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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

In French law, there is currently no legal protection of trade secrets. The confidentiality of certain information of value to the company may, however, be protected in different ways which - save for some exceptions - do not particularly restrict freedom to work or freedom of competition.

The different indirect trade secret protection methods which may constitute a restriction that is applicable to the freedom of the employees or ex-employees of a company are summarised below. These may be 1°) contractual regulations, 2°) the application of civil liability in tort or 3°) certain criminal provisions.

A. Contractual restrictions

The contractual restrictions of the employee generally take three forms of clauses: 1) confidentiality, 2) non-competition and 3) exclusivity. The Court of Cassation seems to consider the obligation of confidentiality to be equivalent to that of secrecy or discretion.

1. Confidentiality clauses

a. Provisions of the Labour Code

Any contractual clause which limits the free performance of a professional activity is governed by the provisions of Article L. 1121-1 of the Labour Code: "The rights of persons and individual and collective freedoms cannot be subjected to any restrictions that are not justified by the nature of the task to be performed or proportionate to the intended goal".

Any obstacle to the freedom of expression which is granted to employees by French law is also regulated by that article and by constitutional and human rights principles.

In the absence of an explicit confidentiality clause, Article L. 1221-1 (formerly L. 210-4) of the Labour Code provides for a duty of loyalty of the employee with regard to the company. However, where one exists, the confidentiality clause makes it easier to identify the obligation if the confidential information is identified as such by the employer (in accordance with the terms of Article L. 432-7 of the Labour Code). It makes it possible to prolong the confidentiality attached to certain information beyond the term of the contract of employment, which may also be stipulated in advance in certain collective agreements.

The conditions of validity of a confidentiality obligation are examined in Part 3 of this report.

If a confidentiality clause is extended to the point of forbidding an employee from using knowledge and techniques acquired in the company after the term of the contract of employment, it has a restrictive effect on the freedom to work which is equivalent to that of a non-competition clause.

In such a case, the court may reclassify such a clause as a non-competition clause and consider it to be null and void as it does not meet the conditions of validity of non-competition clauses, set out below.

b. Provisions of the Intellectual Property Code

Certain confidential information covered by confidentiality clauses may relate to employee inventions.

Paragraph 3 of Article L. 611-7 of the Intellectual Property Code therefore provides for a mutual obligation of the employee and employer to “refrain from any disclosure which could compromise, in whole or in part, the exercising of the rights conferred by this legislation”.

2. Non-competition clauses

From 1992, the Court of Cassation set about defining the conditions of legitimacy of the non-competition clause applied to the employees of a company, by limiting the application of the rule of Article 1134 of the Civil Code, according to which “legally formed agreements serve as the law for those who made them”. Between 1992 and 2000, the case-law established four conditions of validity: 1) to take account of the specific aspects of the employee’s role, 2) to be essential for protecting the legitimate interests of the company, 3) to be limited in terms of space, and 4) to be limited in terms of time.

Still in accordance with the fundamental principle of free performance of a professional activity and Article L. 1121-1 (formerly L120-2) of the Labour Code, the Court of Cassation added, on the occasion of three judgments given on the same day, a fifth cumulative condition: the need for financial consideration.

This financial consideration must respect the principle of proportionality. An employee may claim that the clause cannot be raised against him if the compensation paid in consideration proves to be derisory. In addition, the financial consideration obligation is independent of the employee’s severance terms. In its judgment of 18 September 2002, the Court of Cassation therefore established the principle of the judge’s power to restrict the application of an illegitimate non-competition clause.

It must also be emphasised that the Court of Cassation reclassifies as non-competition clauses any clauses having a different name but the same effect, such as a “non-solicitation of clients clause” or “client protection clause”, and annuls them if they do not meet the conditions of validity established by its case-law.

3. Exclusivity clause

If there is an exclusivity clause in the contract of employment, in accordance with the employee freedoms guaranteed by the preamble of the Constitution of 27 October 1946 and Article L. 120-2 of the Labour Code, the Court of Cassation provides that “the clause by which an employee undertakes to work exclusively for an employer compromises the freedom to work; it is only valid if it is essential for protecting the legitimate interests of the company and if it is justified by the nature of the task to be performed and proportionate to the intended goal”.

B. Civil liability

1. of employees

If there is no exclusivity clause in their contract of employment, employees may carry out additional professional activity. Employees are bound by their non-competition (or loyalty) obligation to their employer and may not create a competing company or solicit the clients of their employer.

The general non-competition obligation should not be confused with that resulting from a non-competition clause, which is only effective upon termination of the contract of employment.

2. of ex-employees

The principle of freedom to work and free establishment allows employees who are not bound by a non-competition clause to work for a competing company or create such a company themselves after the expiry of their contract of employment. The employer may not oppose this without possibly incurring liability.

However, ex-employees must carry out their activity under fair conditions, that is to say not commit acts leading to disorganisation of the former employer's company, commercial disruption or confusion in the mind of clients. Such acts are culpable even in the absence of fraud or deceitful tactics.

C. Criminal liability

The disclosure of certain information relating to the company may incur a criminal penalty.

Criminal law does not provide penalties for industrial espionage as such, but does so for various unlawful means used by third parties in order to obtain company secrets. These include the removal and misappropriation of confidential documents which are punishable as offences of theft (Penal Code, Art. 311-1), breach of trust (Penal Code, Art. 314-1 et seq., 314-12) or corruption of employees (Penal Code, Art. 445-2).

In addition, Article 621-1 of the Intellectual Property Code refers to the Labour Code (Art. L. 1227-1, formerly Art. L. 152-7 of the Labour Code) which provides that: "The offence, by a director or employee, of revealing or attempting to reveal a trade secret is punishable by two years' imprisonment and a € 30,000 fine. The court may also, as a further penalty, for a maximum period of five years, ban civic, civil and family rights provided for by Article 131-26 of the Penal Code".

In this particular case, such prohibitory measures would have serious restrictive effects. However, if these restrictions are the result of a court decision, they do not fall within the scope of this question. Where that does not apply, the effect of a criminal penalty in terms of restriction of the freedom to work generally appears to be minor, as criminal action involves the requirement of a specific definition of the information referred to.

It should be added that the provisions of Article L. 1227-1 do not apply to the communication of the secret to a third party, but its revelation. Personal use does not constitute revelation. In accordance with the former Article 418 of the Penal Code, the case-law decided that the offence is not committed when an ex-employee who has set up his own business makes personal use of the secrets which he learnt in the service of the company which employed him.

