Cabinet BRAHIN Avocats

Nice · Montpellier · Madrid

Nicolas BRAHIN
Avocat
DESS Droit Bancaire et Financier

November 12, 2018

Bureau principal :

1, rue Louis Gassin
06300 NICE
Tel. +33 493.83.08.76
Fax +33 493.18.14.37
HYPERLINK "mailto:contact@brahin-avocats.com" contact@brahin-avocats.com

Bureaux secondaires :

14, rue Ernest Michel
34000 MONTPELLIER
Tel. +33 411.75.81.87

Pensiamento, 27 – 3º Izda.
28020 MADRID

Correspondants organiques :

LEGIPASS
8, rue Auber – 75009 PARIS
HYPERLINK "http://www.legipass.com" www.legipass.com

ADVODAN
Algade 43
4000 ROSKILDE (DENMARK)
HYPERLINK "mailto:ficl@advodan.dk" ficl@advodan.dk
HYPERLINK "http://www.advodan.com" www.advodan.com

ADVOKATFIRMAN CONCILIUM HB
Hamngatan 6, Box 2253,
40314 GÖTEBORG (SWEDEN)
HYPERLINK "http://www.concilium.se" www.concilium.se

HORIZONS CHINA CORPORATE ADVISORY
1801 Lippo Plaza, 222, Huaihai
Middle Road Huangpu
SHANGAI (CHINA)
HYPERLINK "http://www.horizons-advisory.com" www.horizons-advisory.com

FILE : A general regime of protection of business secrecy has been established

(Un régime général de protection du secret des affaires est instaure)

The law has pursued to define business secrets and the illicit conducts that undermine it, and facilitate legal action to protect it and assure that it will not be disturbed on this occasion, in order to protect business secrets. A decree is expected.

1) The law of 2018-670 of July 30th, 2018 regarding the protection of business secrets comes into domestic law European directive 2016/943 of June 8th, 2016 on the protection of know-how and undisclosed commercial information (business secrets) against illegal obtainment, usage, and sharing.

This directive is inspired by a concluded accord with the World Trade Organization (on the legal aspects of intellectual property that concern commerce; Adpic) and that binds the European Union with its member states.

The directive 2016/943 aims to provide a new level of uniform protection to enterprises within the European Union so that certain state members have specific legislation regarding the protection of business secrets (for example: Italy, Portugal, Sweden, Greece, and Poland).

It leaves little flexibility for states to develop their own system (cf. art.1).

The transposition should intervene at the latest by the 9th of June, 2018.
2) Business secrets allow enterprises to preserve confidential information that cannot benefit from the protection of intellectual property law (patents, designs and models, other rights) and that are nevertheless important to maintain their competitivity.

For the custody of seals, "the protection of business secrets is essential for the development of innovation and retention of competitive advantages of our enterprises)."

It is a powerful element of attractiveness of our law, and consequently of our economy.

3) The law establishes a new general regime of protection of business secrets, which is introduced in the Code of Commerce (C. com. Art. L 151-1 to L 154-1).

It defines information likely to be protected, illicit conducts and preventive measures that may be asked in court.

This regime will come into force at the publication of an impending decree (cf. art. L 154-1).

The Constitutional Council, appealed against the new law, did not censor any provision (Cons. Const. 26-7-2018 n. 2018-768 DC: JO 31 text n. 64).

It has notably defined that it did not belong to him to pronounce on those which limit themselves "to hold the necessary consequences of unconditional and precise disposition" of the directive 2016/943.

I. Goals and conditions of the protection of business secrets

Not all information will be covered by business secrets laws

4) To be protected by business secrets, information should comply with the following criteria (C. com. Art. L 151-1), that are posed by the article 2, I of the directive 2016/943:

- the information is not, in itself or in the configuration or exact assembly of its elements, generally known or easily accessible for familiar people of this type of information in reason of their sector of activity;

- it has a commercial value, effective or potential, that makes its character private

- it is the object of its legitimate holder of reasonable protective measures, considering circumstances, to conserve its private character.

5) The text states that the object of information will be in itself without impact (cf. Dir. 2016/943, considering 14).

This could include technological knowledge, know-how or commercial data regarding clients, providers, and market studies and strategies that satisfy precise criteria.

The support of information will be also indifferent.

6) The information will have to be completely secret. They will not be protected by business secret laws, information that is published or that are known in the concerned professional domain.
"To be protected, an information will have to have commercial value."

In addition, the information will have to have been protected by its holder.

It will fall to the courts to fix case by case the level and the nature of deployed reasonable protection (technical or contractual measures) by the enterprise that intends to benefit from business secrets.

