

## The Netherlands

### Question B - The Protection of Trade Secrets and Know-How

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## 2 Legal Protection of Trade Secrets

### 2.1 Sources of Protection of Trade Secrets

The Dutch legal framework provides limited provisions on the protection of trade secrets, that can be found in criminal and employment law.

The most explicit provision is article 273 of the Dutch Penal Code (DPC), which stipulates that it is a criminal offence for a person to disclose "specific information to which he has sworn secrecy related to a commercial, industrial or service organization in which he is or has been employed".<sup>1</sup> This provision is applicable to (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 organization, for example on the basis of contracting work or secondment, may be bound by confidentiality by a person authorized to give instructions to the individual concerned. Article 273 DPC 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 (DCC) stipulates that disclosure by an employee of "particulars regarding internal affairs of the company" that he ought to keep secret is considered a valid ground for immediate dismissal.<sup>2</sup> This provision also applies 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 DCC, that contains the duty of being a "good employee".<sup>3</sup> These provisions refer to employees and are therefore not applicable to third parties.

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<sup>1</sup> Article 273 DPC 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 disclosure was required by public interest.

3. Prosecution may only take place upon complaint of the management of the organization concerned."

<sup>2</sup> Article 7:678 paragraph 2 DCC 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 employee 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;"

<sup>3</sup> Article 7:611 DCC reads in full:

"The employer and the employee are obliged to behave as a good employer and a good employee."

Protection is however mainly granted by the extended scope of the general tort clause provided in article 6:162 DCC.<sup>4</sup> This expanded scope was established by the Dutch Supreme Court in 1919, by ruling 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.<sup>5</sup> Due to the broad scope of the general tort provision it is the 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 to 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.<sup>6</sup>

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) imposes a duty to protect secret information from disclosure, acquisition or use in a manner contrary to honest commercial practices. 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 DCC.<sup>7</sup> Dutch courts are therefore enabled to provide the protection of Article 39 TRIPs by applying Dutch tort law, while taking into account all relevant circumstances on a case-by-case basis.

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 by secrecy by their 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.<sup>8</sup>

Tort law does however provide protection from 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.<sup>9</sup>

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<sup>4</sup> Article 6:162 DCC 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.

<sup>5</sup> Hoge Raad 31 January 1919, NJ 1919/161 (Lindenbaum/Cohen).

<sup>6</sup> See Hof Arnhem 7 July 1987, ECLI:NL:GHARN:1987:AM1170 (Beekman/Mulder).

<sup>7</sup> Gerechtshof 's-Gravenhage 29 March 2011, ECLI:NL:GHS:2011:BP9490 (Ajinomoto).

<sup>8</sup> See for instance Gerechtshof Amsterdam 4 November 1971, BIE 1973, 81.

<sup>9</sup> See for instance Rechtbank Amsterdam 14 December 2012, ECLI:NL:RBAMS:2012:BY8226.

## 2.2 Legal Measures

In order 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 DPC provides the description "specific information to which he has sworn secrecy related to a commercial industrial or service organization in which he is or has been employed". Secondly, Article 273 requires that it must be demonstrated that the (former) employee has disclosed the information to which he is bound by secrecy deliberately, i.e. that the offender has acted with intent. For criminal proceedings to commence, the management of the organization 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. There is one exception to criminal liability of such conduct: disclosure of such information is not punishable if the person could assume in good faith that disclosure was in the public interest.<sup>10</sup> Application of this exception may for example arise in case a whistleblower has exposed certain abuses.

According to Article 7:678 DCC, 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 secrecy of those particulars and its breach must be demonstrated. If the trade secret proprietor can establish these elements and demonstrate that due to the employee's violation he can reasonably no longer be required to keep him employed, he can dismiss the employee immediately. Furthermore, if the contract includes a confidentiality clause he may bring an action for breach of contract.<sup>11</sup> As Article 7:678 DCC 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: (i) the information is not generally known by or readily accessible to persons within the circles that normally deal with that kind of information, (ii) it has commercial value because it is secret and (iii) 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 the use or disclosure constitutes an unlawful act under Article 6:162 DCC. 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.

## 2.3 Securing evidence

If misappropriation of trade secrets is suspected, the proprietor has the possibility of securing evidence. On the basis of Article 843a Dutch Code of Civil Procedure (DCCP) he may claim inspection or a copy of specific documents that are at the disposal of the alleged offender if he has a legitimate interest.<sup>12</sup> Random fishing expeditions are not 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 he is a party - including an unlawful act. These requirements are set to safeguard the principles of proportionality and subsidiarity in such expeditions.

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<sup>10</sup> Article 272 paragraph 2 DPC.

<sup>11</sup> Article 6:74 DCC.

