, goods or products in which the said infringement has occurred. The applicant may request that the Clerk issues a testimony of the exhibited documents if the served party is unwilling to hand over the document for its incorporation to the proceedings conducted. The same application may be formulated in relation to that established in the final subparagraph of the preceding number. For the purposes of numbers 7 and 8 of this paragraph, acts carried out on a commercial level shall mean acts carried out in order to obtain direct or indirect financial or commercial benefits".

the Patent Act and the inquiries established in the SPCA is that, inquiries of the Patent Act can be requested by the claimant before the preliminary proceedings. Article 129.4 and Article 131.1 of the Patent Act; set forth a specific inquiry to substantiate facts regarding the safeguard of the confidentiality of the secret information.[60]

Among the most relevant pre-trial inspection proceedings we point out the following:

– Exhibition of products and documents (inquiries of substantive facts)
– Questioning of the alleged perpetrator of the infringement; and other involved parties
– Survey of machinery, devices and installations
– Interim injunctions include the possibility to restrict access to documents, to the hearings, seal the summary and every confidential document (and so forth).

29.3.4.3 Spanish System of Evidence During Litigation and the Estimation of Damages

During the course of the proceeding both parties (claimant and defendant) have to agree, how to deal with confidential information. As a general rule, Spanish civil procedure follows a general principle of publicity[61], namely in oral proceedings (Article 138 of the SCPA). Therefore, hearings are public unless the Court considers the confidentiality of the judicial proceedings (Article 138.2 of the SCPA). Where the Court does not order the confidentiality of the judicial proceeding, it will remain subject to the exam by interested third parties, which have a legitimate interest. This principle of publicity implies a general obligation to collaborate with the judicial bodies (Article 593 of the SCPA on the duty to cooperate) and as particular obligation on the parties to exhibit to each other documents (Article 328 of the SCPA: duty of exhibition documents amongst the parties). According to paragraph 3 of the Article 328 *in fine*,[62] to protect confidential information, the parties can request non-disclosure of certain documents (discovery of documents) that would reveal the confidentiality. Otherwise, there exists

[60]Paragraph 4 of the Article 129 is really relevant in order to protect the trade secrets: 4. “The judge shall ensure that the inquiry to substantiate the facts shall not be used to violate trade secrets or to carry out acts of unfair competition”.

[61]General principle of publicity is set up on Articles 20 and 120 of the Spanish Constitution.

[62]Article 328.3 reads as follows: “In proceedings dealing with an infringement of industrial or intellectual property rights committed on a commercial scale, the plea for exhibition may particularly extend to any bank, financial, commercial and customs documents produced during a specific period of time and which are assumed to be in the defendant’s possession. Preliminary evidence shall be attached to such plea, which may consist of the submission of a sample of the copies, goods or products through which the infringement may have come about. *The court may decide to keep the proceedings secret at the request of any party in order to ensure the protection of confidential data and information*”. This paragraph was added by Act 19/2006 of 5 June (Official State Gazette, 2006 [134] of 6 June) extending the means to protect intellectual and industrial property rights and setting forth procedural rules to facilitate the application of several EU regulations; H. Baylós Corroza, Tratado de Derecho Industrial, Civitas (Thomson Reuters), 2009.

another exception to this principle of publicity regarding witnesses under duty of reserve. This duty to exhibit documents is applicable also to third parties (Article 330) and even to public bodies (Article 332).

The system of the presentation of evidence during litigation is, in a certain way, linked to the calculation of the damages (*i.e.:* to the prior estimation of the damages of the claimant in the lawsuit). As a general rule, during the hearing and with the presentation of taking of evidence, the trade secret proprietor must prove the damages (patrimonial and moral prejudices), in accordance with the Article 217.2 of the SCPA (burden of proof). Nevertheless, we must bear in mind that there is a special rule for proceedings of unfair competition and illicit publicity whereby the burden of proof shifts to the defendant (Article 217.4 of the SCPA).[63]

29.4 Protection of the Confidential Information Without Specific Statutory Standards

29.4.1 Non-disclosure Agreements as Means to Protect the Confidentiality of Trade Secrets

The performance of Confidentiality Agreements is possible in Spain as a means of protection of the know-how and the Confidentiality of the Trade Secret.

The trade secret proprietor could incorporate certain covenants to protect the confidentiality of the know-how against unfair use by its employees, partners or associates, agents (everyone with whom the party has a relationship and had access to the confidential information) since these parties obviously may need legitimate access to the confidential information to perform their work. It is noteworthy that the Agreement must identify what is the confidential information from what is not confidential. Therefore, it must be distinguished, in a clear and concise manner, which is the confidential information from the non-confidential information.

The parties to this confidentiality obligation remain bound even after the end of the contract. However, there is no legal standard in Spanish law, which limits in time the obligation of confidentiality (unlike the non-competition agreements). Although it is true that employment contract can contain a specific clause determining the maintenance of the obligation of confidentiality when it has terminated.

[63]It should be borne in mind regarding this paragraph, Judgement of the Provincial Court of Madrid, of 22 February 2007 [AC 2007/1813], the Provincial Court herein declared that this rule is not for every single proceeding of unfair competition.

29.4.2 Protection of the Know-How as Confidential Information Under Contract Terms and Licence Agreements

The Spanish Legislator gave little attention to trade secrets in specific contracts (*e.g.*: know-how licensing agreements). Nonetheless, regarding the lack of attention, far from being a loophole in Spanish legal system, provisions are available in Competition law[64] as well as in Patent (patent license) and Franchise Act.[65] These obligations have a contractual nature in Spain and the remedies that the holder and licensor of the know-how has at its disposal are contained by the fields of law we have aforementioned,[66] *i.e:* Spanish Civil Code provisions related to Contractual obligations will be enforced when the infraction were contractual (Articles 1101 *et seq*.), non-contractual (Article 1902); Spanish Criminal Code when the infraction were a criminal activity; and Unfair Competition law when it were applicable to the infraction.

On the other hand, trade secret holders can sign confidentiality covenants with third parties unconnected with the company to protect its know-how. In such cases the terms and covenants of exclusivity have to show a will to keep the confidentiality by the proprietor, and a commitment by the third parties. One of the remedies available to protect the trade secret of the disclosure in the event that the liable parties breach the contract (business contracts) is the inclusion of financial penalty clause and compensatory damages.[67]

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[64]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 of technology transfer agreements; and Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101 (3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, both regulations contain, as is well-known, provisions related to the know-how and its exploitation as an industrial and commercial value.

[65]Article 2 of Royal Decree 419/2006 of 7 April on Franchise regime and Article 76 of Act 11/1986 on Patent); Further details see, Spanish Group of the AIPPI, Protecting Trade secrets by means of intellectual property rights and unfair competition statutes, Q215, AIPPI 2010, available here: https://www.aippi.org/download/commitees/215/GR215spain_en.pdf, pp. 12–13; M. Vidal Cuadras y R. Ramón, el Know how y su protección en España, http://www.ub.edu/centredepatents/pdf/doc_dilluns_CP/VidalQuadras_Ramon_%20Know-how_en_ES.pdf; P. A. De Miguel Asensio, Contratos internacionales sobre propiedad industrial, Civitas 1995; J. Massaguer Fuentes, El contrato de licencia de *know-how*, Bosch, 1999.

[66]See Sect. 29.3.1.

[67]Article 56 of the Spanish Code of Commerce: "On penalty clause obligations" (see also Articles 1.152 to 1.155 of the Spanish Civil Code). This option avoids the subsequent and complicated estimation and quantification of the damages by the judges during the hearing.

29.5 Conclusions

So far, Spanish legislation related to the protection of trade secrets and know-how provides enough legal protection to the proprietors of trade secrets. Generally, we should highlight our disconformities regarding the scattering of remedies in different bodies of law. A uniform concept of trade secret distinct from other concepts such as know-how or even industrial secret related to the patents is needed. On the other hand, the regulation under Spanish Unfair Competition Act and Criminal Code (and further in Special laws) is adequate and from this standpoint we consider that a change in the weaknesses of the Spanish Legislation should come from a reform of EU law. For instance, as far as the effectiveness of the enforcement is concerned, we consider that a review is required. Perhaps, uniting all procedures and remedies available in all these bodies of law, in a specific legislation on the protection of trade secrets would allow for the holders of trade secrets to more easily seek the appropriate protection. Finally, despite the above-mentioned shortcomings, we consider that the protection of trade secrets in Spain is adequate, though, it can be improved.

30 Sweden

Magnus Tonell

30.1 Introduction and Background

The provisions on protection of trade secrets under Swedish law are primarily stated in the Act on the Protection of Trade Secrets (1990:409). This act was adopted in the beginning of the 1990s and is specifically protecting trade secrets. The Act on the Protection of Trade Secrets provides a unified protection of trade secrets and includes provisions on both civil and criminal liability.

Trade secrets are not considered intellectual property right under Swedish law. Nevertheless, it should be noted that trade secrets are often protected under intellectual property laws e.g. copyright—and/or patent protection. Technical drawings of production methods may constitute a trade secret under the Act on the Protection of Trade Secrets while at the same time meet the requirements for work protected by copyright. Another example of where such an overlap may occur is in relation to source codes for software programs.

Further, trade secrets can be protected by various types of confidentiality undertakings under contract law. The principle of the general duty of loyalty of employees also prevents employees from misappropriating trade secrets belonging to the employer during the course of employment.

Moreover, rules protecting trade secrets and confidential information may be found in various statutory laws. Examples of statutory regulations concerning duty of secrecy the main purpose of which is to protect trade secrets are listed below:

- Section 6 of the Patent Attorney Authorization Act (2010:1052);[1]

[1]Swe. lag (2010:1052) om auktorisation av patentombud.

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- Chapter 1, Section 11 of the Securities Market Act (2007:528);[2]
- Chapter 1, Section 10 of the Banking and Financing Business Act (2004:297);[3]
- Chapter 2, Section 19 of the Swedish UCITS Act (SFS 2004:46);[4]
- Chapter 9, Section 41 of the Companies Act (2005:551);[5]
- Section 26 of the Public Accountants Act (2001:883);[6]
- Chapter 8, Section 4 of the Code of Judicial Procedure (1942:740),[7] regarding lawyers' duty of secrecy;
- Section 5, second paragraph of the Right to the Inventions of Employees Act (1949:345).[8]

Chapter 20, Section 3 of the Penal Code of 1962 (1962:700)[9] states that anyone who unlawfully uses or discloses information covered by the duty of secrecy stipulated by such laws can be convicted of violation of the duty of secrecy.[10] In addition to the duty of secrecy provided under the Penal Code, several other criminal offences may, depending on the circumstances, be applicable in connection with an individual's misuse of trade secrets.

There is no defined term for "know-how" under Swedish law. Consequently, the term is not afforded any specific legal status under Swedish law. Confidential know-how can however meet the requirements of constituting a trade secret according to the Act on the Protection of Trade Secrets and may therefore be granted protection under the said Act. Furthermore, information constituting know-how may also be covered by the definition of confidential information defined in Non-Disclosure agreements and thereby also be protected under contract law. Moreover, know-how can be protected by means of an intellectual property right, e.g. in the form of patent protection or copyrighted work. As such, know-how is protected under Swedish law provided that such information meets the requirement of protection under the Act on the Protection of Trade Secrets and/or any other intellectual property right.

The Act on the Protection of Trade Secrets does not include any limitations or remedies if a trade secret proprietor misuses its own trade secrets. Anyone who initiates legal proceedings devoid of merit before the court may, however, under general procedural regulations concerning costs for legal proceedings in courts, become liable for the adverse party's costs in the event of loss in court.

[2]Swe. lag (2007:528) om värdepappersmarknaden.

[3]Swe. lag (2004:297) om bank- och finansieringsrörelse.

[4]Swe. lag (2004: 46) om investeringsfonder.

[5]Swe. Aktiebolagslag (2005:551).

[6]Swe. Revisorslagen 2001:883.

[7]Swe. Rättegångsbalk (1942:740).

[8]Swe. Lag (1949:345) om rätten till arbetstagares uppfinningar.

[9]Swe. Brottsbalk (1962:700).

[10]Swe Brott mot tystnadsplikten.

30.2 The Act on the Protection of Trade Secrets

The statutory regulations regarding the protection of trade secrets under Swedish law are, as indicated above, primarily specified by the Act on the Protection of Trade Secrets. The regulations of this act, concerning the specific elements that must be established by a trade secret proprietor to be able to commence legal proceedings against trade secret misappropriation under Swedish law, will be briefly described below.

30.2.1 The Scope of the Act on the Protection of Trade Secrets

The Act on the Protection of Trade Secrets provides certain limitations, primarily in Sections 1–2, aiming at balancing interests of an effective trade secret protection with the interest of movement of labour and the freedom of expression. The initial proposal for the Act on the Protection of Trade Secrets was criticised for being a threat to the free movement of labour and the freedom of expression. The unions expressed their concerns and argued that the legislation was too far-reaching and therefore created a considerable risk that it would prevent whistleblowers from calling for attention any illegal activities or other operational deficiencies of an employer. To address these issues, the regulation contained in Section 2 was added. Furthermore, it should be pointed out that the Act on the Protection of Trade Secrets does not limit the regulations that safeguard the right of citizens to access documents in the possession of public authorities (i.e. principle of publicity), including, but not limited to, public courts in Sweden.

It is always the trade secret proprietor that has the burden of proof that all the prerequisites of liability under the Act are fulfilled.

30.2.2 The Definition of Trade Secret Under the Act on the Protection of Trade Secrets

Section 1 of the Act on the Protection of Trade Secrets contains the definition of "trade secret" and determines the type of information that constitutes a trade secret, and consequently is protected under the Act. For information to be classified as a trade secret under the Act, the information must meet the following criteria:

1. the information concerns business or industrial relations of a person conducting business or industrial activities
2. the person in question keeps the above-mentioned information secret,
3. disclosure of the information would likely cause damage to that person from a competitive point of view.[11]

[11]Prop. 1987/88:155 p. 34.

For information to be classified as a trade secret, it is required that *all three* above-mentioned criteria are met. This means that should the information meet only two of the criteria, it will not constitute a trade secret. The three criteria will be described separately below.

30.2.2.1 Information Concerning Business or Industrial Relations of a Person Conducting Business or Industrial Activities

The term ‘information’ stated in the Act on the Protection of Trade Secrets has a broad meaning and is comprised of ”information, knowledge and general knowledge of any kind”.[12] It does not matter whether the information is documented and/or exists only on the minds of certain individuals (see, Section 1, second paragraph of the above-mentioned act). The information must, however, be directly linked to the particular business to meet the criteria of “business or industrial relations of a person”.

The criterion “information” can be composed of individual business transactions and information on business transactions in general, e.g. market research, market planning, price setting estimates and plans on advertising campaigns.[13] The term comprises both information about ongoing operation or production, as well as information about development and construction, research, studies or similar.[14] Other more specific examples of information having the characteristics of trade secrets according to Swedish case law are sales statistics, customer lists,[15] information about customers’ needs and desires,[16] personnel records holding information about the employees’ qualifications,[17] co-operation agreements,[18] drawings[19] and production plans and business plans. The Swedish Supreme Court[20] has ruled that a bank’s instructions for identification of checks at cash withdrawals constitute a trade secret.[21]

There is no particular requirement on the “quality” of information that constitutes a trade secret. It may be of an uncomplicated nature. It is not required

[12]Prop. 1987/88:155 p. 34.

[13]Prop. 1987/88:155 p. 35.

[14]Prop. 1987/88:155 p. 35.

[15]See, in particular, AD 2000 No 3, in which the Swedish labour court (Arbetsdomstolen) stated that the customer list of a company typically holds information with the characteristics of trade secrets. See also AD 2010 No 27, AD 2006 No 49, RH 2002:61, NJA 2001 p. 362, Svea Court of Appeal (Svea Hovrätt) decision 1997-05-14 case number T 81/96 and Svea Court of Appeal (Svea Hovrätt) decision 2010-12-29 case number Ö 7342-10.

[16]AD 2003 No 21.

[17]AD 1998 No 80 and AD 2006 No 49.

[18]AD 2009 No 63.

[19]RH 2002:11.

[20]Swe. Högsta Domstolen.

[21]NJA 1995 p. 347. See also NJA 1999 p. 469, where the Swedish Supreme Court (Högsta domstolen) ruled that a banks’ ten year old credit instruction constituted a trade secret.

that the idea is considered innovative or unique or likewise which can be a requirement for protection under intellectual property law.[22]

Personal knowledge and experience of an individual cannot constitute a trade secret because of the conditions "business or industrial relations". In the preparatory works, the following statements were made regarding this limitation:

> In principle, information which anybody with the relevant education could put into practice should be classified as information of the business or industrial relations of a person conducting business or industrial activities. However, where the information comprises knowledge and experience of an individual who cannot easily be passed on by way of instructions and directions, the information should be deemed to be of a personal nature and, accordingly, not as information concerning business or industrial activities that may be protected as trade secrets under the Act.[23]

The criterion "person conducting business or industrial activities" applies to all legal entities and individuals pursuing an economic activity professionally, for the purpose of profit-making or otherwise. Hence, confidential information merely connected to the private business of an individual may not be considered as a trade secret protected under the Act on the Protection of Trade Secrets. It should be noted that information about a private business of an employer's representatives may be of a kind that would fall within the employee's duty of confidence as found under the general principle of loyalty.

30.2.2.2 The Information Shall Be Kept Secret by the Person Conducting Business or Industrial Activities

For the information to be classified as a trade secret, it is also required that the information is not in the public domain or in any other way generally accessible. In the preparatory works, it is stated that for trade secrets to be protected by the Act on the Protection of Trade Secrets, it is essential that the information is not freely accessible to those wishing to access the material.

Further, the information must be treated as confidential by the trade secret proprietor. Hence, a duty of care and certain measures to keep the information confidential must be taken by the party seeking the protection of its information under the Act on the Protection of Trade Secrets.[24] The individuals having access to the information must be limited and identifiable, which means that those who have received the information may only be authorised to use and disclose the information under certain restrictions connected to the purpose of the disclosure of a trade secret.[25] This condition should however not be perceived as an absolute

[22] See also RH 2002:11.

[23] Prop. 1987/88:155 p. 35.

[24] See Svea Court of Appeal (Svea Hovrätt) decision 2010-12-29 case number Ö 7342-10, where the Court stated that whether the information in a customer register can be found in other registers or otherwise available is without relevance to the question of keeping secret. The importance is the compilation of the information and that it has been kept secret.

[25] Prop. 1987/88:155 p. 13.

requirement of confidentiality undertakings, but the trade secret proprietor disclosing trade secrets to a third party must be able to demonstrate its intention to keep such disclosed information confidential.[26]

30.2.2.3 The Disclosure of Information Shall Be Likely to Cause Damage to a Person Conducting Business or Industrial Activities

The third and last condition is that the information, if used and/or disclosed, would likely adversely affect the competitiveness of the trade secret holder.[27] This condition is to be evaluated in an objective manner. Hence, it is not required that the damages are proved in the particular case.[28]

30.3 Unwarranted Infringement of Trade Secrets Under the Act on the Protection of Trade Secrets

Section 2 of the Act states that the Act only applies to unwarranted infringements of trade secrets.

First, the Act is not applicable when someone discloses trade secrets in order to to make available to the public or before a public authority or other authorised bodies a matter which may reasonably be suspected of constituting a criminal offence punishable by imprisonment or which is deemed to constitute another serious irregularity, in the business or industrial activity of a person conducting such activities (i.e. whistle blowing). Consequently, under the Act, employees and other individuals may be allowed to reveal someone's trade secrets to make public certain incongruity. The right to disclose incongruities, however, is limited to circumstances where the incongruity is so severe that the public interest outweighs the need of protection for the proprietor of such information.[29] Employees may only disclose or use a trade secret to the extent it is strictly necessary for the purpose of revealing such wrongdoing or illegal activity (i.e. whistleblowing). Furthermore in these cases, the disclosure must be made before a public authority or other competent bodies, e.g. safety representatives and trade-union representatives to whom an employee is authorised to turn regarding serious incongruities.[30]

Second, the Act does not apply when a trade secret is acquired in good faith. As such, a company receiving a competitor's trade secret in good faith from

[26]Prop. 1987/88:155 p. 35 and the following.

[27]See prop. 1987/88:155 p. 37, in which it was stated that the relevant consideration is where the disclosure causes economic loss or other to the person conducting business or industrial activities". E.g. see also R. Fahlbeck, Lagen om skydd för företagshemligheter: en kommentar och rättsöversikt, 3rd ed, Norstedts, Juridik (2010) p. 246 *et seq*., and the district court findings in AD 2011 No 11.

[28]Prop. 1987/88:155 p.36-37.

[29]Bet. 1989:90: LU37 p.30.

[30]Bet. 1989:90: LU37 p. 90.

the trade secret proprietor or a third party can therefore rely on the exception in Section 2, meaning that the trade secrets received under such circumstances are not protected under the Act. The same applies even if such company, after it has received the trade secrets, becomes aware of the unauthorised disclosure or the status of the information being a trade secret of the trade secret proprietor.

30.4 Trade Secrets in Business Relations

For the purpose of a business relation, parties are often required to exchange confidential information. Section 6 of the Act covers the protection of trades secrets disclosed in confidence in conjunction with such business relationships.

Liability for unwarranted violation of trade secrets in accordance with Section 6 of the Act demands that the following conditions are fulfilled;

- the trade secret is received in connection with a business relation;
- the trade secret is received in confidence;
- the trade secret is used or disclosed; and
- the use or disclosure is made with intent or negligence.

The prerequisite of a business relation does not imply contractual commitment. Hence, Section 6 of the Act is applicable even to information acquired during negotiations of contract, bidding procedures and presentations of a future co-operation or similar.[31]

Section 6 of the Act applies to all types of business relationships where someone has received trade secrets in confidence. An individual who obtains the information ought to have understood that the information received had the character of a trade secret and that the information was given with the reservation that it was to be used only for a certain purpose. The relevant moment for this knowledge being the moment when the receiving party receives the trade secret and thus not the moment of the violation of trade secrets.[32]

Liability requires that a person conducting business or industrial activities by intent or by negligence *uses or discloses* trade secrets received in confidence. These terms are defined in the preparatory works. The "use" is defined as anyone who within a business uses the information constituting a trade secret. The unwarranted use shall be of a commercial nature, but it is not required that the business makes a profit. The "disclosure" is defined as an individual disclosing the trade secrets to

[31] Prop. 1987/88:155 p. 42, NJA 1998 p. 633 and RH 2002:11. See also R. Fahlbeck, Lagen om skydd för företagshemligheter: en kommentar och rättsöversikt, 3rd ed, Norstedts, Juridik (2010), p. 290 *et seq*.

[32] There is a close connection between this condition and the definition of trade secrets. R. Fahlbeck, Lagen om skydd för företagshemligheter: en kommentar och rättsöversikt, 3rd ed, Norstedts, Juridik (2010), p. 292.

someone else.[33] As indicated above, it is required that someone actively uses the trade secret in a business pursuing an economic activity professionally, for the purpose of profit-making or otherwise for liability to arise. Hence, the mere fact that someone is in possession of a trade secret, does not necessarily *per se* constitute a use according to the Act. It should be noted that there is no corresponding requirement regarding an unwarranted disclosure, meaning that there is no requirement that an unwarranted disclosure be carried out in connection with business pursuing an economic activity.

The non-use and non-disclosure undertakings provided for herein regarding trade secrets received in confidence in connection with a business relation applies without limitation in time provided that such trade secrets meet the criteria of being a trade secret.

30.5 Trade Secrets within an Employment Relationship

Employment imparts a duty of confidence on all employees irrespective of their position. Swedish case law provides that an employee is not entitled to disclose and/or otherwise misuse confidential information during the course of his/her employment.[34] The parties may also enter into a confidentiality undertaking with express terms stipulated, in a separate non-disclosure agreement, in the employment agreement or elsewhere.[35] If the parties do not enter into an undertaking of confidentiality as aforementioned, the duty of confidence under the duty of loyalty for the employee will only last until his/her last day of employment.

In addition to the above, employees have, under certain conditions, a duty of confidence under Section 7 of the Act on the Protection of Trade Secrets. According to this provision, an *employee, who intently or negligently*, exploit or reveal a trade secret belonging to the employer that the employee has received in the course of his/her employment, under such circumstances that the employee realised or should have realised that the information was a trade secret, will be held liable for violation of the Act on the Protection of Trade Secrets. Liability for unwarranted violation of trade secrets in accordance with Section 7 of the Act on the Protection of Trade Secrets requires that the following conditions are fulfilled;[36]

[33] R. Fahlbeck, Lagen om skydd för företagshemligheter: en kommentar och rättsöversikt, 3rd ed, Norstedts, Juridik (2010), p. 296. See also prop. 1987/88:155 p. 47 and SOU 2008:63 p. 173 *et seq*.

[34] E.g. see AD 1994 No 79, in which the Swedish labour court (Arbetsdomstolen) stated that duty of loyalty, includes a duty of confidence for employees, even if no such duty is set out explicitly in the employment contract or otherwise.

[35] R. Fahlbeck, Lagen om skydd för företagshemligheter: en kommentar och rättsöversikt, 3rd ed, Norstedts, Juridik (2010) p. 315.

[36] See the judgement of Svea Court of Appeal (Svea Hovrätt) decision 1997-05-14 case number T 81/96.

- the employer is the trade secret proprietor;
- the trade secret is received by an employee in connection with the employment;
- the employee understood, or ought to have understood, that it was not allowed to disclose the trade secret;
- the trade secret is used or disclosed by the employee; and
- the use or disclosure is made with intent or negligence.

The duty of confidence prescribed under Section 7 is significantly limited after the termination of the employment. To apply, post-employment extraordinary circumstances must be at hand (Section 7, second paragraph). Consequently, where a former employee uses trade secrets of his/her former employer, he/she will not be liable under the Act on the Protection of Trade Secrets unless "extraordinary circumstances" are at hand.

According to statements made in the preparatory works of the Act on the Protection of Trade Secrets, factors indicating "extraordinary circumstances" are:

- Where the employee has taken the position in the company with the purpose of acquiring trade secrets.
- Where the employee has gathered and compiled trade secrets and transferred documentation containing trade secrets during the employment with the purpose of subsequently setting up a competing business or to start working for a competing company.
- Where the employee holds a fiduciary position within the company.
- The extent to which the former employee's use and disclosure affect the competitiveness of the former employer.

If the former employee is in breach of an express confidentiality agreement containing express post-employment confidentiality obligations, such agreement would also most likely indicate that "extraordinary circumstances" exist. It should however be noted that there is no definite case law concerning this specific question.

