

**QUESTIONS FOR NATIONAL REPORTERS OF LIDC
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QUESTION B :

**The Protection of Trade Secrets and Know-How
Are countries providing enough or too much protection?**

COUNTRY REPORT – LUXEMBOURG

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1. General Background

The legal protection of trade secrets and know-how has increasingly come into focus the last years. From an international perspective trade secrets and know-how are governed by article 10bis of the Paris Convention and article 39.2 of the TRIPs agreement. Under Article 10bis of the Paris Convention the countries of the union shall assure protection against acts of unfair competition and specifically against any act of competition contrary to honest practices in industrial or commercial matters which constitutes an act of unfair competition (Article 10bis (2)).

The 1994 TRIPS Agreement requires that members protect undisclosed information -- trade secrets or know-how. Under Article 39.2, the protection shall apply to information that is secret, that has commercial value because it is secret and that has been subject to reasonable steps to keep it secret. The TRIPS Agreement does not require undisclosed information to be treated as a form of property, but it does require that a person lawfully in control of such information must have the possibility of preventing it from being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices. The expression “manner contrary to honest commercial practices” includes breach of contract, breach of confidence and inducement to breach, as well as the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

The subject of trade secrets has recently gained attention in the European Union. In April 2013 the European Commission and renowned law firm Hogan Lovells issued its joint Study on Trade Secrets and Confidential Business Information in the Internal Market¹. The report analyses how trade secrets are protected under the national laws of each of the 27 Member States and concludes that as a consequence of historical evolution, the current situation at the EU level is that the legal protection afforded by Member States to trade secrets varies significantly. Likewise the remedies in case of misappropriation of trade secrets differ significantly. Trade secrets are in different countries protected under diverse legal regimes such as

- (i) Unfair competition law
- (ii) Industrial property law

¹ With special thanks to Marie DOUZAL, “master en propriété intellectuelle”, for her help.

- (iii) Penal law
- (iv) Labour law
- (v) Tort law
- (vi) Specific trade secrets acts

The report further concludes that there is far from a uniform definition of trade secrets and in a majority of the EU member states trade secrets are defined in case law.

In the end of November 2014² the European Commission presented its Proposal for a Directive of the European Parliament and of the council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure which proposal aims at harmonizing the protection of trade secrets throughout the European Union³ The proposal among others contains proposed articles on the definition of trade secrets, prohibited acts, remedies in case of misappropriation, protection of trade secrets in court proceedings and sanctions against misuse of trade secrets. In May 2014 the Council agreed on a general approach to the proposed directive and proposed amendments to the directive text.⁴

The purpose behind the general question is to research the differences in national protection of trade secrets and know-how but also to ascertain whether the scope of protection in different countries is sufficient or even too far reaching. The purpose is further to get an understanding to which extent commercial parties may agree on protecting confidential information and to which extent such agreements are enforceable.

2. Legal Protection of Trade Secrets

2.1. Specific legal provisions

Luxembourg law does not provide any specific legislation on the protection of trade secrets.

2.2. General legal provisions

However, different other provisions can be used to protect such trade secrets against misappropriation.

These provisions relate to unfair competition law (2.2.1.), criminal law (2.2.2.) and tort law (2.2.3.).

2.2.1. The protection of trade secrets through unfair competition law

The infringement of a trade secret constitutes a violation of article 14 of the law of 30 July 2002 regulating certain commercial practices, forbidding unfair competition and implementing Directive 97/55/CEE of the European Parliament and the Council modifying Directive 84/450/CEE on misleading advertising.

Article 14 of the law of 30 July 2002 reads as follows:

“Commits an unfair competition act every person who is exercising a commercial, industrial, skilled crafts or self-employed activity and who, by acts contrary to honest purposes in commercial, industrial, skilled crafts or self-employed activities, or to a contractual agreement, takes away or

² The report is available at http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf

³ The proposal is available at http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/131128_proposal_en.pdf

⁴ The document is available here <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209870%202014%20INIT>

tries to take away from his competitors or one of them part of their clients or who interferes or tries to interfere with their competitive capacity”.

2.2.2. The protection of trade secrets through criminal law

Article 309 of the Criminal Code provides that:

“Whoever, being or having been employee, worker or apprentice to a commercial or industrial company, with the intent to compete with or harm his employer, or to obtain an improper advantage, uses or discloses during the term of his contract or within two years after its expiration, trade or fabrication secrets of which he has knowledge by reason of his position, shall be punished with imprisonment from three months to three years and a fine of 251 euros to 12,500 euros.

The same applies to the one who, having the knowledge of trade or fabrication secrets belonging to a person, being through an employee, apprentice or worker acting in violation of the requirements of the preceding paragraph, or by an act contrary to law or morality, uses or discloses the secret, either for the purpose of competition or with intent to harm the person to whom they belong, or to obtain an improper advantage.