<sup>12</sup> Article 834a DCCP.

The Supreme Court recently explicitly ruled that seizure of evidence is possible in non-IP related cases.<sup>13</sup> It ruled that the requirements set out in Article 843a DCCP 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. M

### **3 Procedural Aspects and Remedies**

#### **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 are 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.<sup>14</sup> Furthermore, publication of the court decision will be limited to an extract or an anonymized version.<sup>15</sup>

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 submit additional documents.<sup>16</sup> Parties may refuse this if such is detrimental to the vital interests, which might be the case if it concerns trade secrets. The court decides whether such refusal is permitted.

Various options of preserving the confidentiality of certain documents or information are possible 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 his client - although it is highly likely that the opposing party will object.

#### **3.2 Remedies**

A criminal conviction based on Article 273 DPC will result in imprisonment up to six 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 in order to claim damages.<sup>17</sup> 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.

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<sup>13</sup> Hoge Raad 13 September 2013, ECLI:NL:HR:2013:BZ9958. The Supreme Court bases the right to seize evidence on Article 843a and Article 730 DCCP, that regulates seizure of property.

<sup>14</sup> Article 27 and 29 Dutch Code of Civil Procedure.

<sup>15</sup> Article 28 paragraph 4 Dutch Code of Civil Procedure.

<sup>16</sup> Article 22 Dutch Code of Civil Procedure.

<sup>17</sup> Article 51f Dutch Code of Criminal Procedure.

Dutch civil law prescribes that damages can consist of material damages, which includes 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.<sup>18</sup> Punitive damages are not awarded under Dutch law - however penalty clauses in confidentiality agreements are enforceable.

The DCC 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.<sup>19</sup> The court has a wide margin of appreciation in estimating and deciding what should be compensated. It will take all circumstances of the case into account and will generally try to restore the harmed party to 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 due to 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 in order to secure funds in case damages will be awarded by the court.<sup>20</sup>

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<sup>18</sup> Article 6:95 DCC.

<sup>19</sup> Article 6:97 DCC.

<sup>20</sup> Article 700 Dutch Code of Civil Procedure.

## 4 Protection of Know-How in Confidentiality or Non-Disclosure Agreements

### 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 under 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.<sup>21</sup> 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. The definition in the relevant agreement will then be leading. In fact, currently, the protection of know-how relies heavily on such agreements. Know-how can thus be protected outside the legislative scope. However, the effective scope of what is laid down in such agreements can sometimes be limited by other mandatory statutory provisions.

A well-known example of a category of persons that is protected by such mandatory statutory provisions is the employee. For employees, article 7:678 subsection 2 under i and article 7:677 subsection 1 of the Dutch Civil Code are of relevance. Based on this, if an employee discloses information that he ought to keep secret, this may pose grounds for the employer to promptly terminate the employment contract. 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 in general be free to exercise their profession. An employee can not 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 taken into account, this may negatively impact the effective scope of what is laid down in the agreement.

For (former) employees, it is only illegal to use information as acquired during the course of employment if this information contains *confidential information*.<sup>22</sup> Otherwise, they are free to and this. Only in some instances also general skills and/or knowledge that is acquired during the course of employment may be part of know-how. For the decision as to what qualifies as know-how, it is not decisive whether it 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.<sup>23</sup> Thus, in practice, the level of protection entertained by the company depends on the specific circumstances of the case, such as the parties that are involved.

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<sup>21</sup> Article 1(i) TRIPS 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."

<sup>22</sup> Gerechtshof 's-Hertogenbosch 8 juni 2004, ECLI:NL:GHSHE:2004:AQ5610.

<sup>23</sup> Gerechtshof 's-Hertogenbosch 10 februari 2015, ECLI:NL:GHSHE:2015:445.

With regard to members of the works council, a specific provision applies.<sup>24</sup> They are obliged, barring exceptions, to keep all information secret (i) that they have gained access to in their capacity as a works council member, (ii) of which the works council or a related commission has imposed secrecy, and (iii) of which they ought to understand the confidential nature. Here, the third category can be given content via a confidentiality or non-disclosure clause.

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.<sup>25</sup>

From the aforementioned follows that where the statutory protection of trade secrets may prove to be insufficient in a specific situation, this limitation can be remedied to a certain extent 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, where such is not the case where statutory protection is concerned. An upside of contractual clauses, however, is that no statutory time limits are applicable as is the case for intellectual property rights.

