



PROTECTION OF TRADE SECRECY

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OVERVIEW

1. Introduction
2. Legal situation
3. Protection strategy
4. Measures for the protection of trade secrets
5. Case studies
6. Questions

1. INTRODUCTION

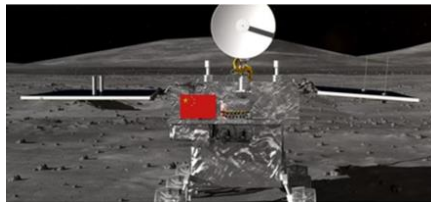
- EU Directive 2016/943 and future German Trade Secrets Act (Gesetz zum Schutz von Geschäftsgeheimnissen) will substantially change the way trade secrets are protected
- Entities doing business in the EU should take action to adapt the changed legal situation and be aware of new opportunities, threats and requirements

1. INTRODUCTION

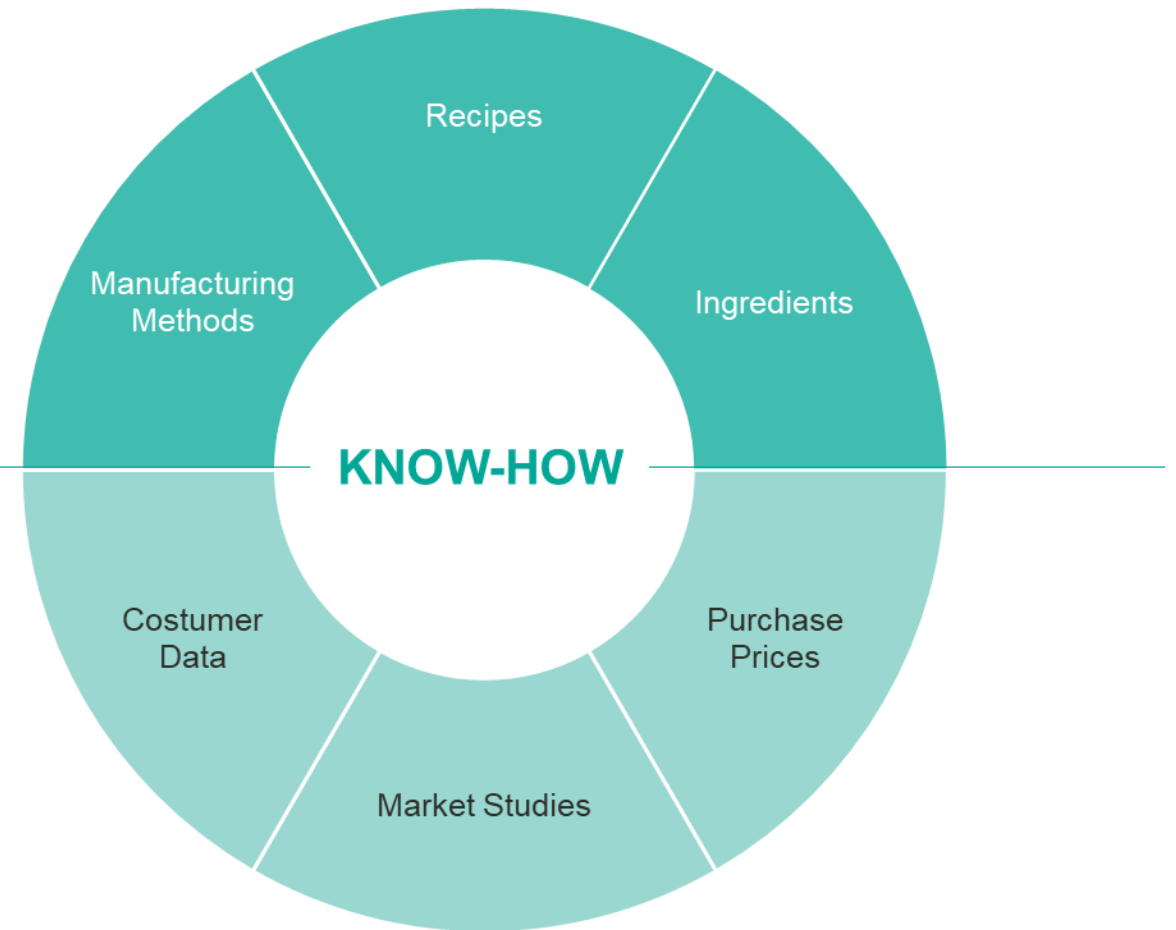
The term “trade secrets”