30.6 Liability of Third Parties[37]

Section 8 of the Act on the Protection of Trade Secrets provides some level of protection against trade secrets misappropriation from third parties (i.e. outside the scope of a business relationship or an employer–employee relationship). Section 8 of the Act on the Protection of Trade Secrets provides that anyone who with intent and without authorisation uses or discloses a trade secret knowing that the

[37] Regarding liability for damages for anyone obtaining another person's trade secrets outside of a business relation, see Section 6 of the Protection of Trade Secrets Act, or employee-employer, see Section 7 of the Protection of Trade Secrets Act.

information has been subject to unwarranted violation of trade secrets, may be liable to damages according to the Act on the Protection of Trade Secrets. Liability for unwarranted violation of trade secrets in accordance with Section 8 of the Act on the Protection of Trade Secrets requires that the following conditions are fulfilled:[38]

- trade secrets are used or disclosed (i);
- trade secrets referred to (i) above have previously been violated in breach of the Act on the Protection of Trade Secrets or the Freedom of Information and Official Secrets Act (2009:400);
- knowledge of the fact that the information previously has been violated in breach of the Act on the Protection of Trade Secrets or the Freedom of Information and Official Secrets Act; and
- the use or disclosure is intentional or negligent.

The provision is applicable to situations where liability for damages[39] or criminal liability[40] are at hand according to the Act on the Protection of Trade Secrets and/or the Freedom of Information and Official Secrets Act.[41] The most frequent situation in practice when Section 8 applies is when an ex-employee, in close connection to the termination of his/her employment, misappropriates the former employer's trade secrets for the benefit of the recruiting employer's business or its own business in breach of the Section 7 second paragraph when "extraordinary circumstances" are at hand.

30.7 Criminal Liability

In addition to liability for damages according to the Act on the Protection of Trade Secrets, a person who uses or discloses someone's trade secrets may, under the same act be held liable for a criminal offence provided that certain conditions are met. Anyone obtaining unauthorised access to a trade secret can be convicted of trade espionage. The offence is completed when such person obtains unauthorised access to the trade secrets of a trade secret proprietor.[42] A prerequisite for liability of trade espionage for the perpetrator is that it had no authorised access to such trade secrets at the time of the unauthorised access. An active action is furthermore required.[43] Anyone who by accident obtains access to trade secrets cannot be

[38]See the judgement of Svea Court of Appeal (Svea Hovrätt) decision 1997-05-14 case number T 81/96 and AD 1998 No 80.

[39]Sections 6 and 8 of the Protection of Trade Secrets Act.

[40]Sections 3 and 4 of the Protection of Trade Secrets Act.

[41]See the judgement of Svea Court of Appeal (Svea Hovrätt) decision 1997-05-14 case number T 81/96.

[42]Prop. 1987/88:155 p. 39.

[43]NJA 2001 p. 362.

convicted for trade espionage.[44] Trade secret proprietors with clear and express instructions on the handling of trade secrets can therefore extend the scope of the rule on trade espionage considerably. This can also be implemented by restricting the access to trade secrets within an organisation.

Anyone committing trade espionage can be sentenced to fines or imprisonment for not more than 2 years or, where the offence is serious, to imprisonment for not more than 6 years. It is however not necessary that the purpose of the unauthorised access was to use or disclose the trade secrets obtained through the unauthorised access.

Pursuant to Section 4 of the Act on the Protection of Trade Secrets, anyone intently gaining access to trade secrets that have been subject to violation of trade secrets and constitutes trade espionage can be sentenced to unauthorised tampering with trade secrets. Liability requires that the perpetrator knows that he/she acquired access to such trade secrets due to trade espionage and that the individual had knowledge of this fact at the time when he/she obtained the trade secret.[45]

Anyone found guilty of unauthorised tampering with a trade secret may be sentenced to fines or imprisonment for not more than 2 years, or, where the offence is serious, to imprisonment for not more than 4 years.

In addition to the criminal liability as per above, a person convicted of an offence by reason of the aforesaid, can simultaneously be held liable for damages according to Section 5 of the Act on the Protection of Trade Secrets corresponding to the actual damage incurred as a result of the trade espionage or unauthorised tampering with trade secrets.

Moreover, in addition to the duty of secrecy the Swedish penal code and the above described offences in the Act on the Protection of Trade Secrets, the Swedish penal code includes several other criminal offences that may, depending on the circumstances, be applicable in connection with a person's unauthorised access to the trade secrets of a trade secret proprietor and/or misuse of such trade secrets.

30.8 Civil Remedies

30.8.1 Damages

If a trade secret misappropriation has taken place, damages are available as a remedy under the Act on the Protection of Trade Secrets. The general principle is that anyone who, by intent or by negligence, commits an unwarranted violation of trade secrets according to Sections 5–8 under the Act on the Protection of Trade Secrets shall pay to the trade secret proprietor a compensation corresponding to the actual damage suffered.

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[44] Prop. 1987/88:155 p. 39.

[45] Helgesson (Wainikka) C, Affärshemligheter i samtid och framtid, Jure, (2000) p. 320.

The burden of proof is on the claimant.[46] However according to Chapter 35, Section 5 of the Code of Judicial Procedure [47], the courts may make an estimate of the damages to be paid if it is not possible to present full evidence of the extent of damage incurred. This rule is commonly applicable in trade secret cases because it is often very difficult to fully prove damage or loss caused by trade secret misappropriations.

Different methods of calculation of damages have been accepted in Swedish case law. Most frequent in practice are probably the following calculations methods[48]:

- Loss of profit;
- Unjust enrichment;
- Decrease in value of the company due to the violation of trade secret.

Other factors may be relevant for the calculation of damages such as:

- The extent of the damage and the type of trade secret being subject to unwarranted violation of trade secrets;[49]
- Where the person suffering damage has an inferior status;
- Wilful violation of trade secrets may give rise to higher amount of damages than less serious violation of trade secrets.[50]

The above-mentioned methods of calculation should not be regarded as an exhaustive list of factors of importance to the estimation of damages, other factors may also be considered. In the preparatory works it is clarified that the calculation of damages in some cases may even need to be considered without fixed points and that, in some cases, the interest of keeping the information secret shall be considered.[51]

Section 9 of the Act on the Protection of Trade Secrets further provides that when determining damages for violation of trade secrets, one must also consider the interest of the trade secret not being subject to unwarranted violation of trade secrets and other non-economic interests. Hence the trade secret proprietor may obtain damages for the moral prejudice suffered.

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[46]Prop. 1987/88:155 p. 49.

[47]Swe. Rättegångsbalk (1942:740).

[48]M. Tonell Sekretessavtal – och det rättsliga skyddet för företagshemligheter, Jure (2012) p. 109.

[49]See the judgement of Svea Court of Appeal (Svea Hovrätt) decision 1997-05-14 case number T 81/96, in which the court of appeal made an assessment of the extent of the violation of trade secret when estimating the general damages.

[50]See RH 2002:11, in which Svea Court of Appeal (Svea Hovrätt), with direct reference to the statements of the preparatory works, explicitly based the damages on willfulness.

[51]Prop. 1987/88:155 p. 50.

According to Section 10 of the Act on the Protection of Trade Secrets, there is a 5 year limitation period counted from the time the damage occurred.

30.8.2 Other Remedies

According to Section 11 of the Act on the Protection of Trade Secrets, a person who commits an unwarranted violation of a trade secret according to the aforementioned act, may upon request of the victim of a trade secret, be prohibited by a Court, under penalty of a fine from continuing to use or to disclose the trade secret. According to the Act on the Protection of Trade Secrets, both legal entities and individuals may be adjudicated to a prohibition under penalty of a fine, presumed that they are liable for the violation of trade secret.

The possibility that an adjudication of a fine may be ordered by the Court, is an effective legal remedy to prevent the continuation of the violation. The threat of a fine for failing to comply with the injunction is a particular sanction which complements the sanctions of penalties and damages and shall not be confused with a contractual penalty of a fine, which constitutes a separate sanction, as indicated above. Prohibition of a penalty of a fine is, mainly, a sanction to stop the continuation of the trade secret misappropriation.

An injunction shall be imposed on anyone violating the provisions on damages or penalties of the Act on the Protection of Trade Secrets. All subjective and objective conditions for liability under the said act have to be met for the Court to adjudicate a prohibition under penalty of a fine. According to Section 2 of the Act on the Protection of Trade Secrets, prohibition under penalty of a fine can be adjudicated only for unwarranted violation of trade secrets. Furthermore, prohibition under penalty of a fine is only applicable where the information still meets the criteria of a trade secret in section 1 under the above act.

According to Section 13 of the Act on the Protection of Trade Secrets, a person who has applied for an action for prohibition under a penalty of a fine can also ask the Court to order an interim claim for adjudication of a preliminary prohibition under penalty of a fine against any continuation of violation for the time until the case has been finally adjudicated or otherwise is decided.

Section 14 of the Act on the Protection of Trade Secrets provides that the Court may, under certain conditions, order that documents or objects containing information that previously has been violated in breach of the Act are returned to the trade secret proprietor. Instead, the Court may order that the document or the object instead shall be destroyed or altered to prevent further misuse of such trade secrets.

In the light of the above-mentioned, the requirements of evidence in an action for the adjudication of a fine or surrender of documents are the same as in an action for damages.

30.9 Protection of Trade Secrets in Non-disclosure Agreements

As there is no particular law on non-disclosure agreements, the general principles of contract law applies. Under Swedish law, freedom of contract governs the contractually agreed protection of trade secrets. All non-governmental legal subjects with legal competence can enter into various types of non-disclosure agreements. This applies for both parties in a business relationship as well within an employer–employee relationship. There are no formal conditions for the validity of Non-Disclosure agreements.[52]

In case of breach of confidentiality obligations under Non-Disclosure agreements, remedies may be pursued under the general rules of breach of contract, including damages and, under certain conditions, injunctive relief. According to general contract law, only economic loss is recoverable, which means that "non-economic loss" or damages for the moral prejudice incurred will not be compensated. However the parties may agree on liquidated damages for breach of confidentiality under a non-disclosure agreement.[53]

In business relationships between corporations the parties to a non- disclosure agreement should be able to agree on confidentiality terms protecting certain information, even though such information should not meet the requirements of being a trade secret under the Act on the Protection of Trade Secrets. Consequently, a trade secret proprietor may be entitled to remedies under the law of contract even if the information disclosed should not meet the statutory definition of trade secret standards (if not assessed to be unfair under Section 36 of the Swedish Act on Contracts[54]). However, in the employer/employee relationship it is highly uncertain that an express confidentiality clause may protect information that would not be protected by virtue of the employee's duty of confidence under the principle of loyalty and/or being a trade secret under the Act on the Protection of Trade Secrets. Whether the Act on the Protection of Trade Secrets limits the freedom of contract in these circumstances is, however, uncertain, since there is no definite Swedish case law in this area.[55]

It should however be noted that the legal definition of a trade secret provided in Section 1 and the limitations mainly concerning whistle blowing under Section 2 of the above act are mandatory. Consequently, the scope of the Act cannot be extended by confidential undertakings covering "unprotected" information. The same applies to warranted disclosures made within the scope of Section 2 of the said act.

[52]M. Tonell. Sekretessavtal – och det rättsliga skyddet för företagshemligheter Jure (2012) p. 57 *et seq*.

[53]M. Tonell. Sekretessavtal – och det rättsliga skyddet för företagshemligheter Jure (2012) p. 87 *et seq*.

[54]Swe. Lag (1915:218) om avtal och andra rättshandlingar på förmögenhetsrättens område.

[55]M. Tonell. Sekretessavtal – och det rättsliga skyddet för företagshemligheter Jure (2012)p. 60 *et seq*.

30.10 The Legal Measures Available to a Trade Secret Proprietor to Secure Evidence of Trade Secret Misappropriation?

The Act on the Protection of Trade Secrets does not provide for a specific system of discovery. Where trade secret misappropriation is suspected a trade secret proprietor has therefore to rely on the general procedural rules on securing evidence.

Chapter 38 Section 2 of the Code of Judicial Procedure [56] stipulates that anyone, a party, as well as a third party, who is in possession of a document of importance as evidence in a litigation may under certain circumstances be required by a court order to produce the document in question. An exception to the rule of producing documents is made for documents containing trade secrets. Pursuant to Chapter 36 Section 6 of the Code of Judicial Procedure,[57] documents containing trade secrets may only be ordered to be produced if the Court finds extraordinary reasons to examine the document in question.

Chapter 15, Section 3 of the Code of Judicial Procedure[58] may also apply. The provision states that where anyone shows a probable case for his claim, the Court may make an order for measures suitable to secure the applicant's rights under certain conditions. In urgent cases the Court can make an ex parte decision.

Where there is a risk of loss of evidence, "proof-taking" for the purposes of securing evidence can be made. These rules are stated in Chapter 41 of the Code of Judicial Procedure.[59]

30.11 Protection of Trade Secrets During Court Proceedings

Chapter 5, Section 1 of the Code of Judicial Procedure[60] provides that court hearings are, as a general principle, public. However, the Court may decide to hold the hearing behind closed doors, if it is presumed that information classified by the Court as strictly confidential, according to the Freedom of Information and Official Secrets Act[61], will be presented during the proceedings.

Trade secrets submitted as part of litigation in a general court may, on certain conditions, be classified as confidential. Chapter 36, Section 2 of the Freedom of Information and Official Secrets Act, provides that in general court secrecy applies to information about an authority or a person's business or industrial activities, if it is presumed that *substantial* damage will be caused to the person concerned by such

[56] Swe. Rättegångsbalk (1942:740).

[57] Swe. Rättegångsbalk (1942:740).

[58] Swe. Rättegångsbalk (1942:740).

[59] Swe. Rättegångsbalk (1942:740).

[60] Swe. Rättegångsbalk (1942:740).

[61] Swe. Offentlighets- och sekretesslag (2009:400).

disclosure.[62] The rule also applies when trade secrets are reproduced in pleadings and otherwise occur in the evidence brought forward to the Court.

The secrecy ordered by the Court in accordance with Chapter 36, Section 2 of the Freedom of Information and Official Secrets Act, is limited to 20 years. This means that not even a court ruling on secrecy may be sufficient to protect confidential information of a commercial interest and value lasting longer than 20 years.

Where the information is considered not to fulfil the requirements of secrecy according to the Freedom of Information and Official Secrets Act, the information is considered to be public information. When information disclosed during court proceedings is not considered a secrecy according to the Freedom of Information and Official Secrets Act, the information is generally accessible and consequently no longer constitutes a trade secret according to the Act on the Protection of Trade Secrets.

When a court or another authority discloses information to a particular person, deputy, representative or assistant, in accordance with Chapter 10, Section 3 of the Freedom of Information and Official Secrets Act, they can make a reservation on the disclosure and exploitation of the information. The reservation may not constitute a prohibition from using the information in a litigation or a case or to use it as verbal information to the other party, a deputy, representative or assistant, according to Chapter 10, Section 4 of the Freedom of Information and Official Secrets Act.

[62]E.g. see AD 2011 No 11, in which the Swedish labour court (Arbetsdomstolen) decided the secrecy ordered by the district court to be valid, based on Chapter 43, Section 8, second paragraph of the Secrecy act and that secrecy according to Chapter 36, Section 2 of the same law should apply to the information in certain documents submitted in the case. See also RÅ 2002 note 157.

Switzerland 31

Charlotte Boulay

31.1 Introduction

This is a summary of the current legal situation regarding the protection of trade secrets in Switzerland. Trade secrets protection originally gained attention in Swiss law many years ago. Indeed, the Swiss Federal Supreme Court (hereinafter "the Supreme Court") first ruled upon trade secrets protection in a decision in 1938.[1]

After initially focusing upon the definition of trade secrets (Sect. 31.2), the legal framework will be analysed (Sect. 31.3). Following this, the report will deal with procedural aspects (Sect. 31.4). Afterwards, civil remedies and criminal penalties will be analysed (Sect. 31.5). A specific part will then be dedicated to the misuse of trade secrets protection (Sect. 31.6) and finally, know-how will be reviewed (Sect. 31.7).

[1]Swiss Federal Supreme Court's decision ATF 64 II 162 of 1 March 1938.

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31.2 Definition of Trade Secrets

The conditions contained in the definition described below are very similar to the three conditions of Article 39 (2) of the TRIPS Agreement[2] concerning protection of trade secrets. Hence, Switzerland, a member of the World Trade Organization, which administers the TRIPS Agreement, respects the standards provided by Article 39 (2) of the TRIPS Agreement.[3]

31.2.1 Conditions

Only information which is not known or readily accessible can be held as secret—it must be objectively secret. The secret is absolute if only one person knows the secret. According to the Supreme Court, a relative secret has to be protected[4] but only the owner of the secret and a restricted circle of people can know this secret.[5] Neither legal provisions nor jurisprudence provide a definition of the number of persons who can have knowledge of the secret information because it is not an essential issue.[6] An important aspect is that the information must be kept out of the public domain. “Readily accessible” does not mean that the secret must remain in Switzerland.[7]

Moreover, according to the jurisprudence, the owner must have an interest in keeping the information secret.[8] In a decision discussing trade secrets, the Supreme Court referred to them as “information that may affect the profits of a business”.[9] Therefore, this interest refers to a commercial value and cannot be an ideal interest.[10] The risk that a disclosure of the information may accelerate the development of a competing product would be a legitimate interest to keep the information secret.[11]

Finally, the owner of a trade secret must take reasonable steps to keep the information secret. According to the Supreme Court, the owner of a trade secret has to take positive measures to prevent misappropriation of the secret. These

[2] Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994 (hereafter “TRIPS Agreement”).

[3] P. Münch, P. Böhringer, S. Kasper Lehne and F. Probst, Schweizer Vertrags-Handbuch, 2nd ed., Helbing & Lichtenhahn 2010, p. 62; I. Meitinger, Die globale Rahmenordnung für den Schutz von Geschäftsgeheimnissen im TRIPS-Abkommen der WTO und ihre Auswirkungen auf die Rechtslage in der Schweiz, sic! 3/2002 p. 154.

[4] F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter-und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006, pp. 829-830.

[5] F. Dessemontet, Intellectual Property Law in Switzerland, 2nd ed., Staempfli 2014, n°671.

[6] O. Weniger, La protection des secrets économiques et du savoir-faire (Know-How), 1994, p. 148.

[7] F. Dessemontet, Intellectual Property Law in Switzerland, 2nd ed., Staempfli 2014, n°671.

[8] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 81.

[9] Swiss Federal Supreme Court’s decision ATF 103 IV 283 consid. 2 b of 1 July 1977.

[10] R. Schlosser, Le contrat de savoir-faire. Etude de droit suisse, 1996, p. 53.

[11] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 81.

measures have to be effective[12] and are of a varying nature: they can be technical (e.g. secured access to rooms, passwords on computers and seals on documents), or contractual (e.g. non-disclosure agreements). In an old decision, the Supreme Court found it insufficient that machines, in which the mechanism was supposed to be secret, were not placed in a separate and secure room in the factory.[13]

31.2.2 Lack of a Uniform Terminology

Swiss law makes a distinction between commercial secrets and manufacturing secrets. This is, for example, the case with Article 6 UCA[14] entitled "Misappropriation of manufacturing and commercial secrets". Commercial secrets pertain to the organisation of an undertaking (marketing plans, business strategy, etc.) whereas manufacturing secrets focus on the process of product development (techniques, production process, etc.).[15] The Supreme Court considers, for instance, that customers' lists or information regarding marketing strategy are commercial secrets.[16]

However, there is no homogeneity in the use of the terminology, neither in the law nor in jurisprudence.[17] Indeed, the Supreme Court describes trade secrets differently depending on the legal basis. In a 1977[18] decision concerning criminal law and unfair competition law, the Supreme Court described a secret as knowledge which is not widely known in the public ("public notoriety")[19] and which is not reasonably accessible; whereas in a 2012[20] decision regarding labour law, it stated

[12]F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter-und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006, p. 836.

[13]Swiss Federal Supreme Court's decision ATF 88 II 319 consid. c 1 of 18 September 1962.

[14]Unfair Competition Act of 19 December 1986 (hereafter "the UCA").

[15]W. Portmann and J.-F. Stöckli, Schweizerisches Arbeitsrecht, 3rd ed., Dike 2013, p. 108.

[16]O. Weniger, La protection des secrets économiques et du savoir-faire (Know-How), 1994, p. 261.

[17]R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 66; A. Witzig, Secrets de fabrication et secret d'affaires (art. 340 CO): certitudes et incertitudes de la jurisprudence du TF. In: Panorama II en droit du travail, Wyler (ed.), Staempfli 2012, pp. 256-259.

[18]Swiss Federal Supreme Court's decision ATF 103 IV 283 consid. 2 b of 1 July 1977.

[19]This notion of "public notoriety" is not defined. According to some authors, it means that everyone cannot discover easily the trade secrets. Intellectual efforts and costs are required in order to discover the secrets (in that sense: R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 67).

[20]Swiss Federal Supreme Court's decision ATF 138 III 67 consid. 2.3.2 of 10 January 2012: "Pour être qualifiées de secrets d'affaires ou de fabrication, les connaissances acquises par le travail doivent toucher à des questions techniques, organisationnelles ou financières, qui sont spécifiques et que l'employeur veut garder secrètes"; R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 67.

that the secret also had to be specific.[21] Another example of this inconsistent terminology is the definition of secret given in criminal law. Based on Article 162 CC[22], the Supreme Court described trade secrets, as information which is not known and readily accessible and must be kept secret because of the owner's legitimate interest.[23] Nevertheless, the same court provided a broader definition of trade secrets regarding Article 273 CC (industrial espionage): it covers all components of the economic life that must not be disclosed because of a legitimate interest.[24]

31.3 Legal Framework Concerning Trade Secrets

31.3.1 Protection of Trade Secrets and the Code of Obligations

31.3.1.1 Protection of Trade Secrets and Contractual Liability

Protection of trade secrets is deeply linked with employment relationships. Therefore, several provisions of the chapter concerning employment contracts in the CO[25] pertain to the protection of trade secrets.

Paragraph 4 of the Article 321*a* CO states that the employee has a duty of loyalty because he must not exploit or reveal confidential information obtained while in the employer's service, such as manufacturing or trade secrets. This duty still exists after the end of the employment relationship to the extent required to safeguard the employer's legitimate interests. Hence, an employee must act in good faith during his employment and cannot disclose or misuse any secret learned from the employer.[26] This obligation also remains valid after the termination of the employment contract, even without conclusion of a non-compete clause.[27]

As Article 321*a* (4) *in fine* CO instructs, this duty of loyalty is restricted to the extent required to safeguard the employer's legitimate interests. The employer has to prove the existence of legitimate interests and the judge performs a balancing test

[21] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 67.

[22] Swiss Criminal Code of 21 December 1937 (hereafter "the CC").

[23] Swiss Federal Supreme Court's decision ATF 103 IV 283 consid. 2 b of 1 July 1977; F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter-und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006, p. 824.

[24] Swiss Federal Supreme Court's decision ATF 65 I 47 of 6 March 1939.

[25] Code of Obligations of 30 March 1911 (hereafter "the CO").

[26] G. Aubert, La protection des secrets économiques en droit privé suisse du travail. In: Les relations Suisse / CE: l'exemple de l'industrie pharmaceutique, Dufour and Hertig (eds.) Payot 1988, p. 210.

[27] B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 3; R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 76.

of the different interests involved.[28] Legitimate interests have been found to include the employee's knowledge of the secrecy and the trusting relationship between him and his employee. The type of work and remuneration of the employee must also be considered.[29] There is a doctrinal debate regarding the scope of the duty of loyalty after the end of the contract. Some authors believe that the former employee must not disclose and use secrets after the end of the contract, whereas other authors argue that the prohibition only concerns disclosure of trade secrets because that would otherwise constitute a prohibition of lawful competition.[30] As regards to the burden of proof set out in Article 321*a* (4) CO, the claimant must demonstrate that a trade secret concerning the business line of the employer has been unlawfully disclosed by the employee. It must also prove the causal link between the trade secrets misappropriation and the harm suffered.

It should be noted that in the simple agency contract, the protection of trade secrets is part of the agent's duty of care. Indeed, referring to the employment contract, Article 398 paragraphs 1 and 2 CO mentions that the agent generally has the same duty of care as the employee in an employment relationship. The agent is liable to the principal for the diligent and faithful performance of the business entrusted to him.

Article 340 (2) CO provides for an automatic non-compete obligation after the termination of the employment contract where the employment relationship allows the employee to have knowledge of the employer's clientele or manufacturing and trade secrets and where the use of such knowledge might cause the employer substantial harm. The non-compete clause must be limited geographically, in time (usually three years) and as to substance.[31] The employer bears the burden to demonstrate that even after the termination of the contract, the trade secret still exists and must remain confidential. The claimant must also prove that there is a causal connection between the unlawful use or disclosure of the trade secret by the former employee and the harm suffered.

Other provisions of the CO deal with protection of trade secrets. For instance, a commercial agent has a duty of loyalty because he cannot use or reveal trade secrets learned during his contract. Indeed, Article 418*d* (1) CO provides that the agent must not exploit or reveal the principal's trade secrets with which he has been entrusted or of which he became aware of by reason of the agency relationship. This is also applicable after the end of the commercial agency contract but the agent receives a corresponding special remuneration.

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[28] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 74.

[29] G. Aubert, La protection des secrets économiques en droit privé suisse du travail. In: Les relations Suisse / CE: l'exemple de l'industrie pharmaceutique, Dufour and Hertig (eds.) Payot 1988, p. 210.

[30] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 73.

[31] Swiss Federal Supreme Court's decision ATF 130 III 353 consid. 2 of 20 February 2004.

31.3.1.2 Protection of Trade Secrets and Corporate Law

Further provisions concern protection of trade secrets such as those focused upon limited liability companies (Article 697*e*, Article 717 (1) CO and Article 730*b* (2) CO) and the duty of loyalty and the prohibition to concurrence of company members are described in Article 803 (1) CO. Shareholders' rights to information and its restriction because of trade secrets protection are described in Article 697 (2) CO, Article 697*e* (1 and 2) CO and Article 730*b* (2) CO for limited liability companies and in Article 857 (2) CO for cooperative societies.

31.3.2 Protection of Trade Secrets and the Unfair Competition Act

Considering that a trade secret is important for its owner because it represents a competitive advantage, misappropriation of trade secrets is also punished through the UCA, the purpose of which is to ensure fair and undistorted competition in the interest of all parties.

Article 4 (c) UCA focuses on incitement of third parties to breach their duty of loyalty and to disclose trade secrets and states that acting unfairly is, particular, whoever induces employees, agents or other auxiliary personnel to disclose or search out the manufacturing or business secrets of their employer or principal. Therefore, this provision forbids inducing any employee, agent or ancillary person having a duty of loyalty, to disclose trade secrets belonging to their employer or principal.[32] This unlawful act does not require successful acquisition of the information, only the breach of contract by the employee is necessary.[33]

Article 5 (a) and (b) UCA concerns trade secrets as well as know-how.[34] This article provides that someone acts unfairly if he exploits the results of work entrusted to it (for instance, tenders, calculations or plans) without authorisation. According to this provision, someone also acts unfairly if he exploits the results of work of a third party although he must know that they have been handed to him or made available without authorisation. Article 5 (a) UCA punishes anyone who exploits "results of work" entrusted to him without authorisation.[35] Use and industrial and/or commercial exploitation of an intellectual result of work is prohibited.[36] Article 5 (b) UCA differs from Article 5 (a) UCA because it punishes a person exploiting the "results of work" of a third party. The person who disclosed

[32] M. Pedrazzini and F. Pedrazzini, Unlauterer Wettbewerb UWG, 2nd ed., Staempfli 2002, p. 179.

