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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)?
	yes Please comment.:
	Trade secrets can in certain cases be viewed as a form of restraint of trade.
	Concerning unfair competition law, the Courts apply the principle of free competition, according to which, the former employee can carry out a new and/or competing activity and can use the knowledge acquired during his previous employment provided that this knowledge or information is not protected legally or contractually.
	Furthermore, case law makes a distinction between the know-how attached to the person of the former employee which he is free to use, and the know-how which belongs to the employer and which can consist of confidential information and hence falls under the intellectual assets of the company.
	On another level, the know-how licensing agreements that restrict competition are prohibited by the

Article 101 of the Treaty on the Functioning of the European Union – TFEU, and can also be viewed as a form of restraint of trade.

However, these agreements also have positive effects that very often outweigh their restrictive effects on competition.

Finally, it cannot be excluded that the detention of trade secrets could lead to a dominant position on a particular market and that such position could be used abusively to restrict competition.

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

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?

Case law makes a distinction between the know-how attached to the person of the former employee which he is free to use, and the know-how which belongs to the employer and which can consist of confidential information and hence falls under the intellectual assets of the company.

A former employee cannot be prevented from using his general skills or knowledge acquired during the course of employment.

Information that will be considered as confidential or a trade secret can however not be freely used by the former employee.

There is no legal definition of trade secrets in Luxembourg.

Case law defines confidential information or trade secrets as facts known only by a limited circle of people who have an interest in keeping them secret, who are related to a commercial or industrial enterprise and whose disclosure is likely to cause damages to the person they relate to.

This information/ trade secrets are protected both through unfair competition law and criminal law, and to a lesser extent through general tort law.

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

The duty of confidence arises from the obligation to execute the employment contract in good faith (article 1134 of the Civil Code).

There is hence no need to set out explicitly such duty in the employment contract.

Such clauses can also be slightly broader.

However, to be enforceable, such express confidentiality clauses must be precise enough for the employee to know exactly which information is to be considered as confidential.

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?

There is no specific provision on this point in Luxembourg.

As long as a trade secret remains secret, the duty of confidentiality exists.

However, article 309 of the Criminal code provides a protection of two years after the expiry of the contract.

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?:

Employees may use knowledge acquired in the course of earlier employment in their new employment.

Case law makes a distinction between the know-how attached to the person of the former employee which he is free to use, and the know-how which belongs to the employer and which can consist of confidential information and hence falls under the intellectual assets of the company.

Information that will be considered as confidential or a trade secret can hence not be freely used by the former employee.

Case law defines confidential information or trade secrets as facts known only by a limited circle of people who have an interest in keeping them secret, who are related to a commercial or industrial enterprise and whose disclosure is likely to cause damages to the person they relate to.

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?:

Luxembourg law does not provide for a higher obligation of confidentiality for certain employees.

However, the Courts are likely to assess this obligation more severely if the employee has had a high position in his former company and/or has had a position in which he had access to particularly important information of the company.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

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;

There are no specific legal measures protecting the confidential character of the information during the proceedings and it is in principle not possible to restrict the access to hearings and documents submitted to the Court.

Court proceedings are normally public and open, even though the judge may sometimes decide to conduct the hearing in camera.

This occurs only in very special cases.

Article 185 of the New Code of civil procedure provides that hearings are public but that the Court may order that a specific hearing is secret if the public discussion of the case could cause a scandal or serious disadvantages to anyone involved.

The parties could hence make a request for a closed hearing to the Court by explaining that trade secrets are extremely valuable assets that lose their value as soon as they become public.

Since there is no legal basis for such a request, the Court would be free to accept or refuse such request.

There is to our knowledge no case law on this question.

The confidentiality of evidence and other documents filed with the Court is not regulated either.

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

There are no legal provisions which provide such measure.

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

There are no legal provisions on this question in Luxembourg.

As explained above, such a measure could be requested from the Court but since there is no legal basis for such a request, the Court would be free to accept or refuse it.

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

As seen above, the Court proceedings as well as the judgments and decisions are public.

There is no legal provision that provides for such a measure.

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?

As seen above the Luxembourg law does not provide such measures. Even though it cannot be excluded that a judge would decide to protect some information ex officio, it is normally up to the parties, and in particular the trade secrets holder, to request some protective measures and explain why they are necessary.

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?

There are no provisions on this point either.

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?

Damages are available as a remedy for trade secret violation but only under the general principles of tort law.

There is no case law on the question of the dilution of the value by publication in Luxembourg.

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?