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

The case-law accepts that an ex-employee of a company is free to use, in a new role, the knowledge which he acquired within his former company, as long as he does not commit any misappropriation of trade secrets or other confidential information.

A. Trade secrets

The case-law regarding trade secret violation defines the notion of trade secrets as referring to industrial means with the aim of production. This may cover actual production methods and processes which might perhaps have all the characteristics of a patentable invention or simple production details, or what the case-law sometimes calls “technique”, which are not patentable due, in particular, to insufficiency or lack of inventive step. It may therefore be considered that a trade secret is an original, patentable or non-patentable technical industrial process, even sometimes a detail execution process, or may also cover the source code of part of the programs installed on products if it could be used for their production.

A protected trade secret can therefore never be general knowledge acquired by an employee, but is always precise and limited technical knowledge.

B. Know-how

Certain case-law decisions may issue civil punishment for the violation of secrecy relating to know-how. The expression “know-how” may be defined as knowledge concerning the production of goods, the marketing of goods and services and the management and financing of the companies dedicated thereto, the result of research or experience, not immediately accessible to the public and transmissible by contract.

The definition given by the case-law is as follows: “substantive and formalised set of knowledge which is not directly accessible and gives a competitive advantage to the holder” (cited in report Q215).

More frequently, the know-how will consist of a set of elements which are the result of experience and constitute a commercial or technological lead: choice of raw materials, optimal temperatures, better production conditions for a market or a network of suppliers.

In order to be protectable, the trade secret must:

- be substantial
- be secret or in any case not immediately accessible to the public, which legitimises a shared or partially revealed secret
- constitute a competitive advantage. Here too, an item of general knowledge acquired by an employee cannot in itself constitute know-how, which must be precise and protected

C. Provisions of the Intellectual Property Code

As indicated above, confidentiality may also cover a patentable invention subject to the provisions of Article L. 611-7 of the Intellectual Property Code, which requires the employee inventor to “refrain from

any disclosure which could compromise, in whole or in part, the exercising of the rights conferred by this legislation". This again involves precise technical information and not general knowledge acquired by the employee in the course of his work.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?
yes
If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

Preliminary comment

Employees are subject to a confidentiality obligation without this being set out in the contract of employment

Through their contract of employment, the employees of a company undertake not to disclose information relating to the company, even if this is not expressly stipulated in the contract of employment.

Justified by the general principle of contracts set out by Article 1134 of the Civil Code, according to which agreements must be executed in good faith, and clarified in Article L. 1221-1 of the Labour Code, a contract of employment comprises a loyalty obligation which implies, in the course of its performance, an obligation of confidentiality regarding information to which the employee has had access in the scope of his work.

The employee is specifically forbidden from committing any act which is contrary to the interest of his employer, in particular from disclosing the know-how with which he has been provided in the scope of the performance of his contract of employment.

When access to the secret results from a contract of employment, the beneficiary of the revelation is necessarily bound by a tacit (if not express) obligation, in consideration of the good faith obligation of Article 1134, paragraph 3 of the Civil Code, of non-disclosure to third parties.

Nevertheless, this confidentiality obligation only covers information which is useful and has a certain value for the beneficiary and which the holder has kept secret.

a)

Where one exists, the confidentiality clause determines the content of the obligation.

The wording of the clause may therefore reinforce the authority of the confidentiality obligation by also establishing, according to some authors, a performance obligation. However, it seems difficult to impose a performance obligation on the employee with regard to keeping the information secret and thus render him liable for a disclosure that may be made by a third party.

This clause in the contract of employment is used more for specifying the effectiveness thereof by indicating for example:

- the categories of information that it covers and/or the area of activity concerned;
- the measures which must be taken to keep the secret;

- the methods of communication within the company.

An express confidentiality clause may also serve to cover broader information than that covered by the definition of the trade secret, provided that this appears justified by the nature of the work to be performed and proportionate to the intended goal, in accordance with Article L1121-1 of the Labour Code. This question is dealt with in the response to question (1).

- b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

The confidentiality clause is imposed even after the termination of the contract of employment.

Specifically, in a judgment of 19 March 2008, the Court of Cassation considered that such a clause *“may validly provide that it shall apply after the end of the contract of employment and that non-performance of the confidentiality obligation by the employee after he leaves the company renders him liable for the loss suffered thereby, even in the absence of serious misconduct”*.

Several authors consider that, in the absence of such a contractual confidentiality clause for the phase after the expiry of the contract of employment, the disclosure of confidential information constitutes intentional tort, consisting of dishonourable conduct by its perpetrator, and can therefore only be protected on the basis of tort liability.

In other words, according to this school of thought, the employee:

- for the duration of the contract of employment, would be obliged not to disclose trade secrets, in consideration of the good faith obligation provided for in Article 1134, paragraph 3 of the Civil Code, therefore on a contractual basis;
- after the cessation of the contract of employment, would remain obliged not to disclose trade secrets:
 - on a contractual basis, if a confidentiality or non-disclosure obligation has been contractually provided for the phase after the termination of the contract;
 - on a tort basis, in the absence of a contractual confidentiality obligation, for the phase after the expiry of the main contract.

However, in accordance with Article 1135 of the Civil Code, respect for trade secrets is an obligation which “equity, usage or statute” impose on the co-contractor and which remains a contractual obligation even when the contract expires.

- 4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes

If yes, is there any distinction between the types of knowledge they can use?:

In the absence of a non-competition clause, the employee may use the know-how which he acquired in the course of his previous employment to the benefit of his new employer.

However, while ex-employees are free to use the know-how which they acquired within their former company and their personal knowledge in new roles, they are forbidden from misappropriating trade

secrets or using any confidential information constituting secret know-how for the benefit of their new employer (Paris Appeal Court, 5 May 2004, No. 2003/09946).

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes

If so, which employees, and what is the rationale for any distinction between employees?:

Article L.1121-1 of the Labour Code provides that "*The rights of persons and individual and collective freedoms cannot be subjected to any restrictions that are not justified by the nature of the task to be performed or proportionate to the intended goal.*"

In general, this principle may apply to the general obligation of employee loyalty, to contractual confidentiality obligations, whether or not limited to the duration of the contract of employment, but also to contractual non-competition obligations. The conditions laid down by that article naturally call for a distinction to be made between different categories of employee.

The stricter obligations of discretion imposed on certain categories of employee may be distinguished according to whether they are provided for by law or apply according to the role of the employee or the industrial sector concerned.

