

# Theoretical Considerations Regarding the Know-How Contract from the Perspective of the European Union Legislation and the Romanian Transposition Legislation

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**ABSTRACT:** The investment made in generating and applying intellectual capital is a determining factor in terms of competitiveness and performance related to innovation, regardless of whether we consider a cross-border or a national market. In most cases, marketers resort to different means to appropriate the results of their own innovation activities. One of these means is the use of intellectual property rights, such as patents, design rights or copyright. Another means of protecting innovation results is to protect access to information that has some value to an entity and is not widely known. In the context of Union law, mentioning in this regard Directive (EU) 2016/943 on the protection of know-how and undisclosed business information (trade secrets) know-how and valuable undisclosed business information which is intended to remain confidential are called trade secrets. In the context of an increasingly dynamic and technological Union and international market, trade secrets, characterized by the fact that they go beyond the framework of technological knowledge and include commercial data, such as customer and supplier information, business plans and studies and strategies market, are as important as patents and other forms of intellectual property rights. The issue of commercial secrecy is regulated in Romanian legislation under OG 25/2019 on the protection of know-how and undisclosed business information that constitutes secrets. Therefore, this research aims to address the issue of commercial secrecy as a variation of the know-how from the EU and Romanian legislative perspective of transposition.

**KEYWORDS:** trade secret, technical procedures, trade secret holder, infringer

## **Introductory aspects regarding the legal framework, the concept and the nature of know-how**

The best-known international instruments regarding the know-how contract are those developed by the Economic Commission for Europe within the Paris International Chamber of Commerce. In this sense, in the Report on the protection of industrial property drawn up on October 17-18, 1957, the Economic Commission for Europe defined know-how as “the set of notions, knowledge and experience, of operations, activities and processes necessary for the manufacturing of a product...” At the level of the European Union, the term know-how was defined for the first time in the framework of art. 1 paragraph (2) of Regulation (EEC) no. 4087/88 of the Commission of November 30, 1988 regarding the application of art. 85 paragraph (3) of the treaty to the categories of franchise contracts, as representing (f) “a non-patented package of non-patented practical information, resulting from the franchisor’s experience and testing which is secret, substantial and identified;” (g) “secret - means that the know-how, as a whole or in a precise configuration or assembly of its components, is not readily accessible or generally known; is not limited in the strict sense that each individual component of the know-how should be totally unknown or unobtainable outside the franchisor’s business”; (h) “substantial- means that the know-how includes information that is important for the sale of goods or the provision of services to end users, and in particular for the presentation of goods for sale, the processing of goods related to the provision of services, methods of approach to customers and financial and administrative management. The know-how must be useful to the franchisee through his ability to consolidate his position against the competition” (i) “identified- means that the know-how must be described to a sufficiently comprehensive extent to make it is possible to verify the fulfilment of the confidentiality and substantiality criteria”.

From a national legislative perspective, we must mention that the know-how contract does not benefit from an express regulation, so that in its absence, the notion of know-how is defined in the content of art. 1 lit. d) from O.G. no. 52/1997 regarding the legal regime of the franchise, as “the set of formulas, technical definitions, documents, drawings and models, networks, processes and other similar elements, which serve to manufacture and sell a product.”

In the Romanian specialized literature, the know-how contract was defined as “that contract by which one of the parties, called the supplier, transmits to the other party, called the beneficiary, for a price, the knowledge or technical procedures he/she possesses, unpatented or unpatentable, necessary for the manufacture or sale of goods, for the provision of a certain service or for the development and implementation of techniques or procedures unknown until that date by the beneficiary of the transfer” (see in this regard Belu-Magdo 2010, 7). Also, a definition retained in the specialized literature qualifies Know-how as representing “the set of formulas, technical definitions, documents, drawings and models, recipes, procedures, other similar elements, which serve to manufacture and sell a product” (see in this sense Mocanu 2019, 8). In a more simplified sense, the know-how contract was defined as “...the operation of transmitting from the supplier to the beneficiary some technical knowledge, some information and documentation including some complex processes and technologies, according to the terms and the conditions agreed by the parties” (See for additional information Mazilu 2003, 203).