Technical know-how

Business information

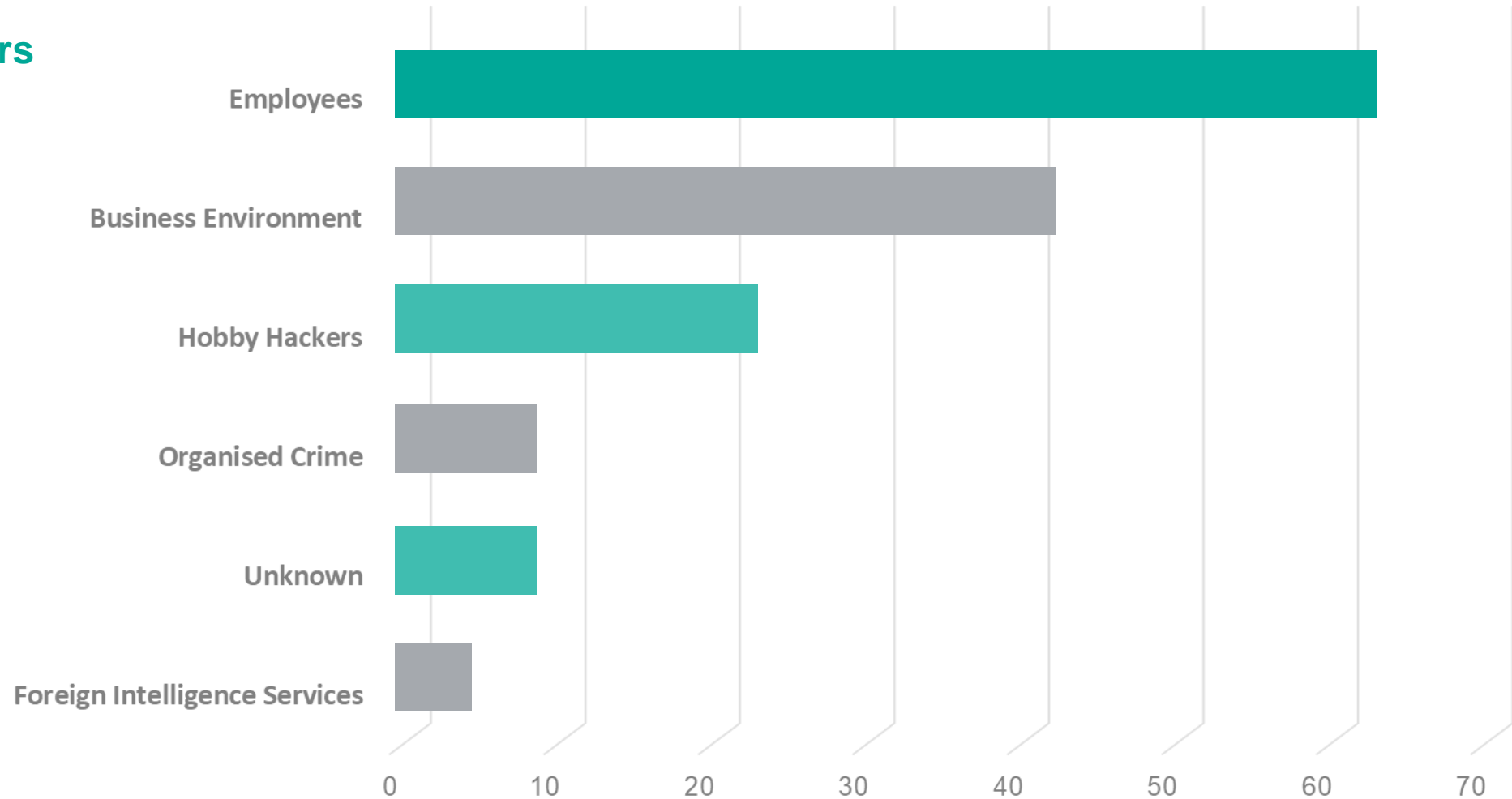


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1. INTRODUCTION

Risk Factors



2. LEGAL SITUATION

EU Directive 2016/943 “on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure”