1. Legal obligations of discretion

Members of the works council and union representatives at the works council, union delegates and members of the Comité d'hygiène, de sécurité et des conditions de travail (CHSCT) [Committee for Health, Safety and Working Conditions] are subject by law to a stricter obligation of discretion with regard to production processes and information of a confidential nature and designated as such by the company director or his representative. This obligation is extended to experts and technicians who the works council may appoint to the commissions that it creates and to the two employees who the council may appoint in the scope of the economic reporting procedure.

These specific obligations are explained by the fact that, due to their status within the company and the prerogatives associated therewith, the employees concerned receive sensitive information from the employer which may be confidential in nature, in particular economic, financial and strategic company information.

Article L.465-1 of the Monetary and Financial Code also provides for specific criminal penalties for directors of a company mentioned in Article L. 225-109 of the Commercial Code, and persons who, in the performance of their role or duties, possess privileged information concerning the securities of those companies, if that information is disclosed (insider trading). Article L.621-18-4 of the Monetary and Financial Code also requires certain companies to provide the Autorité des marchés financiers (AMF) [financial markets authority] with an up-to-date list of insiders.

2. "Stricter" obligations due to the role of the employee and the industrial sector concerned

As a result of their roles within the company, certain employees naturally possess or receive confidential strategic information. In this regard, it is apparent from the case-law that a stricter obligation of discretion is imposed on employees according to the responsibilities that they assume and

the company information that they possess as a result of those responsibilities. Violation of that obligation of discretion may, in certain cases, justify dismissal for serious misconduct.

The Social Chamber of the Court of Cassation has thus judged that:

- failures to meet the obligation of discretion may characterise serious misconduct, **in particular for senior executives** (Cass. Soc., 28 June 1972, No. 71-40435 and Cass. Soc., 30 June 1982, No. 80-41114 concerning the disclosure of financial information by the head of the company's accounts department),
- serious misconduct was committed by **the commercial director who, invited to a meeting of executives** which had to remain confidential at a time when the company was experiencing very serious difficulties, had, through his premature revelations, caused reactions likely to damage the company's reputation (Cass. Soc., 11 Oct. 1978, No. 76-14440),
- **an IT technician is subject**, as a result of his duties which give him access to the company's IT system, **to a particular obligation** of discretion and confidentiality, even in the absence of an express clause (Cass. Soc., 8 February 1990).

With regard to non-competition clauses, the Social Chamber of the Court of Cassation has had the opportunity to confirm the validity of such a clause in these terms *"However, whereas, having found that the employee at the head of the biostatistics department held **an important position within the company** Item **and that there is highly developed competition in the field of the pharmaceutical industry from which it had to be protected**, the Court of Appeal, carrying out the allegedly omitted search, characterised the employer's legitimate interest in applying the non-competition clause"*.

Therefore, in order to be valid, any non-competition clause must, in addition to being limited in terms of time and space and being the subject of financial consideration, take account of the specific aspects of the employee's role and be essential for protecting the legitimate interests of the company. With regard to the latter condition, it can be seen from the case-law cited above that the intensity of competition in the sector concerned constitutes a relevant criterion.

Certain collective agreements also contain specific provisions with regard to professional secrecy and non-competition (particularly in pharmacy, metallurgy, the steel industry, oil, the banking sector, technical research offices and engineering consultancy firms). In certain sectors, these specific provisions only expressly refer to engineers and executives: this is the case with the oil industry (Article 316) and the metallurgical industry (Article 28). Article 17 of the collective agreement of the steel industry goes even further by providing that a non-competition clause may only be valid if it applies to an employee "of level III and above".

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

The responses below only relate to civil proceedings and proceedings before the Competition Authority; with regard to criminal and administrative proceedings, we refer to the explanations provided by the French Group in response to question Q215.

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade

secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

- restricted access to the hearing of pleadings:

With regard to civil proceedings, restricted access to the hearing of pleadings, to preserve the confidentiality of trade secrets, can only be ordered by the judge in cases where the parties agree to this measure: Article 433 of the Code of Civil Procedure lays down the principle according to which hearings are public, unless there are legal requirements to the contrary, and Article 435 of the Code of Civil Procedure provides for three cases in which the judge has the power to decide that the hearings will take place in chambers, of which only that case which refers to the joint request of the parties is relevant with regard to protection of trade secret confidentiality.

- restricted access to evidence:

Evidence communicated by the parties in the scope of proceedings is not freely accessible to third parties; it is nevertheless true that the evidence is not confidential by nature and may be sent to third parties by the parties to the proceedings.

The use or disclosure of an item of evidence may, in certain circumstances, constitute a wrongful act incurring the civil liability of its perpetrator, in accordance with Article 1382 of the Civil Code; however, judges are demanding with regard to the characterisation of such a wrongful act, which is rarely accepted.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

In civil proceedings, there is no provision which allows for the possibility of limiting access to confidential evidence to the parties' attorneys.

In specific cases, the parties may agree, or ask the judge to order, that the evidence exchanged will only be accessible to the lawyers, and possibly to the industrial property attorneys, but not to the parties themselves. Such measures have been ordered in the scope of expert classification reports on seized documents (infringement seizure and procedure of Article 145 of the Code of Civil Procedure), technical expert reports, and expert reports for loss evaluation purposes.

c) non-confidential versions of documents being provided to all except authorised individuals;

In civil proceedings, there is no provision which allows for the possibility of limiting access to confidential evidence to the parties' attorneys.

The parties may agree, or ask the judge to order, that the evidence exchanged will only be accessible to the lawyers, and possibly industrial property attorneys, and only to certain people subject to a confidentiality commitment. Such measures have been ordered in the scope of expert classification reports on seized documents, expert reports for loss evaluation purposes, requests for compulsory production of a document, or concerning a certified report. A recent decision also accepted the possibility of putting in place a "confidentiality club", by agreement of the parties, without the presence of an expert and judges seem favourable to solutions put in place by the parties, by mutual agreement.

With regard to expert reports, the judge may provide that only the expert may consult certain particularly confidential documents, to the exclusion of the parties and their attorneys; only the expert report is then submitted to an adversarial hearing.

In the scope of proceedings before the Competition Authority with regard to unlawful agreements and abuse of dominant position, Article L. 463-4 of the Commercial Code allows the holder of documents containing trade secrets to ask the Authority, according to a specific procedure, to disallow access thereto by the other parties, unless this is opposed by the exercise of the rights of defence; this provision allows a party to communicate a non-confidential version of a document to the opposing party, with the rapporteur having access to the confidential version.

d) only non-confidential parts of any judgment / decision publicly available?

Judgments rendered are public and there is no provision which allows for the possibility of asking for confidential information to be expurgated; the French Group is not aware of any decisions having been expurgated in order to protect trade secrets.

