

## Case Reports

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# Protection of trade secrets: entrepreneurial protection concept as door opener for statutory legal protection (GE)

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## Summary

The first instance Labour Court of Aachen has issued one of the first judgments on the prerequisites of trade secret protection under the German Trade Secrets Act (*Geschäftsgeheimnisgesetz*). It well illustrates that employers who have so far not installed an adequate secrecy management taking care of the protection of their trade secrets and critical know-how are well advised to do so swiftly. A rude awakening is imminent if the legal protection of secrets is denied in court because one's own measures were not taken, not appropriate or not sufficiently documented. Also, the judgment makes findings on the extent and scope of the claimant's burden of presentation and proof in trade secret litigation under the Trade Secrets Act.

## Legal background

The German Trade Secrets Act of 18 April 2019 implemented Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure into German law.

Under the Trade Secrets Act, employers who wish to invoke trade secrets against their workforce have more legal rights available to them than under former legislation: they may claim an injunction, removal, destruction, surrender, recall and withdrawal from the market.

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In addition, under the Act, the infringed party has a claim for information and may claim damages. And employers, apart from taking action against their (former) employees for breach of trade secrets, have direct legal claims against third parties – including the new employers of their former employees.

Before an employer may seek the protection of its trade secrets under the Trade Secrets Act it must – unlike in the past – first implement appropriate secrecy measures for its confidential business information and know-how. Only those who have duly installed a suitable secrecy protection and management in their companies are eligible for the protection provided for by the Trade Secrets Act.

The following provisions in particular apply to the case at hand:

### *Section 2 No. 1 Trade Secrets Act*

For the purposes of this Act, 1) a trade secret is a piece of information:

- a. which is not generally known or readily accessible, either as a whole or in the precise arrangement and composition of its components, to persons in the circles which normally handle that type of information and is therefore of commercial value; and
- b. which is the subject of measures of secrecy appropriate in the circumstances to its rightful owner; and
- c. for which there is a legitimate interest in maintaining its secrecy; ...

### *Section 3(1) No. 2 Trade Secrets Act*

- (1) A trade secret may be obtained in particular by:
2. an observation, examination, reverse engineering or testing of a product or article that:
    - a. has been made publicly available; or
    - b. is in the lawful possession of the person observing, examining, deconstructing or testing and that person is not subject to a trade secret restriction; ...

## Facts

The claimant manufactured filling machines as well as associated packaging material for food and beverages and distributed its products worldwide. It provided packaging materials in the innovative form of flat packaging 'sleeves', which came readily sealed at the longitu-

dinal side. Compared to other providers, the claimant was the biggest producer of such sleeves in the market. The defendant was employed by the claimant and involved in its product development of the sleeves. The employment contract included the following clause:

[Employee] shall maintain secrecy about all company and business secrets as well as all other matters and processes of the company that come to his knowledge in the course of his work. He will ensure that third parties do not gain unauthorized knowledge.

The obligation to maintain secrecy shall survive the termination of the employment relationship and shall also include the contents of this contract.

Eventually the claimant terminated the employment relationship. During the notice period the defendant dispatched several emails and attachments with performance data, process parameters for production machines and technical product data, all relating to the production of the sleeves, to a competitor. When learning of this, the claimant, in interim relief proceedings before the regional court, obtained an injunction against the defendant prohibiting the disclosure of relevant internal company information. Such injunction was, however, not upheld by the competent labour court to which the matter was referred.

The claimant continued to pursue its claim with the proceeding on the merits at hand. It called for protection of its alleged trade secrets requesting to prohibit the defendant from unlawfully disclosing or passing on to third parties business or trade secrets of the claimant which had been entrusted to him or made accessible to him within the framework of his employment relationship with the claimant.

The defendant objected that the information at his disposal was not a trade secret, because competitors in the sleeves market are well able to produce equivalent competing products and also to determine relevant production parameters from the claimant's production via reverse engineering.

