

CHAPTER 1

The “*Actio Servi Corrupti*” from the Roman Empire to the Globalised Economy

Anselm Kamperman Sanders

A. INTRODUCTION

Unlike most fields of intellectual property law, the issue of unfair competition and trade secrets is addressed in international agreements in a rather incomplete manner. Article 10bis Paris Convention and the 1995 World Trade Organisation (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Article 39 offer no particular guidance let alone an obligation on how trade secrets should be protected. In the absence of large scale global labour mobility, this has thus far not presented a major problem. The TRIPS Agreement merely provides the conditions under which protection can be sought:

“Article 39 – Protection of Undisclosed Information

1. In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices¹ so long as such information:

-
1. Footnote 10 to the TRIPS Agreement reads:

“For the purpose of this provision, ‘a manner contrary to honest commercial practices’ shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were

- (a) is secret in the sense that 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 that normally deal with the kind of information in question;
- (b) has commercial value because it is secret; and
- (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.”

However, a growing number of factors make the lack of an unequivocal global standard for the protection of undisclosed know-how and business information increasingly problematic. One only needs to think of globally operating companies, the growth of the borderless wired and wireless knowledge economy, the formation of free trade areas and customs unions, and the outsourcing of research and development to jurisdictions where skilled specialists can be found to see why this is so. Given the fact that in the absence of intellectual property rights, information is non-rival and non-exclusive,² the risks of misappropriation of knowledge are likely to become even more pronounced in the future.

B. *ACTIO SERVI CORRUPTI*

It has been purported that the private legal action granting commercial relief for corrupting another's servant in Roman law is the genesis of the protection of trade secrets today.³ Although this assertion has been refuted,⁴ cases of industrial espionage have often targeted the knowledgeable employees of a competitor. Successful “corruption” of another's employees or nationals has however, not always been perceived as unfair.

A case in point is the way in which Robert Fortune (16 September 1812 – 13 April 1880), the Scottish botanist and traveller who was sent by the Royal Horticultural Society to collect plants in China, was revered in his time. Despite having successfully

involved in the acquisition. Members to these conventions have so far been able to deal with the issue of protection of trade secrets on a strictly national basis.”

2. See European Commission, press Release 28 November 2013, “Commission Proposes rules to help protect against the theft of confidential business information”, available at http://europa.eu/rapid/press-release_IP-13-1176_en.htm: “Trade secrets are ... substantially different from IPRs, which confer exclusivity”.
3. Arthur Schiller, “Trade Secrets and the Roman Law: The *Actio Servi Corrupti*” (1930) 30:6 *Columbia Law Review* 837–45.
4. Alan Watson, “Trade Secrets and Roman Law: The Myth Exploded” (1996) 11 *Tulane European and Civil Law Forum* 19, at 19: “Schiller is sadly mistaken as to what was going on. ... The *actio servi corrupti* presumably or possibly could be used to protect trade secrets and other similar commercial interests. That was not its purpose and was, at most, an incidental spin-off. But there is not the slightest evidence that the action was ever so used. In this regard the *actio servi corrupti* is not unique. Exactly the same can be said of many private law actions including those for theft, damage to property, deposit, and production of property. All of these could, I suppose, be used to protect trade secrets, etc., but there is no evidence they were. It is bizarre to see any degree the Roman *actio servi corrupti* as the counterpart of modern law for the protection of trade secrets and other such commercial interests.”