As trade secrets are not protected by a specific legislation in Luxembourg and are also not considered as an intellectual property right according to the law of May 2009 implementing directive 2004/48/CE on the enforcement of intellectual property rights, there are no legal provisions on the assessment of damages.

The principles of tort law will hence apply, meaning that only the actual prejudice suffered will be indemnified.

This could indeed consist of a loss of profit, which could also be calculated by what the trade secrets holder would have obtained should the infringer have had a licence and paid a royalty fee.

In general, one can say that in the absence of any legal provision on this point, the proof of the prejudice suffered is very difficult.

Judges would therefore tend to evaluate the damages ex aequo et bono.

Trade secrets holders most often base their trade secrets violation actions on unfair competition.

The law on unfair competition provides for an expedite procedure which enables the trade secrets holder to obtain an injunction to cease and desist but during which he is not entitled to claim damages.

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:

As seen above, there are no legal provisions concerning the valuation of loss in the case of a trade secrets infringement.

There is also no legal definition of the moral prejudice in Luxembourg which relates to the non-economic prejudice such as the harm caused to the reputation and honour of the victim.

There is also no case law on this question in Luxembourg.

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

While the trade secrets should in principle be able to claim a moral damage before a Court, the proof will be difficult and the judges will normally evaluate such damage ex aequo et bono.

Aspect (iv) - Proving infringement

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

The claimant has to prove the existence of a trade secret as well as evidence of the infringement.

As defined above, facts known only to a limited circle of people who have an interest in keeping them secret, who are related to a commercial or industrial enterprise and whose disclosure is likely to cause damages to the person they relate to, can be considered as a trade secrets.

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?

As explained in question 10 above, in order to prove a trade secrets violation, the claimant must prove that the said information meets the criteria defined by case law, i.e. that it concerned facts known only to a limited circle of people who have an interest in keeping them secret, who are related to a commercial or industrial enterprise and whose disclosure is likely to cause damages to the person they relate to.

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? :

Third parties can be held liable for complicity of breach of contract if it has participated in or contributed to the breach of contract and knew or should have known that there was such a duty contract or duty of confidentiality.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Discovery is not a measure available under Luxembourg law.

However, the Code of civil procedure provides some measures relating to the submission of evidence, even though they are not widely used.

First, if in the course of proceedings a party detains some evidence, the judge can, at the request of the other party, order the first one to submit it, if necessary under the threat of a penalty payment. Such order could also be addressed to a third party.

(See article 60 of the New Code of civil procedure)

Furthermore, as explained in question 15 below, article 350 of the New Code of civil procedure provides an interim injunction to obtain evidence before proceedings are started and which can in very special cases be obtained ex-parte.

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?

yes

If yes, what is this threshold?:

There are no particular legal provisions regarding the burden of proof in case of trade secrets violations.

The ordinary rules on proof apply. Every party must hence prove what it alleges. (Article 58 of the New Code of civil procedure)

The applicant must hence prove that the violated information must be considered as a trade secret and that it has been violated by the defendant.

As a defence, the defendant could prove that it has accessed the information legally and legitimately.

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?:

As explained above, Luxembourg does not provide specific legislation on trade secrets.

Trade secrets are also not considered as intellectual property rights as such.

Hence, the procedural measures specifically designed to gather evidence in intellectual property cases are not available for trade secrets misappropriations.

The descriptive seizure, provided by Articles 23 to 26 of the Law of 22 May 2009 implementing Directive 2004/48 on the enforcement of intellectual property rights, is unfortunately not available for trade

secrets.

The unfair competition law of 30 July 2002 does not provide any legal measures to secure evidence either.

Ex-parte measures can of course be obtained in case of criminal proceedings where the Public Prosecutor and/or the Instruction Judge can order any measure to be carried out by the Police to find and secure evidence of the offence.

Such measures should in theory also be available on the basis of Article 350 of the New Code of civil proceedings for civil cases. This article provides an interim injunction to obtain evidence before proceedings are started and which can in very special cases be obtained ex-parte.

There is however to our knowledge no case law on this question regarding trade secrets.

Concerning the criminal offence of trade secrets violation (article 309 of the Criminal code), the police, public prosecutor or the instructing judge can of course order seizures to secure evidence of the criminal offence and prevent it from continuing.

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?

As explained above civil seizures are not available in case of trade secrets violations.

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? :

Before placing limits on the protection of trade secrets, there is a need to put in place a specific legislation on trade secrets.

This being said, it has already been highlighted that the protection of trade secrets could, in certain circumstances, lead to restraints on trade.

It is therefore very important to define trade secrets as precisely as possible.