[33] K. Troller, Précis du droit suisse des biens immatériels, 2nd ed., Helbing & Lichtenhahn 2006, p. 365.

[34] The notion of know-how will be analysed in the section 31.7 of this report.

[35] T. Meili, Der Schutz von Know-how nach schweizerischem und internationalem Recht, Staempfli 2000, pp. 76-77.

[36] K. Troller, Précis du droit suisse des biens immatériels, 2nd ed., Helbing & Lichtenhahn 2006, p. 365.

unlawfully the "results of work" has breached his duty of loyalty.[37] The examples of "results of work", mentioned in the article, do not constitute an exhaustive list and focus on information, which is not necessarily ready to be placed on the market and is the results of intellectual efforts and costs.[38]

Article 6 UCA, one of the main provisions regarding protection of trade secrets, concerns unlawful disclosure or use of trade secrets that a person uncovered or got to know in a wrongful manner:[39] According to this provision, whoever exploits or discloses to third parties a manufacturing or business secret, which he searched out or learned about in any unlawful manner, acts unfairly. Unlike Article 4 (c) UCA, this article does not require a breach of contract. Someone may be punished if he unlawfully exploits or discloses a secret to a third party. According to the jurisprudence and the legal literature, theft and spying are covered by this article.[40] As regards to the burden of proof set out in Article 6 UCA, the claimant must prove that the defendant unlawfully gained access to the trade secret and disclosed it to a third party or exploited it for his own ends.

If the conditions of Articles 4 (c) or 6 UCA are not met, Article 2 UCA, which prohibits any behaviour or business practice violating the principle of faith dealing, and affecting the competitors or sellers and purchasers 'relationships may serve to protect trade secrets. This article is a "catch-all" clause and is useful for scenarios such as when a third party benefits from the employee's disclosure of trade secrets even if the employee was not under a duty of confidentiality.[41]

31.3.3 Protection of Trade Secrets and the Criminal Code

Article 162 CC provides for a monetary penalty or a custodial sentence (on complaint) not exceeding three years, if a person betrays a manufacturing or trade secret that he is under a statutory or contractual duty contract not to reveal. This provision also concerns the exploitation of a manufacturing or a trade secret by a person for himself or for third parties. According to the first paragraph of Article 162 CC, a person commits a misdemeanour if he discloses a secret to a third party in breach of a statutory or contractual duty.[42] Nevertheless, the mere use of the secret

[37] R. von Büren, E. Marbach and P. Ducrey, Immaterialgüter-und Wettbewerbsrecht, 3rd ed., Staempfli 2008, n°1212.

[38] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 86 and p. 105; R. von Büren, E. Marbach and P. Ducrey, Immaterialgüter-und Wettbewerbsrecht, 3rd ed., Staempfli 2008, n°1212.

[39] F. Dessemontet, Intellectual Property Law in Switzerland, 2nd ed., Staempfli 2014, n°664.

[40] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 84.

[41] F. Dessemontet, Intellectual Property Law in Switzerland, 2nd ed., Staempfli 2014, n°684.

[42] *Ibid.*, n°658.

without disclosure to a third party cannot be sanctioned by this provision.[43] The second paragraph of this provision concerns the sanction of a person, who breaches a statutory or contractual duty for his own benefit or for the benefit of a third party.[44] The offender does not need to receive the secret directly from the person who intentionally disclosed it as described in the first paragraph of Article 162 CC.[45] The unlawful behaviour of this person also constitutes a misdemeanour. Intention as the subjective element is required for Article 162 CC.[46]

Article 273 CC deals with economic espionage. It states that the attempt to acquire a manufacturing or a trade secret to disclose it to an external official agency, a foreign organisation, a private enterprise, or the agents of any of these, is punished by a custodial sentence not exceeding three years or by a monetary penalty. This provision also concerns a person who makes a manufacturing or a trade secret available to an external official agency, a foreign organisation, a private enterprise, or the agents of any of these. Article 273 CC is only applicable to offences committed against Swiss economic interests, which threaten the economic sovereignty of Switzerland.[47] Unlike Article 162 CC, the offender does not necessarily have a duty to keep the information secret.[48] The objective elements are the following: (1) economic information; (2) an attempt to obtain or to disclose the secret and (3) for the benefit of an external official agency, a foreign organisation, a private enterprise, or the agents of any of these. Subjective elements are the intention and purpose to disclose the information to the beneficiary.[49] It constitutes a misdemeanour and neither damage nor threat of damages is required.[50]

31.3.4 Protection of Trade Secrets and the Civil Code

Article 28 CivC[51] focuses on the rights relating to the personality and underlines that anyone whose personality rights are unlawfully infringed may require protection by the court against all those causing the infringement. However, an infringement to the personality rights are lawful if the concerned person has agreed to it, if there is an

[43]C. Favre, M. Pellet and P. Stoudmann, Code pénal, Bis & Ter 2011, p. 437.

[44]G. Stratenwerth and W. Wohlers, Schweizerisches Strafgesetzbuch Handkommentar, 3rd ed, Staempfli 2013, p. 357.

[45]F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter-und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006, p. 850; O. Weniger, La protection des secrets économiques et du savoir-faire (Know-How), 1994, p. 257.

[46]M. Dupuis, B. Geller, G. Monnier, C. Piguet, C. Bettex and D. Stoll (eds.) Petit commentaire du Code pénal, Helbing & Lichtenhahn 2012, p. 959.

[47]*Ibid.*, p. 1641.

[48]*Ibid.*, p. 1644.

[49]*Ibid.*, p. 1642.

[50]O. Weniger, La protection des secrets économiques et du savoir-faire (Know-How), 1994, p. 261.

[51]Swiss Civil Code of 10 December 1907 (hereafter “the CivC”).

overriding private or public interest or by law. This provision was used in the past for trade secrets protection because these secrets were considered as information belonging to the personal sphere.[52] Therefore, trade secrets benefited from the *erga omnes* effect of this provision.[53] Nevertheless, now the Supreme Court tends to reject this protection arguing that economic interests are not the object of the protection granted under Article 28 CivC, which aims at personality rights.[54]

31.3.5 Protection of Trade Secrets and the Intellectual Property Acts

Several provisions in the PatA[55] concern the protection of trade secrets. In principle, any person may inspect the dossier after the publication of the patent application. However, Article 65 (1) PatA restrains the right of a third party to have access to the documents after the publication of the patent application if there are manufacturing, trade secrets or other overriding interests involved.

Paragraph 2 of Article 89 PaO[56] states the person who brings a piece of evidence to the patent application can request that the document containing trade secrets be filed separately. Existence of this document is mentioned in the patent application.

Article 90 (2) PaO provides that the Swiss Federal Institute of Intellectual Property must hear from the patent applicant or the patent owner before granting the authorisation to access the document.

The CopA[57] also has a provision regarding trade secrets protection. According to Article 51 (2) of this act, collective rights management organisations are obliged to preserve trade secrets. Paragraph 1 of this provision mentions that it is reasonably expected that users of works have to disclose trade secrets to collective rights management organisations. In return, these organisations must keep this information secret.[58]

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[52]Swiss Federal Supreme Court's decision ATF 88 II 319 of 18 September 1962; K. Troller, Précis du droit suisse des biens immatériels, 2nd ed., Helbing & Lichtenhahn 2006, p. 261; F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006, p. 861.

[53]B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 7.

[54]Swiss Federal Supreme Court's decision ATF 114 II 91 consid. 6 of 24 March 1988: "Dem ist vorweg entgegenzuhalten, dass es grundsätzlich nicht angeht, Lücken des Leistungsschutzrechtes auf dem Umweg über eine allgemeine Norm ausfüllen zu wollen; dies gilt in Bereichen wie hier umso mehr, als offensichtlich wirtschaftliche Interessen auf dem Spiele stehen und in Art. 28 ZGB keine Rechtsgrundlage für derartige Ansprüche zu erblicken ist".

[55]Federal Act on Patents for Inventions of 25 June 1954 (hereafter "the PatA").

[56]Patent Ordinance of 19 October 1977(hereafter "the PaO").

[57]Federal Act on Copyright and Related Rights of 9 October 1992 (hereafter "the CopA").

[58]V. Salvadé, commentaire de l'article 52 LDA. In: Commentaire romand de propriété intellectuelle, de Werra and Gilliéron (eds.), Helbing & Lichtenhahn 2013, p. 456, n°9.

31.3.6 Protection of Trade Secrets and the Federal Act on Data Protection

According to Article 3 (a) FADP[59], trade secrets can be qualified as personal data because they are information relating to an identified or identifiable person, who may be a natural or legal person.[60]

Article 4 (2)(3) FADP adds that data information must be processed fairly, lawful and in accordance with the principle of proportionality. They must only be processed for the purpose indicated at the time of collection, that is evident from the circumstances, or that is provided for by law.

Article 6 FADP forbids any disclosure of data abroad unless this transfer does not endanger the data subject's privacy or the data subject has provided his assent.

The trade secrets protection is particularly effective if trade secrets are considered as personal data. Indeed, Article 7 FADP provides that the data processor has to adopt adequate technical and organisational measures to protect data and according to Article 10*a* (1) (b) FADP, the processing of personal data cannot be assigned to third parties by agreement or by law "if there is a statutory or contractual duty of confidentiality".

31.3.7 Protection of Trade Secrets and the Federal Law on Banks and Saving Banks

Article 47 (1) (a) of the Banking Act[61] focuses on the protection of trade secrets. It provides for imprisonment of up to three years or a monetary penalty against a person, who discloses a secret that is entrusted to him in his capacity as body, employee, appointee, or liquidator of a bank, as body or employee of an audit company or that he has observed in this capacity. Usually, the contractual relationship between the bank and its customer is qualified as a secret.[62] According to Dessemontet, "this is a rare case of a provision punishing also the disclosure that takes place after the official or employer-employee relationship has been severed".[63]

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[59]Federal Act on Data Protection of 19 June 1992 (hereafter "the FDAP").

[60]B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 9

[61]Federal Law on Banks and Saving Banks of 8 November 1934 (hereafter "the Banking Act").

[62]G. Stratenwerth, Kommentar des Artikels 47. In: Bankengesetz Basler Kommentar, Watter, Vogt, Bauer and Winzeler (ed.), 2nd ed., Helbing & Lichtenhahn 2013, p. 801, n°13.

[63]F. Dessemontet, Intellectual Property Law in Switzerland, 2nd ed., Staempfli 2014, n°662.

31.3.8 Protection of Trade Secrets and the Collective Investment Schemes Act

According to Article 148 (1) (k) of the Collective Investment Schemes Act[64], anyone who discloses confidential client information that has been entrusted to a person in their capacity as a member of an executive or governing body, employee, agent or liquidator of a fund management company, or that such person has become party to in the course of their duties, is liable to a custodial sentence not exceeding three years or to a monetary penalty. This misdemeanour can also be committed after the termination of the official, contractual relationship or the professional activity.

31.4 Procedural Aspects

31.4.1 Measures to Ensure Confidentiality During Civil Proceedings

Each party to a case has a right to be heard. This fundamental right is provided for under Article 29 (2) of the Swiss Federal Constitution[65] and under Article 53 (1) CPC.[66] The right of parties to participate in the taking of evidence (Article 155 (3) CPC) is part of the right to be heard[67].

However, Article 156 CPC states that the court shall take appropriate measures to ensure that taking evidence does not infringe the legitimate interests of any parties or third party, such as business secrets. It must not restrain the right of the parties to be heard.[68]

For example, Article 54 (3) CPC limits the publicity of proceedings: they may be held completely or partially in camera if the public or the legitimate interests of a person require it. Protection of trade secrets is one of these legitimate interests.

Moreover, the court can restrain access to the consultation of the case files and to the acquisition of copies (Article 53 (2) CPC). Nevertheless, these restrictions must not conflict with overriding public or private interests.[69]

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[64]Federal Act on Collective Investment Schemes of 23 June 2006 (hereafter "the Collective Investment Scheme Act").

[65]Federal Constitution of the Swiss Confederation of 18 April 1999 (hereafter "the Swiss Federal Constitution").

[66]Swiss Civil Procedure Code of 19 December 2008 (hereafter "the CPC").

[67]F. Bohnet, Procédure civile, 2nd ed., Helbing & Lichtenhahn 2014, p. 335, n°1362.

[68]*Ibid.*, p. 336, n°1362.

[69]*Ibid.*, p. 336, n°1366.

The court can also restrain a party from participating in the taking of evidence.[70] This restriction can affect the testimony of a witness[71], submission of an expert's opinion (Article 187 CPC) and the deposition and the minutes recording the deposition of a party (Article 193 CPC). An expert witness can participate in an inspection (Article 181 CPC et seq.) in the context of a precautionary taking of evidence.[72] The expert witness will issue a record (Article 182 CPC), which will not include trade secrets.[73]

The party who wants to protect its trade secret must request a specific and proportionate measure at the earliest stage of the proceedings (*i.e.* in first legal statement).[74] A balancing of interests between the protection of trade secrets and the interest of a party to take evidence is required before the court orders an interim measure.[75] Thus, the owner of a trade secret has to show credibly that an interim measure is needed. The relevance of the secret has also to be considered. Indeed, it is easier to obtain an interim measure if the secret concerns minor aspects of the matter in dispute.[76]

The CPC is not the only statute which considers the need for trade secrets protection during civil proceedings. The FSCA[77] also deals with confidentiality requirements through Article 56 (2) and (3). Paragraph 2 of this article provides that the Supreme Court can restrain access for parties to the taking of evidence when it is required by a public or private interest. Trade secrets are an example of overriding private interests.[78] Paragraph 3 adds that the Supreme Court must inform the adverse party about the substance of the confidential evidence and must allow them to provide

[70] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 83.

[71] F. Bohnet, Procédure civile, 2nd ed., Helbing & Lichtenhahn 2014, p. 336, n°1362; R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 83.

[72] M. Vetter, Protection of Business Secrets in proceedings before the Commercial Court of the Canton of Aargau, presentation at the AIPPI Swiss Day 2015.

[73] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 83.

[74] M. Vetter, Protection of Business Secrets in proceedings before the Commercial Court of the Canton of Aargau, presentation at the AIPPI Swiss Day 2015.

[75] P. Guyan, Kommentar des Artikels 156 ZPO. In: Schweizerische Zivilprozessordnung Basler Kommentar, Spühler, Tenchio and Infanger (eds.), 2nd ed., Helbing & Lichtenhahn 2013, p. 754; R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 83.

[76] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 85.

[77] Federal Supreme Court Act of 17 June 2005 (hereafter "the FSCA").

[78] J.-M. Frésard, commentaire de l'article 56 LTF. In: Commentaire de la LTF, Corboz, Wurzburger, Ferrari, Frésard and Aubry Girardin (eds.), Staempfli 2009, p. 401.

counter-evidence. Therefore, the constitutional right to be heard is safeguarded. This limitation can also be found in other provisions (e.g. Article 28 APA[79]).[80]

Several provisions in the PatA also pertain to the protection of trade secrets because trade secrets play a major role in proceedings concerning patents. Article 68 PatA, for instance states that evidence, which would disclose such manufacturing or trade secrets, may be made available to the other party only to such an extent as is compatible with the safeguard of the secrets.

This provision, in addition to Article 156 CPC, Article 102 (1) CrimPC[81] and Article 108 (1) (b) CrimPC, protects trade secrets. To demonstrate the violation of a patent, the claimant might, for example, disclose the manufacturing process linked to the patent and the sales revenues obtained thanks to this process. Hence, to avoid such a situation, trade secrets must be protected.[82]

Finally, Article 77 PatA focuses on interim measures and is one of the common provisions for protection in civil as well as criminal law. Paragraph 3 of this provision states that if the opposing party claims that a manufacturing or trade secret is involved, the court shall take the necessary measures to safeguard it. Unlike what is put forward in paragraph 3, claiming that a trade secret is involved is not enough to obtain an interim measure. Indeed, the opposing party has to provide the *prima facie* evidence of the existence of the secret.[83] According to the last sentence of paragraph 3, the applicant party may be excluded from participating in the procedure for making the description. To the Swiss Federal Patent Court, this prohibition does not affect the lawyer or the patent attorney of the applicant party, who is permitted to participate in the description.[84] Therefore the interest of the opposing party to safeguard its secret and the interest of the applicant party to prove the patent infringement will be preserved.[85] However, this point of view is criticised by some authors who believe that disclosure of secrets by lawyers or patents attorneys may still occur.[86] Paragraph 5 of Article 77 PatA states that before the applicant party is

[79]Federal Act on Administrative Procedure of 20 December 1968 (hereafter “the APA”).

[80]Y. Donzallaz, Loi sur le Tribunal fédéral – commentaire, Staempfli 2008, p. 641; Frésard J.-M., commentaire de l’article 56 LTF. In: Commentaire de la LTF, Corboz, Wurzburger, Ferrari, Frésard and Aubry Girardin (eds.), Staempfli 2009, p. 402.

[81]Swiss Criminal Procedure Code of 5 October 2007 (hereafter “the CrimPC”).

[82]L. Ehrler, commentaire de l’article 68 LBI. In: Commentaire romand de propriété intellectuelle, de Werra and Gilliéron (eds.), Helbing & Lichtenhahn 2013, p. 1989.

[83]R. Schlosser, commentaire de l’article 77 LBI. In: Commentaire romand de propriété intellectuelle, de Werra and Gilliéron (eds.), Helbing & Lichtenhahn 2013, p. 2053, n°13.

[84]Federal Patent Court’s decision S2012_0007 consid. 5 of 14 June 2012 (The Swiss Federal Patent Court is the Confederation’s court of first instance for litigation concerning patents); R. Schlosser, commentaire de l’article 77 LBI. In: Commentaire romand de propriété intellectuelle, de Werra and Gilliéron (eds.), Helbing & Lichtenhahn 2013, p. 2054 n°14.

[85]M. Schweizer, Der Anspruch auf genaue Beschreibung gemäss Art. 77 PatG – Gedanken eines Mitglieds des Bundespatentgerichts, sic! 12/2010 p. 930; P. Fehlbaum, La jurisprudence du Tribunal fédéral des brevets, sic! 5/2014, p. 323.

[86]R. Schlosser, commentaire de l’article 77 LBI. In: Commentaire romand de propriété intellectuelle, de Werra and Gilliéron (eds.) Helbing & Lichtenhahn 2013, p. 2054, n°14.

notified of the description, the opposing party shall be given the opportunity to comment. The opposing party may redact some parts of the description. Afterwards, the court gives a report of the description with the redaction to the parties.[87]

31.4.2 Measures to Ensure Confidentiality During Criminal Proceedings

Several provisions protect trade secrets during criminal proceedings. Article 102 (1) CrimPC, regarding the right to have access to case documents, provides that the authority directing the proceedings decides on whether case documents may be inspected. Measures must be taken by the authority to prevent abuses and delays and to protect trade secrets. These measures can be, for instance, restrictions on disclosure of case documents or restriction of the right of the claimant to make copies of the case documents.[88]

Article 108 (1) (b) CrimPC restrains the right to be heard if this is required for the safety of persons or to safeguard public or private interests in preserving confidentiality. The protection of trade secrets is an example of private interests requiring protection.

According to Article 173 (2) CrimPC, a person who is bound by a statutory professional secrecy obligation is exempted from testifying whilst another one who has knowledge of information protected by the law may refuse to testify if the protection of the trade secret is more valuable than the interest in establishing the truth.[89]

Article 246 CrimPC deals with search of records and recording any documents, audio, video and other recordings, data carriers and equipment for processing and storing information may be searched if it is suspected that they contain information that is liable to seizure. A search can be an issue for the owner of a trade secret or for third parties. Hence, Article 264 (1) CrimPC gives details of information, that cannot be seized:[90] documents used in communications between the accused and his or her defence lawyer;[91] personal records and correspondence belonging to the accused if

[87] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 89; Swiss Federal Patent Court's decision S2012_0007 consid. 5 of 14 June 2012.

[88] M. Schmutz, Kommentar des Artikels 102 StPO. In: Schweizerische Strafprozessordnung und Jugendstrafprozessordnung Basler Kommentar, Niggli, Heer and Wiprächtiger (eds.), 2nd ed., Helbing & Lichtenhahn 2014, p. 702.

[89] S. Werly, commentaire de l'article 246 du code de procédure pénale. In: Commentaire romand du Code de procédure pénale suisse, Kuhn and Jeanneret (eds.), Helbing & Lichtenhahn 2011, p. 805, n°13.

[90] C. Chirazi, commentaire de l'article 246 du code de procédure pénale. In: Commentaire romand du Code de procédure pénale suisse, Kuhn and Jeanneret (eds.), Helbing & Lichtenhahn 2011, p. 1133, n°6.

[91] Article 264 (1) (a) CrimPC.

the interest in protecting his or her privacy outweighs the interest in prosecution[92] or items and documents used in communications between the accused and people who may refuse to testify in accordance with Articles 170-173 CrimPC and who are not accused of an offence relating to the same case.[93] The owner of a trade secret must request a sealing order from the court as soon as possible (Article 248 CrimPC).[94]

31.4.3 Measures to Ensure Confidentiality During Administrative Proceedings

Article 27 (1) (b) and (2) APA also provides an exception of the right for parties to participate in the inspection of the files if essential private interests, such as the safeguard of a secret, are concerned. However, this exception only extends to the confidential documents. Therefore, the administration or the court, may limit the right of inspection of the files if an essential private interest requires it.[95]

If a party cannot inspect a document, this document may be relied on to the prejudice of that party only if it has been notified by the authority either verbally or in writing of the content of the document that is relevant to the case. Moreover, the party must have the opportunity to state his position on the document and to provide counter evidence (Article 28 APA).

A partial right to inspect the files exists because access to the majority of the files cannot be restrained due to the lack of essential private interests.[96] Article 7 (1) (g) FoIA[97] mentions that the right of access shall be limited, deferred or refused if such access to an official document is likely to reveal professional, business or manufacturing secrets.

Article 25 (4) CartA[98] focuses on the restraint of trade secrets publication by the competition authorities. Therefore, the privacy of trade secrets may restrain the Swiss Competition Commission's publication scope.[99]

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92 Article 264 (1) (b) CrimPC.

93 Article 264 (1) (c) CrimPC.

94 C. Chirazi, commentaire de l'article 246 du code de procédure pénale. In: Commentaire romand du Code de procédure pénale suisse, Kuhn and Jeanneret (eds.), Helbing & Lichtenhahn 2011, p. 1133, n°9.

95 C. Bovet, Percer et gérer les secrets d'affaires en procédure administrative fédérale. In: Transparence et secret dans l'ordre juridique: Liber amicorum pour Me Vincent Jeanneret, Foëx and Hirsch (eds.), Slatkine 2010, p. 303.

96 J. Candrian, Introduction à la procédure administrative fédérale, Helbing & Lichtenhahn 2013, n°46; R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 90.

97 Federal Act on Freedom in the Administration of 17 December 2004 (hereafter "the FoIA").

98 Federal Act on Cartels and other Restraints of Competition of 6 October 1995 (hereafter "the CartA").

99 V. Martenet, commentaire de l'article 25 LCart. In: Commentaire romand droit de la concurrence, Martenet, Bovet and Tercier (eds.), Helbing & Lichtenhahn 2013, p. 1205, n°42.

In regards to customs procedure, all intellectual property acts provide rules to secure trade secrets. For example, Article 86*e* (2) PatA allows the presence at the inspection of the declarant, holder or owner of a manufacturing or trade secret if he has requested it to protect its secrets. The same formulation is found at Article 77*b* (2) CopA, Article 72*b* (2) TmPA[100] and Article 48*b* DesA.[101]

31.4.4 Measures to Ensure Confidentiality During Extra-Judicial Proceedings

According to Article 44 (1) of the 2012 Swiss Rules of International Arbitration[102], the parties have to keep all awards, orders and other material submitted by another party during the proceedings confidential. Therefore, this paragraph emphasizes that confidentiality is one of the main characteristic of arbitration.[103] Paragraph 1 of Article 44 deals with confidentiality of the arbitral proceeding. Paragraph 2 concerns confidentiality of the deliberations and paragraph 3 focuses on publication of awards and orders.[104]

The 2007 Swiss Rules of Commercial Mediation[105] also contain a provision regarding confidentiality during the proceedings in Article 18.

31.5 Remedies in Case of Trade Secret Misappropriation

31.5.1 Civil Remedies

Swiss law provides several types of remedies in case of a trade secret misappropriation. The owner of a trade secret can obtain compensation for damages. He must establish damages, a causal connection between the activities and damages and the offender's fault. However, if that is too complex, the court calculates it given the usual course of events.[106] The owner of a trade secret can obtain damages based on

[100] Federal Act on the Protection of Trade Marks of 28 August 1992 (hereafter "the TmPA").

[101] Federal Act on the Protection of Designs of 5 October 2001 (hereafter "the DesA").

[102] 2012 Swiss Rules of International Arbitration by the Swiss Chambers of Commerce Association for Arbitration and Mediation (hereafter "the Swiss Rules of International Arbitration").

[103] M. Arroyo, Arbitration in Switzerland – The Practitioner's Guide, Wolters Kluwer 2013, p. 652.

[104] T. Rohner and F. La Spada, Article 44 of the Swiss Rules of International Arbitration. In: Swiss Rules of International Arbitration - Commentary, Zuberbühler, Müller and Habegger (eds.), 2nd ed., Schulthess 2013, pp. 475-483.

[105] 2007 Swiss Rules of Commercial Mediation by the Swiss Chambers of Commerce Association for Arbitration and Mediation (hereafter "the Swiss Rules of Commercial Mediation").

[106] B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 12.

the losses incurred and lost profits but cannot receive punitive damages as they do not exist in Switzerland.[107]

The owner of a trade secret may also claim disgorgement of profits. He must prove the existence of an infringement, the offender's profits, the causal connection and the offender's bad faith.[108]

Finally, the owner of a trade secret can introduce a claim based on unjust enrichment. The claimant must demonstrate that the defender illegitimately used the trade secrets and was enriched through the use of them.

31.5.2 Criminal Penalties

Article 162 CC states that the offender will be punished with at least three years of imprisonment or will have to pay a fine.