Is liable to the same penalty, the one who, for the purpose of competition or with intent to harm the person to whom they belong, or to obtain an improper advantage, uses it without having the right or communicates to other models, designs or patterns that have been given to him carry out commercial or industrial orders.

The courts may order, in case of a conviction, display or publication through newspapers of the decision, at the expense of the person they designate.”

2.2.3. The protection of trade secrets through general tort law

Article 1382 of the Civil code provides that:

“Any act of man that causes damage to another obliges the man by whose fault it happened to repair it.”

2.3. The protection against trade secrets misappropriation towards third parties

The protection of trade secrets applies towards third parties (like the new employer of an ex-employee) and more generally parties who gained access to the trade secrets through someone who is not the trade secret proprietor under certain circumstances.

Unfair competition and criminal law both apply to disclosures that have been made by an ex-employee to his new employer.

Pursuant to article 309§2 of the Criminal Code, the use of trade secrets obtained through employees is punished with imprisonment of up to three years and a fine of up to EUR 12,500.
(District Court of Luxembourg, 27 April 2000, n° 997/00, not published)

Concerning unfair competition law, case law states that the use of trade secrets of a competitor obtained through ex-employees constitutes an unfair competition act.
(Court of Appeal of Luxembourg, 15 November 2000, Pasirisie 31, page 415)

2.4. The conditions to act against trade secrets misappropriation

To act against trade secrets misappropriation, the claimant must prove the existence of a trade secret as well as evidence of the infringement.

Since there is no legal definition of trade secrets, the notion has been defined by case law as facts known only by a limited circle of people who have an interest in keeping them secret, who are related to a commercial or industrial enterprise and whose disclosure is likely to cause damages to the person they relate to.

Infringement evidence accepted by courts is constituted, among others, by emails, letters, written testimonies and expert statements.

Concerning the claim based on tort law, the claimant must prove a fault (wrongful misappropriation of the trade secret) as well as a prejudice which has been caused by this fault.

2.5. The legal measures to secure evidence of trade secret misappropriation

As explained above, Luxembourg does not provide specific legislation on trade secrets.

Trade secrets are also not considered as intellectual property rights as such.

Hence, the procedural measures specifically designed to gather evidence in intellectual property cases are not available for trade secrets misappropriations.

The descriptive seizure, provided by Articles 23 to 26 of the Law of 22 May 2009 implementing Directive 2004/48 on the enforcement of intellectual property rights, is unfortunately not available for trade secrets.

The unfair competition law of 30 July 2002 does not provide any legal measures to secure evidence either.

The President of the commercial section of the District Court can however grant a permanent injunction to cease and desist on the basis of an expedite procedure which is rendered on the merits.⁵

Ex-parte measures can of course be obtained in case of criminal proceedings where the Public Prosecutor and/or the Instruction Judge can order any measure to be carried out by the Police to find and secure evidence of the offence.

Such measures should in theory also be available on the basis of Article 350 of the New Code of civil proceedings for civil cases. This article provides an interim injunction to obtain evidence before proceedings are started and which can in very special cases be obtained ex-parte.

There is however to our knowledge no case law on this question regarding trade secrets.

3. Procedural Aspects and Remedies in the Event of Trade Secret Misappropriation

3.1. Measures available to a trade secrets proprietor in the course of proceedings to preserve the confidential character of the information

There are no specific legal measures protecting the confidential character of the information during the proceedings and it is in principle not possible to restrict the access to hearings and documents submitted to the Court.

⁵ See Article 23 of the law of 30 July 2002 on unfair competition

Court proceedings are normally public and open, even though the judge may sometimes decide to conduct the hearing in camera.

This occurs only in very special cases.

Article 185 of the New Code of civil procedure provides that hearings are public but that the Court may order that a specific hearing is secret if the public discussion of the case could cause a scandal or serious disadvantages to anyone involved.

The parties could hence make a request for a closed hearing to the Court by explaining that trade secrets are extremely valuable assets that lose their value as soon as they become public.

Since there is no legal basis for such a request, the Court would be free to accept or refuse such request.

There is to our knowledge no case law on this question.

The confidentiality of evidence and other documents filed with the Court is not regulated either.

3.2. Remedies against trade secret misappropriation

According to article 23 of the unfair competition law of 30 July 2002, the trade secrets owner can request a cease and desist order before the President of the Commercial Court who can then issue a permanent injunction on the merits.

However, in those proceedings, the judge cannot grant damages or compensation.

It can be noted that non-compliance with an injunction to cease and desist from an unfair act is considered a criminal offence.⁶

The claim for damages has to be brought before the District Court and based on tort law.

Tort law is based on the principle of full compensation for the damage suffered.

However, the damage must be proven and cannot be hypothetical. Compensation for the moral prejudice suffered could in principle be claimed but would be very difficult to prove.