In the scope of proceedings before the Competition Authority with regard to merger control, Article R. 430-7 of the Commercial Code provides that the parties have a period of 15 calendar days before the publication of the decision to make a reasoned request for the expurgation of trade secrets which may be revealed by the decision.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

It is up to the party requesting confidentiality measures to prove the sensitive nature of the information concerned requiring protection; as such measures constitute exceptions to the principle of transparency, judges are demanding in terms of evidence.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

Unless expressly restricted by the judgment, the confidentiality measures ordered continue to apply after the proceedings have terminated; the opposite would take away the value and effectiveness of the protective measures obtained, as the use of the, hitherto secret, information by the other party would place it in the public domain.

It is possible to ask the court if the confidential information can be used for other proceedings, in France and abroad, with the same subject; the judge may make this option dependent on confidentiality measures being put in place in the scope of those proceedings too.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Preliminary Comment

In French law, damages are awarded as a remedy for trade secret violation.

Whatever the basis for the action (contractual or tort liability or unfair competition action), the holder of a trade secret may call for the payment of damages by the party liable for the violation, regardless of whether the latter acted in good or bad faith.

In the case of violation of a contractual obligation, specific sanctions may be provided for in the contract.

Damages do not constitute an alternative to prohibitory or corrective measures, but an additional measure if the courts consider it necessary to remedy all the losses suffered by the trade secret holder.

However, French courts exercise their discretion when evaluating the loss resulting from trade secret violation, in order to determine the appropriate relief.

French courts may therefore reduce or increase the damages, taking account of the circumstances of the violation and the behaviour of its perpetrator, but they can never go beyond the loss suffered.

This is the principle of full compensation for the damage suffered, according to the adage "*The whole damage, and nothing but the damage*", that is to say without loss or profit for the trade secret holder which suffered the violation.

In French law, there is no punitive damages system (this is also the position of the European legislator, according to Recital 19 of the Directive Proposal).

This means that damages are calculated according to the general and ordinary rules of civil liability law, in accordance with which only the direct and actual loss is compensated, these rules being summarised by the adage already mentioned above "*The whole damage, and nothing but the damage*".

a)

how (if at all) is that value diluted by publication?

The economic value of the secret is more than diluted by its publication; it is completely wiped out in so far as the damage results directly from the loss of secrecy of the know-how/business information which was hitherto undisclosed.

Specifically, the secrecy provides a type of protection, since no one other than the holder can manufacture, sell or use in the same way the goods/services incorporating this secret, without his authorisation.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

No calculation rules or specific quantification are provided for by French law. However, French judges usually take account of the entire loss suffered: the negative economic consequences of the trade secret violation, including loss of profits and loss suffered, as well as moral prejudice and, in certain decisions, the profits made by the perpetrator of the violation, including the intellectual, material and promotional investment savings that the latter would have derived from that violation.

Therefore, French judges may, by way of alternative, and at the request of the injured party, award a lump sum by way of damages. In principle, this sum is greater than the amount of the royalties or fees that would have been due had the perpetrator of the violation asked the trade secret holder for authorisation to use the right. This sum is not exclusive of the compensation for the moral prejudice suffered by the injured party.

The main questions raised by this evaluation lie in the difficulties in obtaining the relevant information from the perpetrator of the violation, such as the sold quantities of goods incorporating the trade secret, the margin on variable costs/the profit unjustly made from those sales, etc.

Unjust enrichment is not specifically mentioned in the determination of damages, even though it underlies the consideration of the profits made by the offender, including the intellectual, material and promotional investment savings.

Very often, the loss suffered by a company that was the victim of a misappropriation of confidential information remains difficult to evaluate as it results from the loss of an opportunity or competitive advantage.

It is sometimes quantified in relation to the loss of asset value of the know-how obtained and used unlawfully or else with regard to the loss of value of the assets of the injured holder.

It is also difficult to assess the royalty rate to be applied for determining a lump sum on the basis of elements such as, at least, the amount of royalties or fees that would have been due had the offender asked for authorisation to use the know-how/trade secret in question, in so far as there is no official register where royalty rates with regard to know-how/trade secrets would be published.

Judges most often rely on opinions of financial experts produced by the parties and submitted to the adversarial hearing or reports by Court-appointed experts for evaluating the amount of damages awarded to the injured trade secret holder.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

yes
Please comment:

In French law, damages can be awarded for moral prejudice suffered by the trade secret holder, such as that resulting from the damage to its reputation/image or its exclusive possession/exploitation of the trade secret, in order to put it into the situation which it would have been in had the violation not taken place (search for indicators and the impact of the disclosure of the trade secret, etc.).

d) If so, how is moral prejudice defined and how are such damages quantified?

More often, this is a lump sum determined in consideration of the circumstances of the case, representing a fraction of the damages awarded for other heads of losses.

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

The elements to be proved are, firstly, that the claimant has control of information protected as trade secret (therefore meeting the criteria of secrecy, substantial nature and competitive advantage, in reference to the definition adopted in Q215) and, secondly, the existence of the unauthorised revelation, disclosure and/or use (in its material, legal and/or intentional and moral aspects).

In addition it is to be noted that the elements to be proved may vary depending on whether the violation of trade secret incurs civil tort liability or criminal liability (violation of trade secret).

Tort liability typically implies a fault, a tort and a causality relationship but not necessarily, contrary to criminal law mechanisms, a fraudulent intent :

- the fault may consist of an acquisition (i.e. the unauthorised access to know-how, for example by industrial espionage or poaching) and/or a misappropriation (i.e. an illicit exploitation or revelation), it being specified that these by an employee of experience gained with a previous employer is not faulty as such ;
- the tort may consist of a commercial trouble or a moral prejudice or also the loss of an opportunity to receive a compensation in return for the disclosure of the illicitly acquired know-how ;
- the causality relationship implies for example that the use of the know-how by the third party is not fortuitous, i.e. the result of his own work or of a disclosure by another third party who licitly holds the know-how. Criminal liability for a violation of trade secret requires the following material and moral elements :
- the author of the revelation is an employee or director of the company holding the know-how or was so when he became aware of the trade secret ;
- the revelation is carried out intentionally, i.e. in bad faith, perhaps even with an intent to harm his employer (inadvertent disclosure is not considered as constituting an offence) ;
- the trade secret is disclosed (or attempted to be disclosed) to a third party who has no licit access to the trade secret. The offence of trade secret violation may also be constituted by complicity or even by possession, especially to make liable the beneficiary of the revelation..