#### 4.2 Available remedies in case of breach of contract

##### *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 87 of the Dutch Civil Code, the aggrieved party may sue for alternative compensation, to compensate damages that it sustained due to 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.<sup>26</sup>

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.<sup>27</sup> Aforementioned material loss includes losses suffered as well as missed profits.<sup>28</sup> Missed profits include for example loss of profits due to missed sales and reduced value of market shares.<sup>29</sup> Damages may include the costs made to the nature and scope of the damages, reasonable costs to prevent or limit such damages and reasonable costs made in order to try to obtain compensation out of court. More specifically relating to trade secrets, the damages may also include compensation for the fact that a competitor successfully entered the market earlier on because of the unauthorized use of trade secrets.<sup>30</sup> With the awarded damages, the plaintiff should be put in the same (financial) position as he would have been in without the breach of the agreement. In order to estimate these damages, a comparison is made between the actual (financial) position of the plaintiff at the time of the trial and his probable (financial) position if no breach of contract would have 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

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<sup>24</sup> Article 20, subsection 1 of the Works Councils Act.

<sup>25</sup> Article 236 subsection k and article 233 under a of the Dutch Civil Code.

<sup>26</sup> Article 6:74 and 6:98 of the Dutch Civil Code.

<sup>27</sup> Article 6:95 of the Dutch Civil Code.

<sup>28</sup> Article 6:96 (1) of the Dutch Civil Code.

<sup>29</sup> District Court Oost-Brabant, 25 September 2013 confirmed by Court of Appeal Den Bosch 10 February 2015, ECLI:NL:GHSHE:2015:445 (Arte).

<sup>30</sup> District Court Zutphen 18 October 2006, IER 2007, no. 42, p. 154 (Arplas/AWL)

concerns breach of a confidentiality or non-disclosure provision within a more comprehensive agreement, this needs to be assessed.

In some cases damages are not enough. In such instances it is also 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.

#### *Termination agreement*

It can be that in case of breach of a confidentiality or non-disclosure provision the party to whose disadvantage the disclosure has been, wishes to terminate the entire agreement. This is generally possible under Dutch law, unless the failure in the performance 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 he ought to keep secret, this may pose grounds for the employer to promptly terminate the employment contract. Although the Dutch Supreme Court has 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 promptly termination of the employment agreement<sup>31</sup>, it is possible to give content to the meaning of this statutory provision via a confidentiality or non-disclosure provision. According to the Supreme Court, judges may take this into account as a factual circumstance that may be of relevance for the assessment of the case.

#### *Claim performance*

Although, generally, under Dutch law it is also possible to claim performance of an agreement (subject to a penalty).<sup>32</sup> In relation to non-disclosure and confidentiality agreements, this may offer little relief in some cases of breach of contract as the information has already been disclosed (which cannot be undone) and if no penalty clause has been put in place. However, in some cases this option may still be useful. This is for example the case if a penalty clause has been included to the agreement, and/or if the person that breached the agreement has only done so in relation to one other person, and further breaches should be prevented.

#### *Punitive damages*

Dutch law itself does not permit the possibility of awarding punitive damages. Nevertheless, it is possible to include penalty clauses in agreements. Such clauses are enforceable. Thus, by including such clauses in a non-disclosure or confidentiality agreement, the statutory lack of punitive damages can be compensated.

## **5 Misuse of Trade Secret Protection**

### **5.1 Unlawful restraint of trade**

Trade secret protection may pose an unlawful restraint of trade. Such is 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 DCA can be relied upon. 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.

### **5.2 Scope of protection of trade secrets: possible defenses**

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<sup>31</sup> HR 24 februari 1995, NJ 1995, 450; JAR 1995/67.

<sup>32</sup> Article 3:296 of the Dutch Civil Code.



Possible misuse of the protection of trade secrets by the trade secrets proprietor can also be counteracted by successfully setting up a defense. Only the most common defenses 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 more 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 charged with 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.

The third defense category is often used in cases concerning the employer-employee relation (where they are thus both party to the agreement), is that the employee only applied his experience and did not make any confidential information public. This defense often proves successful as, in general, everyone should be free to exercise their profession. It has been acknowledged in literature and jurisprudence that personal goodwill, know-how and experience belong to the employee.

#### *Whistle-blowers*

A special case of disclosure by employees of confidential information is formed by whistle-blowers. Because it is not deemed desirable that whistleblowers are criminally prosecuted or that companies can invoke the applicable confidentiality clauses in such instances, special legislation has been developed to protect whistle-blowers in many countries. In the Netherlands, within criminal law, a specific "safe harbor" is applicable for the accused who could have assumed in good faith that the disclosure of the secret information was in the public interest.<sup>33</sup> Regarding civil law, the situation is more fragmented. Civil servants are protected by the Central and Local Government Personnel Act. This Act makes it obligatory for government employers to implement a whistle-blowing scheme.<sup>34</sup> Furthermore, in this act, it is laid down that a civil servant that in good faith reports abuses, may not suffer negative consequences regarding his legal status during and after this procedure.<sup>35</sup>

Employees of private businesses, however, are not protected by the Central and Local Government Personnel Act. Some. Nevertheless, some sector-specific regulation may be applicable that does contain provisions on this topic.<sup>36</sup> For example, Dutch listed companies are obliged to provide for a whistle-blowing scheme based on the Corporate Governance Code.<sup>37</sup>

#### *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.<sup>38</sup> Abuse of authority may exist if there is a large imbalance between the served and affected interest, which would prohibit the entitled party to exercise his 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.