In practice, Courts tend to evaluate damages *ex aequo et bono* in those cases but they seem to become increasingly demanding regarding the proof of the damages suffered.

Finally, it can be added that Luxembourg law does not provide for a system of discovery.

4. Protection of Know-How in Confidentiality or Non-Disclosure Agreements

Know-how may in addition be protected under contractual terms, such as licenses or confidentiality or license agreements.

Those agreements can also be used to protect know-how that would not meet the standards required by case law.

The contract shall be binding for the parties. In case of a violation of such an agreement, such as a non-disclosure agreement, the trade secret proprietor will be able to claim damages in Court.

⁶ See Article 25 of the law on unfair competition of 30 July 2002

According to Article 1142 of the Civil code, every obligation to do or to refrain from doing something (like not disclosing a trade secret), must be compensated by damages in case it is not executed.

However, as in tort law, the owner of the know-how will have to prove an actual prejudice.

The claim for damages has to be brought before the District Court.

The contract can of course also contain a penalty payment in case one of the parties violates one of its obligations as set out in the contract.

The penalty payment can be claimed in case of a violation of the contract.

However, the judge has the power to moderate the penalty payment if the amount to be paid is deemed unreasonable.⁷

The Court of appeal has defined the methodology to be followed by the judge when applying this provision:

“The manifestly excessive or derisory character of the penalty payment (...) results from the comparison between the prejudice effectively suffered and the amount of the penalty payment due (...)”⁸

The parties can finally also choose to submit the case to an arbitration procedure. This is also very often pre-determined in the agreement.

The advantage of arbitration proceedings is that they are by nature confidential.

5. Misuse of Trade Secret Protection

As already explained above, there is no specific trade secrets legislation in Luxembourg. The scope of the protection awarded to trade secrets via unfair competition law and criminal law has not given rise to any critics of abuse.

It is rather the contrary.

The current legislation does not protect trade secrets very well. The general provisions used are not adapted to trade secrets.

Especially the tools to enforce trade secrets and prove infringements are insufficient.

However, even though there is no case law on this question, it cannot be excluded that a trade secrets owner would abuse his trade secrets and/or the protection granted to them.

Illegal misuse of trade secrets could be sanctioned by the civil law provisions on the abuse of rights.

Article 6-1 of the Civil Code provides that any act which manifestly exceeds the normal exercise of a right may engage the liability of its author and lead to an injunction to prevent the abuse to persist.

As derives from the wording of Article 6-1 of the Civil code, the conditions to be met are quite strict and there is very little case law on this question and none at all on the abuse of trade secrets rights.

Furthermore, the misuse of trade secrets against a competitor could under certain conditions be qualified as an unfair competition act and hence be sanctioned under Articles 14 and 23 of the law on Unfair competition of 30 July 2002 mentioned above.

It must be noted that there is to our knowledge no case law on the abuse of trade secret rights in Luxembourg.

6. Personal Reflections and Conclusion

⁷ See Article 1152 of the Civil code

⁸ Court of Appeal Luxembourg, 10 November 2010, n° 35743, not published

Trade secrets are very valuable company assets and very often exist in parallel with or in addition to intellectual property rights.

Both the rights holders and the public authorities become increasingly aware of this value and the necessity to protect it.

On the one hand, it is up to the right holders to take particular care to the protection of their trade secrets both internally (such as through security policies and employment contracts) and externally by drafting appropriate confidentiality agreements or clauses.

On the other hand, the authorities must provide the right holders with sufficient tools to enable them to enforce their rights in Court.

There is a clear lack in this respect in Luxembourg.

Given the similarity of trade secrets with intellectual property rights, introducing measures similar to those provided by Directive 2004/48 on the enforcement of intellectual property rights seems very adequate.

The most significant lack in Luxembourg law concerns the measures to prove an infringement (descriptive seizure) and the grant of damages in case of a trade secrets infringement.

This being said, with the availability of more intrusive measures to find evidence, the risk of trade secrets misuse and knowledge theft increases.

This risk is particularly important with regard to trade secrets which lose all their value as soon as they are disclosed.

It is therefore important to design such measures with great care and to include specific provisions to protect the confidential information of the respective parties and the defendant in particular.

The existing provisions on the descriptive seizure set out in articles 23 to 26 of the law of 22 May 2009 implementing Directive 2004/48 on the enforcement of intellectual property rights, are not sufficient in this respect.

They could either be used as a model for new specific provisions on trade secrets, or, preferably, could be adapted to include trade secrets with additional provisions to protect the confidential information of all the parties involved.

To conclude, the author welcomes the Commission's proposal of 28 November 2013 Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure which will both strengthen the protection granted to trade secrets in Europe and significantly enhance the legal certainty on this subject.

In addition, a harmonization of the rules applicable to trade secrets in the European Union will be beneficial for all the stakeholders.