

# ARTICLE

## TRADE SECRETS BETTER PROTECTED BY FRENCH LAW AND BY THE COURTS

| 22/11/18 | Marie Danis



After several years of negotiations at the European, followed by the French level, a trade secret protection system has finally been put in place in France.

Directive (EU) 2016/943 of June 8<sup>th</sup>, 2016, the "Trade Secrets Directive", was implemented in domestic law by Law No. 2018-670 of July 30<sup>th</sup>, 2018, all of the provisions of which were validated by the French Constitutional Council (*Conseil Constitutionnel*) on July 26<sup>th</sup>, 2018. Published in the Official Journal on July 31<sup>st</sup>, 2018, the law entered into force on the next day. The publication of an implementing decree is expected in the coming weeks.

### Why protect trade secrets?

The Directive was motivated by the finding that innovative businesses are increasingly exposed to the unlawful misappropriation of their trade secrets (such as customer or supplier records, economic data, management methods, strategic plans, technical or technology know-how or, more generally, information or practices that are not protected by intellectual property rights).

No uniform legal system existed for the protection of business information (trade secrets) either at the European level, or even at the national level. In France, while 151 references to this concept could be found in different codes, laws and regulations, no legislative definition of trade secrets existed.

The objective pursued by the Directive and the law of July 30<sup>th</sup>, 2018 is thus to introduce a harmonized framework to prevent, enjoin, and obtain remedies for the infringement of trade secrets.

### What does a trade secret protect?

The new §L. 151-1 of the French Commercial Code defines trade secrets as information meeting all of the following three criteria: the information (i) is not generally known or readily accessible to persons familiar with this type of information because of their sector of activity; (ii) has real or potential commercial value; and (iii) has been subject to reasonable protection measures intended to preserve its secrecy.

In practice, it is recommended that businesses designate as such any files, records and data they wish to protect as trade secrets. Businesses should also be able to evidence what measures they have taken to protect such information, whether these be technical (restricted access systems, passwords) or contractual (confidentiality clauses).

Pursuant to the new §L. 151-4 of the French Commercial Code, a trade secret acquired without the consent of the trade secret holder is unlawfully acquired, whenever carried out by (i) unauthorized access to, appropriation of, or copying or, more generally (ii) any other conduct which, under the circumstances, is considered dishonest and contrary to commercial practices.

Conversely, the acquisition will be considered lawful when the trade secret is obtained as a result of independent discovery or creation, or of the observation, disassembly or testing of a product that has been made available to the public (§L. 151-3).

### Exceptions to the protection of trade secrets

The law provides for several exceptions to the protection of trade secrets.

These exceptions primarily concern cases where disclosure of the trade secret is legally required or authorized, in particular in the exercise of the powers of investigation, control, authorization or sanction of judicial or administrative authorities (§L. 151-7).

They also concern the exercise of freedom of expression and communication, including freedom of the press and freedom of information (§L. 151-8-1), exercise of the right to whistle blow introduced by the "Sapin II" Law of December 9<sup>th</sup>, 2016 (§L. 151-8-2) and protection of a legitimate interest recognized by European Union or national law (§L. 151-8-3).

They also concern exercise of the right to information and consultation of employees, as well as the disclosure of such information by employees to their representatives in the context of the necessary and legitimate exercise by the latter of their functions (§L. 151-9).

### Novel civil remedies

The system does not introduce any specific criminal remedy, only the civil liability of the infringer being incurred (§L. 152-1). While not making fraudulent appropriation of trade secrets a specific criminal offense, other existing offenses can, for example, be relied on in the following situations: theft, handling stolen goods, breach of trust, disclosure of manufacturing secrets (*secret de fabrication*), unlawful intrusion into a computer system).

Among the civil claims available, the court can order, including subject to a fine for non-compliance, any proportionate measure of a nature to prevent or put an end to the infringement of a trade secret.

Alternatively, and in a bolder move, the new §L. 152-5 of the French Commercial Code provides that in lieu of the measures permitting the cessation of the infringement of the trade secret, the court may, upon the motion of the infringer, order compensation to be paid to the victim. In such scenario, the infringer would have to show that (i) he or she did not know that the secret was obtained unlawfully; (ii) prohibition or injunction measures would cause the infringer disproportionate harm; and that (iii) the payment of such compensation to the victim seems "reasonably satisfactory". The amount of such compensation is capped and correlated with the amount that would have been payable had the infringer sought authorization to use the secret.

Similarly, §L. 152-6 provides for an award of damages, assessed on the basis of (i) the adverse economic consequences of the infringement of the trade secret; (ii) the moral prejudice; and (iii) the profits made by the infringer, including savings in terms of intellectual, tangible and promotional investments as a result of the infringement. Alternatively, a flat amount may be granted, reflecting in particular the amount of the payment that would have been owed had authorization to use the trade secret been sought.

These new mechanisms, which draw on the principles of compensation applicable to the infringement of intellectual property rights, are especially novel in terms of civil liability.

#### **New principles applicable to the initiation of judicial proceedings**

The rules on limitation periods also differ from the ordinary rule of law: the new §L. 152-2 provides that trade secret claims are barred 5 years from the date of the occurrence of the event giving rise to liability, and not from the date of knowledge thereof.

Lastly, to reflect concerns about barriers to whistleblowing and threats to freedom of expression, the new §L. 152-8 of the Commercial Code provides for a civil fine that can be imposed in case of abuse of process (strategic lawsuits against public participation or SLAPP). The amount of this fine is capped at 20% of the amount of claimed damages or, otherwise, a maximum of €60,000.

#### **Maintaining secrecy during the course of legal proceedings**

The law has introduced several procedural provisions to maintain the confidentiality of business secrets during the course of legal proceedings – the issue of the disclosure of sensitive data, in particular economic, to a competitor, often arising in a litigation context.

New §L. 153-1 *et seq.* provide that the civil court may take the following steps *sua sponte* or at the request of a party to the lawsuit or a third party: have the court examine an exhibit alone or restrict the disclosure or production of the exhibit to certain parts thereof, or to certain persons. The court can also decide that hearings will be held in chambers and adapt the grounds of the decision so as to protect the trade secret.

Any person having had access to an exhibit the court considers to be covered by the trade secret will remain bound by a duty of confidentiality after the proceedings.

The conditions of application of these sections should be set by decree. To be continued...

---