### ***The legal characteristics of the know-how contract***

The know-how contract (the birth of a legal relationship presupposes the existence of a legal fact *lato sensu* (events and human actions - legal acts and facts) and the bilateral contact is part of the category of legal acts that represent the manifestation of a rational and conscious free will, with the aim of producing effects legal, i.e., the creation and extinguishment of certain rights and obligations, as a result of their regulation by the legal norm. See Bădescu 2002, 283-284; Niemesch 2019, 203; Boghirnea 2023, 225-226) is a *commercial, consensual, onerous, commutative and synalagmatic contract*.

The *intuitu persoane* (personal) character of the know-how contract is explained by the fact that it is concluded taking into account the personal qualities of the two contracting parties - assignor/supplier and transferee/beneficiary. Specifically, from the point of view of the transferor supplier, the personal nature of the contract is analyzed according to the possibility of the transferee beneficiary to keep the secret (confidentiality) of the object of the know-how, to effectively realize the know-how, while from the perspective of the assignee/beneficiary, the personal nature of the contract is related to the know-how that the assignor can offer.

### ***The legal nature of the know-how contract***

With regard to the legal nature of the know-how contract, it is necessary to specify that, based on the content and purpose, the know-how contract differs from the franchise contract.

Specifically, the know-how contract has as its object the transmission of a set of knowledge by the supplier and the payment of the price by the beneficiary, without the latter having the obligation to develop the know-how unless it is expressly provided for in the contract in this regard. In the hypothesis in which we are in the presence of an assumption on the part of the beneficiary of the obligation to develop know-how, this will be fulfilled under its own brand.

The franchise contract has the same object as the know-how contract, namely the transmission of know-how and the payment of a royalty, but, unlike this, in the franchise contract, the franchisee has the obligation to exploit or to exploit and develop the object of the

franchise under the franchisor's brand and to benefit from the technical assistance provided by him (see in this sense Mocanu 2008).

Also, the beneficiary of the know-how acquires the set of knowledge as found at the time of the conclusion of the contract, without the obligation of any of the parties to communicate to the other contracting party any improvements made to the concept.

In the case of the franchise contract, the franchisor has the obligation to communicate to the franchisee the improvements brought to the know-how after its transmission, throughout the duration of the execution of the contract.

Last but not least, taking as a criterion the goal pursued by the contracting parties, we make it clear that, in the case of the know-how contract, the final goal consists in its transmission, while in the franchise contract, the communication of know-how only represents a means by which the object of the contract is achieved.

### ***The analogy between know-how and manufacturing secret***

Analyzing the same two criteria, object and finality, the know-how contract differs from the manufacturing secret. Thus, while the know-how incorporates in its content, in addition to the patented or patentable technological processes to be applied, but also the techniques in the stage of experiences, and the ability (“Skill represents *technical dexterity*, i.e., general ability due to natural aptitude...and specialist acquired dexterity...which augments innate dexterity. The ability having a personal character and being specific to a person, cannot be transmitted independently of the person”. See in this sense, Belu-Magdo 2010, 8-9) and experience (“Technical experience means knowledge acquired by the technician during a long industrial practice and which involves the prompt, efficient and correct solution of problems encountered in practice. The transfer of technical experience is carried out through technical assistance, training and specialization of the beneficiary’s staff”. See in this sense, Belu-Magdo 2010, 9) of the supplier, these two elements are not found in the manufacturing secret.

### **Protection of know-how and undisclosed business information (trade secrets) against illegal acquisition, use and disclosure, in the sense of Directive (EU) 2016/943 respectively OG no. 25/2019 (transposition norm)**

Research and development in cross-border networks, as well as innovation-related activities, including production and cross-border trade arising from them, are becoming less attractive and more difficult within the European Union, given the existence of differences in the legal protection of trade secrets, respectively of know-how and undisclosed business information provided by member states.