wrested the territory of Hong Kong and further trade concessions from China at the conclusion of the First Opium War in the 1842 Treaty of Nanking, the English still did not have access to tea, their most popular drink, which was produced inland. Westerners were not allowed to travel into the Chinese interior. Fortune first travelled through China for three years around 1843, often in disguise, and published his journals in a book on his adventures that brought him to the attention of the British East India Company.⁵ They recruited Fortune and assigned him the task of breaking the Chinese tea monopoly. During his second trip to China's Fujian, Guangdong, and Jiangsu provinces from 1848 to 1851, Fortune managed to smuggle 20,000 black and green tea plants out of the country in “Wardian cases” (a terrarium popularised by Dr. Nathaniel Bagshaw Ward⁶ from 1829 onwards) with the purpose of planting them in the territory that the East India Company did control; the Assam region in India. At first many of the tea plants that Fortune had “liberated” from Chinese soil perished in India and Fortune's bio-piracy almost came to nothing. Fortune had, however, also managed to recruit eight Chinese tea experts who assisted in the set-up of the Indian tea plantations and transferred their knowledge on producing, curating, harvesting, and drying the tea. As a result of this concurrent transplant of plants and poaching of talent, the Chinese tea trade collapsed and India became the biggest tea exporter during Fortune's lifetime.

This strategy was also used by the Portuguese. In the early 1800s the Emperor of China had gifted tea plants to the Portuguese King João VI, who was then residing in Brazil. In 1860 the orange plantations in the Azores succumbed to a virus and an alternative crop was sought. The tea plants that had been growing in the Rio de Janeiro palatial gardens were transported to São Miguel, one of the islands in the Azores archipelago, in an attempt to replace the orange tree orchards with tea plantations. This only worked when two Chinese natives, a tea expert and an interpreter from Macau, were recruited and brought over in 1878 to assist in turning the ornamental plants into tea-producing plantations for the manufacture and export of tea. The tiny island of São Miguel is the only place in Europe where tea is produced. To this day bio-piracy and the misappropriation of indigenous knowledge are strongly interlinked.⁷

Fortune, who documented the exploits of his second voyage in two books,⁸ returned to China for a third visit from 1853 to 1856 and is said to have been able to

5. Robert Fortune, *Three Years' Wandering in the Northern Provinces of China* (London, John Murray 1847), detailing his first visit to China.
6. Nathaniel Ward, *On the Growth of Plants in Closely Glazed Cases* (London, John van Voorst 1842), who in “Chapter IV. On the Conveyance of Plants and Seeds on Ship-board”, p. 45 *et seq.*, describes the experiments in transporting coffee plants, ferns, and various other plants under various weather conditions and during lengthy voyages.
7. See Convention on Biodiversity (1993), available at <http://www.biodiv.org>; see also Graham Dutfield, *Intellectual Property Rights, Trade and Biodiversity* (London/Sterling, Earthscan 2000); and Susan Laird (ed.), *Biodiversity and Traditional Knowledge – Equitable Partnerships in Practice* (London/Sterling, Earthscan 2002).
8. Robert Fortune, *A Journey To The Tea Countries Of China; Including Sung-Lo And The Bohea Hills; With A Short Notice Of The East India Company's Tea Plantations In The Himalaya Mountains* (London, John Murray 1852); *Two Visits to the Tea Countries of China and the British Tea Plantations in the Himalaya: with a Narrative of Adventures, and a Full*

sustain himself for the rest of his life from the proceeds of these and further popular publications on his travels.⁹ Robert Fortune thus became known as a heroic scientific explorer who could easily have served as inspiration for George Lucas' Indiana Jones character. What is known is that Fortune did not perceive his actions as infringing upon anyone's intellectual property rights, believing firmly that plants belonged to no-one and should benefit the whole of humanity.¹⁰ Recruiting the Chinese tea experts and tapping into their knowledge was thus in the interest of the greater good.

Contrast this story with the tale of José Ignacio López de Arriortúa.¹¹ During his tenure at General Motors, which lasted until 1992, López had been instrumental in turning Opel's dire financial situation around through cost reductions and introducing efficient production methods. Because of his success, he was known as the "Grand Inquisitor", "Super López", or "Inaki". When López was drafted in by GM to repeat the exercise in Detroit, he instead moved to Volkswagen in 1993, taking three of his close associates with him. Curiously López did not have a contract with GM, as the corporate culture held that persons at the top would never leave "The General" voluntarily.