Article 273 CC provides for at least three years of imprisonment or a monetary penalty and in serious cases, custodial sentence of not less than one year may be applied. According to the jurisprudence, in serious cases, the court must appreciate the situation based on the secret's importance and the resulting danger.[109]

Article 23 (1) UCA mentions that a person who intentionally commits an act of unfair competition, as defined in Articles 3, 4, 5 or 6, can on complaint be punished by imprisonment (at least three years) or by a fine.[110] Therefore, these provisions grant civil sanctions as well as criminal penalties.[111]

31.6 Misuse of Trade Secrets Protection

Swiss law does not provide specific rules for combating the misuse of protection by the owner of a trade secret. However, some provisions concerning competition law may be helpful. Misuse of trade secrets protection may be seen as an abuse of a dominant position.

[107] Baker & McKenzie, Study on Trade Secrets and Confidential Business Information in the Internal Market, MARKT/2011/128/D, April 2013, p. 37.

[108] B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer. AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 12.

[109] M. Dupuis, B. Geller, G. Monnier, C. Piguet, C. Bettex and D. Stoll (eds.), Petit commentaire du Code pénal, Helbing & Lichtenhahn 2012, p. 1646.

[110] M. Killias and G. Gillérion, Kommentar des Artikels 23 UWG. In: Bundesgesetz gegen den Unlauteren Wettbewerb Basler Kommentar, Hilty and Arpagaus (eds.), Helbing & Lichtenhahn 2013, p. 786.

[111] B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 6.

According to Article 7 (1) CartA, dominant undertakings behave unlawfully if they, by abusing their position in the market, hinder other undertakings from starting or continuing to compete, or disadvantage trading partners. Therefore, a company, which misuses the trade secrets protection, can be punished through the CartA because the abuse of a dominant position, based on the misuse of the trade secrets protection, restricts competitors' access to the market. Moreover, the company's behaviour is not based on legitimate business reasons.[112] The civil remedies consist of the elimination of or desistance from the hindrance, damages and satisfaction or surrender of unlawfully earned profits in accordance with the provisions on agency without authority (Article 12 (1) CartA).

Another helpful provision is Article 2 UCA because it prohibits actions contrary to honest commercial practices or to good faith, and having an impact on competitors' or on supplier-customer's relationships (*supra* Section 31.3.2.).

31.7 Know-How

31.7.1 Definition of Know-How

As is the case with trade secrets, know-how is not clearly defined in Swiss law. The legal literature describes know-how as a combination of knowledge and experiences of, for example, a technical, commercial or financial nature.[113] Know-how is, on the one hand, not necessarily secret but is, on the other hand, not readily accessible.[114] Know-how can be distinguished from trade secrets because it is directly applicable to fabrication and/or commercialisation of goods or services. It does not, for example, concern information regarding the financial health of companies.[115] Nevertheless, the distinction between know-how and trade secrets appears to be quite artificial[116] because know-how is mainly protected

[112] E. Clerc, commentaire de l'article 7 I LCart. In: Commentaire romand droit de la concurrence, Martenet, Bovet and Tercier (eds.), Helbing & Lichtenhahn 2013, p. 692, n°71.

[113] K. Troller, Précis du droit suisse des biens immatériels, 2nd ed., Helbing & Lichtenhahn 2006, p. 178.

[114] O. Weniger, La protection des secrets économiques et du savoir-faire (Know-How), 1994, pp. 16-17.

[115] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 82; R. Schlosser, Der Know-how Vertrag, sic! 3/1998, p. 270; C. Baudenbacher (ed.) and J. Glöckner, Lauterkeitsrecht, Helbing & Lichtenhahn 2001, p. 763.

[116] B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 14 ("Trade secrets are understood as part of an individual's or company's undisclosed know-how"); F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter-und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006 (the author uses the word "savoir-faire" to analyse trade secrets).

though the provisions which protect trade secrets (*supra* Section 31.3.2. Article 5 (a) and (b) UCA).[117]

31.7.2 Contractual Protection of Know-How

Know-how is mainly protected through contract law. In practice, know-how protection can be, for instance, included in a confidentiality clause of an employment contract or a licensing agreement. Know-how can also be the object of specific confidentiality agreements: for instance, a non-disclosure agreement or a know-how license agreement.[118] In the case of know-how license agreements, parties must take appropriate measures to protect confidentiality.[119] They must define know-how with great accuracy as well as the duration and the scope of it. Finally, the parties must describe the various assumptions of termination of the agreement and the fate of the know-how after the end of the agreement.[120] If the agreement is deficient regarding protection of know-how, the parties will have to rely on the suppletive legal provisions.[121] In case of the breach of an agreement, reparation of a trade secret misappropriation *in natura* is prohibited. The best way to obtain reparations is to provide a contractual penalty in the agreement (Article 160 CO et seq.). Because of this contractual penalty, the infringer must pay damages.[122]

31.8 Conclusion and Personal Remarks

The Swiss framework for the protection of trade secrets is fairly robust thanks to various provisions (e.g. in unfair competition law, labour law and criminal law).

However, this proliferation of articles also represents a weakness as legal security is affected because of the lack of a uniform terminology. As described above (*supra* Section 31.2.2.), the jurisprudence defines the scope of protection of trade secrets differently depending on the legal basis.[123] Hence, possible improvements could be made, which would bring more clarity concerning protection of trade secrets. It is likely that a unique legislation regarding trade secrets

[117] O. Weniger, La protection des secrets économiques et du savoir-faire (Know-How), 1994, p. 16.

[118] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 99.

[119] P. Münch, P. Böhringer, S. Kasper Lehne and F. Probst (eds.), Schweizer Vertrags Handbuch, 2nd ed., Helbing & Lichtenhahn 2010, p. 60.

[120] F. Dessemontet, Le savoir-faire. In: Schweizerisches Immaterialgüter-und Wettbewerbsrecht, von Büren and David (eds.), vol. IV, Helbing & Lichtenhahn 2006, pp. 858-860.

[121] R. Schlosser, La protection des secrets économiques, CEDIDAC 2010, p. 99.

[122] P. Münch, P. Böhringer, S. Kasper Lehne and F. Probst (eds.), Schweizer Vertrags Handbuch, 2nd ed., Helbing & Lichtenhahn 2010, p. 62.

[123] R. Schlosser, Les secrets économiques dans les relations de travail, les collaborations et les procès civils. In: La protection des secrets d'affaires, de Werra (ed.), Schulthess 2013, p. 66.

protection would not be the best approach[124] but the reworking of the current provisions, especially in labour and criminal law, with more precision concerning the scope of protection of trade secrets would be advisable.

The generic term of "trade secret" which would include business secrets and manufacturing secrets, should be mentioned in all provisions regarding the protection of trade secrets because the word "trade" encompasses all types of secrets playing a crucial economic rule for its owner.

The scope of Article 321*a* (4) CO should be developed. Indeed, this provision does not indicate if an employee can or cannot exploit the secret after the termination of the contract.

Moreover, it would be advisable to include exceptions concerning the lawful acquisition, use and disclosure of trade secrets in the relevant provisions. These exceptions should, for example, concern legitimate whistle-blowing and reverse-engineering. Hence, this improvement would reinforce the balance between promotion of innovation, competitiveness and protection of the right for third parties to lawfully acquire, use and disclose trade secrets.

Finally, a clear distinction should be made between trade secrets and know-how because the current situation regarding the terminology of know-how is not satisfactory.

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[124] B. Beck, S. Day, T. Kretschmer, R. Oertli, R. Staub, E.-M. Strobel and P. Widmer, AIPPI Swiss Group - Question 215 Protection of trade secrets through IPR and unfair competition law, 1 April 2010, p. 19.

32 The Netherlands

Vonne Laan and Mariko Kloppenburg

32.1 Legal Protection of Trade Secrets

32.1.1 Sources of Protection of Trade Secrets

The Dutch legal framework provides limited provisions on the protection of trade secrets, which can be found in criminal and employment law.

The most explicit provision is Article 273 of the Dutch Penal Code,[1] which stipulates that it is a criminal offence for a person to disclose "specific information to which it has sworn secrecy related to a commercial, industrial or service organization in which it is or has been employed".[2] This provision is applicable to

[1]Wetboek van Strafrecht, Stb. 1881, 35, as amended on 13 September 2012, stb. 2012, 410 ("hereafter the Dutch Penal Code").

[2]Article 273 Dutch Penal Code reads in full:

> 1. Liable to a term of imprisonment of not more than six months or a fine of the fourth category is he who intentionally:
>
> (1) discloses specific information to which he has sworn secrecy related to a commercial, industrial or service organization in which he is or has been employed, or
>
> (2) discloses or uses for the purpose of pecuniary gain data that have been acquired from a computerized system of a commercial, industrial or service organization that relates to this organization, if these data were at the time of disclosure or use not generally known and disclosure or use may lead to any disadvantage.
>
> 2. Not criminally liable is he who may have assumed in good faith that disclose was required by public interest.
>
> 3. Prosecution may only take place upon complaint of the management of the organization concerned.

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(former) employees who are bound by a confidentiality clause in their employment contract—which is generally the case. Also individuals who incidentally or temporarily carry out work for an organisation, for example based on contracting work or secondment, may be bound by confidentiality by a person authorised to give instructions to the individual concerned. Article 273 Dutch Penal Code only relates to (former) employees who disclose information that they were bound to keep secret; it does not provide for liability for prosecution of third parties who gained access to that information.

In employment law, Article 7:678 paragraph 2 of the Dutch Civil Code[3] stipulates that disclosure by an employee of "particulars regarding internal affairs of the company" that it ought to keep secret is considered a valid ground for immediate dismissal.[4] This provision also applies even if there is no contractual confidentiality clause, as long as the duty of secrecy was imposed on the employee. Furthermore, the duty of confidentiality may be considered to be implicitly included in Article 7:611 Dutch Civil Code, which contains the duty of being a "good employee".[5] These provisions refer to employees and are therefore not applicable to third parties.

Protection is however mainly granted through the general tort clause provided in Article 6:162 Dutch Civil Code,[6] the scope of which was extended in a 1919

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[3]Boek 7 Burgerlijk Wetboek, Stb. 1992, 600, as amended on 14 June 2014, Stb. 2014, 216 (hereafter "the Dutch Civil Code").

[4]Article 7:678 paragraph 2 Dutch Civil Code reads, as far as relevant in this context:

> 1. For the employer, urgent reasons as referred to in paragraph 1 of Article 677 are acts, characteristics or conduct of the employee, of such nature that consequently the employed cannot reasonably be expected to allow the contract of employment to be continued.
>
> 2. Urgent reasons may be deemed to exist if:
>
> [. . .]
>
> i) the employee discloses particulars regarding internal affairs of the company, that he ought to have kept secret;

[5]Article 7:611 Dutch Civil Code reads in full:

> The employer and the employee are obliged to behave as a good employer and a good employee.

[6]Article 6:162 Dutch Civil Code reads in full:

> 1. A person who commits an unlawful act against another person that can be attributed to him, must repair the damage that this other person has suffered as a result thereof.
>
> 2. As an unlawful act is regarded a violation of someone else's right (entitlement) and an act or omission in violation of a duty imposed by law or of what according to unwritten law has to be regarded as proper social conduct, always as far as there was no justification for this behaviour.
>
> 3. An unlawful act can be attributed to the person committing the act if it results from his fault or from a cause for which he is accountable by virtue of law or generally accepted principles.

decision of the Dutch Supreme Court, in which it held that obtaining information by improper means, in this case bribery of another's employee, constitutes an act of unlawful competition and consequently an act of tort.[7] Because of the broad scope of the general tort provision it is the legal source most commonly relied upon before the courts, also in or after employment relationships. However, case law provides that an employee is generally allowed to use in his own advantage the knowledge and experience acquired during his employment in the absence of a confidentiality or non competition clause—unless specific circumstances exist that render the use of that knowledge unlawful.[8]

Dutch tort law in cases concerning trade secrets leaves room for flexible application in which international legal sources may be taken into account. Article 39 of the TRIPs Agreement (TRIPs)[9] imposes a duty to protect secret information from disclosure, acquisition or use in a manner contrary to honest commercial practices.[10] Although Article 39 TRIPs is not implemented in Dutch legislation and it is unclear whether it has direct effect in the Netherlands, the Court of Appeal of The Hague determined that the essence of Article 39 is incorporated in Article 6:162 Dutch Civil Code.[11] Dutch courts are therefore enabled to provide the protection of Article 39 TRIPs by applying Dutch tort law, while consider all relevant circumstances on a case-by-case basis.

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[7] Supreme Court 31 January 1919, NJ 1919/161 (Lindenbaum/Cohen).

[8] See Court of Appeal Arnhem 7 July 1987, ECLI:NL:GHARN:1987:AM1170 (Beekman/Mulder).

[9] Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C to the Agreement establishing the World Trade Organization, effective 1 January 1995 (hereafter "TRIPs").

[10] Article 39 TRIPs reads in full:

> 1. In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
>
> 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.
>
> 3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

[11] Court of Appeal's-Gravenhage 29 March 2011, ECLI:NL:GHSG:2011:BP9490 (Ajinomoto).

Dutch criminal and employment law does not provide the possibility to challenge other parties than the (alleged) offender of the trade secret violation. It is however quite conceivable that the person misappropriating the trade secrets, often the employee who is bound to secrecy by his employment contract, discloses them to a third party who will eventually gain advantage from this information. The trade secret proprietor will not have any (contractual) duty of confidentiality imposed on such third party.

Protection of trade secrets against use by third parties may be granted under tort law, depending on the circumstances of the case. As a general rule, benefiting from another's trade secret is allowed. No action can be brought against a third party who acquires the secret information in good faith. Furthermore, someone who lawfully discovers a trade secret by means of autonomous research, such as the composition of a certain product, is generally allowed to use this information freely.[12]

Tort law does however provide protection against the use of trade secrets by third parties if it is obtained by means contrary to honest commercial practices. Bribery of employees, theft or industrial espionage to acquire the information will constitute an unlawful act by the third party; also willingly and knowingly using information that was disclosed by employees in violation of their obligation of secrecy are improper means of discovering trade secrets, which may be actionable under tort law.[13]

32.2 Legal Action

32.2.1 Legal Measures

To launch a legal action against trade secret misappropriation, several elements must be established depending on the requirements set by (case) law.

It must firstly be established that the information does in fact qualify as a protected "trade secret". In criminal law, Article 273 Dutch Penal Code describes trade secrets as "specific information to which it has sworn secrecy related to a commercial industrial or service organization in which it is or has been employed". Secondly, Article 273 requires the demonstration that the (former) employee has deliberately disclosed the information he is bound to keep secret, i.e. that the offender has acted with intent. For criminal proceedings to commence, the management of the organisation concerned must file a complaint with the police. If the public prosecutor proves the disclosure of the trade secret by a person who is contractually bound by secrecy and the intent, the defendant will be found guilty.

[12]See for instance Court of Appeal Amsterdam 4 November 1971, BIE 1973, 81.

[13]See for instance District Court Amsterdam 14 December 2012, ECLI:NL:RBAMS:2012:BY8226.

However, there is one exception: disclosure of such information is not punishable if the person could assume in good faith that disclosure was in the public interest.[14] Application of this exception may for example arise in case a whistle-blower has exposed certain abuses.

According to Article 7:678 Dutch Civil Code, Dutch employment law concerns disclosure of any "particulars regarding internal affairs of the company" by an employee who is bound by confidentiality regarding those particulars. Again, the existence of a (contractual) obligation to preserve the secrecy of those particulars and its breach must be demonstrated. If the trade secret proprietor can establish these elements and demonstrate that because of the employee's violation it can reasonably no longer be required to keep him employed, the trade secret proprietor can dismiss the employee immediately. Furthermore, if the contract includes a confidentiality clause it may bring an action for breach of contract.[15] As Article 7:678 Dutch Civil Code allows for immediate dismissal in case of trade secret violation, it is only applicable during the term of employment. If the employment relationship has ended, disclosure of trade secrets may be actionable under tort law.

Dutch tort law does not include a definition of a "trade secret", but case law demonstrates that courts tend to follow the line of Article 39 TRIPs which consists of three elements: (1) the information is not generally known by or readily accessible to persons within the circles that normally deal with that kind of information, (2) it has commercial value because it is secret and (3) the person who controls the information has taken reasonable measures to keep it secret.

Once established that the information concerns a trade secret, it must be demonstrated that its use or disclosure constitutes an unlawful act under Article 6:162 Dutch Civil Code. It is qualified as unlawful if the secret information is obtained in a manner which is contrary to honest commercial practices or in more general words that are often used in relation to tort law: not in accordance with the generally accepted standards of decency. For this assessment the factual circumstances are of decisive importance. Furthermore, tort law requires evidence that damage was in fact suffered by the trade proprietor and that it was caused by a fault of the offender.

32.2.2 Securing Evidence

If misappropriation of trade secrets is suspected, the proprietor has the possibility of securing evidence. Based on Article 843a Dutch Code of Civil Procedure[16] it may claim inspection or a copy of specific documents that are at the disposal of the alleged offender if it has a legitimate interest.[17] Random fishing expeditions are not

[14] Article 272 paragraph 2 Dutch Penal Code.

[15] Article 6:74 Dutch Civil Code.

[16] Burgerlijke Rechtsvordering, Stb. 1828, 14, as amended on 7 March 2013, Stb. 2013, 92 (hereafter "the Dutch Code of Civil Procedure").

[17] Article 834a Dutch Code of Civil Procedure.

allowed: the claim must specifically set out what documents are sought. Furthermore the proprietor must demonstrate that the documents concern a legal relationship to which it is a party—including an unlawful act. These requirements are set to safeguard the principles of proportionality and subsidiarity in such expeditions.

Recently, the Supreme Court explicitly ruled that seizure of evidence is possible in non-IP related cases.[18] It ruled that the requirements set out in Article 843a Dutch Code of Civil Procedure must be met and that additional requirements apply: the request for seizure must include facts and circumstances that demonstrate the necessity of the seizure which entails that a well-founded fear of embezzlement must be demonstrated. Seizure of evidence only ensures safekeeping; it does not constitute any right to surrender or inspection of the documents.

The measures set out above only apply to civil proceedings; the trade secrets proprietor has no right to seize evidence in a criminal trial.

32.3 Procedural Aspects and Remedies

32.3.1 Preserving Confidentiality in Legal Proceedings

Enforcing trade secrets in legal proceedings entails the risk that their confidential character might be damaged. Hearings before the Dutch courts are generally open to the public. Parties may request that hearings be held in private or in the presence of a selected group of people on the ground of preserving confidentiality of the trade secrets concerned. If such request is granted by the court, the parties are prohibited from disclosing what was discussed.[19] Furthermore, publication of the court decision will be limited to an extract or an anonymised version.[20]

In civil proceedings, parties decide themselves what documentation they wish to submit to the court and can therefore choose to exclude certain information. The court is in every stage of proceedings entitled to order the parties to provide further explanation or to submit additional documents.[21] Parties may refuse if this is detrimental to their vital interests, which might be the case if it concerns trade secrets. The court decides whether such refusal is permitted.

Various options to preserve the confidentiality of certain documents or information are available if the parties are in agreement. They may for example agree that the court bases its decision on documents that are only made available to the court or to the opposing counsel and not its client—although it is highly likely that the opposing party will object.

[18] Supreme Court 13 September 2013, ECLI:NL:HR:2013:BZ9958. The Supreme Court bases the right to seize evidence on Article 843a and Article 730, that regulates seizure of property.

[19] Article 27 and 29 Dutch Code of Civil Procedure.

[20] Article 28 paragraph 4 Dutch Code of Civil Procedure.

[21] Article 22 Dutch Code of Civil Procedure.

32.3.2 Remedies

A criminal conviction based on Article 273 Dutch Penal Code will result in imprisonment up to 6 months or a fine of EUR 20.250 (price level of May 2015). The victim—in this case the trade secret proprietor—cannot claim injunctive relief in criminal proceedings. He can however join proceedings to claim damages.[22] Alternatively he may opt to claim damages in civil proceedings, as violation of a criminal provision may constitute a civil unlawful act. It is not possible to pursue a claim for damages in multiple venues simultaneously; therefore he will no longer be allowed to join in criminal proceedings once civil proceedings have been initiated.

Remedies available under Dutch civil law—in proceedings based on contractual breach and on tort—are injunctions and damages. The trade secret proprietor may claim an injunction to prohibit disclosure or use of the trade secrets that can be made subject to a penalty. Considering the urgent interest in such injunction, it is often claimed in preliminary proceedings but may also be claimed in proceedings on the merits.

Dutch civil law prescribes that damages can consist of material damages, which include incurred losses and loss of profits, as well as non-material damages in so far as compensation is provided for by law—which provisions will not apply to violation of trade secrets.[23] Punitive damages are not awarded under Dutch law—however penalty clauses in confidentiality agreements are enforceable.

The Dutch Civil Code prescribes no specific method for calculating damages, but stipulates that the court will estimate the damage in the manner most in accordance with the nature of it.[24] The court has a wide margin of appreciation in estimating and deciding what should be compensated. It will consider all circumstances of the case and will generally try to restore the harmed party in the situation before the unlawful act or breach of contract occurred. Dutch law does not provide for a system of discovery to calculate damages.

Damages cannot be claimed in preliminary proceedings because of their preliminary nature; proceedings on the merits will have to be initiated. As proceedings on the merits may take some time, it is possible to seize assets of the (future) defendant to secure funds in case damages will be awarded by the court.[25]

[22] Article 51f Dutch Code of Criminal Procedure (Wetboek van Strafvordering, Stb. 1925, 314, as amended on 13 December 2012, Stb. 2013, 10) (hereafter "the Dutch Code of Criminal Procedure").

[23] Article 6:95 Dutch Civil Code.

[24] Article 6:97 Dutch Civil Code.

[25] Article 700 Dutch Code of Civil Procedure.

32.4 Protection of Know-How in Confidentiality or Non-disclosure Agreements

32.4.1 Complications with Contractual Protection of Trade Secrets

As discussed above, Dutch legislation does not provide a clear definition of what a trade secret is, nor is there a Dutch court decision that provides such a definition. Nevertheless, various definitions are of practical influence, especially in case of vague contractual provisions. These definitions are Article 1 lit. (i) of the Commission Regulation 772/2004 on the application of Article 81 subsection 3 EC Treaty to categories of technology transfer agreements and Article 39 subsection 2 of the TRIPS Agreement.[26] However, the principle of freedom of contract is paramount. Where certain know-how does not fall within the scope of aforementioned provisions, it may still fall within the scope of a confidentiality or non-disclosure agreement. In principle, the definition in the relevant agreement will then be leading. Currently, the protection of know-how relies heavily on such agreements. Know-how can thus be further protected, but to a certain degree as the interest related to the confidentiality or non-disclosure agreement should be weighed against the right to freedom of expression and information.[27] However, the effective scope of what is laid down in such agreements can sometimes also be limited by specific mandatory statutory provisions.

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[26] Commission Regulation (EC) No 772/2004 of 7 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

Article 1(i) TTBER reads:

> “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.;

Article 39(2) TRIPS reads:

> 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.

[27] See for example the Court of Appeal's-Gravenhage 15 November 2011, ECLI:NL:GHSGR:2011:BU4306.

A well-known example of a category of persons to which such mandatory statutory provisions are applicable is the employee. For employees, Article 7:678 subsection 2 lit. i and Article 7:677 subsection 1 of the Dutch Civil Code are of relevance. If an employee discloses information that he ought to keep secret, this may be a valid reason for immediate dismissal. Thus, even if such has not been agreed upon, employees are always under a duty of confidence. This duty may be extended contractually, although only to a certain degree. In principle, individuals should be free to exercise their profession. An employee cannot contractually be prevented from using his skill and experience in a new job in general. These contractual obligations must be limited in time, scope and/or geographically. Thus, if this is not considered, this may negatively impact the effective scope of what is laid down in the agreement.

Employees cannot generally be contractually prevented from using their acquired skills and experience in a new job. However, in case law, different assessments are made as to what should be considered as confidential information in relation to employees. In one case, a district court ruled that for (former) employees, it is only illegal to use information as acquired during the course of employment if this information in fact contains *confidential information*.[28] Here, the court made an assessment as to whether the information concerned could be deemed confidential, or should in fact not be regarded as such. Information can only be deemed confidential if it is not generally known or easily accessible. However, in some instances also general skills and/or knowledge that are acquired during the course of employment may be part of know-how. According to the same district court some years later, for the decision as to what qualifies as know-how, it is not decisive if the know-how is (also) based on knowledge, skills and experience of an employee that were already in his possession before becoming an employee of the relevant company.[29] Thus, in practice, the level of protection entertained by the company depends on the specific circumstances of the case. Relevant circumstances are for example the specific area of business that is concerned and the common practice within such area of business and the level of expertise that is required for the relevant position.

With regard to members of the works council, a specific provision applies.[30] In principle, three categories of information should be kept confidential by them. Firstly, information that they have gained access to in their capacity as members of a works council should be kept secret. Secondly, information on which the company, works counsel or a related commission has imposed secrecy should be treated confidentially. Thirdly, information of which they ought to understand the confidential nature should be kept secret. This third category can be given content via a confidentiality or non-disclosure clause.

[28] Court of Appeal's-Hertogenbosch 8 June 2004, ECLI:NL:GHSHE:2004:AQ5610.

[29] Court of Appeal's-Hertogenbosch 10 February 2015, ECLI:NL:GHSHE:2015:445.

[30] Article 20, subsection 1 of the Works Councils Act (Wet op de ondernemingsraden, Stb. Stb. 1971, 132, as amended on 1 January 2015, Stb. 2014, 576.)

Next to employees, mandatory statutory provisions may also preclude effective non-disclosure or confidentiality provisions in other instances, for example when it concerns consumers. If for instance, in general terms and conditions it is laid down that a consumer may not disclose certain information, this provision could be subject to annulment if this would effectively limit the possibility of the consumer to provide evidence.[31]

From the aforementioned follows that where the statutory protection of trade secrets may prove to be insufficient in a specific situation, this can be remedied to a certain extend by putting relevant contractual clauses in place. However, protection based on contractual clauses is evidently not the same as statutory protection. An important difference is that contractual obligations may only bind the parties to the (confidentiality) agreement, whilst such is not the case where statutory protection is concerned. An advantage of contractual clauses, however, is that no statutory time limits are applicable.

32.4.2 Available Remedies in Case of Breach of Contract

32.4.2.1 Alternative Compensation

In the event of breach of a confidentiality or non-disclosure agreement, several remedies are available. Breach of a contractual obligation is laid down in Article 6:74 of the Dutch Civil Code. It is defined as an attributable failure to perform. Based on this Article and Article 6:87 of the Dutch Civil Code, the aggrieved party may sue for alternative compensation to compensate damages the aggrieved party sustained brought about by the trade secret violation. Thus, in case of breach of a confidentiality agreement, the company can claim damages based on an attributable failure to perform.[32]

Such damages consist of material loss and other disadvantages, the latter as far as the law implies that there is an additional entitlement to a compensation for such damages.[33] Aforementioned material loss includes losses suffered and missed profits.[34] Missed profits include for example loss of profits due to missed sales and reduced value of market shares.[35] Damages may include the costs made to determine the nature and scope of the damages, reasonable costs to prevent or limit such damages and reasonable costs incurred to try to obtain compensation out of court. More specifically relating to trade secrets, the damages may also include compensation for the fact that the unauthorised use of the trade secrets allowed a

[31] Article 236 subsection k and article 233 lit. a of the Dutch Civil Code.

