

**COHAUSZ & FLORACK**



**CFUpdate**

**Valuable, secret, protected:  
On the handling of information  
under the new Trade Secrets Act**



## **Content**

Foreword	4
Overview: Differentiation from industrial property rights	5
„Trade secret“: one term, four criteria	6
Who is the holder of a trade secret?	10
Your secret in danger: acts of infringement	11
Permitted actions – especially reverse engineering	13
Your claims in the event of legal infringements	14
Protection of your secret during legal action	15
About COHAUSZ & FLORACK	16
Imprint	17

# Foreword

A company's own know-how is worth a great deal – especially in innovative sectors such as mechanical engineering, IT, electrical engineering or process engineering as well as in the chemical, pharmaceutical or life sciences sectors. It enables companies to secure important competitive advantages and assert themselves in the market. All the more important that such knowledge remains secret.

On 21 March 2019, the German Bundestag passed a new law to better protect secret information and to ensure uniform protection throughout the EU: The EU Trade Secrets Directive (GeschGeh-RL) 2016/943 was implemented by introducing the German Law on the Protection of Business Secrets (GeschGehG). The GeschGehG entered into force on 26 April 2019. However, in order for companies to receive comprehensive protection for their trade secrets, they must also protect them better than before under the GeschGehG, i.e. take appropriate protective measures. If they fail to do so, the protection of the respective trade secrets will be lost.

On the following pages we will explain to you what the GeschGehG is all about and what it will change for your company.

Your team from COHAUSZ & FLORACK

## Overview: Differentiation from industrial property rights

The EU Trade Secrets Directive 2016/943 is intended to harmonize the level of protection of trade secrets in the European Union and strengthen protection. On the basis of this directive, the Law on the Protection of Business Secrets (GeschGehG) came into force in Germany on 26 April 2019. This means that companies now have to adapt to fundamental changes. So far, trade secrets have been protected primarily under criminal law by § 17 UWG (Law against Unfair Competition), and sophisticated case law has enabled plaintiffs to reliably enforce their trade secrets under civil law. Now, for the first time, a special civil law protection has been created by the new law.

The GeschGehG enables companies to keep certain information and know-how secret and thus to prevent access and exploitation by third parties. Companies may take appropriate measures to withhold the information from third parties or make it available to third parties only under an obligation of secrecy. The GeschGehG then enables them to take action against those who illegally access the information or use

it illegally. However, the GeschGehG does not offer companies „absolute“ protection for trade secrets (unlike industrial property rights, e.g. patents). This means that companies cannot take action against the lawful use of their trade secrets by third parties (e.g. because a third party has identified the trade secret by analyzing a product freely acquired on the market or has independently developed it itself). Companies should therefore always check whether the protection of information as a trade secret is sufficiently effective or whether it cannot be better protected by industrial property rights. In particular, they should consider whether the introduction of a product to the market makes the trade secret obvious or at least easily identifiable.



## **„Trade secret“: one term, four criteria**

According to the new definition in § 2 No. 1 GeschGehG, a trade secret is information,

- a) which is secret,
- b) which is of economic value,
- c) which is protected by appropriate confidentiality measures,
- d) in the secrecy of which there is a legitimate interest.

Accordingly, any information meeting these four criteria may be the subject of a trade secret. Trade secrets can therefore be technical know-how (e.g. processes, design plans, algorithms, prototypes or formulations), other business information (e.g. customer lists, business plans or advertising strategies) and even raw data (big data).

Information is protected as a trade secret only as long as it meets these four criteria. For example, as soon as one of the criteria ceases to apply, companies can no longer require third parties to refrain from exploiting the information in question.

### **a) What does secret mean?**

According to the GeschGehG, information is considered secret if it is not generally known and not readily accessible (this is the most important of the four criteria). This is the case if only the owner or only third parties obliged to maintain confidentiality know about it. In the case of multi-part information, its composition is decisive. An example: customer lists. They can also be secret if all data can be searched individually. Information that third parties can only obtain with considerable effort and expense is also considered to be secret – such as technical information that can only be determined through complex reverse engineering. It may also be a trade secret if a long-known process is used to manufacture a particular product. Although it is no longer possible to obtain patent protection for this process, the compound information from the process and its use in a particular company or for the manufacture of a particular product, unless it is generally known, is protected as a trade secret.

