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Promulgation of the French Law regarding the Protection of Trade Secrets

On July 30, 2018, the French law n°2018-670 regarding the protection of trade secrets (the "Law"), implementing the Directive 2016/943 (the "European Directive"), was promulgated after being examined by the French Constitutional Council (*Conseil constitutionnel*).

The New Legal Framework for Trade Secrets

A harmonized definition of trade secrets

One of the main contributions of this new Law is to give a generic definition of a trade secret, which before was given in many different codes, laws, and regulations without any harmonized definition.

Article L. 151-1 of the Commercial Code ("*C.Com.*") now defines a trade secret as a piece of information which meets the three following requirements:

- it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles who normally deal with the kind of information in question, because of their sector of activity;
- it has commercial value because it is secret;
- it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Determination of the lawful or unlawful character of the acquisition, use, and disclosure of trade secrets

The Law gives a definition of the breaches of trade secrets by distinguishing the lawful and unlawful acquisitions of these secrets:

(i) the following acquisitions are considered lawful (art. L.151-3 C.Com.):

- the discovery of the secret is made by an independent discovery or creation (in other words, the trade secret doesn't create any exclusive right since the trade secrets holder may be faced one day with an identical trade secret which was discovered by an independent discovery of the same know-how);
- the observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information (except legal obligations limiting or prohibiting the acquisition of the secret);

(ii) the following acquisitions are considered unlawful:

- the acquisition of a trade secret without the consent of the trade secret holder and resulting from an unauthorized access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, containing the trade secret, or from which the trade secret can be deduced, is considered unfair and is a breach of the commercial practices (art. L. 151-4 C.Com.);
- when a person knew or ought, under the circumstances, to have known that the trade

secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully (art. 151-6 C.Com.).

Similarly, **the use or disclosure** of a trade secret shall also be considered unlawful when it will be done by a person who has acquired the trade secret illegally, who has breached an obligation (such as a confidentiality agreement or any other duty) not to disclose the secret or to limit the use of the trade secret, or when a person knew or ought, under the circumstances, to have known that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret illegally (art. L.151-5 and -6 C.Com.).

Finally, **the production, offer, or placement on the market of infringing goods, or the import, export, or storage** of infringing goods for those purposes, shall also be considered an unlawful use of a trade secret where the person carrying out such activities knew, or ought, under the circumstances, to have known that the trade secret was used illegally.

The exceptions to the protection of trade secrets

The protection of trade secrets is not an absolute right and the Law has listed several exceptions to it, including:

- (i) disclosure required or allowed by a text (such as European Union law, international treaties or domestic legislation), in particular for investigations, controls, authorizations or sanctions from the judicial and administrative authorities (art. L.151-7 C.Com.) ;
- (ii) disclosure justified by (art. L. 151-8 C.Com.):
 - exercising the right to freedom of expression (including respect for the freedom of the media) and information (just like the European Directive in its § (19), the French legislator makes a reference to the Charter of the Fundamental Rights of the European Union);
 - the revelation, even in the hypothesis of a whistleblowing alert as defined in article 6 of the "Sapin 2" law of December 9, 2016, of misconduct, wrongdoing, or illegal activity, provided that the respondent acted for the

purpose of protecting the general public interest;

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

***Nota bene** : The law therefore arms the "whistleblowers" whose status has been defined in the Sapin 2 law : "a whistleblower is an individual who discloses or reports, in a disinterested manner and in good faith, a crime or an offense, a serious and manifest breach of an international commitment duly ratified or approved by France, a unilateral act of an international organization adopted on the basis of such a commitment, of the law or regulations, or a serious threat or harm to general interest, of which he or she has become personally aware. The facts, information or documents protected by a French defense secret, medical secret or matters relating to attorney-client privilege are excluded."*

The Law has also adapted the protection of trade secrets to the labor and employment law and the protection of the workers. Therefore, in a procedure for breach of a trade secret, the latter cannot be claimed if:

- the acquisition of the trade secret is made through the normal right to information and consultation of the employees or their representatives;
- the disclosure by the employee, or his/her representatives, is made in the context of the lawful exercise of his/her function, subject to the fact that this disclosure was necessary in order to do so (art. L.151-9 C.Com.).

The Judicial Measures provided by the Law: Protective Rules for the Trade Secrets

Member States are obligated by the European Directive to provide measures, procedures and remedies against the unlawful acquisition, use or disclosure of trade secrets.

Measures created to prevent or put an end to a breach of a trade secret

In order to prevent or to put an end to a breach of a trade secret, the competent jurisdiction may order any proportionate measure - including the possibility of

imposing recurring penalty payments in the event of non-compliance – of a certain duration in order to eliminate any commercial or economic advantage that the infringer could have derived from the unlawful acquisition, use, or disclosure of the trade secret.