GM accused López and his three associates of breach of trade secrets, claiming that he had taken with him ten years' worth of Opel production plans, blueprints for a superefficient production plant (Plant X), and other private insider GM information. Germany's leading news weekly *Der Spiegel* put López on the front cover calling him "Der Skrupellose", the one without scruples.¹² VW was sued by GM in the United States, a civil case which was settled in 1997 by VW paying GM USD 100 million in cash and USD 1 billion in car parts. López had by then already resigned from VW and was forced to pay USD 230,000 in civil fines. Ironically he only escaped extradition to the United States for criminal charges due to the fact that he was involved in a serious car accident in his home country Spain in 1998. To this day, "Inaki" tops many lists of nefarious industrial spies. "Der Skrupellose" induced some of his colleagues to follow him to Volkswagen and VW was in turn forced to pay up for the acquisition of trade secrets in the full knowledge that López was not at liberty to disclose this information.

In modern times, the *actio servi corrupti*, the action against the corruption of the servant, therefore addresses both the corruptor and the corrupted, but it should not come as a surprise that drawing the line between free and fair competition on the one hand, and breach of trade secrets on the other remains in the eye of the beholder. In today's globalised and networked economy, the question of protection

Description of the Culture of the Tea Plant, the Agriculture, Horticulture, and Botany of China (London, John Murray 1853).

9. Robert Fortune, *A Residence Among the Chinese; Inland, On the Coast and at Sea* (London, John Murray 1857); *Yedo and Peking; A Narrative of a Journey to the Capitals of Japan and China, with Notices of the Natural Productions, Agriculture, Horticulture and Trade of those Countries and Other Things Met with By the Way* (London, John Murray 1863).
10. Sarah Rose, *For All the Tea In China: Espionage, Empire, and the Secret Formula for the World's Favourite Drink* (London, Hutchinson 2009).
11. See also Chapter 5.
12. "Der Skrupellose VW-Manager López unter Verdacht: Industrie-Spionage" (1993) 47:21 *Der Spiegel*, 24 May 1993, available at <http://www.spiegel.de/spiegel/print/d-9280405.html>.

of trade secrets has become increasingly relevant. In the context of international trade agreements, great emphasis is placed on the protection of intellectual property and investor confidence. In order to safeguard technology-transfer across borders, harmonisation or at least a minimum of convergence of the rules on trade secret protection is key. Article 39 TRIPS provides some notions on the protection of trade secrets against their unlawful acquisition, use or disclosure by third parties, but this provision still allows for diverging national definitions of the concept of "trade secret" and of the scope of protection.¹³ In any event a trade secret has three parts: (1) information; (2) reasonable measures taken to protect the information; and (3) deriving independent economic value from not being generally known. Legislative developments on this issue in the European Union and in the United States are therefore extremely relevant for the ongoing negotiations on the Transatlantic Trade and Investment Partnership Agreement (TTIP). In the United States trade secret law was until recently primarily based upon the laws of each of the 50 states.¹⁴ These state laws are predominantly based on the Uniform Trade Secret Act (UTSA), a model law of the National Conference of Commissioners on Uniform State Laws,¹⁵ which has been adopted by 48 of the 50 states,¹⁶ the District of Columbia, the US Virgin Islands and Puerto Rico.

On 11 May 2016, new federal legislation entered into force in the form of the Defend Trade Secrets Act of 2016 (DTSA).¹⁷ The DTSA creates a federal cause of civil action for misappropriation of trade secrets that is similar to the protection offered under the UTSA. This means that in addition to state courts, federal courts can now deal with cases involving trade secrets.

In the European Union, the laws of the Member States¹⁸ are to be harmonised by a 2016 Directive on the protection of trade secrets (Trade Secrets Directive), whereby they must bring into force the laws and administrative provisions necessary to comply with the Directive by 9 June 2018.¹⁹

13. EU Study on trade secrets and confidential business information in the internal market (July 2013) http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf
14. Elizabeth Rowe and Sharon Sandeen, *Trade Secrecy and International Transactions* (Cheltenham/Northampton, Edward Elgar 2015).
15. Uniform Trade Secrets Act, model law, as amended in 1985 (© The National Conference of Commissioners on Uniform State Laws 1985), available at http://www.wipo.int/wipolex/en/text.jsp?file_id=130067.
16. Only New York and Massachusetts have not adopted the UTSA. In these states, trade secrets are protected under common law.
17. An Act to amend Chapter 90 of Title 18, United States Code, to provide federal jurisdiction for the theft of trade secrets, and for other purposes, available at <https://www.congress.gov/114/bills/s1890/BILLS-114s1890enr.pdf>.
18. See Chapters 4–9 for an overview of the current state of the law in the United Kingdom, Germany, the Netherlands, France, Italy, and Spain.
19. Directive 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, (2016) *Official Journal of the European Union*, 15 June 2016, L157/1.