## „Trade secret“: one term, four criteria

### **b) What are criteria for the economic value of information?**

Even under previous law, an interest in secrecy was necessary for information to be classified as a trade secret. It was not necessarily the asset of a secret that mattered. It was already sufficient that a disclosure could damage the owner. The same now also applies according to the new GeschGehG. As a result, all information of interest to a company has an economic value. This also applies to raw data that can be collected in large quantities today using modern software (in networked devices, vehicles, etc.). Even if the raw data cannot be used sensibly without evaluation, its economic value results from the possibility of evaluating and making use of the data.

### **c) What are appropriate confidentiality measures?**

The requirement for appropriate confidentiality measures is the most important change which the new GeschGehG will bring to companies. In contrast to the previous legal situation, such measures are therefore no longer only necessary to actually prevent the loss of trade secrets, but also to obtain legal protection for them at all. If holders do not take these measures, they lose the secrecy protection.

But what does „appropriate“ mean? The GeschGehG does not answer this question. Only the case law on the GeschGehG will therefore specify the requirements that companies have to fulfil. Nevertheless, the law is already in force and applicable. Therefore, if a court finds that the measures taken were insufficient, it may be too late.

It is already clear that the concept of appropriateness is „relative“, i.e. it depends on the specific circumstances. The value of the trade secret, the size of the undertaking and the cost of the measures available will therefore be taken into account by the courts. If standard, customary and inexpensive protection measures are not even taken (e.g. the conclusion of appropriate non-disclosure agreements), it is highly likely that the courts will fail to protect trade secrets due to the rather „lapidary“ way in which they are handled. Even though it may not be apparent to the

## „Trade secret“: one term, four criteria

recipient of information that it is confidential, it is unlikely that the information will continue to be classified as a trade secret, even if there has been a general non-disclosure agreement covering the text of the information. Therefore, when information subject to confidentiality is communicated to a third party, it is likely to be essential that the third party is specifically (and not only globally) made aware of the confidentiality or that it is at least clear on the basis of the given circumstances.

In addition, it must currently be regarded as open which requirements the courts will place on the holder of the secret in tangible terms; i.e. whether, for example, it must also be proven that a concrete and appropriate protection concept has been established in the company. Companies are therefore well advised to at least identify their essential business secrets. They should also examine and regulate which persons are entitled to access, whether and whether they are subject to sufficient confidentiality obligations and what technical measures are taken to protect unauthorized access to trade secrets.

This is where the following types of measures to protect trade secrets should be considered in particular:

- Labelling information as „confidential“.
- Contractual agreements on confidentiality obligations with all persons (employees, service providers, business partners) to whom the trade

secret is made accessible. Ideally, the agreements should not be too general, but it should become clear which business secrets actually fall under the respective category. In the case of employment contracts, the particular challenge lies in protecting trade secrets even after termination of the contract (post-contractual). Excessive obligations (which prevent the employee from progressing professionally) may be ineffective.

- Restrictions on access to information. The circle of persons (including within the company itself) to whom trade secrets are disclosed should be limited, if possible, to those who need the information for their work.
- Technical protective measures. Depending on the size of the company, these range from simple password protection and firewalls to complex security systems. This also includes the question of the extent to which employees are allowed to use their own hardware.

The GeschGehG may therefore require far-reaching measures for internal organization in dealing with trade secrets. In order to position itself as well as possible, measures must be examined and introduced, and their appropriateness regularly reviewed in the light of forthcoming case law. Introduced protective measures should be well documented and adherence to these should be checked accordingly.

## „Trade secret“: one term, four criteria

### d) When is there a legitimate interest in confidentiality?

The criterion of „legitimate interest“ in confidentiality has only recently been added to the Act (the GeschGeh-RL does not include it). With this, legislation obviously wants to prevent illegal dealings by companies from also being inappropriately protected against disclosure by the GeschGehG. Outside of this area, however, this criterion is unlikely to have any particular significance. Nevertheless, it is already being discussed whether a general refusal of protection for the confidentiality of illegal actions by a company violates the GeschGeh-RL and thus EU law.