[32] Article 6:74 and 6:98 of the Dutch Civil Code.

[33] Article 6:95 of the Dutch Civil Code.

[34] Article 6:96 (1) of the Dutch Civil Code.

[35] District Court Oost-Brabant, 25 September 2013 confirmed by Court of Appeal Den Bosch 10 February 2015, ECLI:NL:GHSHE:2015:445 (Arte).

competitor to successfully enter the market earlier on.[36] With the awarded damages, the plaintiff should be put in the same (financial) position as it would have been in without the breach of the agreement. To estimate these damages, a comparison is made between the actual (financial) position of the plaintiff at the time of the trial and its probable (financial) position if no breach of contract had taken place.

If performance is not (yet) permanently impossible, damages can only be claimed after notice of default. Whether such is the case, depends on the nature of the agreement and the circumstances of the case. Where it concerns breach of a confidentiality or non-disclosure agreement this seems rather self-evident. However, when it only concerns breach of a confidentiality or non-disclosure provision within a more comprehensive agreement, this needs to be assessed.

In some cases reward of damages in itself may not suffice to obtain satisfaction for the party that invokes the confidentiality or non-disclosure agreement. In such instances it is possible to claim termination of the agreement or to claim performance thereof, as displayed below. In all these instances it is possible to also claim additional compensation, based on Article 6:74 and further of the Dutch Civil Code.

32.4.2.2 Termination Agreement

It can be that in case of breach of a confidentiality or non-disclosure provision, the party who suffered a disclosure wishes to terminate the entire agreement. This is generally possible under Dutch law, unless the failure to perform does not justify such a termination, in view of the special nature or minor importance of the failure. In these cases, attributable failure to perform is also a requirement.

A special regime applies if the agreement concerns the relationship between an employer and an employee. As mentioned above, if an employee discloses information that it ought to keep secret, this may justify immediate dismissal. Although the Dutch Supreme Court ruled that it is not permitted to deviate to the detriment of the employee from the statutory provisions as to what poses a ground for immediate dismissal, it is possible to give substance to the meaning of this statutory provision via a confidentiality or non-disclosure provision. According to the Supreme Court, judges may consider this as a factual circumstance that may be of relevance for the assessment of the case.[37]

32.4.2.3 Claim Performance

Under Dutch law it is generally possible to claim performance of an agreement (subject to a penalty).[38] In relation to non-disclosure and confidentiality agreements, this may offer little relief in some cases of breach of contract as the

[36] District Court Zutphen 18 October 2006, 1ER 2007, no. 42, p. 154 (Arplas/AWL).

[37] Supreme Court 24 February 1995, NJ 1995, 450; JAR 1995/67.

[38] Article 3:296 of the Dutch Civil Code.

information has already been disclosed (which cannot be undone) and in the absence of any penalty clause. However, this option may be useful if it is still possible to prevent more (in relation to more people) or further (regarding further information) breaches of the relevant non-disclosure or confidentiality agreement.

32.4.2.4 Punitive Damages

Dutch law itself does not allow punitive damages. Nevertheless, it is possible to include penalty clauses in agreements. Such clauses are enforceable but the judge may moderate the actual amount that is awarded. Thus, by including such clauses in a non-disclosure or confidentiality agreement, the absence of statutory punitive damages can be compensated to a certain degree.

32.5 Misuse of Trade Secret Protection

32.5.1 Unlawful Restraint of Trade

Trade secret protection may create unlawful restraint of trade. This can be the case if it restricts competition or constitutes an abuse of dominant position. In these instances, Article 101 and 102 of the Treaty on the Functioning of the European Union and their equivalent Article 6 and 24 of the Dutch Competitive Trading Act can be relied upon.[39] In accordance with case law of the European Court of Justice, a balance should be struck between free competition and the protection of trade secrets.

32.5.2 Scope of Protection of Trade Secrets: Possible Defences

Possible misuse of the protection of trade secrets by the trade secrets proprietor can also be counteracted by successfully setting up a defence. Only the most common defences in case of trade secret actions will be displayed here. Firstly, it may be argued that the information was not secret. Whether such an argument will succeed, partly depends on how well defined the trade secrets are in the agreement. If they are precisely defined—and the information that has been disclosed falls within the definition thereof—it will be hard to argue that in spite of this definition, the information could not be deemed secret.

Secondly, one could argue that the defendant was not bound by an obligation of confidentiality. In general, a bona fide third party may use obtained trade secrets, as the trade secret proprietor bears the risk of misappropriation of the trade secret. Thus, in this situation, the defendant is not party to the agreement.

[39] Treaty on European Union, consolidated version, 2012/C 326/01, OJEU 26 October 2012 and Mededingingswet, Stb. 1997, 430, as amended on 24 March 2011, Stb. 2011, 162.

The third defence category is often used in cases concerning the employer-employee relationship (where they are thus both party to the agreement). This is where the employee only applied its experience and did not disclose any confidential information. This defence often proves successful as, in general, everyone should be free to exercise their profession. It has been acknowledged in literature and jurisprudence that, in principle, personal goodwill, know-how and experience belong to the employee and may freely be applied.[40] However, the circumstances of the case may lead another conclusion. Reference is made to the case law as discussed in Sect. 32.4.1.

32.5.2.1 Whistle-Blowers

A special case of disclosure by employees of confidential information is formed by whistle-blowers. Because it is not deemed desirable that whistle-blowers are criminally prosecuted or that companies can invoke the applicable confidentiality clauses in such instances without restraint, special legislation has been developed to protect whistle-blowers in many countries. In the Netherlands, within criminal law, a specific "safe harbour" is applicable for the accused who could have assumed in good faith that the disclosure of the secret information was in the public interest.[41] Regarding civil law, the situation is more fragmented. Civil servants are protected by the Central and Local Government Personnel Act.[42] This Act makes it obligatory for government employers to implement a whistle-blowing scheme.[43] Furthermore, this act provides that a civil servant who in good faith reports abuses, may not suffer negative consequences regarding its legal status during and after this procedure.[44]

Employees of private businesses, however, are not protected by the Central and Local Government Personnel Act. Nevertheless, some sector-specific regulation may be applicable that does contain provisions on this topic.[45] For example, Dutch listed companies are obliged to provide for a whistle-blowing scheme based on the Corporate Governance Code.[46]

32.5.2.2 Abuse of Authority

In very limited cases, invoking a non-disclosure or a confidentiality clause, could also fail in view of the prohibition of abuse of authority.[47] Abuse of authority may

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[40] See in this regard for example F.R.H. Hollander, Werknemersconcurrentie, hoe zit het met de bedrijfsgeheimen, Arbeid integraal 2008(2), p. 54.

[41] Article 273 of the Dutch Civil Code.

[42] Ambtenarenwet, Stb. 1930, 6, as amended on 17 December 2014, Stb. 2014, 576.

[43] Central and Local Government Personnel Act, article 125 quinquies, subsection 1.

[44] Central and Local Government Personnel Act, article 125 quinquies, subsection 3.

[45] See for example: https://www.adviespuntklokkenluiders.nl/wp-content/uploads/2015/03/Juridisch-kader-klokkenluiden-in-een-notendop.pdf.

[46] Available at: http://commissiecorporategovernance.nl/corporate-governance-code.

[47] Article 3:13 of the Dutch Civil Code.

exist if there is a substantial imbalance between the interest that is served with exercising the authority and the interest that is harmed by it, which would prohibit the entitled party to exercise its right in all reasonableness. This could perhaps be the case if certain information that has been defined as secret in an agreement has been disclosed, when it was in advance abundantly clear that this could not possibly harm the entitled party in any way.

32.5.3 Critique Regarding the Scope of Protection of Trade Secrets in the Netherlands

32.5.3.1 Limited Scope of Protection

Critique that is voiced against the current scope of protection of trade secrets in the Netherlands is that the regime is insufficiently clear to offer robust protection for businesses.[48] Although Article 39 TRIPS is "incorporated" into Dutch tort law via jurisprudence, enterprises are not offered the exact protection as set forth in this provision. Thus, enterprises are currently compelled to rely heavily on confidentiality or nondisclosure agreements. The disadvantage thereof is that the obligations arising from such agreements only bind the parties to these agreements.[49]

In the absence of contractual definition, tort law may offer some relief to undertakings who can take action on that basis against unauthorised use of their trade secrets. The drawback for such undertakings is that the awarded damages tend to be lower than would be the case if they could have invoked a confidentiality or nondisclosure agreement (or intellectual property right). Furthermore, in practice it turns out to be difficult to prove actual disclosure or use of the relevant trade secret by the defendant.[50] If more parties are involved, it is difficult to discover what exact non-disclosure agreement has been breached and by whom. But even if this is clear, it is hard to prove the breach of contract and to ascertain the suffered loss to calculate the damages. The possibilities to recover damages in case of breach of confidentiality or non-disclosure agreements are therefore criticised.[51]

32.5.3.2 No Specialised Judge

In case of legal proceedings based on patent law, the judge hearing the case is a specialised judge. However, in case of legal proceedings involving technical trade

[48] See in this line the Study on Trade Secrets and Confidential Business Information in the Internal Market 2013, prepared for the European Commission (contract number MARKT/2011/128/D), pp. 85–86 and pp. 401–405.

[49] Study on Trade Secrets and Confidential Business Information in the Internal Market 2013, prepared for the European Commission (contract number MARKT/2011/128/D), p. 401.

[50] Study on Trade Secrets and Confidential Business Information in the Internal Market 2013, prepared for the European Commission (contract number MARKT/2011/128/D), p. 405.

[51] H.J. de Kluiver, Overnamecontracten, letters of intent en garanties, O&F 2003(58), pp. 36–45.

secrets, the hearing judge will not (necessarily) be a specialised judge. This could pose a problem for the assessment of such cases. It may lead to poorly predictable court rulings, which is also the critique with regard to trade secrets disclosed during negotiations when the parties had not previously reached an agreement on the confidential character of the information.[52]

32.5.3.3 Whistle-Blowers

Whistle-blowers who are civil servants are protected by the Central and Local Government Personnel Act. Nevertheless, there is no general legal obligation for private businesses with employees to provide for a whistle-blowing scheme and to protect the bona fide employee that notifies a suspected wrongdoing with the relevant authority, even when this poses a breach of a confidentiality or nondisclosure agreement. To (partly) remedy this deficiency, a legislative proposal is currently before the Senate.

32.5.3.4 Evaluation

It can be concluded that several points of critique exist as to the scope of protection of trade secrets in the Netherlands. This critique should be taken even more seriously in view of the increasing awareness of the relevance of available options to protect trade secrets. The advantage of trade secrets in comparison to (some) intellectual property rights is that the applicable protection is not limited in time and that there is no publication requirement. Therefore, companies tend to make a calculated decision as to the manner in which they wish to protect their valuable information.

32.6 Personal Reflections and Recommendations

32.6.1 General Recommendations

A point requiring attention is that simply contractually defining information as "confidential" does not in itself provide the necessary protection.[53] Although this may make it more difficult for a possible infringer to argue that it was not aware of the confidential nature of the information, further clauses on the manner in which the information may and may not be used, are necessary.

Furthermore, it is advisable to include a penalty clause in case of breach of contract. Thus, the problems that may arise in ascertaining the suffered loss to

[52] J.J. Allen en E.A. Groot, Kanttekeningen bij het voorstel voor de Richtlijn bescherming bedrijfsgeheimen. Wat brengt het ons (en wat niet), NtEr 2014(5), p. 166.

[53] See in this line J. Goettsch, De geheimhoudingsovereenkomst: aandachtspunten voor de fusie- en overnamepraktijk, V&O 2015(04), p. 51.

calculate damages are circumvented. It is recommendable to provide that the penalty is immediately due and payable, and to explicitly deviate from Article 6:92 subsection 1 and 2 of the Dutch Civil Code, thus ensuring that the penalty can be claimed in addition to performance of the contract or damages.

It may also be advisable to include into the agreement that parties are in agreement regarding the following three aspects: (1) what information is secret/confidential, (2) that this information is valuable, and (3) that this information is adequately secured by means of the agreement. Because this ensures that the confidential information falls within the definition laid down in the draft European directive on this topic, this may enhance the chances of success of an action based on a wrongful act. This is also recommendable because a judge may interpret vague provisions in view of Article 39 TRIPs, which could lead to a limitation of the confidentiality obligation contrary to what was intended by the party that invokes the agreement.[54]

Depending on the circumstances of the case, it may furthermore be advisable to include a third-party beneficiary clause. Thus, it can be ensured that not only the company that is party to the agreement but, for instance, also one of its group companies, may invoke the provisions of the agreement. In relation to issuing institutions it may furthermore be advisable to consider the obligations based on of the Dutch Financial Supervision Act.[55]

A purely practical approach is physically safeguarding trade secrets and know-how, and strictly limiting the number of people who may have access to it. An example of physical protection regarding know-how is to lock all USB ports. Furthermore, it may also be useful to give individual employees only access to a small part of the trade secrets/know-how. For example, in case of a secret recipe, it could be arranged that individual employees have only knowledge of the secret ingredients/preparation of part of the manufacturing process of the final product.

32.6.2 Recommendations Regarding Employer/Employee Relationship

Although employees have a general legal non-disclosure obligation, it is advisable (and widely used) to extend this non-disclosure obligation contractually. (Post-termination) non-disclosure and confidential clauses can also be included in employment contracts. Generally, such clauses are enforceable, although naturally the legal limitation should be born in mind. For example, the contractual clause should be limited in time, scope and/or geographically.

[54]See in this regard M. Schut, Knowhow: aandachtspunten in de rechtspraktijk, Maandblad voor Vermogensrecht 2010(2), pp. 17–19.

[55]Wet op het financieel toezicht, Stb. 2006, 664, as amended on 11 December 2014, Stb. 2014, 534.

32.7 Conclusion

The Dutch legal framework provides a fragmented protection of trade secrets. Relevant provisions can be found in criminal, tort and employment law. More substance is given to the protection of trade secrets in case law. In light of this limited statutory protection, it is common practice to safeguard trade secrets by means of a non-disclosure or confidentiality agreements. Know-how can thus be further protected, but to a certain degree as the interest related to the confidentiality or non-disclosure agreement should be weighed against the right to freedom of expression and information. The effective scope of what is laid down in such agreements can sometimes also be limited by specific mandatory statutory provisions. Where the wording leaves room for interpretation, the provisions may furthermore be interpreted in light of Article 39 TRIPs.

Ukraine 33

Anton Polikarpov

As part of its ordinary activities, a typical legal entity uses massive amount of information. Only restricted data is capable of being protected in Ukraine. Information which has commercial value can be protected as a trade secret.

There are a number of advantages in having trade secrets protected (compared to registering IP rights) in Ukraine. They are the following:

– it does not take very long to have trade secrets protected;
– the term of trade secrets protection is not officially limited;
– there is no need to make any payments to have trade secrets protected;
– there is no need to obtain any official documents certifying the protection of trade secrets;
– information constituting trade secrets shall be undisclosed (in comparison with the compulsory disclosure of information during the process of registering IP rights);
– the scope of information which can be protected as a trade secret is not limited and only some parameters of such information are set out in the legislation;
– trade secrets can be considered as intangible assets of the company and such assets can be useful when conducting effective tax planning;
– there are a number of IP objects that cannot be registered under Ukrainian law, however, they can be effectively protected as trade secrets.

In view of this choice, as well as the range of possibilities concerning the scope and character of information which is capable of being protected as trade secrets, the simple procedure is becoming increasingly popular in Ukraine.

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33.1 Legislation

There is no single Act containing provisions on trade secrets in Ukraine. However, a number of legal Acts established the Ukrainian legislation relating to trade secrets.

The key elements of trade secrets are set forth under the provisions of Chapter 46 of the Civil Code of Ukraine[1]. These elements represent in full the provisions of Article 39.2 of TRIPS agreement[2].

Chapter 4 of the Law of Ukraine on Protection Against Unfair Competition[3] stipulated the actions considered as illegal collecting and disclosure of trade secrets, as well as incitement to disclose trade secrets and illegal use of the latter. Similar provisions are stipulated under Article 10 bis (2) of the Paris Convention[4].

As regards the liability provided for illegal obtaining, use and disclosure of trade secrets, the respective provisions are set forth under the Code on Administrative Offences of Ukraine[5] as well as the Criminal Code of Ukraine[6].

Therefore, the above-mentioned legal provisions which offer protection against the misappropriation of trade secrets are also applied towards any person who obtains access to trade secrets and then commits any relevant illegal actions.

33.2 Scope and Characteristic of Information Protected as Trade Secrets

There is no strict scope of information which should be considered as trade secrets in Ukraine. To provide as much effective protection of trade secrets as possible, there are certain key criteria and certain categories of information which can be protected, as indicated below. Under the Ukrainian legislation, information which is capable of being protected as a trade secret should fall under the following key criteria:

(i) confidentiality (it should be unknown and inaccessible);
(ii) it must have commercial value;
(iii) preventive measures must be taken to protect such information from disclosure[7].

[1]Chapter 36 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

[2]Article 39.2. of TRIPS (Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994), https://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm.

[3]Law of Ukraine on Protection Against Unfair Competition No 236/96-BP, dated 7 June 1996, http://zakon2.rada.gov.ua/laws/show/236/96-%D0%B2%D1%80.

[4]Article 10 bis (2) of Paris Convention for the Protection of Industrial Property dated 20 March 1883, http://www.wipo.int/treaties/en/text.jsp?file_id=288514.

[5]The Code on Administrative Offences of Ukraine (1884), http://zakon4.rada.gov.ua/laws/show/80731-10.

[6]The Criminal Code of Ukraine (2001), http://zakon4.rada.gov.ua/laws/show/2341-14.

[7]Part 1 of Article 505 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

In addition, it has been determined that information falling under the following categories may be considered as trade secret:

(i) technical information;
(ii) organizational information;
(iii) commercial data; and
(iv) industrial information etc.[8]

The above-mentioned list is not comprehensive. Thus, the legal entity is free to determine which information should be considered as trade secret and to take appropriate measures to prevent such information from disclosure. Notwithstanding the above, the following information cannot be established as trade secrets in Ukraine[9]:

(i) statutory documents, permits and approvals for business or commercial activity;
(ii) information necessary for accounting and reporting;
(iii) information for auditing calculation and payment of tax and the other kinds of compulsory payments;
(iv) data on employees;
(v) information on payment of tax and other kinds of compulsory payments;
(vi) data concerning pollution of the environment, non-observance of safety or working conditions, selling of goods which harms the health of individuals as well as information on other infringements of legislation and the extent of damages;
(vii) documents certifying insolvency;
(viii) information on participation of authorities of legal entities in different kinds of business;
(ix) other information which can be disclosed pursuant to Ukrainian legislation.

Therefore, the above-mentioned information cannot be protected and should be disclosed on the request of state controlling or enforcement authorities, as well as on the request of the other legal entities.

Under Ukrainian legislation, a trade secret is qualified as a specific category of intellectual property rights. The rightholder is a person who defined the information which constitutes a trade secret and is consequently protected. Under the Civil Code of Ukraine[10] the following economic intellectual property rights relating to trade secrets are stipulated:

[8]Part 1 of Article 505 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

[9]Resolution of the Cabinet of Ministers of Ukraine No 611 dated 9 August 1993 on The List of information which is not constitutes trade secrets, http://zakon4.rada.gov.ua/laws/show/611-93-%D0%BF.

[10]Article 506 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

(i) the right to use trade secrets;
(ii) the right to allow use of trade secrets;
(iii) the right to prevent the trade secret from illegal disclosure, collection or use; and
(iv) other intellectual property rights provided under Ukrainian law.

As regards the term of protection of trade secrets in Ukraine, we should emphasize that it depends entirely on the owners or proprietors of trade secrets. As long as owners support the observance of the above-mentioned three criteria for trade secrets in Ukraine, they will benefit from protection throughout the relevant term.[11]

33.3 Remedies for the Misappropriation of Trade Secrets

It should be noted that in Ukraine, liability for the misappropriation of trade secrets is more serious in comparison with the liability for the illegal disclosure of confidential information. There are several categories of liability, which may apply depending on the seriousness of the misappropriation of trade secrets. While the first and the second categories of liability only apply with respect to the employee of the trade secret owner, the other categories of liability may apply concerning all possible variants of trade secrets misappropriations. Therefore, Ukrainian legislation provides the following types of liability in this regard:

(i) Disciplinary liability

This category of liability applies where the trade secret misappropriation occurs when an employee breaches the rules and orders on confidentiality and trade secrets established within the company. Therefore, it can be considered as a disciplinary infringement.

(ii) Material liability

Like the previous categories of liability, this one also applies in the case of trade secret misappropriation within the company. The scope of liability for infringement is limited to the amount of the monthly salary of an employee. However, in case the employer is able to prove that the employee was already dismissed when committing the trade secret misappropriation, it is possible to attribute total liability to the employee for infringement (which will directly depend on the amount of the employer's damages);

When the abovementioned remedies apply during the pre-trial stage, the following remedies should be taken as a consequence of the court proceeding concerning trade secret misappropriation.

(iii) Civil liability

Under Ukrainian law, there is no precise level of damages provided for in the case of trade secret misappropriation. Consequently, the parties may set forth the

[11] Article 508 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

level of recovery for such infringements in the relevant employment and/or confidentiality agreements.

Additionally, it is possible to bring an action for compensation for losses caused by the disclosure of trade secrets. In such a case, the key thing for the owner is to establish the following four elements: to prove the fact of trade secret disclosure, to point out what is the precise category of damages resulting from such a disclosure, to assess what is the level of damages and to provide supporting evidence.

In Ukraine, the trade secret owner can also obtain damages for the moral prejudice suffered. The relevant procedure is provided for under Ukrainian court practice, in particular under the Decision of the Plenum of the Supreme Court of Ukraine No 4 dated 31 March 1995[12]. Under this Decision, trade secret misappropriation should be considered as a kind of moral damages. In this context, the exact amount of such loss depends on the character of moral losses, for example its continuity, the level of decrease of business reputation etc. According to the common rules, the court should be guided by the principles of rationality, suspension and justice.

(iv) Administrative liability

Under the Code on Administrative Offences of Ukraine, there is a particular approach to the issue of liability in the case of unfair competition. Liability for obtaining, using and disclosing trade secrets to harm the business standing or property attracts a fine in the range from 9 to 18 times the tax-free personal allowance (1 amount of tax-free personal allowance constitutes UAH 17 (about EUR 0.7). Therefore, the level of fine may vary from EUR 6 to EUR 12).[13.]

(v) Criminal liability

There is no doubt that the most serious liability is for illegal obtaining and/or use, as well as intentional disclosure of trade secrets. The character of criminal actions is the same. However, there are some key features:

– the above-mentioned actions should lead to extensive damage in such a case. There is no clear understanding regarding what is meant by “extensiveness” of damages. Therefore, this feature is subject to a full assessment. The question of whether the illegal obtaining or use or the intentional disclosure of trade secrets gives rise to extensive damages should be considered in each case on its own facts. In this context, the following factors should be considered:
– the money equivalent and financial position of the owner of the trade secret;
– this crime should be considered as committed since there is extensive damages;
– the infringer should have express malice when committing such crime;
– a fine of between 1000 and 3000 times the tax-free personal allowance (about EUR 708–2125) may be imposed in the case of illegal collecting for the further

[12]Decision of the Plenum of the Supreme Court of Ukraine No 4 dated 31 March 1995, http://zakon1.rada.gov.ua/laws/show/v0004700-95.

[13]Article 1643 of the Code on Administrative Offences of Ukraine (1884), http://zakon4.rada.gov.ua/laws/show/80731-10.

use or simply the use of trade secret[14.] Criminal liability also applies in case of disclosure of trade secret with profit or personal cause. In this context, access to such information should be obtained in the course of the execution of professional duties. The abovementioned infringements provide for the imposition of a fine of between 1000 and 3000 times the tax-free personal allowance (about EUR 708–2125). In addition, the infringer may be deprived of the right to hold some positions or run certain activities for up to 3 years[15];

– criminal liability cannot be imposed in the event a person accidently acquired knowledge of the information which constitutes a trade secret or in the event such information was voluntarily reported to this person by the owner of the trade secret.

33.4 Procedural Aspects of Proceeding Concerning Trade Secret Misappropriation

Firstly, it should be noted that Ukrainian legislation does not provide any specific measures to secure evidence of trade secret misappropriation, because it is considered that disclosure of trade secrets constitutes irrevocable actions and any subsequent restitution is impossible. However, even if the subject of the case does not concern the issue of compensation for losses for disclosure of trade secrets, the owner may apply for an *ex parte* injunction if there is a real risk of having any information which constitutes a trade secret disclosed[16].

Secondly, sometimes confidentiality is absolutely necessary in the course of proceedings. It should be mentioned that the state authorities, in particular public officers, are obliged to keep the confidentiality of trade secrets *ex lege*. Notwithstanding the fact that the Ukrainian court system is grounded on the principles of publicity and transparency of case consideration[17] the court may hold a hearing in private or publish court decisions with information redacted from the public version. The respective provisions are stipulated under Ukrainian legislation:

(i) in criminal proceeding the court may make a decision on holding a hearing in private (or even the whole court proceeding) in particular circumstances, defined under the Criminal Procedural Code of Ukraine[18]. Thus, among other things, in case open proceedings would lead to the disclosure of the secrets, protected under

[14]Article 231 of the Criminal Code of Ukraine (2001), http://zakon4.rada.gov.ua/laws/show/2341-14.

[15]Article 232 of the Criminal Code of Ukraine (2001), http://zakon4.rada.gov.ua/laws/show/2341-14.

[16]http://www.reyestr.court.gov.ua/Review/872544.

[17]Article 11 of the Law of Ukraine on Fair Justice No 2453-VI dated 7 July 2010, http://zakon2.rada.gov.ua/laws/show/2453-17.

[18]Article 27 of the Criminal Procedural Code of Ukraine (2013), http://zakon4.rada.gov.ua/laws/show/4651-17.

Ukrainian law*, inter alia*, trade secret, the case will be considered in private proceedings;

(ii) in administrative proceedings, the court may also issue a decision on holding a hearing in private to prevent disclosure of, amongst other things, trade secrets;[19]

(iii) in civil[20] and commercial[21] proceedings, there is also a possibility to hold a hearing in private on the grounds that there is a risk of trade secret disclosure.