C. TRADE SECRET PROTECTION IN THE UNITED STATES OF AMERICA UNDER THE DTSA

The development of trade secret protection in the United States of America can be characterised in that many of US states value free competition and employee mobility. Any claim under the UTSA therefore relies on showing misappropriation of confidential information. That means that in the context of the burden of proof wrongful behaviour must be demonstrated. The Obama Administration in 2013 issued a report addressing its strategy in combatting trade secret theft by hackers, employees, and companies.²⁰ Much of this report is based on the notion that economic espionage is particularly targeting United States companies. The Economic Espionage Act of 1996 made the theft or misappropriation of a trade secret a federal crime, but did not specifically address the civil actions available in case of misappropriation. The DSTA now makes direct reference to the Economic Espionage Act and calls upon the Attorney General of the United States, in consultation with the Intellectual Property Enforcement Coordinator and other appropriate agencies to report to the House of Representatives and the Senate on the scope and breadth of theft of trade secrets of United States companies occurring outside of the United States. In light of this trade agreements and treaties are mentioned as a means to improve the protection against the “theft of trade secrets” outside of the United States.²¹

The DTSA, as a federal instrument²² providing civil actions, does not pre-empt state legislation, which means that plaintiffs can choose to file claims in a state or federal court for the misappropriation of a trade secret that is related to a product or service used in, or intended for use in, interstate or foreign commerce. It is said that federal courts are better equipped to ensure that a uniform body of case law develops in relation to trade secret protection.²³

I. Definition

The UTSA provides for the following definition:

“§1(4) ‘Trade Secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”²⁴

20. *Administration Strategy on Mitigating the Theft of U.S. Trade Secrets* (2013), available at https://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf

21. DTSA, *supra* note 17, Sec. 4, “Report on Theft of Trade Secrets Occurring Abroad”.

22. DTSA, *supra* note 17, Sec. 2, “Federal Jurisdiction for Theft of Trade Secrets”.

23. David Almeling, Darin Snyder, Michael Sapoznikow, Whitney McCollum, and Jill Weader, “A Statistical Analysis of Trade Secret Litigation in State Courts” (2011) 46 *Gonzaga Law Review*, 57–101; and David Almeling, “Four Reasons to Enact a Federal Trade Secrets Act” (2009) 19 *Fordham Intellectual Property, Media & Entertainment Law Journal* 769–98.

24. *Supra* note 13.

The DTSA uses a similar definition of trade secrets, and it contains remedies similar to those available in state proceedings, namely injunctive relief, compensatory damages or payment of a reasonable royalty, and exemplary damages and the recovery of attorneys’ fees, the latter two in the event of wilful or malicious misappropriation. There are also a number of notable differences (see below).

The DTSA provides a definition for the term “misappropriation”, meaning *inter alia* “the acquisition of a trade secret by another by a person who knows or has reason to know that the trade secret was acquired by improper means”. “Improper means” are defined as including theft, bribery, misrepresentation, breach or inducement or a breach of a duty to maintain secrecy, or espionage through electronic or other means. It is specified that reverse engineering, independent derivation, or any other lawful means of acquisition are excluded. Misappropriation also covers the disclosure or use of a trade secret, either through improper means, or if the defendant had knowledge or constructive knowledge that a trade secret was involved.