#### Tip

The establishment of protective measures has the additional advantage that the rights to and infringement of a trade secret can probably be better proven in court proceedings. The plaintiff in the case is obliged to disclosure and the provision of evidence. In the past, however, the enforcement of claims has already failed because it could not be proven to the court exactly which trade secret was made available when and where to the potential infringer subject to the obligation of confidentiality. You should therefore also consider this aspect when introducing the protection concept in your company!

## Who is the holder of a trade secret?

According to the legal definition, the holder of a trade secret is the natural or legal person who has legal control over the secret – i.e. the person who generated the information or who acquired it lawfully (e.g. by purchase). According to the GeschGehG it should remain recognized that business secrets can also be exploited through sale or licensing. The sale then leads to a change of ownership, at least if the seller ensures the purchaser that he shall not undertake to further exploit the trade secret himself.

When Big Data is generated, however, it may be difficult to assign business secrets. For a machine that collects and stores operating and environmental data via sensors, the situation is complicated: Who is the rightful owner of the information? The machine manufacturer or the buyer and operator of the machine? If both companies have the opportunity to gain access to the information or if data is collected in an external company, clear contractual provisions should be made in advance in order to determine the legal relationship between the parties involved and to avoid an unintentional loss of protection and legal disputes.

Moreover, a trade secret can be assigned to different companies. If another company acquires the information (through its own development or a legitimate procurement, such as reverse engineering) lawfully

and without contractual restrictions it may be subject to, this company is also an entitled owner. It can then disclose the information – despite later acquisition – or (in the case of in-house development) apply for a patent. This can have fatal consequences for older parties entrusted with confidential information: Disclosure removes the protection as a trade secret (for all owners) altogether and the possible patent protection can also be directed against older parties entrusted with confidential information who cannot prove a prior right of use. Those who decide to protect their trade secrets should therefore examine the extent of the risk that third parties may independently compile or develop the trade secret or otherwise legally obtain it.



## Your secret in danger: acts of infringement

On the one hand the GeschGehG protects a trade secret against unauthorized access to the trade secret and on the other hand against unauthorized use and disclosure.

The classic case for unauthorized access is „industrial espionage“. It also covers the unauthorized appropriation and unauthorized copying of documents, objects, materials or electronic files (e.g. by employees who make copies of documents and files before leaving in order to make them available to their new employer).

In addition to the use or disclosure of a trade secret obtained without authorization, the GeschGehG also covers the use and disclosure of information which has been obtained with authorization but which may not be used or used only to a limited extent (in particular on the basis of a contractual obligation). This includes, in particular, cases in which trade secrets have been made available under a duty of secrecy. A special situation arises in relation to employees of the trade secret holder. In principle, they are initially bound to secrecy by their duty of fiduciary duty (however, it is also advisable to regulate secrecy obligations expressly in the employment contract in this respect). But what about retired employees and their handling of trade secrets? What rights and obligations do they have? They cannot generally be denied

the right to use the (general) experience and skills acquired in a former employment relationship for further professional activities. If they were not allowed to use all the knowledge and skills they have acquired, they would be prevented from progressing in their careers. Post-contractual confidentiality obligations, which provide for corresponding restrictions, would therefore amount to a non-compete obligation and could not be agreed without a time limit and compensation. It is therefore deemed that a restriction on the use of such trade secrets and professional information that an employee has „inside his head“ cannot be readily agreed in general. The handing over of documents and objects in which business secrets are embodied, as well as copies thereof, can however very well be demanded from an employee. In addition, it is possible to prohibit the use of unauthorized documents and objects. The use of specific information, which an employee can take „in his head“ but which is not part of his general experience, can also be prohibited after the end of the contract. However, it is usually difficult to draw a precise line and thus also to draft an effective contractual clause. Unfortunately, the legislator failed to create more clarity on this point with the GeschGehG.

If a third party acquires a trade secret from someone who has disclosed it to an unauthorized person and discloses or uses it, they are liable as well. However,

## Your secret in danger: acts of infringement

only if they (should have) known about the previous injury. The third party must already have concrete indications that it is a trade secret and that it has been unauthorizedly disclosed to him.