Thirdly, it is worth mentioning, that Ukrainian legislation does not contain any system of damages calculation in the event of trade secret misappropriation. However, any disclosure of trade secrets will be considered as a misappropriation of trade secrets in the event that damages are awarded. As such, it is a concern of the owner of the trade secret to prove that it has suffered real damages as a result of the trade secret disclosure. This matter is a subject of great importance in criminal proceedings, because criminal liability for the illegal obtaining and/or use, or intentional disclosure of, trade secrets is provided only in the event there are extensive damages. In this context, the extensiveness of damages shall be considered in each case on its own facts with the following aspects being considered: money equivalent and the financial position of the owner of the trade secret. Therefore, we believe the Ukrainian legislation will be amended and further a methodology on the assessment of damages will be provided. The other applicable variant will be settled court practice concerning the present matter in Ukraine.

33.5 Correlation of Trade Secret and Know-How in Ukraine

Unusually, Ukrainian intellectual property law does not recognize know-how as a particular category which benefits from intellectual property protection. Typically, any component in the transfer of technology is considered in Ukraine as a trade secret because under the Civil Code of Ukraine[22] a trade secret constitutes among other things any information in technical sphere. However, the definition of "know-how" as it is directly used in the Tax Code of Ukraine[23] (with understanding of "research experience") is rated as an intangible asset for taxation purposes. Taking into consideration that "know-how" is not distinguished as an independent category of intellectual property right under Ukrainian intellectual property legislation, in the event of a breach of confidentiality or of a non-disclosure agreement protecting any

[19]Article 12 of the Code of Administrative Proceedings of Ukraine (2005), http://zakon3.rada.gov.ua/laws/show/2747-15.

[20]Article 6 of the Civil Procedural Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/1618-15.

[21]Article 4 of the Commercial Procedural Code of Ukraine (1992), http://zakon4.rada.gov.ua/laws/show/1798-12.

[22]Article 505 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

[23]Article 39.2.1.4. of the Tax Code of Ukraine (2011), http://zakon4.rada.gov.ua/laws/show/2755-17.

technical information, this will be considered as illegal disclosure or misappropriation of a trade secret. Thus all abovementioned remedies will be available.

As regards the cases when there is just a contractual provision that information should be considered and, consequently, protected as a trade secret without meeting the statutory trade secret standards, we should note the following: Under Ukrainian law there are three key criteria, pursuant to which any information should fall to be protected as trade secret. In case the abovementioned three criteria are not met, such information can be considered and protected as confidential information but not as a trade secret, even the parties provided for this in their contract. As a consequence, the liability for disclosure or misappropriation of such information is also provided for, even in the case of contractual provisions. However, this will attract liability for disclosure or misappropriation of confidential information but not trade secret, thus the liability is likely to be more lenient.

33.6 Misuse of Trade Secret Protection

The matter of trade secret protection is complicated enough in Ukraine. As a consequence, there are some proposal to amend Ukrainian legislation inserting provisions on more effective trade secret protection, more complex remedies and more serious liability.

Despite the fact that trade secret protection is not a routine matter, sometimes the cases of misuses of trade secrets happens too. The following incidents are relevant in this regard:

(i) defining some information as a trade secret not to intentionally disclose it before state authorities, during inspections and auditing;

(ii) pretending to protect as a trade secret information that cannot constitute a trade secret;

(iii) bringing a claim before the court because of false and faked trade secret disclosure;

(iv) intimidation of employees with their calling to account (including criminal liability) for allegedly illegal disclosure and misuse of trade secrets for the purposes of further unlawful manipulations.

In Ukraine, there is no definite list of remedies available if a trade secret owner misuses its trade secrets. However, there is a possibility to make him accountable for such illegitimate actions in the following way. For instance, the Civil Code of Ukraine stipulates that the actions taken by a person to harm other person, as well as any other abuse of rights are strictly prohibited[24]. Therefore, a person whose legitimate interests were infringed as a consequence of misuse of trade secret by trade secret owner is entitled to bring the latter to liability.

[24]Article 13 of the Civil Code of Ukraine (2004), http://zakon4.rada.gov.ua/laws/show/435-15.

33.7 Personal Reflections

In conclusion, the protection of trade secrets depends both on the remedies which apply under Ukrainian legislation and on the quality of legal mechanisms of information security established by the owner to protect the trade secret.

In Ukraine the situation where a trade secret belonging to the employer is disclosed by the employee (even by an ex-employee) is relatively common. The following legal mechanisms are applicable in such cases:

The first variant is drafting and adoption of the internal documents on confidential information and trade secrets. In particular, such document should regulate the following aspects: the scope of information protected as trade secrets, access levels to trade secrets to the employees, rules for employees to observe regarding trade secrets, basic organizational and technical mechanisms of the protection and processing of trade secrets. Further there should be presentation of such internal documents to the employees with precise information provided on the rights and obligations of the latter, the scope of trade secret to which the employee has direct access as well on the possible remedies in case of failure to follow the provisions of the respective internal document.

The second variant is establishing the department or appointment of the officer in charge of information security, inter alia trade secrets protection.

The third relevant variant is inserting special provisions on non-disclosure of trade secrets in employment contracts. Such mechanism allows both the stipulation of a separate duty on the employee on observing non-disclosure of trade secret and warning the employee on possible remedies in case of failure to follow such provisions.

The fourth variant is the conclusion of confidentiality agreements. In comparison with the foregoing variant, this mechanism can be effective both for establishing the obligation of non-disclosure of trade secrets for current employees and for the protection of trade secrets from disclosure by ex-employees.

In general, the abovementioned measures cannot be considered as a panacea and guarantee the absence of trade secrets misappropriations, but should be taken by the trade secret owner to mitigate the risks of trade secrets disclosure incidents.

United Kingdom

34

Michael Browne

34.1 Legal Framework

34.1.1 Applicable Legal Systems in the United Kingdom

The United Kingdom incorporates three separate and distinct legal jurisdictions, comprising English law (applicable in England and Wales), Scottish law and Northern Irish law, all of which are common law jurisdictions. This report focusses on the protections afforded to know-how and trade secrets under the English common law, as acknowledged and developed by the case law of the courts of England and Wales. In general terms the position under Scottish law is largely the same as that in England and Wales, albeit with variations in terms of practice and procedure that are outside the scope of this paper.[1]

34.2 The Protection of Rights in Confidential Information Under the English Common Law

34.2.1 Genus of the Cause of Action

There is no statutory protection of a "trade secret" as such in this jurisdiction. Trade secrets are treated as a sub-set of the broader category of rights in confidential information.

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[1]The Reporter gives thanks to Iain McDougall and Andy Harris of MBM Commercial for providing insight regarding the position under Scottish law.

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Rights in confidential information are protected under the equitable jurisdiction of the courts in accordance with the English common law, as well as the law of contract in appropriate cases. This section of the report focusses on the protection of confidential information under the English common law, with contractual considerations addressed in Sect. 34.4 below.

Whilst previous cases had dealt with issues relating to rights asserted in confidential information in the context of other established legal regimen, such as those governing employment relationships, copyright, patents and contractual relationships, it is generally accepted that the origin of the protection of rights in confidential information *as such* under the English common law was the High Court decision in *Prince Albert v Strange* (1849) 41 ER 1171.

Prince Albert v Strange related to an application for injunctive relief to prevent the publication of a catalogue that amongst other things described a number of etchings created by Prince Albert and Queen Victoria, prints of which were to be shown as part of an exhibition to be held by the defendant. The defendant had acquired copies of the prints from an employee of a printer engaged by the royal family who had made the copies *"without [the printer's] consent or knowledge, and in violation of the confidence reposed in him"*. In confirming the decision to grant a perpetual injunction preventing publication of the catalogues containing descriptions of the prints, as well as the exhibition of the prints themselves, Lord Chancellor Cottenham acknowledged that "*this case by no means depends solely on the question of property; for a breach of trust, confidence, or contract itself would entitle the Plaintiff to the injunction*" [emphasis added]. This was the first time that the English court had acknowledged a free-standing right in "confidence" as a separate and distinct cause of action.

34.2.2 The Modern Approach

The protection of rights in confidential information under the English common law was subsequently acknowledged in a number of cases following the decision in *Prince Albert v Strange*, most notably in the Court of Appeal decision in *Saltman Engineering Co. Ltd v Campbell Engineering Co. Ltd* (1948) 65 RPC 203 which re-affirmed that rights in confidential information extend beyond those in which the parties were bound to one another by contract.

The modern statement of the law in this area is now generally accepted to have been summarised in the decision in *Coco v A N Clark (Engineers) Ltd* [1969] RPC 41 in which Megarry J set out the following three requirements which must be established to succeed in an action for breach of confidence:

> First, the information itself…must 'have the necessary quality of confidence about it'. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be unauthorised use of that information to the detriment of the party communicating it

The requirements set out by Megarry J in *Coco v A N Clark* are now routinely applied in breach of confidence cases and have been approved and applied by the Supreme Court (previously the House of Lords), which is the most senior court in this jurisdiction.[2]

34.2.2.1 The First Requirement: The Information Must Have the "Necessary Quality of Confidence"

In essence, the first requirement is that the relevant information must be confidential in the sense that it is 'secret' and not freely available in the public domain. In describing this requirement in *Coco v A N Clark,* Megarry J repeated the comment of Lord Greene MR in *Saltman* that the relevant information is *"not public. . .property and public knowledge"*.

The dissemination of information "publically" to a limited number of recipients or for a short period of time by means that would not draw it to the attention of the public at large may not be sufficient to destroy the "quality of confidence" necessary to enjoy protection[3]. Whether the information is "public knowledge" is therefore a question of fact and degree and depends on the specific circumstances of each case, involving an assessment of whether the relevant information was generally available and known within the jurisdiction at the relevant time.

It is knowledge of the public within this jurisdiction which is relevant to this assessment. For example, in *Franchi v Franchi* [1967] RPC 149 the mere fact that a patent specification had been published in Belgium did not in and of itself render the information contained in that specification incapable of being protectable confidential information in this jurisdiction. Rather, it was the fact that the court accepted that British patent attorneys would become aware of and inspect Belgian patent applications that rendered the information "public knowledge" and, therefore, incapable of protection under the law of confidence. Again, whether the information has been made available to the public within this jurisdiction is a question of fact and degree. However, advances in communications technologies which have resulted in much easier access to information published around the world, particularly via the internet, has undoubtedly broadened the scope of information that may be said to be "public knowledge" within this jurisdiction.

The public release of a product may but does not automatically render any confidential information embodied in that product "public knowledge". It is the form that the particular embodiment of the confidential information takes and, in particular, whether that embodiment allows members of the public to access and understand the confidential information that is of key importance.

An interesting question arises in the context of products which do not disclose the relevant confidential information by their very release to the public, but from which it is possible to ascertain the relevant confidential information through reverse engineering of them. Jacob J considered this question in *Mars UK Ltd. v*

[2]See *Douglas v Hello! Ltd (No. 10)* [2007] UKHL 21, for example.

[3]See *Franchi v Franchi* [1967] RPC 149.

Teknowledge [1999] EWHC 728 (Ch), a case in which the defendant had reverse engineered claimant's encrypted "coin discriminator" technology to re-programme coin operated machines to accept new denominations and currencies. Jacob J's view in that case was that despite being encrypted, in the defendant's hands the claimant's coin discriminator technology "clearly" did not possess the quality of confidence necessary to qualify for protection as confidential information because the defendant's right of ownership of the relevant machine in which the technology was incorporated included the right to find out how that machine worked.[4] However, at the same time Jacob J also acknowledged that if a third party was to steal the relevant information from the claimant directly, without going to the effort and expense of reverse engineering a machine to obtain it, that would amount to an unlawful breach of confidence.[5] One attempt by commentators to reconcile these apparently contradictory statements of the law has been to suggest that reverse engineering in these circumstances removes the confidential information *vis-à-vis* the party that has undertaken the reverse engineering exercise, but not the rest of the world. However, this approach is somewhat contrary to the statement of Morritt J in *Alfa Laval v Wincanton* [1990] FSR 583 that ownership of a machine gives rise to an entitlement *"to dismantle the machine to find out how it works <u>and tell anyone he pleases</u>"* [emphasis added], which Jacob J relied on in support of his observations in *Mars UK Ltd v Teknowledge*. An important point to note is that Jacob J's comments in *Mars UK Ltd v Teknowledge* were *obiter* and therefore not part of the binding decision of the case. As far as the Reporter is aware, this point has not been considered in any subsequent decisions and so this is an area of the law of confidence in this jurisdiction which remains open to further discussion and development in due course.

It is possible that a body of information that is comprised of constituent elements that are independently available in the public domain may nevertheless possess the "necessary quality of confidence" such as to be protected as confidential information. In such cases, the court will consider the extent to which independent time, skill (in the sense of intellectual effort) and labour has been expended to create the thing which is said to constitute confidential information. If that thing could only be created by undertaking the same processes that the party asserting a right in confidential information undertook to create it, then it may be protectable. A classic example of this is the approach to customer lists which although comprised of individual items of information that are individually publically available, such as names, addresses and contact details, may nevertheless amount to confidential information by virtue of the time, skill and labour expended to create them.

[4] Jacob J at pt 31.

[5] *Ibid* pt 32.

34.2.2.2 The Second Requirement: The Information Must Have Been "Imparted in Circumstances Importing an Obligation of Confidence"

In *Coco v A N Clark,* Megarry J described this second requirement as an objective test as follows:

> . . .if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence

In circumstances where information is imparted under express terms which identify the relevant information as confidential, such as a disclosure made in accordance with the express terms of a contractual non-disclosure agreement or in a form which bears the word "confidential", ordinarily there should be little difficulty in establishing that this requirement has been satisfied. This will often be the case in relation to trade secrets, as noted by Lord Goff in *Attorney General v Guardian Newspapers Ltd (No 2)* [1990] 1 AC 109 (HL). Again, whether the circumstances of disclosure of the relevant information alone and in the absence of an express statement gives rise to an obligation of confidence is a matter of fact and degree which is to be considered on a case by case basis.

The manner in which the information is treated by the parties, particularly the disclosing party, will be highly relevant. For example, in *Ocular Sciences v Aspect Vision Care* [1997] R.P.C. 289, Laddie J commented that *"If technology was treated by the parties as if it was common knowledge, it is likely to be reasonable for them to assume that it is being treated in the same way when it is passed on between them"*.

The conduct of the 'receiving' party is also relevant to this assessment. The reference to information being "imparted" should not be misconstrued as a restriction of the protection afforded to confidential information to only those cases in which the disclosing party willingly communicates information to another. The use of surreptitious means to gain access to confidential information has also been found to amount to good evidence that a 'receiving' party knew or objectively should have known from all of the relevant circumstances that the information obtained was confidential.[6] Of course, the use of surreptitious means to gain access to confidential information may also give rise to additional causes of action (under the tort of trespass, for example) or even criminal offences (such as those arising under the Computer Misuse Act 1990).

Other factors that have been found to be relevant to this enquiry include the nature of the information itself, whether the information was disclosed in a formal/business setting or a more informal setting and whether the parties understood subjectively that the information being disclosed was confidential.

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[6]See *Creation Records Ltd and Others v News Group Newspapers Ltd* [1997] E.M.L.R. 444, for example.

In *Attorney General v Observer Ltd.* [1990] 1 AC 109 (HL), Lord Goff sitting in the House of Lords went as far as to suggest that the recipient of information acquired by accident may nevertheless be bound by a duty of confidence if that information is contained in an *"obviously confidential document*".[7]

A form of secondary liability may also apply in the case of a party which itself receives confidential information indirectly from a party which itself is bound by a duty of confidence to another. In *Vestergaard Frandsen A/S v Bestnet* [2013] UKSC 31, a case specifically concerning trade secrets, the Supreme Court confirmed that a third party that obtains information which it does not appreciate is confidential at the time of receipt may nevertheless become liable for a breach of confidence if it later becomes aware that the information is in fact confidential, even though the relevant information was not imparted to it by the party to which that duty is ultimately owed.[8]

34.2.2.3 The Third Requirement: There Must Be Unauthorised "Use of the Information to the Detriment of the Party Communicating It"

This third and final requirement was described by Megarry J in *Coco v A N Clark* as the need to demonstrate "*an unauthorised use of the information to the detriment of the person communicating it*".

In many cases, once it has been found that a duty of confidence exists (i.e. that the first and second requirements have been satisfied) a subsequent finding that there has been an unauthorised use of the relevant information will usually be sufficient to establish that detriment has also been caused to the disclosing party. In many cases, the direct result of the misuse of confidential information is the unfair 'boost' achieved by the party which uses the information for purposes other than those for which it was disclosed to it. Of course an unfair 'boost' enjoyed by a competitor causes an indirect form of detriment to the party whose confidential information has been misused and which is therefore placed at a competitive disadvantage in the marketplace. This form of detriment has been readily acknowledged by the English courts as discussed in more detail in Sect. 34.3 below, in particular in relation to the concept of "springboard" injunctions.

34.2.3 "Trade Secrets" as a Sub-set of Confidential Information

As noted above, "trade secrets" fall within the general class of rights in confidential information under the English common law. There is no fixed definition of

[7] Lord Goff at pts 281[282].

[8] Lord Neuberger at pt 25.

confidential information which amounts to a "trade secret".[9] However, the concept of a "trade secret" generally arises in the case law in one of two forms.

The first is as a general way of describing confidential information of a commercial, rather than a private or personal nature. Under this definition, a "trade secret" may take one of any number of forms. As noted above a list of customer details may qualify for protection as confidential information and may also therefore be considered a "trade secret" because of the commercial nature of the information. A business may choose to keep technical know-how relating to an inventive product, process or technique confidential, rather than apply for patent protection which necessitates disclosure of the relevant information in exchange for a limited period of monopolistic protection. Again, such information might also be considered a "trade secret" given the commercial context in which it arises. Even confidential technical know-how which might not be patentable may amount to a "trade secret" under this definition. Indeed, the "secret" recipes of well-known foodstuffs such as Coca Cola, Kentucky Fried Chicken seasoning and McDonald's "Special Sauce" are all very well-known examples of confidential information that would also be regarded as a "trade secret".

A second, narrower form of "trade secrets" has also been applied in cases considering the post-employment obligation of confidence owed by an employee to its former employer. A distinction between "trade secrets" and other forms of confidential information in a post-employment context was drawn by the Court of Appeal in *Faccenda Chicken Ltd v Fowler [1987] 1 Ch. 177*. That case involved an alleged breach of confidence by ex-employees of the claimant who had used sales information acquired whilst working for a former employer, including customer names, addresses, delivery routes and prices, when establishing a rival business. In its judgment in that case, the Court of Appeal noted that an employee owes a duty of good faith to its employer during the course of its employment which includes *inter alia* a duty not to disclose its employer's confidential information to third parties. However, once the employment contract has come to an end an ex-employee's implied duty of confidence to its previous employer was said to extend only to "*information which is of a sufficiently high degree of confidentiality as to amount to a trade secret*".[10] By implication, therefore, in *Faccenda Chicken* the Court of

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[9]Whilst Section 43(1) of the Freedom of Information Act 2000 ("FOA 2000") includes an exemption to the obligation upon public bodies to disclose information upon submission of a request under the FOA 2000 where the information requested constitutes a "trade secret", Ministry of Justice guidance has acknowledged that the FOA 2000 does not provide a definition of that term and nor is there a precise definition of it in English law generally—see here: https://www.justice.gov.uk/downloads/information-access-rights/foi/foi-s43-exemptions.pdf. Note also that the exclusion for information that amounts to a trade secret under Section 43(1) FOA 2000 is not absolute and therefore the relevant information will only be exempt from disclosure if, in all of the circumstances of the case, the public interest in maintaining the exclusion outweighs the public interest in disclosing whether the public authority holds the information (FOA 2000 ss. 2 (1)–(3)).

[10]See Neill LJ at pt 135G.

Appeal suggested that certain categories of confidential information (trade secrets) are "more confidential" than other categories.

This report focusses on the wider form of "trade secrets" set out above. As noted above, the narrower definition set out by the Court of Appeal in *Faccenda Chicken* relates specifically to circumstances arising in the post-employment context only. In that regard, the court had to weigh up the interests of an employer in protecting its commercially sensitive information against the interests of former employees not being the subject of unduly restrictive obligations which might give rise to restraint of trade issues. As such, the definition of "trade secrets" set out in the *Faccenda Chicken* case is largely accepted to apply in a specific employment-related context only.

34.2.4 Personal and Private Information

Whilst rights in "personal" or "private" information had also historically been recognised as another sub-set of information that may fall within the general class of rights in confidential information, the enactment of the Human Rights Act 1998 ("HRA 1998") which came into force on 2 October 2000 (enacted to give effect to the European Convention for the Protection of Human Rights) resulted in the further extension of protection of this category of information within the law of confidence in this jurisdiction. A detailed review of the law of privacy post-HRA 1998 is outside the scope of this paper, which focusses on the protection of confidential information of a commercial nature i.e. trade secrets and know-how (see further discussion of which at Sect. 34.2.3 above). However, it should be noted that many of the leading cases arising from the rights in personal and private information extended by the HRA 1998 relate to actions brought by celebrities seeking to restrict the commercial exploitation of private information by the media[11] and the fact that many celebrities now routinely exploit their own private and personal information for commercial means (by allowing "exclusive" access to private functions such as weddings, for example) demonstrates that the enforcement of rights in private information may also have commercial implications.

34.2.5 Duration

In principle, a duty of confidence continues until the relevant information is no longer confidential unless the duty is otherwise released by the party to which it is owed, irrespective of how the information comes into the public domain.

As noted in Sect. 34.3 below, in certain circumstances the court will impose injunctions to prevent a party enjoying the benefit of its misuse of confidential

[11] See *Campbell v Mirror Group Newspapers Ltd [2004] UKHL*, which is now the leading case in this area.

information in circumstances where the information itself has become public. However, such injunctions will be time-limited and so a party will not be prevented indefinitely from using information which has become public.

34.3 Remedies for Breach of Confidential Information

34.3.1 Overview

The court has a variety of different remedies that it may award depending on the particular factual circumstances giving rise to a finding of a breach of confidence. Forms of relief that are frequently awarded in breach of confidence cases in this jurisdiction include:

- Injunctions, both interim and final;
- Financial compensation by way of damages or an account of profit;
- Delivery up or destruction of materials and articles containing the relevant information or which embody a misuse of it;
- Declarations that the relevant information is (or is not) confidential in nature; and
- Publication and dissemination of the relevant judgment.

34.3.2 Injunctive Relief

In many cases, including those involving commercial know-how and/or trade secrets, it is imperative that a claimant is able to prevent the misuse of confidential information quickly and before the conclusion of a full trial on the merits of the claim. The ability to obtain an interim (preliminary) injunction is therefore a very important form of relief available in breach of confidence cases.

In addition, for obvious reasons an injunction preventing the threatened but not yet actual disclosure or use of confidential information is often also extremely important and such injunctions, known as *quia timet* injunctions, are also available in appropriate cases.

The general principles applied by the court when considering applications for interim injunctions in this jurisdiction generally are set out in the House of Lords decision in *American Cyanamid Co. v Ethicon Ltd* (1976) AC 396. First, it must be established that there is a serious issued to be tried. If so, the court must then ask whether damages would be an adequate remedy for a party injured by the grant or refusal to grant the requested injunction. If not, the court must then consider where the balance of convenience lies, given all of the circumstances of the case. If the matter is finely balanced, the court will usually seek to preserve the status quo, which in breach of confidence cases where a *quia timet* injunction is sought will often mean granting an interim injunction preventing use or disclosure of the relevant information pending determination of the claim at trial. A party which seeks an interim injunction will be required to give a cross-undertaking in damages which seeks to protect the subject of the injunction in the event that the claim subsequently fails at full trial. An interim injunction will be discharged once a final determination of the relevant claim has been made at which point a final injunction will be put in place if the claim is successful.

Ordinarily, injunctions in this jurisdiction are granted against specific individuals and/or legal persons. As such, an interim injunction will usually only bind those parties specifically named in the relevant court order. However, this position is slightly altered in breach of confidence cases by a principle arising from the House of Lords decision in *Attorney General v Times Newspapers Ltd* (1992) 1 AC 191 which established that a third party may also be liable for contempt of court if it discloses information that the court has ordered a party not to disclose and which would impede or interfere with a claim before the court if that third party also has knowledge of the terms of the relevant interim injunction. This principle, known as the "*Spycatcher*" principle because of the name of the publication to which the House of Lords case related, has particular implications in the context of publishing and broadcasting, where it may be desirable to put various publishers and broadcasters on notice of an injunction granted against specific parties. However, there is no reason why it might not also apply in other contexts, including those in which an interim injunction preventing the disclosure of confidential information that would be classified as commercial know-how and/or trade secrets has been granted.

Final injunctions are also available at the conclusion of a trial on the merits of a claim if a claim is successful and, again, such injunctions are also available on a *quia timet* basis.

The duration of any final injunction granted will depend on all of the factual circumstances of each individual case. Where a *quia timet* injunction has been granted, the court might be expected to grant an injunction restraining disclosure of the relevant information generally. Should such information subsequently enter the public domain by a route other than breach of the injunction, the party that is the subject of the injunction would then be free to apply to the court to have the relevant injunction discharged, much in the same way a defendant in patent infringement proceedings might apply to have an injunction against further 'infringing' activity discharged in the event that the relevant patent is subsequently invalidated.

The position is different in cases where the claim arises from a misuse of confidential information which has already taken place and that misuse has itself destroyed the confidential nature of the relevant information. Whilst the court will not ordinarily grant an injunction against the use of information which is no longer confidential, irrespective of the circumstances in which the information lost its confidential nature, the principle of the "*springboard*" injunction has developed over time to limit the commercial advantage that might otherwise be enjoyed in certain cases by a party that misuses the confidential information of one of its competitors.

The basis of the "springboard" doctrine was reviewed in detail by Arnold J in *Vestergaard Frandsen A/S v. Bestnet Europe Limited* (2009) EWHC 1456 (Ch). In that case, the judge noted springboard injunctions are only available in cases where the relevant information could have been compiled or obtained from other sources. Whilst the parameters of the doctrine remain somewhat unclear, Arnold J explained that in a situation where the defendant is still misusing the confidential information which has subsequently become publically available, the duration of any "springboard" injunction preventing the continued use of that information should be limited to the time it would take someone starting from public domain sources to reverse engineer or compile the relevant information, since this reflects the limited degree of confidentiality that is being enforced. The injunction granted in such circumstances is therefore designed to address the 'head start' advantage gained by the defendant's failure to undertake the exercise of obtaining the information from public sources.

34.3.3 Financial Compensation: Damages and Account of Profit

Financial compensation awarded in the form of damages that are awarded upon a finding of breach of a contractual duty of confidence (discussed in more detail in Sect. 34.4 below) will be calculated in such a way as to try to put the claimant in the position that it would have been in had it not been for the breach of contract. In that sense, damages for a contractual breach of confidence are compensatory rather than punitive and the calculation of an appropriate award will depend on all of the relevant circumstances, such as whether the claimant uses or used the relevant information for its own benefit or if it derives income via a licensing model, for example. Damages are also available upon a finding of the breach of equitable common law rights in confidential information[12] and will be calculated on a similar basis, i.e. to put the claimant in the same position as it would have been in had it not been for the breach of confidence.