In such a reality, there is an increased risk for business activities in Member States with comparatively lower levels of protection, due to the fact that trade secrets can be more easily obtained illegally. From this perspective, the European Parliament and the Council adopted on June 8, 2016, Directive (EU) 2016/943 (Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of know-how and undisclosed business information (trade secrets) against illegal acquisition, use and disclosure, OJ L 157, 15.6.2016, pp. 1-18) on the protection of know-how and undisclosed business information (trade secrets) against illegal acquisition, use and disclosure. The union provision was transposed in Romania by Government Ordinance no. 25/2019 (Government Ordinance no. 25 of April 18, 2019 regarding the protection of know-how and undisclosed business information that constitute trade secrets against illegal acquisition, use and disclosure, as well as for the modification and completion of some normative acts, published in the Official Gazette no. 309 of April 19, 2019) on the protection of know-how and undisclosed business information that constitutes trade secrets against illegal acquisition, use and disclosure, as well as for the modification and completion of some normative acts.

Directive (EU) 2016/943 clarified the concept of “trade secret” which is not reduced to the term know-how but which it includes, at the same time establishing a homogeneous definition within art. 2-point (1) (In the same sense, the transposition text of art. 2 paragraph (1) letter (a) of OG no. 25/2019 is also regulated), thus, “trade secret” means information that meets all of the following requirements:

(a) are secret in the sense that they are not, as a whole or as their elements are presented or articulated, generally known or easily accessible to people in the circles that normally deal with the type of information in question;

(b) have commercial value by being secret;

(c) has been the subject of reasonable measures, in the circumstances, taken by the person legally in control of that information, to keep it secret.

We note from the description above that from the definition of trade secret, the Union legislator excludes insignificant information, as well as the experience and skills acquired by employees in the normal course of their activity, and also excludes information that is generally known or immediately accessible to people in circles who normally deal with the type of information in question.

Differences in the legal protection of trade secrets offered by Member States mean that trade secrets do not enjoy an equivalent level of protection across the European Union, resulting in the fragmentation of the internal market in this area. The immediate consequence is that the internal market is affected by the fact that such differences reduce the incentives for companies to carry out cross-border economic activities related to innovation, including research cooperation, investment in other Member States, which depend on the use of information benefiting from protection as trade secrets.

Taking into account the context stated above, the Union legislator regulates in the framework of art.3 of Directive (EU) 2016/943, the circumstances in which the acquisition of a trade secret is considered legal, respectively, whenever the trade secret is obtained through any of the following means: (a) independent discovery or creation; (b) analyzing, studying, disassembling or testing a product or object that has been made public or is lawfully in the possession of the person who acquired the information and who is not under any legally valid obligation to limit the acquisition of trade secrets; (c) exercising the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices; (d) any other practice which, under the circumstances, is consistent with fair trade practices (in the same sense, the transposition text of art. 3 paragraph (1) of OG no. 25/2019 is provided).

*Per a contrario*, in accordance with the provisions of art. 4 para. (1) (in the same sense, the transposition text of art. 4 paragraph (1) - paragraph (2) of OG no. 25/2019 is provided) and (2) of the union provision, the acquisition of a trade secret without the consent of the holder of the trade secret will be considered illegal if it is carried out through behavior that is contrary to fair trade practices (see in this sense, Niță and Gheorghiu 2022, 181-190). To the same extent, we are in the presence of an illegal acquisition of a trade secret whenever its acquisition was achieved by “unauthorized access, appropriation or copying of any documents, objects, materials, substances or electronic files containing a trade secret or which can be deduced to be a secret trade” legally under the control of the trade secret holder.

Para. (3) (in the same sense, the transposition text of art. 4 paragraph (3) of OG no. 25/2019 is provided) of art. 4 regulates the illegal nature of the use or disclosure of the trade secret, in direct connection with a qualified capacity of the violator, in the sense that a contractual relationship was established between him and the legal owner of the trade secret prior to the moment of use or disclosure of the secret. Therefore, the use or disclosure of a trade secret is considered illegal whenever it is committed, without the consent of the holder of the trade secret, by a person who meets any of the following conditions:

(a) acquired the trade secret illegally;

- (b) violates a confidentiality agreement or any other non-disclosure obligation;
- (c) violates a contractual or other obligation that restricts the use of the trade secret.