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

A breach of confidence is understood in a broad sense as a failure to respect a contract. The additional element for proving a trade secret violation in comparison to a breach of confidence is the particularly secret nature of the information, if the elements in question truly fall within the scope of a trade secret (as this is in principle defined in contracts).

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes
If so, in what circumstances? :

NO

The burden of proof rests in principle with the party alleging the violation and under French law, there is no general presumption justifying its reversal, in the case of an employee having left employment to join a competitor.

In any case, certain circumstances and in particular on the proximity of the ex-employee to the trade secret, or the position that he held in the company, may be indications that a trade secret may have been violated.

13) Does your jurisdiction provide for discovery?

no

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

no

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

French law recognises, in civil law, recourse to the order based on Article 145 of the Code of Civil Procedure: preparatory inquiries. This requires a legitimate reason to preserve or to establish, before any legal process, the evidence of the facts upon which the resolution of the dispute might depend. This is an ex parte, therefore non-adversarial, procedure, which ensures the surprise effect.

Therefore, any interested party may obtain, by way of petition or of interim proceedings, before any litigation procedure, an evidential measure from the Chairman of the competent court.

For a long time, actions based on Article 145 of the Code of Civil Procedure were conducted in an adversarial manner before the judge in interim proceedings and this could only be waived in exceptional cases. Today, preparatory inquiries are mainly requested by way of petition, that is to say in a non-adversarial manner, in order to ensure the surprise effect and obtain intrusive measures, such as a seizure.

Petitions based on Article 145 of the Code of Civil Procedure are in particular used for obtaining evidence relating to trade secrets. In order to preserve trade secrets as much as possible and prevent any abuse on the part of a competitor, the conditions of obtaining and implementing preparatory inquiries have been governed by the case-law.

According to the Court of Cassation (Cass., Civ. 2, 9 November 2000, appeal No.: 98-10549), the provisions of Article 145 of the Code of Civil Procedure are not subject to the finding of urgency. However, other conditions are to be met before authorising a claimant to carry out preparatory inquiries. Therefore, the competent judge must ensure:

- that the matter was referred to him before any legal process,
- that there is a legitimate reason, and
- that the measures are proportionate. It is firstly a fundamental principle that a preparatory inquiry cannot be ordered on the basis of Article 145 of the Code of Civil Procedure when a court is already dealing with the substantive issues. The provisions of that article expressly mention: "*before any legal process*". The lack of prior referral is assessed on the day of the petition. It should be noted that a

dispute pending between the same parties, but with a different subject, is not likely to preclude the ordering of preparatory inquiries. In the event that no court is dealing with the substantive issues, the petitioner must then establish the existence of a legitimate reason for its action in order to prevent any abuse. The means of defence based on the existence of a secret is not sufficient to dismiss a legally admissible preparatory inquiry whenever the measures ordered proceed from a legitimate reason and are necessary for protecting the rights of the parties which requested them. The legitimate reason is assessed by the judge with regard to the contentious situation which must be sufficiently determined and with regard to the probative value. If the contentious situation can be easily demonstrated, the assessment of the probative value is strictly governed according to the relevance and usefulness of the application. There must be a real risk of disappearance of the evidence. If the petitioner already has sufficient evidence to preserve or establish evidence of a trade secret violation, the preparatory inquiry requested serves no purpose whatsoever and must be rejected. If a petition is made, the claimant must justify the fact that the measure requested requires a departure from the adversarial principle. Likewise, while the duty of loyalty is not covered by Article 145 of the Code of Civil Procedure, it is certain that the claimant cannot omit elements which would have led the judge, had he been aware thereof, not to authorise the preparatory inquiries requested. The judge must also ensure that the measures proposed are proportionate and do not result in a general investigation measure. Specifically, it is up to the competent judge to rationally organise, in the interim or ex parte order, the appropriate measures for preserving the evidence of a trade secret violation. Only the documents needed for preserving or establishing the evidence necessary for a future legal process can be seized. The documents to be seized must be specifically referred to in the order, to prevent the bailiff seizing trade secrets of the party subject to the seizure in the course of his mission, even though he is an impartial third party guaranteeing respect for confidentiality. An order under Article 145 intended to prove violation of the trade secret of the future claimant could therefore also result in a dispute aimed at protecting the trade secret of the future defendant. The list of evidence should be neither too vague nor too long. Thus, the Paris Court of Appeal has found that the application to have all the technical documentation handed over proceeded from the wish to know the state of the art of a competitor. In this context, the judge may organise the measures requested so as to limit any trade secret violation by limiting the list of documents in the order or by ordering that the documents seized be sequestered, until a trial judge decides whether or not they are confidential. With regard to petitions, this measure guarantees that the documents seized are not brought to the knowledge of the petitioner in the absence of an adversarial hearing. Specifically, the petitioner will be obliged to summon the defendant, in an interim or full hearing, in order to have the sequestered evidence released. The defendant may also request the retraction of the order which ordered the seizure of documents on the basis of Article 496 paragraph 2 of the Code of Civil Procedure.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Article 145 of the Code of Civil Procedure is broad in scope. The aim is only administration of evidence.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

yes

If so, what limits? :

In France, no general text deals with the protection of the secrets of a company, its trade secrets or its

know-how which would allow limits to be placed thereon.

French law nevertheless recognises this principle and protects trade secrets:

- doctrine recognises the principle of protection of know-how by criminal or civil liability law, including by the law of obligations;
- the case-law also recognises the principle of trade secret protection, in the scope of contractual or tort disputes.

It would therefore be useful, in France, to have a text confirming protection against the unlawful acquisition, use and disclosure of trade secrets.

This text should also define what it is possible to do, therefore the lawful acquisition, use and disclosure of trade secrets (as envisaged by parliamentary law proposal No. 2139 filed in July 2014 at the French National Assembly, not pursued).

Articles 2, 3 and 4 of directive proposal No. 2013/0402 with the perspective provided by Recital 8 of the proposal will meet these requirements. In this regard, Recital 8 indicates that the definition of trade secrets “should exclude trivial information and should not extend to the knowledge and skills gained by employees in the normal course of their employment and which are generally known among or easily accessible to persons within the circles that normally deal with the kind of information in question”.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Due to their roles within the company, certain employees are naturally confronted with confidential strategic information.

Therefore, French case-law seems to impose a stricter obligation of confidentiality or non-disclosure on employees according to their responsibilities and the information with which they are confronted.

It does not seem necessary to make improvements on this point and therefore make legislation.

This involves case-specific matters which must be studied individually according to the task assigned to the employee and the information known thereto.