## Judgment

The action was unsuccessful. The Court held that the claimed injunctive relief could not be awarded as the claimant had not proven that the relevant information was a trade secret within the meaning of Section 2(1) of the Trade Secrets Act. Specifically, the Court held that since competing companies were already producing sleeves, the claimant would have had to prove that the information at the defendant's disposal was not generally accessible to persons in those circles, which normally handle that type of information, and that it was therefore of commercial value, which it had failed to do. According to the Court, it remained unclear what relevant data belonged to the employer's exclusive know-how and was not already known in the market or could

at least be determined by means of reverse engineering as permissible (Section 3(2) of the Trade Secrets Act). In view of the defendant's submissions, among others on the equivalence of competitors' sleeves and the possibility of determining the necessary parameters for their production by means of reverse engineering, the claimant, in the Court's view, should have specifically presented why exactly the competitors' sleeves were defective, why reverse engineering – as a means for deducing the relevant information for production – was impossible and that therefore competitors' successful sleeve production could not be based on competitors' available know-how alone. The Court however acknowledged that the claimant would have been bound to significant effort in order to make the required submissions and that it was doubtful whether the claimant could at all have made available the required information.

The Court further held that the claimant failed in presenting adequate measures taken to protect the secrecy of its relevant and allegedly secret information in accordance with Section 2(1)(b) of the Trade Secrets Act. In line with earlier case law, the Court stated that when assessing the adequacy of protective measures, the value of the trade secret and its development costs, the nature of the information, the importance for the company, the size of the company, the usual confidentiality measures in the company, the way the information is marked and agreed contractual arrangements with employees and business partners could be taken into account. A globally active company could be expected to take greater and more financially elaborate security precautions than a craft business with a few employees. According to the Court, the claimant would have had to show and prove its applicable secrecy management and which concrete data or specifications were to be kept secret in business exchanges. The Court pointed out that ever since the Trade Secrets Act came into force, a secrecy management must be in place specifically geared to the individual secrets in a company, in order for the entrepreneur to prove which secrets are subject to which protection, how and for how long, and which persons come into contact with them and are thereby obliged to protect the relevant secrets. This, according to the Court, was vital because the Trade Secrets Act's statutory trade secret protection was only available where appropriate protection had been taken care of by the entrepreneur itself.

Finally, according to the Court and in line with earlier case law, the overly general clause under the defendant's employment contract dealing with the secrecy of the employer's information – along with the likewise insufficient worded ancillary duty of secrecy in the employment contract – did not qualify as a measure of secrecy under Section (2)(1)(b) of the Trade Secrets Act. It did not allow for a clear differentiated understanding of which information was to be considered a trade secret, but on the contrary, in the interest of the employer it inappropriately sought to limitlessly 'catch all' information, matters, processes etc. within the company. Apart from this, such 'catch all clause' is invalid because of its

vagueness and lack of differentiation. Pursuant to Section 307(1) of the Civil Code, which applies to general terms and conditions, as here, it unreasonably disadvantages the employee contrary to the requirements of good faith and pursuant to Section 138 of the Civil Code the clause is contrary to public policy in particular because of its vagueness.

## Commentary

The present judgment is one of few judgments which deal with the prerequisites of trade secret protection under the Trade Secrets Act. It clearly underlines that protection is only enjoyed by those who have, in the first place, adequately protected their secrets themselves, including well documenting them. Also, it becomes clear that in court the infringed party may need to go to considerable lengths to demonstrate and prove the prerequisites for the desired trade secret protection under the Trade Secrets Act. In the case at hand, based on the defendant's submissions, the claimant failed to prove that the relevant alleged secret information was not available to its competitors and could not be deduced from the claimant's products by (permissible) reverse engineering. (On a separate note, it is debatable whether the possibility to deduce a fact via reverse engineering does indeed take away such fact's eligibility to secrecy under the Trade Secrets Act.)

Finally, the judgment once again shows that 'catch all' clauses are not only unsuitable as a means of employer's secrecy protection, they are also bound to be rendered void under Section 307(1) of the Civil Code, which applies to general terms and conditions, and pursuant to Section 138 of the Civil Code (as its vagueness would have rendered it contrary to public policy).

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