That in itself, the enterprises have interest to insert in their contracts that they conclude with their employees and partners of confidential clauses for the information that they exchange with them.

7) At the terms of the Directive 2016/943, the information should be considered as having a commercial value, for example, when their unlawful acquisition, use, or disclosure is susceptible is likely to impair the interests of the person who lawfully controls it in that it hurts the scientific or technical potential of that person, his economic or financial interests, strategic positions or his competitive capacity.

The value will be appreciated with regard to the enterprise that is the legitimate holder.

According to P. Berlioz, information has a value once it is, directly or indirectly, a source of gain or finance; such is the case of information that an enterprise has obtained in exposing expenses and so the use by another enterprise allows this one to save expenses (Secret information of the enterprise: an announced protection: RDC 2015 p. 124 s.).

8) The law defines the legitimate holder of a business secret as the person who has lawful control (article L 151-2).

So will be targeted the original owner but also all persons contractually authorized to know him, for example in the framework of a communication of know-how (Report AN 777 relating to the law 2018-670).

Obtaining secret information may be lawful

9) Obtaining a business secret will be lawful when it results, on the one hand, from an independent discovery or creation or, on the other hand, from a reverse engineering process, that is, the observation, study, disassembly or test of a product or object that has been made available to the public or that will lawfully be in the possession of the person who will obtain the information, unless there is a contractual stipulation prohibiting or limiting the obtaining of the secret (see Article L 151-3).

Obtaining, using and disclosing without the secrecy of the secret will be unlawful

10) The new law specifies the conduct which, in the absence of agreement of the legitimate holder of the information, will be susceptible to be sanctioned as the secret of the businesses.

These behaviors, defined in very general terms, will not be confined to industrial espionage, unfair competition between companies or media disclosure.

As Mr. Frassa, reporter in the Senate, has pointed out, an infringement of business secrecy can come from a person who is not a business without being a journalist, a trade unionist or a whistleblower. Sen. of 19-4-2018 relating to the law 2018-670).
11) The obtaining of a business secret is illegal when it is performed without the consent of the legitimate holder and that results (L 151-4 C. com art.):

- unauthorized access any document, object, material, substance or digital file which contains the secret or from which it may be inferred, or of unauthorized appropriation or copying thereof;

- any other behavior considered, given the circumstances, as unfair and contrary to commercial practice.

As in the case of unfair competition (Cass., 8-2-2017, No. 15-14,846 FD: RJDA 7/17, No. 516), the sole appropriation of confidential information will be punished, even if it has not been not used.

12) The use or disclosure of a trade secret shall be unlawful when it is made without the consent of its lawful holder by a person who has obtained secrecy under unlawful conditions or who acts in breach of a duty of care not to disclose the secret or to limit its use (see Article L 151-5, paragraph 1).

The production, offering or placing on the market, as well as the import, export or storage for these purposes of any product resulting in a significant breach of confidentiality cases will also be regarded as unlawful use when the person carrying out these activities knew, or ought to have known, in the light of the circumstances, that the secret was used unlawfully (article 2, paragraph 2).

13) The obtaining, use or disclosure of a trade secret will also be considered unlawful when, at the time of obtaining, using or disclosing the secret, a person knew, or should have known, knowing in the circumstances that this secret was obtained, directly or indirectly, from another person who used it or disclosed it unlawfully (Article L 151-6).

The operative part, taken from Article 4 (4) of the Directive, is very general in scope. It seems imprecise to us. Who will be considered the author of a breach of secrecy? Only the "person" who could not ignore that there was such an attack or also the one who did not know but who obtained, used or disclosed the secret, after obtaining it from a person who knew the unlawful nature of his getting?

The ambiguity is reinforced by the new article L 152-5 of the Commercial Code, which provides for a modification of the sanctions for the benefit of the person who did not know (or could not know) that business secrecy was obtained from unlawful manner (No. 22).

Some authors considered that the latter text introduced a case of full liability, in defiance of the "principles inherent inwww.lemondedudroit.fr).

Secrecy protection will include exceptions

14) Collection, use or disclosure of legally prescribed information. Business secrecy shall not be enforceable where the obtaining, use or disclosure of the secret will be required or authorized by European Union law, international treaties or agreements in force or national law, particularly in the case of exercising the powers

of investigation, control, authorization or sanction of the judicial or administrative authorities (see Article L 151-7).

For example, European Regulation 1206/2001 of 28 May 2001 and the Convention of 18 March 1970 impose a certain degree of cooperation between the courts of the Member States of the European Union regarding obtaining evidence in civil or commercial matters.

15) Proceedings relating to business secrecy. The law specifies the cases in which the secrecy of the business will not be opposable during a proceeding relating to this secret.