It includes (i) measures prohibiting the use or disclosure of the trade secret as well as the prohibition of the production, offering, placement on the market or use of infringing goods, (ii) measures ordering the destruction of all or part of any support containing or embodying the trade secret or even (iii) the delivery of unlawful support (*art. L. 152-3 C.Com.*).

The courts may also order, *ex parte* (*requête*) or on a summary procedure (*référé*), provisional and precautionary measures, the conditions of which will be determined by a decree of the State Council (*Conseil d'Etat*) (*art. L.152-4 C.Com.*).

Civil liability of the infringer and remedies

The French legislator has decided that an infringer may be held liable for the breach of a trade secret. The action intended in order to repair the prejudice suffered from the breach is prescribed within five years of the events which caused said breach.

The Law also specifies that in order to calculate the amount of damages to be paid to repair the breach of the trade secret, the following should be taken into account (i) lost profits, including the loss of opportunity (*perte de chance*), (ii) moral prejudice, and (iii) any unfair profits made by the infringer (including intellectual, material and promotional investment savings). The Law also provides an original alternative to this calculation by allowing the courts to set the damages as a lump sum, if the victim asks for it – nonexclusive, however, of any moral damages – taking into account the amount of royalties or fees which would have been due had the infringer requested authorization to use the trade secret in question (*art. L. 152-6 C.Com.*).

Finally, the courts may order the publication of the decision sanctioning the infringer of the trade secrets, preserving however the confidentiality of the latter's, by publishing it online or in newspapers (*art. L.152-7 C.Com.*).

The specific protection before the civil and commercial courts

In order to allow an effective protection of trade secrets before the civil and commercial courts, where inherent elements to the trade secrets may be discussed (for instance, when an exhibit that could breach the trade secret is discussed or when such an exhibit is requested by one of the parties), the Law provides specific procedures inspired from the practices developed before the commercial courts.

Therefore, in due respect of the right of defense, the judge may, spontaneously or at the request of a party, (i) read and study the disputed exhibit or order alone and ask for the advice of a person who can decide if a protective measure is needed for said exhibit, (ii) decide to limit the communication of the exhibit, (iii) decide that the discussions will take place in council chamber (*chambre du conseil*) or even (iv) adapt the reasoning of her/his decision and the conditions of its publication (*art. L. 153-1 C.Com.*).

Finally, any person who has access to an exhibit protected by trade secrets is under an obligation of confidentiality (*art. L.153-2 C.Com.*).

Sanctions in case of abuse of process by the owner of a trade secret

Considering the fear that the Law may limit the access to companies' internal documents by journalists or whistleblowers and lead consequently to "muzzle" procedures (*procédures "bâillons"*) by companies, the Law provides for a special kind of civil fine which can be ordered by a judge against a claimant of a procedure which was in the end considered dilatory or abusive. The amount of such a fine is limited to 20% of the amount asked by the claimant (and to 60,000 euros if there is no quantified claim) (*art. L.152-8 C.Com.*).

The Grey Zones of the Law

The law presents a number of grey areas which make its effectiveness uncertain:

- one of the criteria for defining a trade secret is the implementation by its lawful holder of reasonable protective measures in order to keep its secrecy. However, the legislator doesn't explain at any moment what it meant by this type of measure nor what would be the threshold of the "reasonable" character of the measures.

In practice, companies will have to define, identify, and prioritize the information they consider to be a trade secret, while providing for internal controls to ensure the protection of the information (appointment of managers, implementation of internal control procedures, limitation of the number of people who have access to information, organization of trainings for the employees in order to raise awareness to the concept of trade secrets, and implementation of non-disclosure agreements with employees and business partners, etc.)

- the decrees that will be taken by the State Council (*Conseil d'Etat*) and which will define the provisional and precautionary measures that the courts will be allowed to take have not been published yet;
- the protection of trade secrets is purely civil, which leads some people to doubt its efficacy in the absence of criminal provisions, which are not yet allowed by the European Directive;

- since the European parliament allows some freedom to the Member states in the implementation of the European Directive, there is a risk of *forum shopping* where claims could be brought before the jurisdictions where there is stricter legislation;
- in order to harmonize the present Law with the existing ones, the State Council (*Conseil d'Etat*) recommended the legislator to proceed with a general study of all the existing texts in order to ensure the coherence with the new Law and facilitate its implementation (in particular regarding related notions such as industrial and commercial secrets and the eventual modifications of the blocking statute of July 26, 1968). This general study, which is very important to ensure a clear understanding of the Law and provide a judicial safeguard, hasn't been completed by the legislator, and leaves all the practical questions which existed prior to the promulgation of the Law unanswered.

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