- Target is the harmonization of the protection of trade secrets in the EU
- Deadline for implementation expired on 8 June 2018
- Individuals may rely to a certain extent on the Directive itself

– **Provisions of the Directive are relevant since June 2018**

2. LEGAL SITUATION

Germany

- 19 April 2018: First draft of German implementation act of the Directive
- 18 July 2018: German federal government agreed on **Draft German Trade Secrets Act**
- 21 September 2018: In the legislative procedure, the German Federal Council (Bundesrat) suggested several amendments to the Draft (cf. BR Drs. 382/18), inter alia
 - A judge should not only be able to limit the number of persons who have access to the secret details of the civil proceedings but to select persons due to their special qualities

2. LEGAL SITUATION

- For example, it would be consistent with the EU Directive if only one director of the opposing party and his/her lawyer gain access to secret details of the case
- Besides the Bundesrat also several stakeholders commented on the German federal government's Draft
- The German Trade Secrets Act is likely to enter into force this year

2. LEGAL SITUATION

What has changed?

- According to Sec. 2 No. 1 Draft German Trade Secrets Act, trade secrets are information, which are
 - not generally known or readily accessible and therefore of economic value, and
 - **subject to reasonable confidentiality measures**

2. LEGAL SITUATION

Reasonable confidentiality measures

- What is reasonable needs to be determined in view of the circumstances of the specific case
- Measures can be contractual, organizational and/or technical
- Businesses must take reasonable confidentiality measures to protect information as a trade secret
- Confidentiality measures must be documented for claims to be enforceable in court

2. LEGAL SITUATION

- “Reverse engineering” is expressly permitted pursuant to Sec. 3 (1) No. 2 Draft German Trade Secrets Act if the object
 - has been made public, or
 - is in rightful possession of the engineer

But: can be contractually excluded!

2. LEGAL SITUATION

- “According to Sec. 12 Draft German Trade Secrets Act, a managing director is liable for his employees who violate trade secrets of other companies
 - Special attention is needed if a new employee brings know-how from competitors
 - In this case the employment contract should prohibit the employee from using any information proprietary to his/her former employer

2. LEGAL SITUATION

- Trade secret litigation: “**confidentiality club**” in court
 - Court may classify information as confidential
 - All persons having access to such information in the proceedings must treat it as confidential
 - Court may restrict access to trade secrets to a certain number of persons and exclude the public from hearings
 - Confidentiality obligations continue to apply even after the conclusion of the proceedings
 - In case of violation, a fine or even detention can be imposed

2. LEGAL SITUATION

When is a violation committed?

- When trade secrets are obtained without authorization
- When trade secrets, which have been obtained without authorization, are used or disclosed
- When trade secrets were obtained through a third party and it is known or should have been known that the third party itself has obtained the trade secrets without authorization

2. LEGAL SITUATION

Which claims has the holder of trade secrets in case of infringement?

- Cease and desist
- Destruction or handover of trade secrets
- Recall and destruction of infringing products
- Damages (for intentional or negligent infringement) and . . .

2. LEGAL SITUATION

- Claim for information about
 - manufacturers, suppliers, costumers, quantities and purchase prices of the infringing products
 - documents, objects, materials and electronic files containing or embodying the trade secret
 - persons from whom the trade secret was obtained or to whom the trade secret was disclosed

2. LEGAL SITUATION

Inspection proceedings for gathering evidence

Required: specific suspicion that a third party uses patented or utility model protected invention or know-how

- Judicial inspection procedure, nowadays established
- Without warning, the court clarifies by means of a neutral expert on-site whether there is an infringement
- Confidentiality measures must be documented for claims to be enforceable in court