### **5.3 Critique regarding the scope of protection of trade secrets in the Netherlands**

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<sup>33</sup> Article 273 of the Dutch Civil Code.

<sup>34</sup> Central and Local Government Personnel Act, article 125 quinquies, subsection 1.

<sup>35</sup> Central and Local Government Personnel Act, article 125 quinquies, subsection 3.

<sup>36</sup> See for example: <https://www.adviespuntklokkenluiders.nl/wp-content/uploads/2015/03/Juridisch-kader-klokkenluiden-in-een-notendop.pdf>.

<sup>37</sup> Available at: <http://commissiecorporategovernance.nl/corporate-governance-code..>

<sup>38</sup> Article 3:13 of the Dutch Civil Code.

### *Limited scope 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. Although article 39 TRIPS is "incorporated" into Dutch tort law via jurisprudence, businesses are not offered the exact protection as set forth in this provision. Thus, businesses are currently compelled to rely heavily on confidentiality or nondisclosure agreements. The downside thereof is that the obligations arising from such agreements only bind the parties to these agreements.

If no confidentiality or nondisclosure agreement has been concluded, tort poses the final recourse for businesses to take action against unauthorized use of their trade secrets. The drawback for businesses in these instances is that the rewarded damages tend to be lower than would be the case if they could have invoked intellectual property rights. The possibilities to recover damages in case of breach of confidentiality or non-disclosure agreements are therefore criticized. Furthermore, in practice it turns out to be difficult to prove that the relevant trade secret has actually been disclosed, used or applied by the defendant. If more parties are involved, it is difficult to discover what exact non disclosure agreement has been breached. 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.

### *No specialized judge*

In case of legal proceedings based on patent law, the judge hearing the case is a specialized judge. However, in case of legal proceedings involving technical trade secrets, the hearing judge will not (necessarily) be a specialized judge. This could pose a problem for the assessment of such cases. It may lead to poorly predictable court rulings, as is already the case with regard to trade secrets disclosed during negotiations of which the confidential character has not explicitly been agreed upon by contract.

### *Whistle-blowers*

Whistle-blowers that 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. To (partly) remedy this deficiency, a legislative proposal is currently before the Senate.

### *Intermediate conclusion*

Thus, 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 serious in view of the increasing insight in the relevance of trade secrets. The upside of trade secrets in comparison to (some) intellectual property rights is that the applicable protection is not limited in time and that publication does not pose a requirement. Therefore, companies tend to make a calculated decision as to the manner in which they wish to protect their valuable information.

## **6 Personal Reflections and Conclusion**

### *General*

A point requiring attention is that simply defining information as "confidential" contractually, does not in itself provide the necessary protection. Although this may make it more difficult for the possible infringer to argue that he 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 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 recommendable to include into the agreement that parties are in agreement regarding the following three aspects: (i) what information is secret/confidential, (ii) that this information is valuable, and (iii) that this information is adequately secured by means of the agreement. Because this ensures that the confidential information falls within the definition thereof as laid down in the draft European directive on this topic, this may enhance the chances of success of an action on the basis of 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 as intended by the company.

Depending on the circumstances of the case, it may furthermore also be advisable to include a third-party 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.

A purely practical approach is physically safeguarding trade secrets and know-how, and strictly limiting the number of people that have access to it. An example of a physical safeguard regarding know-how is to lock 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.

#### *Employer/employee*

Although employees have a general legal non-disclosure obligation, it is advisable (and widely used) to extend these non-disclosure obligations contractually. (Post-termination) non-disclosure and confidentiality clauses can 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.

#### *Issuing Institutions*

If the company qualifies as an issuing institution in the sense of the Dutch Financial Supervision Act, the provisions of this act may also be applicable to its confidential information, such as price-sensitive information. Thus, some information must be treated confidentially in line with this legislation. Here, it is advisable to include provisions in the agreement that are of equal effect, to enable the company to take action if someone does not meet his legal obligations in this respect. Otherwise, only the relevant supervisory Authority (Netherlands Authority for the Financial Markets) is able to enforce these provisions.