Likewise, the acquisition, use or disclosure of a trade secret is considered illegal whenever a person, at the time of acquisition, use or disclosure, was aware or should have been aware, under the given circumstances, of the fact that the trade secret was obtained, directly or indirectly, from another person who used or disclosed the trade secret illegally.

### **Measures, procedures and remedial actions aimed at the protection of know-how**

Pursuant to art. 6 of Directive (EU) 2016/943, the member states, through the transposition provisions, have the freedom to establish the measures, procedures and reparative actions necessary to ensure the availability of remedies before the civil courts against the illegal acquisition, use and disclosure of secrets commercial. Within the art. 6 of OG no. 25/2019, the Romanian legislator provides that for the protection of the trade secret against illegal acquisition, use and disclosure, its owner can apply to the court.

However, paragraph (2) of art. 6 and art. 7 of the Union norm as well as art. 7 of the transposition norm “draws” limits for national courts regarding procedural availability in the sense that only if the remedial measures, procedures and actions: (a) are fair and equitable; (b) do not involve unnecessary complexity or cost, unreasonable timescales or unjustified delays; (c) are effective and have a deterrent effect; (d) are applicable in a way that is proportionate; (e) are applicable in a way that avoids creating obstacles to legitimate trade in the internal market; (e) provides safeguards against their misuse.

To the same extent, Member States are obliged to regulate measures against the claimant, whenever the defendant reports that “a claim regarding the illegal acquisition, use or disclosure of a trade secret is manifestly unfounded and it is found that the claimant has initiated legal proceedings abusively or in bad faith. Those measures may, if appropriate, include the awarding of damages to the defendant, the imposition of sanctions against the plaintiff (see in this regard, art. 7 paragraph (2) of Directive (EU) 2016/943). In this regard, the competent judicial authorities have the power to require the claimant to provide evidence that can reasonably be considered available, from which it can be seen that the trade secret exists and that it belongs to the claimant.

Art. 8 of the Union provision provides for the need to protect confidentiality throughout the judicial proceedings subject to appropriate guarantees that ensure the right to an effective remedy and a fair trial reserved for the defendant. Such protection should be maintained even after the conclusion of the legal proceedings and as long as the information constituting the trade secret is not in the public domain. Such examples can be, as the case may be, the restriction of the circle of persons who have access to the courtroom, the restriction of the circle of authorized persons who have access to evidence. Relevant in this sense is the transposition text inserted in art. 9 of OG no. 25/2019, as follows “(1) If the court, ex officio or at the reasoned request of a party, assesses that the conduct of the process in the presence of the public may affect or compromise the commercial or alleged commercial secret, taking into account the circumstances provided for in art. 11 paragraph (2), may order that the trial be conducted without the presence of the public, art. 213 para. (2) of Law no. 134/2010 on the code of civil procedure republished with subsequent amendments and additions, being applicable accordingly... (3) At the justified request of a party or ex officio, the court may take the appropriate measures in order to preserve the confidentiality of any trade secrets or alleged trade secrets used or mentioned during the judicial proceedings. (4) In application of the provisions of para. (3), the court may order: a) the restriction, in whole or in part, to a limited number of persons of access to any document that contains trade secrets or alleged trade secrets and which was presented by parties or third parties; b) restricting access to court hearings to a limited number of people, when commercial secrets or alleged commercial

secrets may be disclosed, as well as to the recordings or transcripts related to the respective court hearings; c) making it available to any person other than those who are part of the limited number of people provided for in letter a) and b) of a non-confidential version of any court decision, from which passages containing trade secrets have been removed or hidden; d) any other measures provided by law to ensure the confidentiality of trade secrets or alleged trade secrets”.

