GSK Update

17 April 2019

New "Act on the Protection of Trade Secrets"

– You will only enjoy protection if you take action, and: other changes and practical implications –

Executive Summary

> The legal protection of trade secrets will be improved. At the same time, however, stricter requirements are introduced as well. From now on, only those who have taken appropriate secrecy measures and can prove it will enjoy protection of their trade secrets. The desire for secrecy is no longer assumed.

> Reverse engineering is now generally permissible in Germany, unless it violates other protective laws or contractual obligations.

> Whistleblower protection will be extended and will also apply to trade secrets.

I. Background

In order to establish a Europe-wide minimum standard for the protection of company trade secrets against unlawful acquisition, use and disclosure, the so-called Know-how Directive (EU Directive 2016/943) was issued in 2016. This Directive was motivated by the increasing threat to trade secrets posed by industrial espionage and breaches of confidentiality obligations, while globalization, increased outsourcing, longer supply chains and the intensified use of information and communication technologies simultaneously contribute to exacerbating these risks.

In Germany, the Know-how Directive is implemented through the "Act on the Protection of Trade Secrets" *(Gesetz zum Schutz von Geschäftsgeheimnissen, GeschGehG)*. At the same time, this replaces the criminal provisions of Sections 17-19 of the Act Against Unfair Competition (UWG), which have so far only provided fragmentary protection for trade secrets. After the GeschGehG also passed the Bundesrat on 12 April 2019, it will come into force in the next few days.

II. Main Changes – Overview

1. Appropriate Secrecy Measures Are Required

Trade secrets have so far essentially been protected by Sections 17-19 UWG. The prerequisite for this protection under unfair competition law was a recognizable subjective will to maintain secrecy, which needed to be manifest in objective circumstances. In most cases, it was sufficient that this desire for secrecy arose from the nature of the facts that were to be kept secret. This is changing fundamentally. The mere desire for secrecy is no longer sufficient.

Rather, according to Sec. 2 No. 1 GeschGehG, only information that "its lawful owner made subject to secrecy measures appropriate under the respective circumstances" is considered a protectable trade secret. This also removes the assumption rule that was valid until now. In the event of a dispute, the party invoking trade secrets must now prove that these secrets were protected by "appropriate secrecy measures."

2. What Is An "Appropriate Secrecy Measure"?

It is (still) unclear which specific requirements "appropriate secrecy measures" need to fulfill. In its implementation, the GeschGehG is essentially based on the Know-how Directive 2016/943, which in this respect in turn is based on Article 39 Paragraph 2 of the TRIPS Agreement. Thus, in practice, interpretation and potential guidelines will also have to be based on case law principles from the United States. According to the explanatory

memorandum of the German law, it must be determined on a case-by-case basis whether a measure is appropriate or not. For this assessment, the value of the confidential information, for example, and their development costs, their nature and importance for the company, the size of the company, the usual secrecy measures in place in the company, the way the information is labelled and also contractual arrangements towards employees and business partners must be taken into account.

Furthermore, according to Sec. 2 GeschGehG, there must be a "legitimate interest in secrecy." However, neither the GeschGehG explanatory memorandum nor the recitals to the Know-how Directive 2016/94 explain under which circumstances it can be assumed that there is such an interest or in which cases an interest may be regarded as "not legitimate."

3. Reverse Engineering

Contrary to previous regulations, it is now in principle permitted to decode trade secrets by observing, investigating, dismantling or testing a product (in the practical application known as *reverse engineering)* (Sec. 3 Para. 1 (2) GeschGehG). A prerequisite for this, however, is that the product must already be publicly available or lawfully owned by the interested party and *reverse engineering* must not violate other laws, such as copyright or patent laws, or contractual provisions.

4. Whistleblower Protection

The GeschGehG is now expanding the existing protection for whistleblowers, for example in the area of finance (cf. Sec. 4d Para. 6 Financial Services Supervision Act, Sec. 3b Para. 5 Stock Exchange Act), to cover trade secrets as well. As per Sec. 5 No. 2 GeschGehG, the acquisition, use or disclosure of trade secrets in the context of whistleblowing is now also considered expressly permissible. A precondition for such whistleblowing is, however, that it be carried out with the purpose of protecting a legitimate interest, such as to reveal unlawful actions or professional or other misconduct.

5. Protection of Trade Secrets in Court Proceedings

If claims under the GeschGehG are asserted in court proceedings, the court may – *upon request* of one of the parties – classify information that is subject of the dispute as confidential and oblige the involved individuals to treat the information accordingly (Sec. 16 GeschGehG). The court may also restrict the right of access to and the inspection of files as well as the attendance at the oral hearing (Sec. 19 GeschGehG). The court may take these measures as soon as the legal dispute is pending (Sec. 20 Para. 1 GeschGehG).
Compared to the previous legal situation, this results in a much stronger protection of trade secrets also in court proceedings. Previously, a court could order the confidentiality classification only after the oral hearing as per Sec. 174 Para. 3 GVG (Judicature Act). Also, using a trade secret obtained in this way was not prohibited, only its subsequent disclosure. Finally, as per Sec. 299 Para. 2 ZPO (Code of Civil Procedure), the court was only able to deny third parties access to files but not the parties to the proceedings.

III Recommendations

1. Actively Protect Trade Secrets

In the future, holders of secrets should actively seek *appropriate secrecy measures* through contractual, technical and organizational precautions in order to open up the scope of protection of the GeschGehG.

- **Contractual confidentiality obligations**
  - Contracts should explicitly identify all information that is to be kept secret. So-called *catch-all clauses*, which sweepingly categorize as confidential any information that becomes known in the context of the contractual relationship and that obligate the signing party to keep them secret, do not fulfil this obligation and are legally worthless.

Existing contracts must be adapted accordingly.

- Since it will hardly be possible to explicitly list all relevant information without having to generalize and since it is hardly feasible to amend contracts every time there is new information to be kept secret, it makes sense to use dynamic or generic references.
- The contracting parties should also be obliged to ensure the proper use and limited disclosure of information to be kept secret, rather than merely respecting confidentiality.
- Employment contracts should also include an obligation to maintain secrecy with regard to employee inventions in order to guarantee the secrecy of the invention until the employer claims the employee invention as per Sec. 6 Para. 1 Employee Invention Act.

○ **Develop a comprehensive protection concept**

Confidential information should be comprehensively identified within the company. Depending on the need for protection, this information must then be provided with risk-specific protective measures. The documentation of these precautions is essential when trying to prove that "appropriate confidentiality measures" within the meaning of Sec. 2 No. 1 GeschGehG have been taken and that, consequently, the information is protected by law.

2. Exclude Reverse Engineering in Contracts

If products are handed over to a contractual partner, it must be contractually agreed that *reverse engineering* is excluded and this should also be secured by means of a contractual penalty. It should nevertheless be noted that decompiling software to achieve interoperability of computer programs remains permissible in accordance with Section 69e of the German Copyright Act.

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