This will be the case when the obtaining, the use or the disclosure of the protected information will have occurred (see Article L 151-8):

- to exercise the right to freedom of expression and communication, including respect for the freedom of the press, and freedom of information as proclaimed in the Charter of Fundamental Rights of the European Union;

- to reveal, for the purpose of protecting the general interest and in good faith, illegal activity, misconduct or misconduct, including the exercise of the right of alert defined in Article 6 of the Law 2016-1691 of December 9, 2016 (Sapin II);

- for the protection of a legitimate interest recognized by European Union law or national law.

16) The law also reserves the rights of workers and of their representatives.

Business secrecy will not be enforceable against them when they have obtained the protected information as part of their right to be informed or consulted.

The same will apply when employees have disclosed protected information to their representatives in the context of the legitimate exercise by them of their duties, provided that such disclosure was necessary for this exercise (see article L 151-9).

Article L 151-9 further specifies that the information thus obtained or disclosed will remain protected by business secrecy with respect to persons other than employees or their representatives who become aware of it.

II. Actions for the prevention, cessation or reparation of a breach of secrecy

Common principles

17) Any breach of business secrecy as set out in n 10s will incur the civil liability of its author (C. Article L 152-1).

This reminder of the principle of liability, which is legally useless because of the application of the common law of liability, contributes to the clarity of the law (Sen. Report No. 419 relating to Law 2018-670).

18) The action for a breach of commercial confidentiality will be prescribed by five years from the facts that will cause (C. com. Art. L 152-2).

This period is the same as that applicable to an action for infringement based on a patent, a design or a model (CPI L 521-3 and L 615-8).

On the other hand, it derogates from the common law of civil liability according to which the period runs from the day on which the holder of a right knew or ought to have known the facts enabling him to exercise it (Civil Code, Article 2224).

The judge can pronounce preventive measures

19) In the context of an action relating to the prevention or cessation of an infringement of a trade secret, the judge may prescribe, including under penalty payments, any proportionate measure likely to prevent or put an end to the infringement to a business secret, in particular (Article L. 152-3, I):

- prohibit the performance or prosecution of acts of use or disclosure of the secret;

- prohibit acts of production, offering, placing on the market or use of the products resulting significantly from the breach of business secrecy or the import, export or storage of such products to such purposes;

- order the total or partial destruction of any document, object, material, substance or digital file containing the confidentiality of the cases concerned or from which it may be deduced or, as the case may be, order their total or partial surrender to the plaintiff.

Products resulting significantly from the breach of business secrecy may be recalled from the commercial channels, in order to be modified, destroyed or confiscated for the benefit of the injured party (Article L 152-3, II).

All these measures will be ordered at the expense of the author of the infringement, except in exceptional circumstances (article IV, paragraph 1).

20) The infringer may request that such measures be terminated when the information concerned can no longer be classified as business secrets for reasons which do not depend, directly or indirectly, on him (art. L 151-3, IV-paragraph 2).

In other words, the infringer cannot invoke the public nature of information he himself has unlawfully disclosed.

21) To prevent an imminent infringement or to put an end to an unlawful breach of a business secret, the judge may also, on motion or in summary proceedings, order provisional and protective measures the terms of which will be determined by decree (section L 152-4).

According to the parliamentary debates on the new law, it will be possible to set up specific probative measures for the protection of business secrets, by analogy with the seizure-counterfeiting measure in industrial property law (Sen. Report No. 419 concerning the law 2018-670).

Compensation may be substituted for preventive measures

22) The author of the infringement may ask the judge to order, instead of the aforementioned measures, the payment of compensation to the victim but only if the following conditions are met (see article L 152-5):

- at the time of the use or disclosure of business secrets, the infringer did not know, or could not know in the light of the circumstances, that business secrecy had been obtained from another person who used or disclosed it unlawfully;

- the execution of the measures would cause this author disproportionate damage;

- the payment of compensation to the injured party appears reasonably satisfactory.

23) Where the indemnity is substituted for the prohibitions set out in paragraph 19, the amount of the indemnity may not be higher than the amount of the fees that would have been due if the infringer had applied for authorization to use business secrecy for the period during which the use of business secrecy could have been prohibited (Article L 152-5, paragraph 5).

This compensation may partially replace any damages that may be due to the victim (no. 24).

Compensation of the victim

24) The law lays down the methods of evaluation by the judge of compensation of an infringement of the secrecy of the cases.

In order to fix the damages and interest due in compensation for the damage actually suffered, the judge must take into consideration, separately (Article L 152-6):

- the negative economic consequences of the breach of business confidentiality, including loss of profit and loss suffered by the injured party, including loss of opportunity;

- the moral damage caused to the injured party;

- the profits made by the author of the breach of business secrecy, including the savings of intellectual, material and promotional investments that he has removed from the infringement.