Also, in accordance with the provisions inserted in art. 10 of Directive (EU) 2016/943 reiterated in the transposition text of art. 10 of OG no. 25/2019, in order to prevent possible destruction, theft, or damage, the competent judicial authorities may order, at the request of the trade secret holder, any of the following provisional and protective measures against the alleged infringer:

(a) the termination or, as the case may be, the provisional prohibition of the use or disclosure of the trade secret;

(b) confiscation or surrender of goods suspected of infringing the rules, including imported goods, so as to prevent their entry or circulation on the market.

## Conclusions

In a single, cross-border market, collaborative research, dissemination of knowledge and information is very important to increase the level of development which is an essential element for ensuring dynamic, positive and fair business development opportunities for traders.

Therefore, faced with such a context, we believe that by protecting such a wide range of know-how and business information, either as a supplement or as an alternative to intellectual property rights, trade secrets allow creators and innovators to profit from their own creations and innovations, thus becoming particularly important for traders' competitiveness, R&D and innovation performance.

However, traders using innovations are increasingly exposed to the risk of illegal practices aimed at the misappropriation of trade secrets, such as theft, unauthorized reproduction, economic espionage or breach of confidentiality requirements, both within the Union, as well as outside it. Consequently, we believe that it was necessary that at the level of the European Union, appropriate legislation be adopted in the matter, and we mention here Directive (EU) 2016/943, a legislative instrument that is the subject of debate in this study, since in the absence of such an effective legal remedy, cross-border activities related to innovation in the internal market would be compromised and trade secrets could not exploit their potential as vectors of growth and job creation.

The adoption of the above-mentioned directive is the result of international efforts that led to the conclusion of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) (By Decision 94/800/EC of 22 December 1994, the Council concludes, on behalf of the European Community and with regard to matters within its competence, the results of the Uruguay Round of the negotiations contained in the Final Act of Marrakech signed in 1994 in Morocco by representatives of the European Community and its member countries. Therefore, on behalf of the European Community (today the European Union) through Decision 94/800/EC, the Council approves the agreement under which the World Trade Organization (WTO) was established. Thus, the Agreement establishing the WTO includes several annexes that contain the specific agreements between which we recall Annex 1 C containing the Agreement on Trade-Related Aspects of Intellectual Property Rights including Trade in Counterfeit Goods (TRIPS).) The TRIPS Agreement contains, among other things, provisions on the protection of trade secrets against illegal acquisition, use or disclosure by third parties, which constitute common international standards but also provisions by which both the European Union and the Member States are invited to make every effort so that through appropriate legislation to achieve the protection of trade secrets.

Following the signing of the TRIPS Agreement, we note that if the appropriate legislation was adopted at the level of the European Union in accordance with the international act, nevertheless there are important differences between the transposition legislations at the level of the member states in terms of protecting trade secrets against the illegal acquisition, use or disclosure to other people.

Pursuant to Recital 7 of Directive (EU) 2016/943, several examples are identified regarding the legislative inconsistencies noted in the directive's transposition rules, thus, in a first example, not all member states have adopted national definitions of secrecy trade or the illegal acquisition, use or disclosure of a trade secret. There is no consistency in the civil remedies available for the unlawful acquisition, use or disclosure of trade secrets, as not all Member States may impose cease and desist orders against third parties who are not competitors of the legitimate trade secret holder. There are also differences between Member States in the treatment of a third party who has obtained the trade secret in good faith, but later learns, at the time of use, that the acquisition is based on a previous illegal acquisition of the trade secret by another part. National rules also differ in what regards the legitimate trade secret holders to request the destruction of goods produced by third parties who use the trade secret illegally, or the return or destruction of any documents, files or materials containing or incorporating the acquired trade secret, or used illegally.

In addition, the national rules applicable to the calculation of damages do not always take into account the intangible nature of trade secrets, which makes the actual loss of profit or unjust enrichment of the infringer difficult to demonstrate when the market value of the information in question cannot be established. Only a few Member States allow the application of abstract rules for calculating damages based on royalties or rights that would reasonably have been due if there had been a license to use the trade secret.

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