II. Remedies

The DTSA creates an *ex parte* seizure procedure allowing, in extraordinary circumstances only, the trade secret “owner” to request the seizure of information without the other party being notified. This serves to prevent the party against whom the seizure is ordered from destroying, moving, or hiding materials, or otherwise making them inaccessible to the court. Once the request for a seizure has been granted, a hearing must be set within seven days after the issuance of the order and the materials remain in custody of the court. Furthermore, the DTSA allows for the recovery of treble exemplary damages for wilful or malicious misappropriation, versus double under the UTSA.

III. Confidentiality of Trade Secrets in Legal Proceedings

Unlike most state legislation,²⁵ the DTSA does not require the plaintiff to describe or disclose its trade secrets with particularity before commencing discovery. Under state laws the plaintiff in a written disclosure has to specifically identify each trade secret that he wishes to be considered for discovery against a defendant. The DTSA shields the plaintiff from having to reveal the trade secret in question at an early stage in the proceedings and under federal rules of civil procedure can exercise discretion.²⁶

25. See for example California’s Code of Civil Procedure, Sec. 2019.210:

“In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code), before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.”

26. Federal Rule of Civil Procedure 26. Duty to Disclose; General Provisions Governing Discovery.

IV. Safeguards

Whistle-blowers wishing to address violations of the law are vulnerable to retaliatory action for the misappropriation of trade secrets. Provided that they “disclose trade secrets to law enforcement or court officials in confidence for the purpose of reporting or investigating a suspected violation of law”, the DTSA provides protection from such retaliatory accusations.

The DSTA also addresses the issue of injunctive relief based on the inevitable disclosure doctrine that allows an employer to enjoin a former employee from working in a job that would inevitably result in the use of trade secrets. The inevitable disclosure doctrine thus allows employers to prevent ex-employees from entering the employ of a competitor solely on the basis that he is in the possession of confidential information. The DSTA allows the employer to seek injunctive relief only upon providing evidence of threatened misappropriation. However, individual laws of states governing non-compete agreements are not affected by the DTSA.

Furthermore, a three-year limitation period for civil action is in place from the date on which the misappropriation with respect to which the action would relate is discovered or should have been discovered.

Most concerns²⁷ are, however, raised against the *ex parte* measures that, despite the DTSA’s instruction to the Federal Judicial Center to develop best practices for the execution of seizures and the storage of seized information, are seen as fundamentally prohibitive of competition,²⁸ as the costs of these proceedings are high and are likely to target start-up companies and ex-employees.²⁹

D. TRADE SECRET PROTECTION IN THE EUROPEAN UNION UNDER THE DIRECTIVE

The need to strengthen innovation to safeguard Europe’s future has been articulated over and over again.³⁰ In *Putting Knowledge into Practice: A Broad-Based Innovation Strategy for the EU* (2006),³¹ the European Commission made the point that tackling

27. David Levine and Sharon Sandeen, “An open letter to the sponsors of the revised Defend Trade Secrets Act”, 3 August 2015, available at <https://s3.amazonaws.com/ftt-uploads/tradesecretletter2015.pdf>.

28. See Timothy Maloney, “Patent Enforcement in the United States”, in Christopher Heath (ed.), *Patent Enforcement Worldwide* (3rd edn, Oxford/Portland, Hart Publishing 2015), who at 495 notes that preliminary injunctions are rarely granted in intellectual property disputes.

29. For a critical appraisal of these types of threats see Orly Lobel, “Enforceability TBD: From Status to Contract in Intellectual Property Law” (2016) 96 *Boston University Law Review* 869–93.

30. See Anselm Kamperman Sanders and Meir Perez Pugatch, “From the Lisbon Agenda to Horizon 2020 - An Uneasy Journey: Some Thoughts on European Innovation and IP Policy at a Crossroad”, in Adam Jolly (ed.), *The Handbook of European Intellectual Property Management* (4th edn, London/Philadelphia/New Delhi, KoganPage 2015) 3–9.