The distribution of a product – i.e. its manufacture, its provision, its placing on the market, its import/export or its storage – may as such also be contrary to the GeschGehG if it is based on a trade secret which has been obtained, used or disclosed without authorization.



## Permitted actions – especially reverse engineering

In addition to independent discovery or creation, reverse engineering, i.e. the analysis of products freely available on the market or lawfully obtained (without restriction of use), is now considered to be clearly permissible according to the GeschGehG (under the previous legal situation this was still doubtful). In this, German law now also agrees with other legal systems worldwide for which such backward analyses of marketable products have long been permissible. Reverse engineering is therefore permitted if the product has been lawfully made publicly available or is otherwise in the lawful possession of the party analyzing it.

However, permission for reverse engineering in the GeschGehG does not exclude the possibility that other laws may restrict such analyses, as is the case, for example, with regard to the copyright of computer programs. In this respect, the powers of reverse engineering are limited, which is not invalidated by the GeschGehG.

### Tip

If you hand over samples that are not publicly available to a business partner, make sure that the business partner's rights to analyze the sample or to exploit the results of the analysis are contractually limited!

## Your claims in the event of legal infringements

What rights do you have as a company if your trade secret has been violated? This is where the GeschGehG becomes quite specific in that it formulates clear legal claims, for example a claim to

- Injunctive relief and removal
- Destruction of documents and files containing or embodying the trade secret
- Recall of an infringing product
- Destruction and withdrawal of the infringing product from the market
- Information about infringing products and their distribution, about existing embodiments of the secret and the person from whom the infringer obtained the secret or to whom he disclosed it
- Damages. In this case, the owner of the secret can – as is already customary according to previous case law – also demand the infringer's profit or a fictitious license fee as damage, which can make it considerably easier for him to present the damage.

According to the GeschGehG, these claims – with the exception of claims for damages – are excluded if they are disproportionate. The decision will depend, inter alia, on the value of the secret, the secrecy measures taken and the legitimate interests of both parties or possibly the public.

## Protection of your secret during legal action

If it comes to legal action, the question is what happens to the protection of your secret? On the one hand, the plaintiff will continue to have a legitimate interest in the protection of the secret, while on the other hand, all relevant facts must be presented in proceedings and at least made available to the other party so that it can defend itself adequately against the action. According to the GeschGehG, however, the court has the possibility to classify certain information as confidential. For this purpose, the holder of the secret must first submit a request to establish that the information is in fact a trade secret. The court may then impose an obligation of confidentiality on all parties and/or restrict access to documents or oral proceedings to only a few (at least one natural person of each party and their legal representatives).



## About COHAUSZ & FLORACK

COHAUSZ & FLORACK (C&F) is a law firm founded in 1954 with branches in Düsseldorf and Munich and over 130 employees. The firm supports its clients – international corporations as well as innovative medium-sized companies from Germany – in all matters relating to intellectual property rights and unfair competition. This includes, among other things, the registration, administration and licensing of extensive property rights portfolios, searches for property rights of third parties and associated Freedom-to-Operate opinions as well as cooperation agreements. C&F also represents its clients in proceedings relating to the infringement or validity of intellectual property rights. The firm sees itself as a strong partner and advises its clients proactively, individually and holistically on all IP-relevant issues. For this purpose, the 23 patent attorneys and 4 attorneys-at-law bring with them above-average specialist expertise and work together in an interdisciplinary, efficient and trusting team.

C&F combines the know-how of all technical disciplines under one roof: from mechanical engineering, electrical engineering and ICT to chemistry and life sciences. Current requirements such as Industry 4.0 or the Internet of Things always play a role. C&F also has extensive experience with IP procedures in other countries – including the EU member states as well as the USA, China and Korea. For this purpose, the firm

relies on its strong network of partner firms from all over the world. Internally, C&F focuses on the long-term promotion and high-quality training and further education of its employees, who are all committed to protecting innovations with particular interest and openness. C&F thus makes a decisive contribution to ensuring that companies invest in developments, remain competitive and enrich society with their ideas.

# Imprint

© 2019

## **Publisher**

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## **Conception**

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## **Editorial**

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**Status:** Mai 2019

## **Picture credits**

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