It seems difficult to impose general rules on a certain category of employees.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

Preliminary comments

The group wishes to touch on certain improvements which can be envisaged regarding this question (ii) at national level, whilst the essential points of the suggestions will be proposed in point III, in the scope of the harmonisation underway around the Directive Proposal.

1. It would be necessary to supplement Article 435 of the Code of Civil Procedure with a new criterion

- allowing hearings to be held behind closed doors, namely the consideration of “legitimate grounds”, and at the very least the protection of trade secrets.
2. It would be useful to draw inspiration from the provisions specific to the Competition Authority (as a reminder, Art. L.430-10 of the Commercial Code, which already provides for the need to take account of the protection of secrets in the organisation of proceedings).
 3. Bearing in mind the different nature of patents and trade secrets, mention should also be made of the Rules of Procedure of the future Unified Patent Court (with unitary effect), which will apply in a few months. While insisting on the need to maintain a balance between protecting confidentiality and the adversarial principle, they provide various measures for protecting confidential information communicated in the course of proceedings, accessible to the magistrates: closed doors; access restricted to certain persons only, confidentiality agreements; expurgated or limited publication of
 4. Consideration is currently being given, around specialist courts, to the creation of “confidentiality clubs”, which would make it possible to draw up procedural “standards” for organising the protection of secrets during proceedings, by rationalising the existing practices in certain special procedures (infringement seizures), rather than maintaining the loose framework of disparate and non-specific provisions.

Response to Question 19

If absolute proof of the secret nature and legitimate protection of a document is duly provided by the party invoking that protection, and that document is effectively recognised as such by the court before which the case is brought, such an obligation must exist for the receiving party, with the court being able to formalise this in its judgment by way of reminder.

However if, in the absence of an express legal provision, a confidential or secret document, communicated in the course of proceedings, is not protected by nature, only the establishment between the parties, and where appropriate the court, of procedural and/or contractual rules and guarantees can ensure this protection.

It is also necessary to qualify this obligation with regard to the risk of so-called “contamination” which such a prohibition may entail. In order to avoid certain abusive actions aimed at slowing down a competitor’s development, a defendant which has duly established that it already had precise knowledge or activities on the subject in question, before the proceedings, should not find itself prevented or prohibited, as a result of that disclosure in the course of proceedings, from continuing with its developments and activity on that subject in good faith, in order to make any improvement possible. However, the control and limitation on these thresholds are tricky to establish.

In order to clarify the duties and obligations of the recipient of such a document during and after the proceedings, it would be necessary, for this specific type of risk, to summarise these rules and practices, which are currently disparate and not specific to trade secrets, in the codes of procedure concerned.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

These obligations should not apply in this case, provided however that the clearest and strictest evidence and guarantees have been provided with regard to:

1. the reality of the secret nature of the information concerned,
2. the need for its protection,
3. the identity or similarity of the information in question, and
4. the reality of the independence of the development, according to honest commercial practices, by the defendant (or the receiving party)

This obligation is all the less applicable since the risk of so-called "contamination" (see question 19) would be even greater here.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

yes

If yes please answer the following sub-questions:

a) only where injunctive relief is not possible?

yes

If so please comment.:

Damages should be awarded not only when an injunctive measure is not possible or appropriate, but also by way of full compensation for the violation, when the unlawful acquisition, use and disclosure have caused the holder of the secret to suffer economic loss (loss of competitive advantage, unfair competition leading to loss of sales, causing a lowering of prices, etc.), as well as for the moral prejudice.

b) only where injunctive relief is not adequate

no

If not please comment.:

Not applicable

c) only where injunctive relief is not necessary?

no

If not please comment.:

Not applicable

d) If by default, why?

Not applicable

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

no

If no, why not?:

The proposal for a directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure takes account of this aspect in Article 3 - 4° :

“The acquisition, use or disclosure of a trade secret shall also be considered unlawful whenever a person, at the time of acquisition, use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully within the meaning of paragraph 3.”

Moreover, articles 3(2) and 3(3) of the proposal refer to an act committed intentionally or by gross negligence”.

At national level, the amendment relating to the definition and protection of trade secrets (finally withdrawn from the bill for economical growth, activity and equal opportunities) included the reference to any violation, deliberate or committed by imprudence”.

The fact remains that an assessment must be made on a case-by-case basis, it being emphasised that the criteria relating to intent or negligence could be appropriately taken into account.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

In French law, it is possible to take action on the basis of Article 145 of the Code of Civil Procedure mentioned above, but such an order remains difficult to obtain and often requires details being provided of the trade secret concerned and therefore disclosure thereof. The response to question (15) sets out in detail the requirements for obtaining an order and using the information collected.

This procedure provides for two methods: one is adversarial interim proceedings in which the judge hears the two parties before making a decision on the measures requested (inter partes); the other – which must meet the conditions laid down by Articles 493 to 495 of the Code of Civil Procedure – is an order issued on petition, in the absence of the defendant (ex parte proceedings). This mechanism of common law appears sufficient for obtaining and preserving evidence in the case of an alleged trade secret violation.

The European directive proposal does not contain any provision authorising ex parte seizures, but leaves the Member States free to provide for such a procedure.

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

Lawful access to secrets does not constitute a wrongful act. The directive proposal provides for confidentiality clubs.

It would be advisable to provide a particular provision in order to specify the conditions of use of such a secret depending on the nature of the trade secret concerned, its relevance to the dispute, and the conditions in which the claimant had access thereto. A parallel may appropriately be made with administrative inquiries with regard to competition which are governed by the principle of fairness, where any item of evidence that was irregularly seized is removed from the proceedings.

III. Proposals for harmonisation

25)	Is harmonisation in this area desirable?
<p>The group considers it useful for European harmonisation of the definition and protection of trade secrets to be carried out (in line with the guidelines of Q215) in accordance with the obligations of Article 39 of the TRIPS agreement.</p>	

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26)	Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.
<p>The principles proposed are as follows. The restrictions on freedom to work and freedom of trade which may result from trade secret protection must be justified by the protection of the legitimate interest of the holder and must be proportionate. They cannot have the effect of prohibiting an employee from practising his profession and using knowledge acquired as a result of his professional experience. This firstly presumes that the information claimed to be secret is defined by the claimant in a sufficiently precise manner and meets the conditions required for trade secret protection (and in particular the definition according to Article 39 TRIPS). As set out in the response to question (17), the European directive proposal appropriately defines these conditions, indicating in particular that the knowledge and skills gained by employees in the normal course of their employment are excluded from the definition of trade secrets.</p> <p>This also supposes that the restrictions on disclosure and use of the information are limited (with regard to the types of activity, in terms of time, in terms of space, etc.) so as to be proportionate.</p>	