An alternative form of financial compensation may be ordered by way of an account of the profit generated by the defendant as a result of its misuse of the relevant confidential information. Only those profits directly attributable to the defendant's misuse of the relevant confidential information may be recovered on this basis, so an apportionment of actual profits generated must be made. In practice, this can be a difficult calculation to undertake with any degree of certainty and the court will often be prepared to make an award on estimated percentages supported by evidence.

Many breach of confidence cases will be dealt with on a 'split trial' basis, with a trial to determine liability followed at a later stage by enquiry as to quantum (in the event liability is established). Ordinarily, a successful claimant will be given the opportunity to elect between financial compensation in the form of damages or an account of profit. However, the court will often order further disclosure of relevant information to be made in accordance with the jurisdiction established in *Island*

[12] Senior Courts Act 1981 s. 50.

Records Ltd v Tring International pls (1996) 1 WLR 1256 prior to such election being made to enable a claimant to choose the basis that is most advantageous to it.

34.3.4 Delivery Up or Destruction

Positive injunctions requiring the delivery up or destruction of copies or articles containing or embodying confidential information are usually available as alternatives to one another, the former often preferred in cases where the claimant has concerns as to whether the defendant can be trusted to destroy the relevant materials. In circumstances where destruction is ordered against a corporate defendant, it is common to seek an order that a named representative of the defendant company provides a witness statement endorsed by a statement of truth that destruction has taken place so that the relevant individual may be personally liable for contempt of court in the event that destruction does not take place in accordance with the relevant order.

In appropriate cases, the court may order the modification of an article or erasure of confidential information from a document rather than complete destruction of it, which again reflects the restitutionary rather than punitive nature of relief in breach of confidence cases in this jurisdiction.

34.3.5 Declarations

Rule 40.20 of the Civil Procedure Rules ("CPR") provides that the court may make binding declarations whether any other remedy is claimed or not, which would include the power to declare that certain information is or is not confidential. Naturally, any such declaration would need to be sought in such terms as not to destroy the confidential nature of the relevant information.

34.3.6 Publication and Dissemination of Judgment

The publication of judgments in intellectual property cases required in accordance with Article 15 of Directive 2004/48/EC on the enforcement of intellectual property rights has also been extended by the English court to breach of confidence cases.[13]

[13]See the order of Arnold J at 114 in *Vestergaard Frandsen A/S v. Bestnet Europe Limited* (2009) EWHC 14556 (Ch), for example.

34.4 The Protection of Confidential Information by Contract

In addition to the equitable protection of rights in confidential information under the English common law, in this jurisdiction it has also long been possible to protect rights in confidential information by contract.

In many sectors, the entry into a confidentiality agreement (commonly known as non-disclosure agreements or NDAs) at the outset of a prospective trading relationship is accepted as a matter of routine and many other forms of commercial agreement will include specific contractual terms governing the disclosure, use, retention and return of any confidential information that may flow between the respective parties during the course of the relationship.

There are a number of perceived benefits of seeking to protect confidential information, including commercial know-how and trade secrets, by contract. For example, as noted above a key “ingredient” necessary to establish a common law right in confidential information is to show that the relevant information has been imparted in circumstances importing an obligation of confidence. This is an objective question which involves a factual enquiry and, therefore, gives rise to potential uncertainty. The entry into an explicit agreement governing the use of information which is designated ‘confidential’ by the relevant parties avoids such issues. Another benefit is that the parties to a contractual agreement are largely free to agree between themselves the relevant safeguards that are to be put in place to preserve the confidential nature of the relevant information, which may extend far beyond the scope of relief that might be available via the court when relying on a common law right.

Of course, contractual obligations generally only bind the parties to the relevant contract. As such, there are many situations in which a party may need to rely on the protection offered by the common law duty of confidence, rather than rights in contract to protect valuable know-how or trade secrets.

34.5 The Treatment of Confidential Information in Litigation

In proceedings before the courts of England and Wales, a party that is under a duty to disclose a certain category of document must do so irrespective of whether that category includes documents containing confidential information, unless such documents are also fall into narrow categories of documents that are privileged from disclosure (such as documents containing communications that are subject to client-attorney privilege). As a general rule, a party to whom a document has been disclosed also has a right to inspect that document.[14] The potential for disclosure of commercially sensitive know-how and trade secrets during the course of proceedings is obvious.

[14] CPR 31.3.

Whilst it is generally the position that documents disclosed in the course of proceedings may only be used for the purpose for which they are disclosed[15], it is well recognised that this basic safeguard may not in and of itself sufficiently protect legitimate rights in confidential information from misuse by a receiving party. Therefore, to balance the interests of parties to litigation seeking to maintain the confidential nature of commercially sensitive information, a number of practices have developed to restrict the scope of the unnecessarily broad circulation of confidential information during litigation.

The use of 'confidentiality clubs' is one way in which the circulation of commercially sensitive information can be restricted to an acceptable level. In basic terms, the court may order that copies of certain discloseable documents are only made available to certain named individuals (in cases involving highly sensitive information, this may be to legal advisors only). Members of the 'club' will frequently be required to give personal undertakings not to misuse or disseminate any confidential information that is made available to them in the course of proceedings, giving rise to personal liability, including the possibility of contempt of court, if such information is subsequently misused.

The redaction of commercially sensitive information which is irrelevant to the relevant proceedings from otherwise disclosable documents is another frequently-used way of limiting the risk of disclosure of commercially sensitive information in litigation.

As a general rule court hearings in this jurisdiction are heard in public, which gives rise to a further risk of disclosure of confidential information to the public at large. Again, the court procedures have developed to mitigate this risk somewhat. In extreme cases requests can be made to have proceedings heard *in-camera* (i.e. not in public), albeit it is unlikely that the court would grant such a request based on the risk of disclosure of commercial confidential information only. It is more likely that the court might be prepared to hear evidence or submissions relating to confidential information only *in-camera*, or to agree not to read the contents of documents containing such information out in open court.

34.6 Attempts to Reform the Law Relating to the Protection of Rights in Confidential Information

There have been relatively few attempts to reform the modern law relating to the protection of rights in confidential information.

In 1997, the Law Commission of England and Wales published a consultation paper entitled "Legislating the Criminal Code: Misuse of Trade Secrets" which concluded that there was a *"strong case"* in favour of the criminalisation of the misuse of trade secrets.[16] However, this recommendation was not acted upon and

[15]CPR 31.22(1).

[16]See here: http://lawcommission.justice.gov.uk/docs/cp150_Legislating_the_Criminal_Code__Misuse_of_Trade_Secrets_Consultation.pdf.

no further steps towards the enactment of legislation to introduce an offence relating to the misuse of trade secrets have been taken since that time.

By way of an example of the general consensus amongst practitioners that the law in this area is generally sufficiently developed, a review conducted by AIPPI UK Group in 2010 in response to questions relating to "Protection of trade secrets through IPR and unfair competition law" concluded that "*trade secrets can in practice in the UK be effectively protected through actions brought in the civil courts for breach of confidence*".[17]

More recent consideration and discussion of the law in this area has, of course, been stimulated by the draft Directive on the Protection of Undisclosed Know-how and Business Information originally published on 28 November 2013. In September 2014 the Law Societies of England and Wales, Scotland and Northern Ireland issued a joint position paper in response to the EU Council's opinion on the draft Directive.[18] The response to the draft Directive has been reasonably positive, with general agreement that there are benefits to be enjoyed as a result of a common approach to the protection of trade secrets across Europe. However, as noted by the Law Societies' paper "*the devil is always in the detail*" and concerns have been raised about certain aspects of the proposed Directive. For example, the need to establish a link between the commercial value of information as a result of its confidentiality to qualify as a trade secret under Article 2(1) b of the draft Directive has been questioned. Such a requirement would represent a reasonably significant departure from the general approach to rights in confidential information and, by extension, trade secrets, in this jurisdiction.

34.7 Personal Reflections

The Reporter shares the view expressed by Lord Neuberger in the Supreme Court in *Vestergaard Frandsen A/S v Bestnet* [2013] UKSC 31 that "*...in a modern economy, the law has to maintain a realistic and fair balance between (i) effectively protecting trade secrets (and other intellectual property rights) and (ii) not unreasonably inhibiting competition in the market place*".[19]

The way in which the protection of rights in confidential information under the equitable jurisdiction of the courts in accordance with the English common law has developed over time has, in the Reporter's view, broadly resulted in a position which at present does achieve the balance referred to by Lord Neuberger.

Admittedly, there are certain aspects of the law in this area that remain unclear (such as the position regarding the status of confidential information that has been

[17] A full copy of the AIPPI UK Group response to Question 215 is available here: https://www.aippi.org/download/commitees/215/GR215united_kingdom.pdf.

[18] A copy of the full response paper is available here: file:///C:/Users/R3ddo9/Downloads/LSBO-Briefing-Trade-Secrets.pdf.

[19] At pt 44.

obtained by reverse engineering, for example) and commercial uncertainties arising from that, ideally, are to be avoided. However, there is much to be said for the flexibility that arises from the court's ability to deal with these cases in accordance with its equitable jurisdiction, as opposed to the potentially more rigid approach that might result from attempts to codify the law in statute.

The AIPPI UK Group 2010 response referred to above (to which the Reporter also contributed) reflects the Reporter's general perception that practitioners in this jurisdiction consider that the law as it stands does provide effective protection for know-how and trade secrets in this jurisdiction as things stand. As such, there seems little need or appetite for significant reform in this area at this time. That being said, the prospect of greater harmonisation of the protection of valuable trade secrets across EU Member States is also to be welcomed, as long as the proposed Directive can achieve the right balance between the fair protection of the legitimate interests of rights holders on the one hand and commercial competition on the other.

United States of America

35

Emilio Varanini

35.1 Executive Summary

The U.S. Group is pleased to submit this response to Question B for the Stockholm Congress: *The Protection of Trade Secrets and Know-How—Are States Providing Enough or Too Much Protection?* Trade secrets involve business assets whose value rests in being kept confidential: they can range from customer lists, to software code, to chemical, engineering, or other manufacturing processes, or to databases.[1] Famous examples in the United States include Coca-Cola's secret recipe, Google's search algorithm, the method for generating the New York Times' Best Sellers list, and Kentucky Fried Chicken's 11 herbs and spices on their fried chicken, to name just a few.

Trade secrets are often developed at great cost and involve years of research and development.[2] As long as reasonable efforts are made to keep such assets confidential, trade secrets may be protected in the United States via civil and criminal processes against disclosure by employees, ex-employees, licensed parties that violate the term of the license (civilly), and theft. In effect, so long as confidentiality can be safeguarded, trade secret protection can last forever, a noted contrast with patent law in the United States.

[1]*E.g., Altavion v. Konica Minolta Systems Laboratory, Inc.*, 171 Cal.Rptr.3d 714, 719 (Cal. App. 1 Dist. 2014) (opinion of intermediate state appellate court for San Francisco) [digital stamping technology allowing for self-authentication of documents can be protected as trade secret].

[2]U.S. House of Representatives Committee on the Judiciary, H.R. Report No. 113-657, Trade Secrets Protection Act of 2014, p. 5 [accompanying H.R. Bill No. 5233], *available at* https://www.congress.gov/congressional-report/113th-congress/house-report/657/1.

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Because safeguarding trade secrets are an important component in protecting innovation in the United States and maintaining standards of commercial ethics in the marketplace,[3] the U.S. Group strongly supports continuing both civil *and* criminal protection of trade secrets within reasonable bounds. Trade secret theft—according to just one estimate—costs U.S. companies between 1 and 3% of U.S. GDP each year, i.e., between $160 million and $460 million annually.[4] Indeed, the United States Supreme Court has highlighted how trade secret law has "an important part to play in the technological and scientific advancement of our Nation"[5] and, without it, "organized scientific and technological research could become fragmented, and society, as a whole, would suffer."[6]

There are important limitations on trade secret protection that do not exist for patents. Many of those limitations are needed to ensure that trade secret protection does not go too far—either in squelching the public disclosures of inventions as such disclosures can further economic progress or in being used as an anti-competitive weapon to conduct discovery into rivals' business secrets or otherwise hinder them from competing in the market. Other limitations need reform as they hinder effective protection of trade secrets.

In the latter category is the need for enactment of a uniform federal civil statute. Civilly speaking, trade secrets are protected under state law, rather than federal law, creating potential problems both in protecting trade secrets in the international arena because of jurisdictional issues and in leading to state-by-state divergences in the protection of trade secrets. This has led to efforts in Congress, which the U.S. Group supports, to enact a federal *civil* statute for trade secrets to complement (and not replace) state statutes.

In the former category, trade secrets lose their status if they are reverse engineered. The U.S. Group supports this key limitation as a means of preventing trade secrets from supplanting the role of patents (and also copyright) in balancing the need to foster innovation against the need to facilitate disclosure of information (e.g., manufacturing processes or application programming interfaces) so as to facilitate economic development and progress. Similarly, the U.S. Group supports the bad faith limitation on civil trade secrets actions to prevent abuse of this otherwise important and necessary tool to chill business competition.

Also, in this former category, if the trade secret is widely disseminated, e.g., on the Internet, it loses its trade secret status. That is a necessary limitation lest trade secrets law supplant patent law and overprotect intellectual property to the detriment of the public interest, But that necessary limitation further puts a premium on ensuring that

[3]*Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481–82 (1974). Given that a significant number of patents are being invalidated, meaning a company obtains no benefit from the public disclosure of its ideas concomitant with the patent application, more and more companies are tuning to trade secrets as an alternate form of protection. *Altavion*, 171 Cal.Rptr.3d at 737.

[4]H.R. Report No. 113-657, p. 6.

[5]*Kewanee Oil Co.*, 416 U.S. at 493.

[6]*Id.* at 486.

criminal, as well as civil, remedies are available for the improper disclosure of trade secrets so as to discourage theft of those secrets. Trade secrets are property like other forms of intellectual property. For those reasons, the U.S. Group supports the continued prosecution of trade secret theft under criminal statutes.

Moreover, in some states such as California, the remedies of trade secret holders against employees or ex-employees who wish to switch employment to work for a competitor are limited by bans on covenants not to compete. Though the members of the U.S. Group hail from different states with different positions on such limitations as expressed by statute or case law, they note the existence of the position taken by the State of California, based on its laws and an economic study, finding that bans on covenants not to compete in those states have facilitated employee mobility and thus innovation in Silicon Valley. To prevent trade secrets protection from venturing too far in chilling employee mobility, the Stockholm Congress may wish to consider resolving that limitations of some kind should be explored in the future as to the court enforcement of covenants not to compete.

In addition, the protection of trade secrets through covenants not to compete may raise antitrust issues, at least if the holder of the trade secrets has market power. Because the U.S. Group does not believe that intellectual property protection should become an excuse for violating the antitrust laws via exclusionary conduct that goes beyond the bounds of the government grant whether it be patents, copyrights, or trade secrets, the U.S. Group urges the Stockholm Congress to avoid any categorical exemptions for trade secrets from antitrust laws. As to national security reviews of proposed acquisitions of trade secrets that can convey a perception (warranted or not) of the overprotection of trade secrets, such a perception can be addressed through dialog between countries leading to investment undertakings (or treaties). Those investment undertakings can diminish any sense of overprotection, and thereby support needed foreign direct investment, even as they can strengthen the international protection (at an appropriate level) of trade secrets and thereby help to ensure they retain their liquidity and value.

Finally, the question has been raised as to whether there are non-trade secrets that nonetheless constitute know-how and as such should receive protection. At the onset, the U.S. Group notes that the most common definition of know-how views it as being synonymous with trade secrets with the issue then being the level of protection that should be afforded to trade secrets.[7]

That being said, there is, as the U.S. Group reports below, the notion in some states that their law may afford protection to business assets that go beyond the bounds of the protection afforded to trade secrets as defined under the principal civil trade secrets law in effect in almost all states. However, such state protection may risk preemption by federal patent law as, in contrast to trade secrets law, they may subvert the careful balancing of interests (e.g., exclusivity of use for a substantial period of time in exchange for public disclosure in the case of patents) involved with those federal laws. The U.S. Supreme Court has recently (and strongly)

[7]See https://en.wikipedia.org/wiki/Know-how (accessed on July 8, 2015).

counseled against even judicially-made rules that subvert the balancing of interests as set out in Congressional enactments pertaining to patents. The U.S. Group accordingly recommends against the extension of protection to know-how beyond that provided by trade secret law.

35.2 Legal Protection for Trade Secrets: Substantive and Procedural Aspects

Under U.S. law (both state and federal), trade secrets generally are viewed as commercially valuable information that is not generally known to the public and is subject to reasonable measures to maintain its confidentiality.[8] "Typical examples include confidential formulas, manufacturing techniques, and customer lists."[9] Source code is also a protectable trade secret.[10]

Not every business asset constitutes a trade secret; for example, a list of a manufacturer's employees that can be complied from public sources is not a trade secret.[11] But the scope of what constitutes trade secrets can be extraordinarily broad so long as reasonable measures have been taken to ensure their confidentiality;[12] even design concepts or ideas, for example, can be protected as trade secrets.[13]

[8]U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, Annex A, U.S. Patent and Trademark Office Overview of U.S. Trade Secrets Law and Changed Landscape, p. 19 (document, which is not paginated, is in the possession of U.S. Group).

[9]*Ibid*. The California Supreme Court re-affirmed that customer lists can be a trade secret such that their use by ex-employees (as opposed to ex-employees' using public information) to solicit business away from their former employers constitutes misappropriation. *Reeves v. Hanlon*, 95 P.3d 513, 522 (Cal. 2004); *see, e.g., Wanke Indus., Comm., Resid., Inc. v. Sup. Ct.*, 147 Cal. Rptr.3d 651, 672–73 (Cal. App. 4 Dist. 2012).

[10]*Altavis*, 171 Cal.Rptr.3d at 740 (citing cases).

[11]*Cypress Semiconductor v. Maxim Integrated Products*, 186 Cal.Rptr.3d 486, 493, 496 (Cal. App. 6 Dist. 2015). The Sixth Appellate District of the State of California is an intermediate state appellate court that covers Silicon Valley.

[12]U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, Annex C, Office of the National Counterintelligence Executive, Foreign Spaces Stealing U.S. Economic Secrets in Cyberspace, October 2011, p. iii ["In this context, trade secrets are all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether stored or unstored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing, if the owner (the person or entity in whom or in which rightful legal or equitable title to, or license in, is reposed) has taken reasonable measures to keep such information secret and the information derives independent economic value, actual, or potential from not being generally known to, and not being readily ascertainable through, proper means by the public."] (document in possession of the U.S. Group).

[13]*Altavion*, 171 Cal.Rptr.3d at 735–38 [holding such and extending holding to ideas that could be patented].

Ultimately, trade secrets are a form of property under U.S. law albeit one whose value flows from their being private.[14]

Trade secrets are protected by state civil laws and by state and federal criminal laws.[15] The substantive and procedural aspects of those laws are set forth below.

35.2.1 State Civil Trade Secrets Law

Forty-eight of the 50 American states have enacted legislation consisting of versions of the Uniform Trade Secrets Act ("UTSA"), which originated as a statement of tort principles and became a statement of unfair competition principles[16] ultimately as a suggested model law for states to adopt pursuant to a meeting of the National Commissioners on Uniform State Laws in 1979[17], so as to provide state civil protection for trade secrets.[18] Under the UTSA, a trade secret is broadly "'defined as "information, including a formula, pattern, compilation, program, device, method, technique, or process, that: [¶] (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and [¶] (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'"[19] A trade secret is protectable as such even if the underlying secret could have been patented, even if aspects of the trade secret were in the public domain (but not the particular combination of those aspects), and even if the

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[14] *DVD Copy Control Ass'n v. Bunner*, 75 P.3d 1, 14 (Cal. 2003) (opinion of the California Supreme Court); *Cadence Design Sys. v. AvantA Corp.*, 57 P.3d 647, 652–53 (Cal. 2002) (decision of the California Supreme Court). Indeed, like any other form of property, an owner of a trade secret can recover for damages from its misappropriation even if those secrets are post-misappropriation sold to a third party, *Jasmine Networks, Inc. v. Sup. Ct.*, 103 Cal.Rptr.3d 426, 435–38 (Cal. App. 6 Dist. 2009) (decision of state intermediate appellate court for Silicon Valley)—thus providing additional support for the notion that trade secrets are property. The *Jasmine* decision cited for the above proposition also supports, albeit indirectly, the need for trade secrets as property to be as liquid as possible consistent with its characteristics, an issue discussed in more detail *post* in this report.

[15] U.S. Office of the President, Annex A, p. 19 ["In the United States, civil private enforcement of trade secret protection is primarily a state matter."].

[16] U.S. Office of the President, Annex A, p. 19 [describing how the principles that became the Uniform Trade Secrets Act descended from common law, were gathered in the 1939 Restatement (First) of Torts and then in 1995 in the Restatement (Third) of Unfair Competition].

[17] *Cadence Design Sys.*, 57 P.3d at 650. California adopted the UTSA without change in 1984. *Id.*; *accord Bunner*, 75 P.3d at 9. Based on this fact, and on the fact that California is the home of Silicon Valley as well as being the eighth largest economy in the world—Center for Continuing Study of the California Economy, Numbers in the News, California Once Again the World's Eighth Largest Economy (July 2014), this section of the report will often use California as a proxy for other states' enactment and application of the UTSA.

[18] H.R. Report No. 113-657, p. 7.

[19] *Cadence Design Sys.*, 57 P.3d at 650 (internal citation omitted); *accord*, *Bunner*, 75 P.3d at 9.

concept behind the trial secret was in the public domain (but not the particular process involved in the secret itself).[20]

The requirement of showing substantial economic value means that a court must determine whether the information has value because it is unknown to others; if it is generally known or is readily ascertainable by a competitor, it has no economic value.[21] That value need not be great but must not be trivial.[22] And proponents of a trade secret can meet their burden of showing this element of a trade secrets claim either by direct evidence relating to the content of the secret and how it impacts a their business operations or by circumstantial evidence as to the amount of resources invested in developing the secret, the precautions taken to protect its secrecy, and the willingness of others to pay for access to the secret.[23]

In turn, "'[m]isappropriation' is defined as '(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or [¶] (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: [¶](A) Used improper means to acquire knowledge of the trade secret; or [¶] (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: [¶] (i) Derived from or through a person who had utilized improper means to acquire it; [¶](ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or [¶](iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or [¶] (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.'"[24]

And "improper means" is defined to "'include[ ] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.'"[25] The ability to reverse engineer, and then freely use, a trade secret distinguishes a trade secret from a patent. The patent constitutes a grant of exclusive control for a limited time in exchange for public disclosure such that any practice of the patent by anyone other than the patent holder and his or her licensees infringes the patent.[26]

Whether a trade secret can still in fact be deemed a secret under the UTSA, or conversely must be deemed to have passed into the public domain such that at least a court order barring further dissemination may no longer be appropriate, is a fact-intensive analysis in which it must be determined how wide-spread is publication of

[20] *Altavion*, 171 Cal.Rptr.3d at 731.

[21] *Id*. at 742–43.

[22] *Id*. at 743.

[23] *Id*. The fact that a misappropriator of a trade secret then files patent applications based on that trade secret is evidence that it has substantial economic value. *Id*. at 743–44.

[24] *Cadence Design Sys*., 57 P.3d at 650 (internal citation omitted); *accord, Bunner*, 75 P.3d at 9.

[25] *Cadence Design Sys*., 57 P.3d at 650 (internal citation omitted); *accord*, *Bunner*, 75 P.3d at 9.

[26] *Cadence Design Sys*., 57 P.3d at 650–51 (internal citations omitted).

the secret and whether it may retain at least some economic value from not being widely-known (yet).[27] On the one hand, even publication of the trade secret on the Internet may not nullify its status as a trade secret if the publication is "obscure," "transient," or "otherwise limited" such that "it does not become generally known to the relevant people, i.e., potential competitors or other persons to whom the information would have some economic value."[28] Moreover, wide-spread disclosure of the general concept of the secret (as opposed to its underlying mechanics) to potential investors and licensees without the execution of a non-disclosure agreement still does not operate to defeat the trade secret's status as a trade secret.[29] On the other hand, quick and widespread publication of a trade secret on the Internet to an eager audience will destroy the status of a trade secret as such, making inappropriate a court order against republishing that secret as such an order goes beyond the objectives of trade secrets law.[30]

The statute of limitations of the UTSA is 3 years.[31] While a misappropriation may occur each time a trade secret is misused or wrongfully disclosed, a claim under the UTSA arises the first time the misappropriation occurs with each subsequent misappropriation being part of a continuing wrong.[32]

To obtain a court order, e.g., against a current or former employee with access to trade secrets so that the employee does not divulge those trade secrets to a competitor or to the world, there must be an actual or threatened misappropriation or theft of that trade secret[33]—with threatened misappropriation being present if there was a threat of misuse as conveyed by words or conduct plus the imminent prospect of misuse.[34] If it is not clear that the appropriation occurred via improper means, e.g., the facts suggest that the alleged misappropriation may have occurred via reverse engineering, a court may find that an insufficient basis exists to grant an injunction.[35] Moreover, the trade secret must be described with reasonable particularity in that court order for the order itself to be valid.[36] And the injunction ceases when the trade secret is no longer a trade secret and when any commercial

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[27] *DVD Copy Control Ass'n v. Bunner*, 10 Cal.Rptr.3d185, 192 (Cal. App; 6 Dist. 2004) (case was decided on remand to intermediate state appellate court in Silicon Valley from California Supreme Court).

[28] *Id.* at 192–93.

[29] *Altavion*, 171 Cal.Rptr.3d at 738–39.

[30] *Id.* at 194.

[31] *Cadence Design Sys.*, 57 P.3d at 651.

[32] *Id.* at 651–52.

[33] *See Bunner*, 75 P.3d at 9.

[34] *FLIR Systems, Inc. v. Parrish*, 95 Cal.Rptr.3d 307, 313 (Cal. App. 2 Dist. 2009) [discussing California's version of the Uniform Trade Secrets Act]. (The Second Appellate District of the State of California is also an intermediate state appellate court that covers Los Angeles.) The standard of actual or threatened misappropriation is generally the standard under the Uniform Trade Secrets Act. U.S. Office of the President, Annex A, p. 19.

[35] *Bunner*, 10 Cal.Rptr.3d at 194.