According to parliamentary debates, the reference to "actual damage suffered" tends to rule out a possible practice of "punitive damages" more than the amount of damages, as it was developed in the United States (Sen. No. 419 relating to Law 2018-670).

Precision seems nonetheless pointless, given the principles governing civil liability in France (requirement of actual and certain harm, full compensation for the loss without benefit for the party who has suffered the injury).

25) The judge may, as an alternative and at the request of the aggrieved party, award damages in the form of a sum which will consider, in particular, the rights that would have been due if the infringer had requested authorization to use the secrecy of the cases in question (Article L 152-6, paragraph 5).

This sum will not be exclusive of compensation for the non-pecuniary damage caused to the injured party.

The sentence decision may be published

26. The judge may order, at the expense of the author of the infringement, the publicity of the decision concerning it or of an extract from it (by way of posting, press or online), in ensuring the protection of business secrecy (see article L 152-7).

Civil fine for gag procedure

27. Any natural or legal person who acts dilatory or abusive under the new regime may be ordered to pay a civil fine; this person may also be ordered to pay damages to the victim of the proceedings (see Article L 152-8).

This fine, resulting from a text specific to the procedures relating to an infringement of the secret of the cases, derogates in our opinion to that envisaged by article 32-1 of the Code of Civil Procedure (€10,000 at most) in case of procedure dilatory or abusive. The two fines should not be cumulative.

On the other hand, it will be possible to condemn the person who initiated the procedure to pay the irrecoverable costs of proceedings pursuant to Article 700 of the Code of Civil Procedure.

28. The amount of the fine may not exceed 20% of the amount of the claim for damages; in the absence of such a request from the victim, the fine may not exceed €60,000 (aforementioned article).

III. Preservation of business secrets in the framework of a judicial case

29) According to Directive 2016/943, the prospect of a business secret losing its confidentiality during court proceedings often discourages legitimate holders of business secrets from taking legal action; Exceptional procedural rules must be established in order to preserve the confidentiality of the protected information.

These rules concern the treatment of documents submitted during the proceedings and the obligation of confidentiality on the various parties involved.

The rules concern the treatment of communicated items in certain instances and the obligation of burdensome confidentiality in different interventions.

30) The national rules set out below are limited to proceedings before the judicial and commercial courts. They do not therefore concern proceedings brought before the criminal court.

Nor do they apply to proceedings before certain authorities, such as the Authority of concurrence.

Special provisions provide for rules similar to those introduced by the new law (for example, see Articles L 463-4 and L 463-6).

One-off adjustments are made to the Code of Administrative Justice, in particular by requiring the administrative judge to adapt the procedural requirements of the contradiction, the motivation and the publicity of the decisions to the requirements of the protection of business secrecy (C. amended section L 611-1 and new L 741-4).

Powers of the judge in respect to a document that may affect the business secrecy

31) The law refers to the case where, in the course of a civil or commercial proceeding for the purpose of a measure of inquiry sought before any trial on the merits or in connection with a court of law, it is refers to or is requested the communication or production of a document alleged by a party or a third party or which has been held to be of such a nature as to infringe a business secret.

The judge may, ex officio or at the request of a party or a third party, if the protection of this secret cannot be assured otherwise and without prejudice to the exercise of the rights of the defense (C. com. Article L 153-1):

- take cognizance of this document alone and, if it deems it necessary, order an expert opinion and seek the opinion of each party of a person authorized to assist him or her; represent, in order to decide whether to apply any of the following protective measures;

- decide to limit the communication or production of this piece to certain of its elements, to order the communication or production in a form of summary or to restrict access, for each of the parties, at most to a natural person and a person authorized to assist or represent it;

- decide that the debates will take place and that the decision will be pronounced in the Council Chamber;

- adapt the reasoning of its decision and the modalities of the publication of this one to the necessities of the protection of the secret of the businesses.

The parties to the trial will be bound by an obligation of confidentiality

32) This obligation is defined very broadly: any person having access to a room or the contents of a room considered by the judge to be covered or likely to be covered by the secrecy of business will be bound by an obligation of confidentiality prohibiting any use or disclosure of the information it contains (see Article L 153-2, paragraph 1).

This obligation will continue at the end of the procedure. It will end only if the existence of a business secret is excluded by a court decision that has become final or if the information in question has in the meantime ceased to be a business secret or has become easily accessible (art. paragraph 5).

Nicolas BRAHIN
Avocat au Barreau de NICE
Lawyer at NICE's Bar
HYPERLINK "mailto:nicolas.brahin@brahin-avocats" nicolas.brahin@brahin-avocats.com