27)	What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?
<p>The only case where it could be imagined that the pronouncement of a ban on use as a penalty for the effective violation of a trade secret would lead to an illegitimate restriction of competition would be that of a violation of a secret by a third party in good faith (that is to say accessing the secret without knowing that it was protected information). In such a case, it would not be unreasonable to provide for such a prohibitory measure being replaced by the granting of compensation limited to the amount of the royalty which the third party concerned should have paid in order to lawfully obtain the right to exploit the secret, as envisaged by the directive proposal of the European Union (Recital 18 and Article 12.3 of the Commission's proposal published in November 2013).</p> <p>For the remainder, and particularly in cases where a confidentiality clause would be judged unlawful because its application would not respect the principles set out in the response to question (26) and would compromise freedom to work and freedom of trade, in particular because the information concerned is too broadly defined and exceeds the definition of trade secrets, there would be no need for the court to envisage any measure in favour of the claimant, unless it judicially limits the scope of the clause concerned so that its application no longer unjustifiably compromises freedom to work or</p>	

freedom of competition.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

Certain circumstances should justify the lifting of stricter obligations of confidentiality imposed on certain employees, in particular the following higher imperatives:

- harm to persons;
- harm to public health;
- harm to the environment;
- economic and financial criminality.

In these cases, the disclosure of confidential company information by an employee seems justified in the sense that the breach of confidentiality is proportionate to the severity of the offence committed by the company. However, certain conditions should surround the exercising of this right by professional whistleblowers (notifying the employer of the disclosure in advance, supervision of the procedure by an independent third party, etc.).

The current legal framework in France includes examples of the protection of these higher imperatives, in particular:

- Law No. 2013-316 of 16 April 2013 relating to the independence of expert reports regarding health and environment and the protection of whistleblowers provides mechanisms for whistleblowers to exercise their right and mechanisms for protecting employee whistleblowers;
- in the same way, Law No. 2013-1117 of 6 December 2013 relating to the fight against tax fraud and serious economic and financial crime also protects whistleblowers, including in the case of disclosure to the press.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

Respect for the adversarial principle, which contributes to proper justice, is essential. It is however desirable for the adversarial principle and the principle of respect for the rights of defence to be adapted in order to preserve trade secrets. In return, it appears necessary to demand that the secret (or confidential) nature of a piece of information, and the legitimacy of the protection requested in this regard, be duly established (beforehand) by the party making the claim.

Therefore, it seems reasonable that, during proceedings relating to a trade secret, the parties, their legal representatives and any person likely to have access to the trade secret in the scope of those proceedings be subject to an obligation of confidentiality and in particular to a ban on using and disclosing the trade secret, without judicial authorisation.

The examination of the Proposal for a Directive of the European Commission 2013/0402 (COD)[1][#_ftn1] makes it possible to envisage avenues of harmonisation.

1. With regard to restricted access to hearings and evidence communicated by the parties: Article 8(2)(a) of the Proposal for a Directive of the European Commission thus provides for the possibility of

a judge ordering that the communication of certain information be restricted only to the parties' attorneys, or solely, in certain circumstances, to an expert responsible for determining the probative and essential nature of a document. On the other hand, the draft amendments of the European Parliament and Council insist on the need for all the documents to be communicated to at least one representative of each of the parties, in order to respect the adversarial principle. Furthermore, Article 8(2)(b) provides for the possibility of limiting access to hearings only to the parties' attorneys, to the exclusion of the parties, in "exceptional circumstances" and subject to "appropriate justification". For their part, the Parliament and the Council consider that at least "one person from each party" should be able to attend the hearings. The French Group is not favourable to the idea of generalising the possibility of limiting the communication of secret information, or access to hearings, only to the parties' attorneys, to the exclusion of the parties, and is more inclined to favour the proposals made in this regard by the Parliament and the Council. In particular, attorneys are not the best people to judge the level of confidentiality/secretcy of a piece of information and therefore the level of protection that is desirable for a given piece of information. The possibility of restricting this communication only to the parties' attorneys should however be "tolerated" in certain exceptional cases, but not generalised with regard to the risks and issues in question, particularly regarding defence secrets. In this respect, a French bill relating to trade secrets, recently withdrawn, at least set out the principle of the possibility, for the Court, of limiting access by the receiving party, to confidential information communicated in the course of proceedings (e.g.: on-site consultation, expurgated evidence, etc.).

ii With regard to drafting of confidential and/or expurgated versions of judgments: In France, cases of judgments that are not rendered publicly are strictly limited and inapplicable with regard to trade secrets. Judges also have no obligation to maintain the confidentiality of sensitive or secret information. The French Group is in favour of authorising the pronouncement of decisions in confidential form for the parties, and partially expurgated for third parties, as also provided for by Article 8(2)(c) of the Directive Proposal, and several European countries. On the other hand, the obscuring of all or part of the decision between the parties appears disproportionate. In this respect, with regard to patents, the draft Rules of Procedure of the future Unified Patent Court (with unitary effect) envisage the possibility of not making all or part of decisions containing confidential information accessible to the public, under certain strict conditions. Subject to adaptation to the more general and less specialist regime of trade secrets, it would be useful to draw inspiration from this Directive Proposal in the scope of national procedures. The French Group notes that, at the end of proceedings before the French Competition Authority, a draft decision is sent to the parties two weeks before time, in order for them to give an opinion on the sensitive or confidential parts to be shaded or expurgated. Such a procedure could be envisaged for all disputes relating to the unlawful appropriation of trade secrets. The condition of such trade secret protection during proceedings is that this obligation of confidentiality, non-use and non-disclosure is always under the judge's control, on a case-by-case basis.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

This situation supposes that the qualification and ownership of the "trade secret" have been attributed to the unsuccessful claimant.

In this case, it appears legitimate that the obligation of confidentiality, non-use and non-disclosure remains with regard to the persons (parties, representatives, etc.) that had been subjected to that

obligation by the judge in the course of the proceedings.

Maintaining that obligation will not prevent the successful defendant from gaining knowledge of the claimant's trade secrets by its own means and therefore in a fair manner.

This obligation must be able to be lifted by authorisation of the judge when justified by the circumstances.

Article 8(1) of the Directive Proposal is in favour of prolonging the protection of trade secrets beyond the duration of the proceedings, which would extend to the parties, their legal representatives, court officials, witnesses, experts and any other person who has participated in "legal proceedings relating to the acquisition, use or disclosure of trade secrets, or has had access to documents which form part of those proceedings".