[36] *FLIR Systems,* 95 Cal.Rptr.3d at 317–18.

advantage that the one misappropriating trade secret gained by virtue of the illicit "head start" has ended.[37]

The issuance of such an injunction does not violate the First Amendment to the U.S. Constitution guaranteeing freedom of speech, even if the underlying material such as computer code constitutes speech, because trade secrets constitute property such that a court order protecting its status as such constitutes permissible content-neutral regulation.[38] In addition, the UTSA *requires* a court in an action filed under it to issue an order protecting the confidentiality of the trade secrets that are determined to exist such that the public is not entitled to discover those secrets and the public's constitutional right to attend a civil trial may be overridden.[39]

Some states allow for an injunction to be issued that bars an employee of a corporation with access to the corporation's trade secrets from working for that corporation's competitors under a doctrine known as inevitable disclosure—even if there has been no showing that the employee actually misappropriated those trade secrets or will do so.[40] However, other states such as California, i.e., those that do not allow employer restrictions (known as covenants not to compete) on their employees' freedom to pursue employment elsewhere so as to favor employee mobility,[41] do not allow for such an injunction.[42]

There are limits on civil trade secret actions embedded in the UTSA as interpreted by courts such as those in California in addition to the covenant not to compete limitation. For example, prior to the commencement of discovery, a plaintiff must identify the trade secret in question with enough particularity that the defendant can understand "the boundaries within which the secrets lie" and so that it can be separated "from matters of general knowledge in the trade or of special knowledge by persons skilled in the trade."[43] This discourages the filing of meritless claims and the use of a trade secrets lawsuit to conduct discovery into a defendant's trade secrets and assists defendants to develop the best defenses possible to these claims.[44] However, how specific a trial court itself needs to be

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[37] U.S. Office of the President, Annex A, p. 19.

[38] *Bunner*, 75 P.3d at 10–19.

[39] *See NBC Subsidiary (KNBC, Inc.) v. Sup. Ct.*, 980 P.2d 337, 368–69 & n.46 (Cal. 1999) (decision of California Supreme Court); *In re Providian Credit Card Cases*, 116 Cal.Rptr.2d 833, 838 (Cal. App.1 Dist. 2002) (decision of state intermediate appellate court for San Francisco).

[40] *FLIR Systems*, 95 Cal.Rptr.3d at 314 n.3 (citing federal cases); U.S. Office of the President, Appendix A, p. 19.

[41] Cal. Bus. & Prof. Code § 16600; *Cypress Semiconducto*r, 186 Cal.Rptr.3d at 505; *FLIR Systems*, 95 Cal.Rptr.3d at 314–15.

[42] *Cypress Semiconductor*, 186 Cal.Rptr.3d at 504; *FLIR Systems*, 95 Cal.Rptr.3d at 314 & n.3; *id.* at 318; *Whyte v. Schlage Lock Co.*, 125 Cal.Rptr.2d 277 (Cal. App. 6 Dist. 2006); U.S. Office of the President, Appendix A, p. 19.

[43] *Altavion*, 171 Cal.Rptr.3d at 727–28.

[44] *Id.*

in its statement of decision as to its description of the trade secrets in question depends on the facts of each case.[45]

Additionally, a trade secret action brought in bad faith by a plaintiff exposes that plaintiff to sanctions in the form of payment of a defendant's attorneys' fees and costs.[46] Bad faith requires a finding of "objective speciousness" (i.e., where there is a complete lack of evidence to support the claim) and "subjective bad faith in bringing or maintaining the action" (i.e., that the case was filed as a preemptive strike for an anti-competitive purpose).[47] Given that state courts have, in fact, been willing to find bad faith,[48] this represents a real additional limitation against the abuse of trade secrets litigation.

A "willful and malicious misappropriation," however, can allow plaintiffs to recover attorneys' fees and costs, as well as two times actual damages (referred to under the UTSA as exemplary damages).[49] Plaintiffs can otherwise recover single damages (i.e., actual loss to plaintiffs and unjust enrichment to a defendant to the extent unjust enrichment is not covered by an award for actual loss)[50] and can calculate those damages either by determining lost profits or by estimating a reasonable royalty that they could have charged for licensing use of those trade secrets if their lost profits cannot be determined.[51] State law may even (as in the case of the State of California) provide for the award of prejudgment interest, i.e., per annum interest calculated from the time of the civil wrong, which can be applied in a trade secrets action.[52]

It should be noted that the adoption of the UTSA has not been uniform among the 48 states (e.g., some states may have longer or shorter statute of limitations than

[45]*Id.* at 734–35 [finding such disclosure by the trial court to be adequate where the court identified the secret by a reference to the secret as a whole used by the parties as well as by the patent applications filed by the defendant who used the trade secrets gained from plaintiffs to file patent applications].

[46]*Cypress Semiconductor*, 186 Cal.Rptr.3d at 495–96; *FLIR Systems*, 95 Cal.Rptr.3d at 313; H.R. Report No. 113-65, p. 12 [proposing a similar requirement for the federal civil equivalent of the UTSA].

[47]*Cypress Semiconductor*, 186 Cal.Rptr.3d at 500–510; *FLIR Systems*, 95 Cal.Rptr.3d at 313–19.

[48]*Cypress Semiconductor*, 186 Cal.Rptr.3d at 500–510; *FLIR Systems*, 95 Cal.Rptr.3d at 313–19.

[49]U.S. Office of the President, Annex A, p. 19; H.R. Report No. 113-657, p. 12 [proposing a similar requirement for the federal civil equivalent of the UTSA except that damages would be three times, and not two times, actual damages as the proponents of this legislation chose to follow the federal patent statute and not the UTSA on this point]; *Orca Communications Unlimited, LLC v. Ann J. Noder et al.* (No. CV 13-0351 PR) ___ P.3d ___, slip. op. at 5 (Az. Nov. 19, 2014) (opinion of the Arizona Supreme Court in the possession of the U.S. Group) [discussing the UTSA].

[50]*Altavis*, 171 Cal.Rptr.3d at 746; U.S. Office of the President, Annex A, p. 19; H.R. Report No. 113-657, p. 12.

[51]*See Altavis*, 171 Cal.Rptr.3d at 746-47; U.S. Office of the President, Annex C, p. 4; H.R. Report No. 113-657, p. 12 [proposing a similar requirement for the federal civil equivalent of the UTSA]. Reasonable royalties may also be obtained if enjoining future use of a trade secret is not feasible. *Ajaxo Inc. v. E*Trade Financial Corp.*, 115 Cal.Rptr.3d 168, 179 (Cal. App. 6 Dist. 2010).

[52]*Altavis,* 171 Cal.Rptr.3d at 748–49.

what the UTSA sets out) that have adopted the UTSA.[53] Nonetheless, the U.S. Group supports the UTSA, including the careful balancing of issues and needs reflected in its terms as interpreted by courts such as those in California, as being an appropriate basis for civil trade secret legislation.

35.2.2 Federal Criminal Trade Secrets Law

The federal government (and various states)[54] also have laws that allow for criminal prosecutions of those who misappropriate trade secrets, including employees and ex-employees. Under the federal Economic Espionage Act of 1996, 18 U.S.C §§ 1831–39, the federal government has brought criminal cases such as the following: a former employee of Ford Motor Company who resigned to go work for Beijing Automotive Company while stealing 4000 documents with trade secrets valued at $50 million;[55] a research chemist of Du Pont who was involved in developing a chemical process for Organic Light Emitting Diodes ("OLED") and whom passed on to a Chinese university trade secrets involving that OLED process worth $400 million;[56] a former GM employee and her husband who tried to pass on GM trade secrets involving the manufacture of hybrid cars worth $40 million to Chinese auto maker Cherry Automotive Corp;[57] a former employee of Cargill and Dow Chemical who passed-on trade secrets involving the manufacture of pesticides worth $7 million to a Chinese university working on organic pesticides for the Chinese government;[58] and a former software engineer of Motorola who attempted to leave the United States with a one-way ticket to China to turn over stolen information—7000 documents—regarding telecommunication technology to a Chinese company and the Chinese military.[59]

[53]H.R. Report No. 113–67, p. 7; M. Burris & A. Spieth, *Common Law v. UTSA: The Last States Standing*, Law 360, Apr. 2, 2012 (document in possession of U.S. Group).

[54]One example of a state criminal statute is Cal. Pen. Code § 499c. Because these statutes are designed to ensure that the theft of trade secrets can be treated the same as the theft of any other property, and because federal criminal prosecutions may be more salient for the delegates to the Stockholm Congress, the national rapporteurs of the U.S. Group will refrain from further addressing those state statutes here except to note that they serve as further evidence of the importance that the United States places on trade secret protection—an importance that the U.S. Group strongly believes to be appropriate.

[55]U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, p. 4, *available at* https://www.whitehouse.gov/blog/2013/02/19/launch-administration-s-strategy-mitigate-theft-us-trade-secrets [sentenced to 70 months in prison].

[56]*Ibid.,* p. 5 [sentenced to 14 months in prison].

[57]*Ibid.*, p. 7.

[58]*Ibid.*, p. 7 [sentenced to 87 months in prison].

[59]*Ibid.*, p. 10. A list and description of all of the criminal trade secret prosecutions brought by the U.S. government between 2009 and January 2013 can be found at U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, Annex B (document in the possession of the U.S. Group).

Section 1831 of the Economic Espionage Act provides that it is a felony under U.S. criminal law for an individual knowingly to steal or misappropriate trade secrets "for the benefit of a foreign government, a foreign instrumentality, or a foreign agent."[60] Section 1832 of that Act addresses theft of trade secrets that are "related to or included in a product that is produced for or place in interstate or foreign commerce"[61] and makes it a crime knowingly to steal or misappropriate a trade secret "to the economic benefit of anyone other than the owner thereof" if the defendant "intend[s] or know[s] that the offense will . . . injure any owner of that trade secret."[62]

The federal government recently strengthened the Economic Espionage Act, passing one law in 2012 to ensure that the theft of computer source code could be treated as the theft of trade secrets under this statute, and another law that same year to increase criminal penalties for the theft of trade secrets, as well as to direct the U.S. Sentencing Commission, responsible for setting criminal sentencing guidelines in the United States, to consider increasing prison time for those found guilty under the Act.[63] The Act also allows for civil suits to be brought, but only by the U.S. Attorney General and only for a civil court order.[64]

Notwithstanding the limited scope of the civil actions allowed by the Economic Espionage Act, the U.S. Group strongly supports the criminal prosecution of trade secret theft and espionage provided by the Act subject to the same due process restraints as any criminal prosecution. Trade secrets are property—and theft of property should be punished, including theft of intangible assets whose protection is critical to incentivizing innovation and developing new ideas.[65] Indeed, because it

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[60]U.S. Office of the President, Annex A, p. 19. To be more exact, economic espionage occurs under the statute when someone "knowing or intending that his or her actions will benefit any foreign government, instrumentality or agent, knowingly: (1) steals, or without authorization appropriates, carries away, conceals, or obtains by deception or fraud a trade secret; (2) copies, duplicates, reproduces, destroys, uploads, downloads, or transmits that trade secret without authorization; or (3) receives a trade secret knowing that the trade secret had been stolen, appropriated, obtained or converted without authorization." U.S. Office of the President, Annex C, p. iii.

[61]U.S. Office of the President, Annex A, p. 19. What the statute terms industrial espionage occurs when someone "intending or knowing that his or her offense will injure the owner of a trade secret of a product produced for or placed in interstate or foreign commerce, acts with the intent to convert that trade secret to the economic benefit of anyone other than the owner by: (1) stealing, or without authorization appropriating, carrying away, concealing, or obtaining by deception or fraud information related to that secret; (2) copying, duplicating, reproducing, destroying, uploading, downloading, or otherwise transmitting that information without authorization; or (3) receiving that information knowing that that information had been stolen, appropriated, obtained or converted without authorization."

[62]U.S. Office of the President, Annex A, pp. 19–20.

[63]U.S. Office of the President, Administration Strategy, p. 11 [discussing Public Law 112-236, The Theft of Trade Secrets Clarification Act of 2012 (S. 3642) and Public Law 112-269, The Foreign and Economic Espionage Penalty Enhancement Act of 2012 (H. 6029/S. 678].

[64]U.S. Office of the President, Annex A, pp. 19–20.

[65]U.S. Office of the President, Annex C.

is thought inappropriate under civil law to issue an injunction barring republication of a trade secret by an individual as a means of punishment or deterrence once a trade secret has become widely known on the Internet,[66] the use of criminal law against the original wrongful disseminator of those trade secrets may provide one of the only deterrents against such conduct in the first instance.[67]

35.2.3 The Interface with and Constitutionality of Trade Secrets Law Vis-à-vis Patent Law

As the United States Supreme Court held in the seminal *Kewanee Oil Co. v. Bicron Corp.*[68] case, civil laws that protect trade secrets do not constitute an end-run around the careful balancing of policies that govern the conferral of exclusivity via patents for a limited period of time.[69] Protection of trade secrets can often involve items that would never be eligible for a patent such as customer lists;[70] protection of trade secrets serves the same goal as patent law in the sense of stimulating invention and does not undermine patent's other goal of information in the public domain remaining there as trade secrets are, by definition, not in the public domain to begin with;[71] and, insofar as trade secrets that could be easily patentable may be concerned (such that the policies animating patent laws may be at their acme), the answer is that trade secrets law is "weaker" than patent law and unlikely to serve as a counter-incentive to filing for patents.[72] On that latter point, the Supreme Court particularly referenced the fact that, while a trade secret's status as such could be overcome via reverse engineering or independent creation, a patent "operates 'against the world' forbidding any use of the invention for whatever purpose for a significant period of time."[73]

The Supreme Court observed that the failure to allow for trade secret protection under state law would have perverse consequences: it would encourage the submission of patent applications, and the grant of patents of dubious quality;[74] and it would encourage companies to "hoard knowledge" rather than license out those secrets to others such as manufacturers and distributors, thus either "depriving the public of the maximum benefit of [the secrets'] use, or engag[ing] in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the

[66] *Bunner*, 10 Cal.Rptr.3d at 194 [noting that the reason for such a rule is to promote competition].

[67] *See generally id.* at 195 [agreeing with the underlying concerns involved with the ability of any Internet user to destroy the status of a trade secret by wide-spread publication].

[68] 416 U.S. 470 (1974).

[69] *Kewanee Oil*, 416 U.S. at 483–91.

[70] *Id.* at 482–83.

[71] *Id.* at 484.

[72] *Id.* at 489–90.

[73] *Id.*

[74] *Id.* at 488–89.

invention."[75] The *Kewanee Oil Co.* decision thus further supports the recommendation of the U.S. Group, endorsing trade secret protection under the UTSA as interpreted in cases such as those from California courts.

35.3 The Interface of Trade Secrets Law and Competition Principles

Intellectual property law, including trade secrets law, cannot be used as a cloak to shield or immunize violations of antitrust law, i.e., conduct that has an anti-competitive effect with no countervailing redeeming benefit for consumer welfare.[76] It follows that a firm with market power may not, under the antitrust laws, impose covenants not to compete on its employees that would freeze the mobility of those employees *in an entire relevant market*, even based on the assumption that its trade secrets will be disclosed (referenced above in this report as the "inevitable disclosure" theory).[77] Thus, at the very least, trade secrets law should not provide for a categorical exemption to the application of competition law.[78]

Members of the U.S. Group are from different states, some of which accept covenants not to compete between employers and employees (e.g., on the assumption that employees will inevitably learn trade secrets and cannot wipe their minds clean) and others like California where bars on covenants not to compete have been an integral part of their state competition laws.[79] The State of California holds the view that the success of Silicon Valley is due in large part to California's long-standing bar on covenants not to compete fostering employee mobility. Specifically, in a study that compared Silicon Valley to Route 128 (the State of Massachusetts' attempt to foster a geographic zone for innovation similar to Silicon Valley), it was determined that this bar, which exists in California but not in Massachusetts, facilitated effective "knowledge spillover"—i.e., the transfer of ideas and processes from one organization to another by employees jumping ship including from large organizations to small businesses and start-ups—in Silicon Valley so as to foster new ideas and products, enabling Silicon Valley to pull ahead.[80] Should the Stockholm Congress decide to address this topic at all, e.g., in the context of the inevitable disclosure doctrine, the U.S. Group respectfully submits that the Congress may want to state as part of its

[75] *Id.* at 486–87.

[76] *See United States v. Microsoft*, 253 F.3d 34, 63 (D.C. Cir. 2001); *see also Federal Trade Commission v. Actavis*, 133 S.Ct. 2223, 2238 (2013) (dis. op. of Roberts, C.J.) ["The point of the antitrust laws is "to promote consumer welfare."]; *accord id.* at 2233–34 (maj. op.).

[77] *See* Emilio Varanini, *Monopoly Rights and Monopoly Leveraging,* in 3 E-Commerce and Internet Law, § 34.05[4] (2014–15 Update) [citations omitted].

[78] *Cf. Actavis*, 133 S.Ct. at 2232–33 [refusing to carve out a special exception for patents and patent-related settlements to the application of the antitrust laws].

[79] Cal. Bus. & Prof. Code §16600.

[80] *See* Ronald J. Gibson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. Rev. 575 (1999).

resolution on Question B that, at the very least, limitations should be explored in the future on the court enforcement of covenants not to compete.

Finally, the question of whether the acquisition of trade secrets should be permitted has arisen in national security reviews that are adjacent to the customary antitrust review of those acquisitions.[81] These reviews can involve balancing concerns about the transfer of trade secrets abroad[82] against the need for the market for trade secrets to have sufficient global liquidity so that trade secrets not only may be properly valued but also may be put to their best use for the benefit of the public both domestically and abroad.[83]

Though this issue is highly fact-dependent, there is a perception, whether substantiated or not (e.g., whether foreign acquisitions of trade secrets are, in fact, blocked in national security reviews), that the prospect of such reviews may deter foreign direct investment and thus overprotect trade secrets.[84] The U.S. Group believes that this issue can be addressed in the context of country-to-country dialogs on investment, which can not only lead to investment undertakings (or treaties) allowing for a freer acquisition of trade secrets as part of the investment climate but also can ensure that trade secrets in fact receive the protection they deserve, no matter where the holder of the trade secrets does business, so that their monetary value remains liquid and protected as well.[85] Such investment undertakings

[81] *See, e.g.,* Kevin B. Goldstein, *Reviewing Cross-Border Mergers and Acquisitions for Competition and National Security*, 3 Tsinghua China L. Rev. 215 (Summer 2011) (document in possession of U.S. Group) [reviewing the national security review process adjacent to, but separate from, merger review in Europe, the United States, and China].

[82] *See id.* [noting that the law amending the national review statutory process in the United States allows for consideration of national economic security criteria]; *see also* https://en.wikipedia.org/wiki/Committee_on_Foreign_Investment_in_the_United_States (accessed on July 9, 2015).

[83] *See, e.g.,* New A123 Systems LLC Emerges, Green Car Congress (January 30, 2013), http://www.greencarcongress.com/2013/01/a123-20130130.html (accessed July 9, 2015) [discussing acquisition of assets of bankrupt car battery maker by Chinese company following approval of sale in national security review process]; *see generally e.g., Kewanee Oil*, 416 U.S. at 486, 493 [addressing importance of trade secrets to national competiveness]; *id.* at 486–87 [by allowing for licensing of trade secrets while safeguarding their confidentiality, trade secrets law prevented knowledge hoarding and allowed for best use of resources for benefit of public].

[84] The importance of foreign direct investment, and the harm that such a perception can do to the flow of direct investment are discussed in https://en.wikipedia.org/wiki/Committee_on_Foreign_Investment_in_the_United_States (accessed on July 9, 2015) and Rabul Prabhakar, *Deal-Breaker: FDI, CFIUS, and Congressional Response to State Ownership of Foreign Firms* (unpublished manuscript May 13, 2009) (document in possession of U.S. Group).

[85] *See, e.g.,* U.S. Treasury, United States-China Joint Fact Sheet Sixth Meeting of the Strategic and Economic Dialogue (July 11, 2014), http://www.treasury.gov/press-center/press-releases/Pages/jl2561.aspx (accessed on July 9, 2015); *see also, e.g., Bunner,* 75 P.3d at 13 ["Trade secrets . . . offer no protection against independent invention. Rather, [t]he basic logic of the common law of trade secrets recognizes that private parties invest extensive sums of money in certain information that loses its value when published to the world at large. Based on this logic, trade secret law creates a property right defined by the extent to which the owner of the secret protects his interest from disclosure to others. In doing so, it allows the trade secret owner to reap the fruits of its labor and protects the owner's moral entitlement to these fruits." (Internal citations and quotation marks omitted.)].

(or treaties) could diminish to a great extent the need for national security review and thus diminish the perception of overprotection of trade secrets vis-à-vis foreign direct investment.

35.4 Venturing Beyond the Conventional Bounds of Trade Secret Law and the Constitutional or Pragmatic Issues Raised

Some states have found that civil trade secrets protection under the common law can go beyond the metes and bounds of the UTSA—though it is not clear how far in fact such protection may extend beyond the UTSA if such protection were to accomplish more than simply make available different remedies than those under the UTSA, i.e., if such protection did more than just make tort or contract remedies available.[86] In *Bonito Boats, Inc. v. Thundercraft Boats, Inc.*,[87] the United States Supreme Court addressed the question of whether the State of Florida could bar a design process that allowed for the easy duplication of *unpatented* boat hulls.[88] The Supreme Court found that Florida's law violated the U.S. Constitution because the Constitution itself allowed for the grant of exclusivity by patent for only a limited time before any invention so protected passed into the public domain for public usage as a means of balancing "the need to promote innovation and the recognition that imitation and refinement are both necessary to invention itself and the very lifeblood of a competitive economy."[89]

In reaching this conclusion, the Supreme Court carefully distinguished the protection of trade secrets from this law barring duplication of boat hull designs in the public domain, noting that the reasons why protecting trade secrets did not affect this balancing of policies (that underlay the constitutional provision on patents) were because public awareness of trade secrets was limited as they were inherently not in the public domain and because the public could freely discover those secrets via reverse engineering or independent creation.[90] Accordingly, the more that protection of trade secrets (or know-how if a distinction can be drawn between know-how and trade secrets) departs from the metes and bounds of the UTSA beyond providing for a different set of remedies, the more it threatens, in a

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[86] *E.g., Orca Communications Unlimited, LLC,* slip. op. at 2; *see id.* at 8 [noting split among states in interpreting the scope of the UTSA as to whether it precludes common law actions]. In *Angelica Textile Services v. Park*, 163 Cal.Rptr.3d 192 (Cal. App. 4 Dist. 2013) (decision of state intermediate appellate court for Orange County), the court noted that while UTSA did not displace the ability to get remedies under other causes of action such as breach of contract or conversion, the UTSA did preclude liability based on a broader protection of information than that contained in the UTSA. *Id.* at 201–02.

[87] 489 U.S. 141 (1989).

[88] *Id.* at 144.

[89] *Id.* at 146–49, 152–53, 156.

[90] *Id.* at 155–56.

pragmatic way, the careful balancing of interests embedded in the patent law, as well as the incentives to engage in the first place in the rigorous process required for an invention to acquire exclusive status via the patent grant.[91]

The United States Supreme Court reiterated just this year the need to adhere closely to this careful balancing of interests in patent law, in the absence of action by the U.S. Congress, in refusing to overrule its judicially created rule barring the collection of royalties on the licensing of a patent based on use of that patent *after* its expiration or termination.[92] Consequently, though the U.S. Group does not take a position as to whether an individual state law on trade secrets beyond the UTSA may violate *Bonito Boats*, it respectfully submits that *Bonito Boats* may serve as a useful guide for the Stockholm Congress in considering what limits should exist on trade secret protection to avoid such protection undermining the careful balancing of interests embedded in patent laws.

35.5 Movement Towards Enactment of a Federal Civil Trade Secrets Statute

Legislation has been proposed in the U.S. Congress to enact a federal civil trade secrets statute.[93] If enacted in its current form, the proposed statute would allow owners of trade secrets to file a federal action for misappropriation of those trade secrets in federal court just as they can file an action for infringement of their patents or copyrights in federal court.[94] Modeling its definition of misappropriation after that of the UTSA, this proposed legislation also provides for the ability to obtain damages and court orders barring the actual or threatened misappropriation of trade secrets in the same manner as provided under the UTSA[95] and in almost all respects otherwise follows verbatim the UTSA.[96] However, this proposed legislation does provide for an ex parte seizure process of trade secrets from a person accused of theft of those secrets, with strict process and standards, including as minimal disruption as possible for businesses, a hearing to be set as early as possible on the ex parte seizure, and sanctions on a party that initiates an erroneous seizure.[97]

Proponents of this legislation view the UTSA enactments in the different states as being inadequate for the following reasons:

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[91] *See id.* at 160–63.

[92] *Stephen Kimble et al. v. Marvel Entertainment, LLC et al.* (No. 13-720) 576 U.S. ___ (U.S. June 22, 2015) (slip opinion *available at* http://www.supremecourt.gov/opinions/14pdf/13-720_jiel.pdf).

[93] H.R. Report No. 113-657.

[94] *Ibid.*, pp. 5, 10 [statute creates a civil counterpart to the Economic Espionage Act with an interstate jurisdictional nexus requirement similar to that Act].

[95] *Ibid.*, pp. 5, 9, 11–12.

[96] *Ibid.*, pp. 11–12.

[97] *Ibid.*, pp. 5, 9, 10–11 [describing the particular and extremely detailed requirements for an ex parte order].

> While 48 states have adopted variations of the UTSA, the state laws vary in a number of ways and contain built-in limitations that make them not wholly effective in a national and global economy. First, they require companies to tailor costly compliance plans to meet each individual state's law. Second, trade secret theft today is often not confined to a single state. The theft increasingly involves the movement of secrets across state lines, making it difficult for state courts to efficiently order discovery and service of process. Finally, trade secret cases often require swift action by courts across state lines to preserve evidence and keep a trade secret thief from boarding a plane and taking the secret beyond the reach of American law. In a globalized and national economy, Federal courts are better situated to address these concerns.[98]

Proponents further believe that criminal prosecutions under the Economic Espionage Act, while important, is insufficient both because the federal government does not have enough resources to pursue every case and also because this statute is not designed to make victims of trade secret theft whole.[99] The proponents of this legislation stress the importance of protecting trade secrets, finding that trade secrets are some of a company's "most valuable property," are "an integral part of a company's competitive advantage in a global economy," and are "highly susceptible to theft" with "the increased digitization of critical data and increased global trade."[100]

At present, it does not appear that this legislation has been voted on though it and a companion bill introduced in the U.S. Senate (which has some slight differences from the House bill discussed above) have strong bipartisan support.[101] Nonetheless, the U.S. Group strongly supports the idea of national legislation that is at the very least similar to a federal UTSA for the reasons detailed above so long as state law is not preempted thereby.

[98] *Ibid.*, p. 7.

[99] *Ibid.*

[100] *Ibid.*, p. 6.

[101] Seyfarth Shaw, Trading Secrets, A Law Blog on Trade Secrets, Non-Competes, and Computer Fraud (n.d.), http://www.tradesecretslaw.com/latest-update-on-federal-trade-secret-legislation/ (accessed on July 9, 2015).