Executive summary

Report on the protection against unlawful appropriation of trade secrets and confidential commercial information

(English version)

A report for the European Commission,
submitted by Fondation pour le droit continental
and written by Florence G’Sell and Pascal Durand-Barthez.
This study was commissioned by Fondation pour le droit continental [Civil Law Initiative]; this document is a summary of that study. The purpose of the report is to outline the relevant techniques of continental law in order to demonstrate their effectiveness and their potential contribution to international business relations. Indeed the protection of trade secrets is a strategic issue in the context of international economic competition. The European Commission is currently conducting studies and consultations with a view to a possible legislative initiative on this question. The Fondation proposes the basis of a framework for protection of trade secrets and confidential commercial information using the legacy of French law and its continental tradition.

The report was entrusted to Professor Florence G’Sell, professor of private law at Université de Bretagne Occidentale and Maître Pascal Durand-Barthez, a member of the Paris bar, of counsel to Linklaters and former general counsel to a large international group of companies.

Based on that report, the Fondation has identified several points in French law which could help the Commission to assess the feasibility of a legislative initiative.

I. The definition of the concept of trade secrets

There is no specific regulation or definition of trade secrets in French law. Although the concept of trade secrets is frequently used in legislation and case law, French law does not, to date, have any specific protection scheme of trade secrets apart from intellectual property rights and certain areas protected for reasons of public interest (professional secrecy, military secrecy, etc.).
Since the protection of sensitive information is not generally covered the introduction into law of a criminal offense for the breach of trade secrets has been proposed to the French Parliament but the bill has not yet been voted on.

In this context, the adoption of a uniform definition of the concept of trade secrets, reproducing or inspired by the definition in the TRIPS Agreement, would clarify the matter.

II. The effective protection of trade secrets

The effective protection of trade secrets is ensured in practice by the application of general rules of civil law. In civil law (as opposed to criminal law being outside the scope of the study), confidentiality is frequently an obligation provided for by contract or protected under the rules of civil liability which apply in case of detrimental disclosure.

1. Protection by contract

1.1. Protection by confidentiality clauses

French practitioners are now accustomed to stipulating confidentiality clauses, the main difficulty of which relates to defining the protected information.

The main issue of a regulation on this matter would probably be to overcome this difficulty by specifying the conditions of enforceability and the possible content of these clauses, which are sometimes difficult to distinguish from non-competition clauses. In particular, a legislation could provide substantial
assistance to negotiators by setting the **limits**, **in content or duration**, of the contractual confidentiality obligation.

1.2. Reinforced protection within the framework of an employment contract

The specificity of the employment contract allows for a **more automatic protection of confidentiality** against breaches of trade secrets attributable to salaried employees. Indeed, French law provides for the criminal sanctioning of breaches of “manufacturing secrets” in technology matters, an obligation of loyalty inferred from the employment contract and also from specific clauses which may be applied after that contract has expired.

One might doubt that a uniformed regulation relating to employment contracts could be adopted, considering the marked disparities between member states’ legislations on the matter. In France, in particular, employment law is a matter of “public order”.

2. Protection by civil liability

2.1. Unfair competition liability

Trade secrets protection benefits from the general principle of civil liability provided for by Article 1382 of the French Civil Code. More specifically, the case law concept of “unfair competition” makes it possible **to sanction detrimental disclosures of sensitive information**.

2.2. Parasitism
The more recent and broader concept of “parasitism” makes it possible to protect information exchanged during the **pre-contractual period**, even when the parties are not directly in competition with each other.

Here, the European legislature could rely on French case law in order to consider a legislative provision inspired by the definition of parasitism. Thus the act of appropriating or drawing undue profit from specific information that has economic value to its holder could be deemed a breach of law. Legislation could therefore use the concept of parasitism to protect trade secrets transmitted during the **negotiation stage**.

III. Protection of trade secrets in civil procedure

French law has specific procedural mechanisms regarding the establishment of the breach of trade secrets or the protection of such secrets in the context of certain procedures.

1. Collecting evidence in civil proceedings

French law has an effective instrument for collecting evidence in civil proceedings, namely Article 145 of the French Code of Civil Procedure which gives the judge the power to order preparatory investigations, *in futurum*, with sufficient discretion to limit the risk that these measures be used to obtain the secrets of the opposing party.

European legislation might thus be inspired by Article 145 of the French Code of Civil Procedure in order to create an ad hoc mechanism of collecting evidence in matters of trade secrets, following the example of what has been done regarding the reform of “*saisie-contrefaçon*” proceedings.
2. Protection of trade secrets in judicial and administrative proceedings

French law provides for specific procedural mechanisms which aim to ensure that judicial and administrative proceedings do not result in undue disclosure of trade secrets. This is the case for proceedings put before the Competition Authority. This is also the case under the Act of 16 July 1980 (the “blocking statute”), applicable to certain proceedings ordered by foreign jurisdictions (this point should however, in our view, remain outside the Commission’s scope of investigation).

The question remains of ascertaining whether a uniformed legislation on civil proceedings should be adopted so as to organise protection of trade secrets before domestic courts. If so, the protective rules currently applicable to proceedings before the French Competition Authority, which are close to the rules applied before European courts, could probably be adapted so that parties can benefit from confidentiality in proceedings.

IV. Loss arising from a breach of trade secrets

1. Assessment of loss and compensation in damages

French law is relatively elaborate as regards assessing the loss arising from a breach of trade secrets. Indeed once the fault is proven, it is also necessary to establish and assess the loss, which again is a delicate process. Case law has progressively developed rules as regards the admissibility of the loss which must be certain, but may consist of a “loss of opportunity”, in particular when the breach constitutes an act of unfair competition. French courts have also developed methods for assessing the loss in order to allow compensation in the form of damages.
2. Compensation in kind

Compensation in kind in the form of injunctions (“cease and desist” orders to “put a stop to any breaches”) is also possible – albeit not always appropriate when the breach of secrecy has had irreversible effects – and rendered more effective by the process of application for interim relief (“référé”) and by the process of daily (or periodic penalty) for non-compliance to court orders (“astreinte”).

Conclusion: a welcomed European initiative

A European initiative to reinforce the action against misuse of commercial secrets in Europe is consistent with the French principles of contractual and civil liability. It would allow to plug the loopholes of the current legislation. It would also have the virtue of defining a uniformed body of rules, the existence of which would have a dissuasive effect for dishonest behaviour. European regulation on this matter is therefore important and increasingly necessary.

Proposals which could be considered by European authorities if they decide to intervene:

- Defining trade secrets, following the example of the definition applied by the TRIPS agreements, in order to specify the various types of sensitive information which could give rise to protection.
- Embodying a general principle of protection of trade secrets by establishing as a breach of law a person’s action of unduly using a trade secret in his or her favour, as reflected in the sanction of parasitism in French case law.
- **Circumscribing the clauses organising confidentiality** of trade secrets by taking a position on the conditions of enforceability and the scope of these clauses, specifically with regard to the duration of the stipulated protection.

- Providing for a **specific mechanism of evidence** of the disclosure or unlawful use of a trade secret which could be inspired by the case law relating to Article 145 CPC and the “saisie-contrefaçon” proceedings.

- Providing **means of stopping any breaches** and the conditions of compensation.