

## Effective know-how protection

### Protection of trade secrets in Germany: latest news on the implementation of the Directive (EU) 2016/943

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According to the Federal Office for the Protection of the Constitution, more than half of all companies in Germany (53%) were victims of industrial espionage, sabotage or data theft in 2015 and 2016. According to a study by the digital association Bitkom, this has caused damages of around €55 billion per year. Digital networking increases the danger that the heart of many companies — their know-how — is exposed to unfair practices. One way to protect innovation is to use intellectual property rights in the form of patents, design rights and copyrights. The protection of knowledge and confidential information outside of these protections that are specific to intellectual property rights, for example in the realms of business data, customer information, business plans, market research data, and business strategies, has up to this point been guaranteed in German law primarily by the criminal provisions of sections 17 to 19 of the Act against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb or UWG*), as well as by the civil law compensation

regulations under sections 823 and 826 of the German Civil Code (*Bürgerliches Gesetzbuch or BGB*), in conjunction with section 1004 of the German Civil Code, (*Unterlassungsanspruch or injunctive relief*).

#### Directive (EU) 2016/943 on the protection of trade secrets

Despite all efforts at the international level within the framework of the World Trade Organization to create effective and comparable legal means for the protection of trade secrets — in the form of the Agreement on Trade-Related Aspects of Intellectual Property (BGBl. 1994 II p. 1438, 1730, “TRIPS”) — there are still major differences between the legal provisions of the EU member states with regard to the protection of trade secrets. The “Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure”, adopted on June 8, 2016, is therefore intended to achieve a

uniform minimum level of protection for business secrets throughout Europe.

#### Transposition into German law: draft law on the protection of trade secrets

Unlike European regulations, European directives initially have no direct effect, but must first be transposed by the member states through national legal acts in order to become effective. The deadline for the EU member states to implement the Directive (EU) 2016/943 expired on June 9, 2018, without a punctual transposition on Germany’s part. However, on July 18, 2018, the Federal Government submitted a first draft of a law to implement the Directive. In essence, this draft represents an independent new law on the protection of business secrets (*GeschGehG*).

#### Essential provisions of the draft bill

Despite the fact that the regulation is on a national scope, the draft bill is closely oriented to the requirements of the Directive.



Can you keep a secret? More than half of all companies in Germany were victims of industrial espionage, sabotage or data theft in 2015 and 2016.

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The draft bill defines the lynchpin of the new legal regulation: the concept of trade secrets. The definition of a trade secret corresponds to that of article 39(2) of the TRIPS agreement: A trade secret is →

information which is neither in its entirety, nor in its details, known or readily accessible to persons in the circles that normally deal with this type of information, and which therefore has economic value and is subject to appropriate confidentiality measures by its lawful owner. This may involve both technical and commercial knowledge. What is new and essential is the mandatory link to concrete, appropriate secrecy measures taken by the employer, in the absence of which a trade secret will not be acknowledged. Under section 17 of the Act against Unfair Competition (UWG), the requirements were looser: A recognizable subjective will to secrecy was sufficient, provided that it manifested itself in objective circumstances. Nevertheless, even if the explanatory memorandum refers, at least as an example, to “access controls” and “contractual confidentiality obligations”, the draft law does not contain any criteria defining when measures taken by a company are “appropriate”. This will therefore have to be considered separately for each individual case.

Furthermore, trade secrets are protected by the standardization of permissible actions, as well as concrete prohibitions to act. It is interesting to note that the act actually extends the scope of permissible

actions within the framework of “reverse engineering,” ( the decoding of trade secrets through the investigation, dismantling or testing of a product ). In an employment relationship, the prohibited use or disclosure of trade secrets contrary to contractual obligations — that is to say, the violation of a confidentiality agreement — will be of particular importance.

In the event of an infringement, the draft bill provides comprehensive civil law legal protection (including elimination, omission, destruction or withdrawal of infringing products from the market), accompanied by information claims. Even a negligent breach of the regulations in the form of taking a prohibited action obliges the infringer to pay damages. For employees, however, the employer must prove the employee’s culpability, and the employee is only liable in accordance with the principles of limited employee liability — that is to say, generally not for simple negligence. It is interesting to note that damages can also be calculated expressly on the basis of the profit that the infringer gains through the infringement. Under certain conditions, the violation of a trade secret by an employee or authorized representative can also be attributed to the owner of the company, with the

result that the latter can be held liable for the violation.

In order to make it easier for affected companies to enforce the law, the draft bill also provides civil procedural instruments intended to protect trade secrets in a relevant legal dispute. At the request of a party, the court can classify certain information that is disclosed within a legal proceeding as requiring confidentiality, with the result that only a limited group of persons has access to the information — explicitly including access to files. Confidentiality obligations have also been extended.

Finally, know-how protection is rounded off by the delineation of criminal offenses, allowing for fines and even imprisonment of up to five years for the violation of trade secrets in certain constellations.

### German companies need to take action

If a company wants to take advantage of the benefits of trade secret protection, a variety of actions are necessary: trade secrets and responsibilities must be identified; business processes and compliance processes must be reviewed to determine whether effective confidentiality measures have been taken; procedures for documenting and moni-

toring the relevant processes must be set up; confidentiality agreements must be adapted; and so on. Even if it is not yet clear when the legislative procedure concerning the GeschGehG will be completed, the Directive (EU) 2016/943 on the protection of trade secrets has already been in force since the expiration of the implementation deadline and is therefore already effective. As a consequence, existing German law, in particular sections 17 to 19 of the Act against Unfair Competition (UWG), must now be interpreted in conformance with the Directive. This is particularly applicable to the question of what appropriate confidentiality measures need to be taken to protect a trade secret. ←



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