2. LEGAL SITUATION

Criminal law applies if

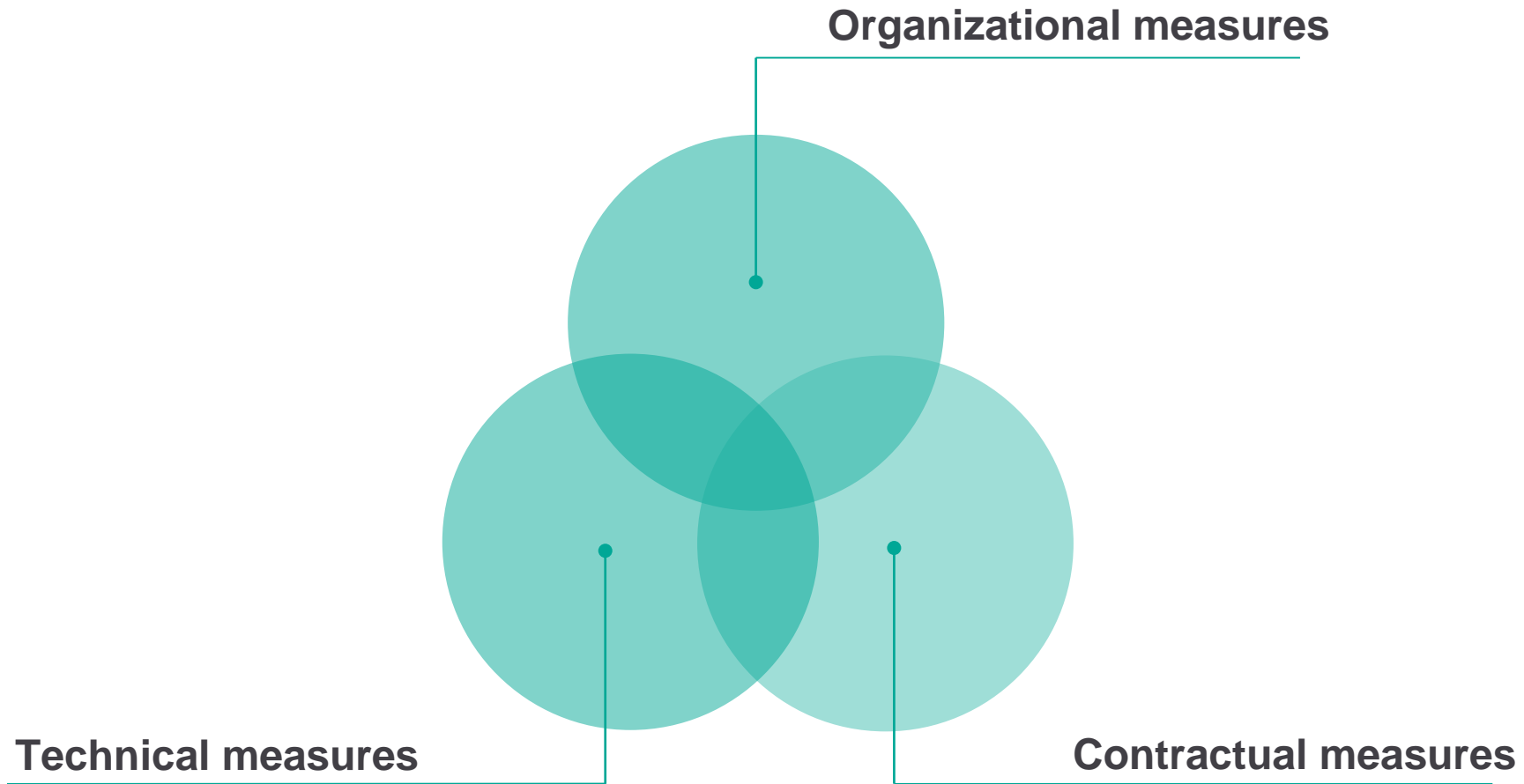
- the violation of trade secrets was committed to promote a person's own or a third party's competition, or
- with the intention of causing harm to the business of the trade secret holder
 - The penalty can be imprisonment of up to 5 years