The abovementioned persons can only be released from their confidentiality obligation if "the alleged trade secret is found not to fulfil the requirements" of characterisation of a trade secret (Article 8(1)(a)).

Nevertheless, Article 8(1)(b) provides that the parties will be relieved of their obligation when the secret information becomes "generally known among persons within the circles that deal with that kind of information".

The danger, in the case in point, is the previously mentioned danger of "contamination" of certain information, and therefore of strategic and abusive actions by certain holders of trade secrets in order to unfairly guard against the progress of their competitors with regard to R&D.

The French Group recognises the proportionate and reasonable nature of the general provisions of Article 8(1) and hopes that its application contributes to preventing "contamination" of information, and allows a balance to be achieved between effective protection of trade secrets and freedom of trade and industry.

As an additional observation, the French Group finds that Article 8 of the Directive Proposal, relating to the protection of trade secrets during legal proceedings, does not appear to apply to legal proceedings other than those "relating to the unlawful acquisition, use or disclosure of a trade secret".

The French Group regrets this wording which appears to exclude from the field of application of the Directive Proposal all legal proceedings that are not specifically concerned with the disclosure of a trade secret, which seems to limit the practical value of the Directive Proposal. The provisions of the Directive Proposal should be aimed at extending to the protection of trade secrets in the scope of any dispute.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

The group would be in support of a wording that is close to that of the directive proposal, as amended by the Council, while drawing closer to the provisions set out for compensating for loss caused by infringement of intellectual property rights (specifically adding the intellectual, material and promotional investment savings that the offender has derived from the violation).

It has also been envisaged to propose:

- taking into account the duration and scope of the prohibition of using the trade secret pronounced against the offender when determining the amount of damages awarded to the injured holder;
- aligning the term of limitation in the event of violation of a trade secret with the common law limitation of five years;
- specifying that when the action is brought before the court of the offender's place of domicile, the

entire loss resulting from the trade secret violation may be compensated (and not just that one caused within the jurisdiction of that court), in accordance with the Fiona Shevill case law of the CJEU regarding defamation/libel committed by means of press articles distributed in several States. The harmonisation proposal is presented below: At the request of the injured party, the court orders the offender which knew or should have known that it was unlawfully acquiring, disclosing or using a trade secret to pay the trade secret holder damages appropriate to the loss actually suffered as a result of the offence. The court may limit the obligation of workers to pay damages to their employer in the event of unlawful acquisition, use or disclosure of a trade secret of the employer, if the said workers had not acted intentionally. When setting the amount of damages in accordance with § 1, the court shall take into account all the appropriate aspects, such as the negative economic consequences, including the loss of profits and loss suffered by the injured party, the profits unfairly made by the offender/the infringer, including the intellectual, material and promotional investment savings that it derived from the violation and, where appropriate, elements other than economic factors, such as the moral prejudice suffered by the trade secret holder as a result of the unlawful acquisition, use or disclosure of the said secret. However, the court may also, where appropriate, set a lump amount of damages on the basis of elements such as, at least, the amount of royalties or fees which would have been due had the offender asked for authorisation to use the trade secret in question. The court may also take into account the duration and scope of the prohibition of using the trade secret pronounced against the offender when determining the amount of damages awarded to the injured holder. Actions for cessation or compensation for the trade secret violation are statute-barred after five years have passed from the events which are the cause thereof. When the action for compensation is brought before the court of the offender's place of domicile, the entire loss resulting from the trade secret violation can be compensated, regardless of the territory of the place of the violation, subject to harmonisation of the law of the States outside the European Union.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Courts should award damages for moral prejudice suffered by the holder of the trade secret, such as damage to its image, reputation and recognition or damage to its exclusive possession/exploitation of the trade secret.

Various economic indicators or elements may, for example, be taken into account (communication and advertising budget of the trade secret holder, extent of the disclosure of the trade secret and, correlatively, the dilution of its economic value/asset value, level of recognition of the company and positioning on its market, analysis of the difference between the actual situation and the normal situation making it possible to determine the additional costs for restoring the image of the company, and the loss of profits linked to this image problem resulting from the trade secret violation, etc.).

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

The French Group is favourable to the availability of measures enabling evidence of trade secret violations to be preserved, for countries having no discovery proceedings.

In this respect, the French group thinks it desirable to have an ex parte seizure procedure, when circumstances require the measure to be decided on rapidly and without the presence of the defendant, in order to maintain the surprise effect and prevent any disappearance of the evidence.

34) What restrictions should apply to the use of seized evidence by the claimant?

The French group is favourable to restrictions on the use of evidence which would be obtained by means of a seizure.

Such restrictions should, while providing for an efficient acquisition of evidence, meet the adversarial principle and protect against unlawful, abusive or fraudulent use.

They should also take into account a global economic context and the possibility of transnational disputes (restriction level regarding the use of information obtained in country A for proceedings in country B).

These restrictions would apply, to possibly different extents :

- the party having obtained the evidence,
- its lawyers (attorneys and possibly industrial property lawyers),
- possibly the judicial expert. They could operate for example through commitments which could be legal, contractual and/or judicial. By way of example, it is suggested the possibility of setting up one or several confidentiality club(s) to control access to the evidence obtained as a result of seizure and their use for legal proceedings. In addition, the restrictions should be consistent with those proposed for access to hearings and to documents communicated by the parties, as well as those enabling the judge to issue public decisions in expurgated form.

Summary

(I) Overlap with restraint of trade

Confidentiality restrictions imposed on ex-employees must be justified by the protection of the legitimate interests of the ex-employer and be proportionate. Accordingly, their scope may not extend so broadly as to encompass the experience and knowledge gained by an ex-employee and be tantamount to no-compete covenants.

(ii) Ensuring confidentiality during court proceedings

Various measures must be possible for preserving the confidentiality of a party's trade secrets during proceedings (decisions published in redacted form, restricted access to hearings, "confidentiality clubs", etc), however the French Group is not favourable to limiting the communication to the parties' legal representatives : at least one representative of each party should have access. Moreover, the French Group considers such provisions should be applicable beyond trade secret cases.

(iii) Valuation of loss

The French Group is favourable to including in the award of damages not only the loss suffered by the trade secret holder but also the undue profits resulting from the violation, including investment savings, as well as the moral prejudice. The French group also supports a five-year time limitation.

(iv) Proving infringement

The French Group is favourable to the availability of ex parte seizures for securing evidence before proceedings (in the countries which have no discovery proceedings), subject to showing legitimate

reasons for the grant of an order and specifying the scope of the seizure, and the possibility of court-controlled access to the seized evidence.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.

AIPPI