This provision should also re-affirm the principle of free competition and clearly make a distinction between the know-how attached to the person of the former employee which he is free to use, and the know-how which belongs to the employer and which can consist of confidential information and hence falls under the intellectual assets of the company.

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

There is in our opinion no need to impose different obligations of confidence to different employees.

Every employee may be in contact with trade secrets of his employer and this level of knowledge may vary depending on the company's management, the economic sector etc.

It is hence very difficult to pre-define categories of employees to whom different obligations would apply.

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?

Yes.

Because the value of a trade secret precisely lies in the fact that it is secret, a defendant who has learnt of a trade secret during the course of litigation should not be able to use the trade secret after the proceedings.

However, it would in our opinion be difficult to restrict a defendant's ability to freely act after having been sued unsuccessfully.

Therefore, rules designed to protect confidential information during proceedings before the Courts are absolutely necessary and should enable to avoid, as much as possible, that the other party gets hold on this information in the course of the litigation process.

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?

Such obligations of confidentiality should not attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings.

As explained above, trade secrets protection should not unduly restrict competition and anyone should be free to develop personal knowledge and know-how independently from any other undertaking.

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?
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b)	only where injunctive relief is not adequate
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c)	only where injunctive relief is not necessary?
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d)	If by default, why?
	<p>The award of damages as a remedy should be available by default anytime the trade secrets infringement causes a prejudice to the trade secrets holder.</p> <p>Rules on the determination and/or calculation of damages would also be most welcome since it is in practice very difficult to evaluate the loss suffered.</p> <p>Furthermore, injunctive relief only is not deterrent enough to prevent third parties from using someone else's trade secrets.</p>

Aspect (iv) - Proving infringement

22)	Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?
	yes If yes, in what circumstances? :
	Constructive knowledge should be imputed to the new employer. Actual or constructive knowledge of the employer should however also be necessary.

23)	Availability of pre-action evidence orders and seizure orders.
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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?:
	Yes. Pre-action evidence proceedings that would not take place ex parte would not make sense as the defendant would then know in advance that an order will be issued and will then have time to remove any available evidence.

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?:

Yes. Pre-action evidence proceedings that would not take place ex parte would not make sense as the defendant would then know in advance that an order will be issued and will then have time to remove any available evidence.

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

The seizure procedures must ensure that the confidential information (including trade secrets) of both the claimant and the defendant are protected.

If a trade secret of a defendant was to be discovered during a seizure despite the protection measures mentioned above, the claimant should not be able to use it and the defendant should be able to request an order from the Court to this effect.

Seizure proceedings must indeed not be perverted to spy on competitors or other undertakings.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes.

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.

Trade secrets protection should not apply to the know-how attached to the employee which he has acquired with his former employer but maybe also before that and has become part of his own experience, skill and knowledge.

The line between the simple skill of the employee and the protected trade secret derives from the definition of the trade secret itself which provides that facts known only to a limited circle of people who have an interest in keeping them secret, who are related to a commercial or industrial enterprise and whose disclosure is likely to cause damages to the person they relate to, are considered as protectable trade secrets.

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?

The trade secrets holder should obtain a financial compensation, i.e. damages, for his trade secret that has been violated.

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

No.

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?

As soon as information meet the standards of trade secrets (see definition above), they should be granted special protection against their disclosure in the course of court proceedings.

Such protection could include limitations as to the persons who can access the evidence and/or written exchanges (judge only, lawyers only etc.).

In very sensitive cases, oral debates between the lawyers and the judge without any written document of what has been said, shown or explained could be considered.

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?

If the defendant did not misappropriate the trade secret because he has developed the same information or knowledge independently, there should be no trade secrets infringement and he should be able to use his own trade secret without limitation.

Aspect (iii) - Valuation of loss

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

Similar principles should be applied as for quantifying damages for infringements of intellectual property rights. (See article 13 of Directive 2004/48 (Enforcement Directive) and article 13 of the Directive Proposal on trade secrets of 28 November 2013).

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Moral prejudice, such as harm caused to the reputation and honour of the claimant must also be indemnified.

Furthermore, because it is very often difficult to prove and quantify the material loss, moral damages can help to compensate the relatively low amounts of damages awarded for the material prejudice suffered.

Aspect (iv) - Proving infringement

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

Search and seizure measures such as those provided by Article 7 of the Enforcement Directive should be available.

However, due to the very sensitive nature of trade secrets and that they lose their value once they become public, particular care should be taken to avoid any risk of information theft by the claimant.

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

The evidence should only be used in the course and for the purpose of the proceedings. Should it contain any confidential or sensitive information, then the measures described among others in question 29 above should apply.

Summary

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