3. PROTECTION STRATEGY

- Create clear responsibilities within the company
- Take reasonable measures to protect trade secrets
- Document the protection measures



4. MEASURES FOR THE PROTECTION OF TRADE SECRETS



4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

Establish a continuous process to identify and categorize confidential information, existing protection, and authorized individuals

- Identification should be systematic and documented, e.g. through checklists with a short description of the object, source and date
- Categorization should be based on the importance of the information
 - “Crown jewels”
 - Useful information, such as relevant for day-to-day work, or
 - Information that may be disclosed



4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

- Measures should be based on this categorization
 - For cost efficiency, usually only special protection measures for “crown jewels”
- Evaluation of the status quo: How is information protected?
 - Place of storage
 - Restricted access for employees and external contractors
 - General protection measures (e.g. regarding visitors of the company)
 - Employment contracts (confidentiality agreements, non-compete clauses for key persons, etc.)

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

- Strategic decision as to whether certain information should be protected by secrecy or by intellectual property rights (IPRs)

Advantages IPRs

- Protection even if invention is published (protects also against reverse engineering)
- Efficient enforcement
- Protection for features which cannot be kept secret
- Monetizable through licensing
- Advertising with innovations

Disadvantages IPRs

- Invention becomes public due to application before it is decided whether protection is granted
- IPRs may not apply to other countries
- Fees
- Granting procedure may take several years

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

Advantages secrecy

- Costs are overhead costs and can be allocated to different products and departments

Disadvantages secrecy

- Costs for employee training, IT security and security of business facilities
- IPRs may not apply to other countries
- No advertising with innovation

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS



- Subject matter: products and processes
- Term: 20 years
- Official examination



- Subject matter: only products IPRs may not apply to other countries
- Term: 10 years
- No official examination

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

- Strategic aspects: Patents – Utility models

Patents

Advantages

- Official examination ensures a certain level of protection
- Efficient enforcement

Disadvantages

- Innovation must be precisely described in the application and becomes public after 18 months even if no patent is granted
- Duration of the granting procedure (several years)

Utility models

Advantages

- Possibility to use patent application as template and draft utility model application to address a specific infringing embodiment

Disadvantages

- Protectability is verified at first in court
- Innovation must be precisely described and becomes public

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

- Recommendations



Usually it is possible to combine the advantages of IPRs and protection of secrecy:

- Direct IPRs to a generalized core of the technology;
- Details that are essential for an efficient exploitation of the technology on an industrial scale are kept secret.

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

Legal/organisational measures

- Regarding employees
 - Employment contract design
 - Key employees: post-contractual non-compete obligations
 - Sensitization of employees regarding secrecy
 - Directives for dealing with trade secrets
 - Restriction of access to sensitive information
 - “Leave-Policy”
 - “Exit-interviews”
 - Termination agreements/termination notices

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

- Regarding costumers, suppliers, license and R&D agreements
 - Information only on a “need-to-know” basis
 - Documentation which know-how was transferred to whom and when; confirmation of know-how transfers
 - Label confidential information
 - Conclude NDAs which contain
 - a contractual penalty and
 - the prohibition of reverse engineering

4. MEASURES FOR THE PROTECTION OF TRADE SECRETS

Technical measures

- Establish IT measures to protect secret information
 - Firewalls
 - Encryption
 - Monitoring access to information
 - Directives on use of storage media; avoid “bring your own device”

5. CASE STUDY 1

Facts

A German company (hereinafter “G”) manufactures a product in Germany and distributes the product worldwide. The manufacturing process, including the composition of ingredients and the structure of the plant, is predominantly not patented but protected by secrecy.

G’s employee E has been working for G in Germany and Turkey for years. Colleagues of E report to the security division of G that since a few weeks E has been behaving suspiciously by asking colleagues repeatedly for information that was not necessary for his actual work.

5. CASE STUDY 1

First step: Gathering of evidence

- Interview E's colleagues
 - Document the findings in writing
 - Bind E's colleagues to secrecy
- Interview E and request him to hand over mobile devices and passwords
 - Document the setup and the findings of the interview in writing and let E sign such documentation if possible
 - ! Risk: E is alerted and it is likely that he will destroy privately stored data which contain trade secrets of G
- File a criminal charge against E and obtain a search warrant

5. CASE STUDY 1

Facts (cont'd)

The data analysis of the mobile devices reveals that E transferred secret know-how of G to his accomplice F in Turkey. F is currently setting up the company T in Turkey. Apparently, T will manufacture the same product as G. D is the director of T.

5. CASE STUDY 1

Second step: Measures against E

- Immediate release from work
- Termination for cause (employment contract); also possible based on reasonable suspicion
- Preliminary injunction concerning the further disclosure and use of the trade secrets
- Action for information
- Action for damages
- Labor court has jurisdiction
- It may be useful to support the criminal investigation proceedings

5. CASE STUDY 1

Third step: Measures against F in Germany

- Criminal charge and search warrant if appropriate
- Preliminary injunction concerning the further disclosure and use of the trade secrets
- The formal service in Turkey is executed in accordance with the Hague Convention on the Service Abroad of Judicial and Extra-Judicial Documents in Civil and Commercial Matters via the German district court; the German district court sends the request for service to the Turkish Ministry of Justice
- If the service is not executed in Turkey, public notification in Germany is possible

5. CASE STUDY 1

Fourth step: Measures against T and D re sales to Germany

- Action on the merits
 - Claims for cease and desist and for damages
 - Claim for destruction or handover of trade secrets
 - Claim for recall and destruction of infringing products
- G has to prove the following:
 - Existence of trade secrets, no disclosure, no ownership by T
 - Reasonable confidentiality measures at G's business
 - Use of identical or in essence identical information by T
 - Information obtained without authorization
- No fixed deadline regime; G has to promote the proceedings

5. CASE STUDY 2

Facts

German company **W** has developed processes, recipes and tools for manufacturing wood-plastic-composite products, e.g. table surfaces and windowsills.

In practice, the relevant manufacturing process is a challenge to run on an industrial scale because the properties of the used wood change depending on, e.g., the kind and age of the trees cut and the air humidity during and before processing the wood.

5. CASE STUDY 2

Facts (cont'd)

Several years ago W made a decision not to seek patent protection any longer but to keep its production know-how secret. There is a range of know-how licensees that have been using W's technology for decades.

In 2014 licensee K decides to attempt not to pay further royalties to W. K says it never received any know-how since 1980, and therefore W must not charge any royalties.

5. CASE STUDY 2

Advice: Exhaustive documentation is essential

- In hindsight, it turned out to be important that W had documented at least some bits and pieces of technical knowledge and advice that it had been providing to K over the years, such as recipes and technical drawings for tools
 - But the lesson learned is that a more exhaustive documentation would have been helpful

5. CASE STUDY 2

Advice: Contractual non-disclosure obligations

- Also, it turned out to be important that the agreements that W concluded with its licensees comprised non-disclosure obligations (also post-contractually) for the licensee
 - This is a reasonable and nowadays probably required measure to protect secrecy

5. CASE STUDY 2

Advice: Clause that requires the licensee to destroy or to hand out any tools that embody the licensed know-how

- Then, it turned out to be difficult to prove the actual continuing use of W's know-how by K
 - Recipes are refined over time; tools are amended; abstract technical advice such as “shorten the pressing times” is difficult to relate to specific details of K's production as observed nowadays
 - It can be helpful to have a clause that requires the licensee to destroy or to hand out any tools that embody the licensed know-how
 - However, the aforementioned tools can be amended so that enforcement of the claim for destruction may be difficult

5. CASE STUDY 2

Advice: Long-running licensing agreements and royalties for right to access know-how

- It is helpful to have long-running licensing agreements under which the licensee pays royalties for its right to access know-how, rather than for the actual use of know-how
- The former, that is the fact that know-how is accessible, is easier to prove for the licensor than the latter, that is the actual use of know-how

SPEAKER



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- Legal advice and client counselling on all aspects of intellectual property law and related areas.
- Focus on litigating patents, and providing strategic advice on patents, utility models and trade secrets.
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- Focuses on labor and employment law
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MANY THANKS FOR YOUR ATTENTION