31. European Commission, *Putting Knowledge into Practice: A Broad-Based Innovation Strategy for the EU*, 2006. See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0502:FIN:en:PDF>.

the issues of climate change, depleting national resources, sharp demographic changes and emerging security needs were all reliant on Europe’s ability to harness innovation. It also emphasised Europe’s strong tradition of innovation and the way in which the internal market allows innovative products to be commercialised on a large scale. Indeed, it argued that the wealth of creativity across Europe and the strength of cultural diversity must be exploited not only to overcome significant obstacles, but also to allow Europe to compete globally with the world’s biggest economies.

As a follow-up, the *Lisbon Strategy for Growth and Jobs* (2000),³² aimed to make the EU the “most dynamic and competitive knowledge-based economy in the world” by 2010. However, whilst it was quite clear in 2010 that many of these targets had not been met, the Commission refused to admit defeat³³ and instead re-launched its initiative with an even greater ambition under the name *Europe 2020*.³⁴ Europe 2020 highlights the increasing need to create new jobs to replace those that were lost during the financial crisis. It also reaffirms the EU’s conviction that innovation and creativity are the best means of successfully tackling major societal challenges, as they become more urgent than ever. As far as the protection of trade secrets is concerned, a 2013 *Study on Trade Secrets and Confidential Business Information in the Internal Market*,³⁵ found that across all sectors of industry, there was a strong desire for more certainty in the European market, and a great reluctance to bring legal action. Cross-border enforcement was found to be problematic as well, as very few litigants were able to enforce a decision rendered by one Member State court in other Member States.³⁶ Yet the study concluded that many European companies relied on trade secrets as they effectively fill “the gap between copyright and patent protection, the two traditional pillars of intellectual property, for purposes of appropriating the results of investments in innovation. [And that] empirical evidence and stakeholders’ opinions converge on the conclusion that an initiative of the EU Commission in [creating a sound legal environment to protect trade secrets] would contribute to fostering economic growth, competitiveness and innovation in the Single Market.”³⁷

The recitals of the Trade Secrets Directive reflect these ambitions. While using fashionable terms like “open innovation” and “co-created knowledge”, the recitals equally state³⁸ that in the interest of “collaborative research” and “cross-border cooperation” there is a clear need for harmonising the protection of trade secrets against unlawful acquisition, use or disclosure.³⁹ Trade secrets are introduced as “important for business competitiveness as well as for research and development, and

32. European Commission, *Lisbon Strategy for Growth and Jobs*. See http://ec.europa.eu/archives/growthandjobs_2009/.

33. European Commission, *Lisbon Strategy evaluation document*, 2010. See http://ec.europa.eu/archives/growthandjobs_2009/pdf/lisbon_strategy_evaluation_en.pdf.

34. European Commission, *Europe 2020*. See http://ec.europa.eu/europe2020/index_en.htm.

35. Final Study, April 2013, Prepared for the European Commission, Contract number: MARKT/2011/128/D, Ref. Ares (2016)165284 - 12/01/2016, available at <http://ec.europa.eu/DocsRoom/documents/14900>.

36. *Ibid.* in the study’s conclusions at 151-3, and more specific on litigation statistics 105-9.

37. *Ibid.* at 151.

38. Trade Secrets Directive, *supra* note 19, recital 3.

39. Paul England, “Uniform Trade Secrets Protection of Europe?” (2013) 13 *Bio-Science Law Review* 5, 184–87.

innovation-related performance.” However, there was some trepidation in using the term “trade secret”, as civil society groups could find this terminology troublesome in light of openness, pluralism, transparency and the freedom of expression and information.⁴⁰ In fact the Directive’s title carefully steers away from such opposition by using terms like “protection of undisclosed know-how and business information”. This fact notwithstanding, the European Parliament only adopted⁴¹ the final Directive once safeguards were put in place to protect whistle-blowers, workers in their freedom of movement and the freedom of establishment.⁴²

The Trade Secrets Directive addresses a number of areas where the laws of the Member States diverge. A number of issues stand out: the Directive (1) provides a common definition of trade secret;⁴³ (2) provides for common remedies in the event of unlawful acquisitions, use or disclosure of trade secrets;⁴⁴ and (3) seeks to remedy the dilemma that many holders of a trade secret face when considering whether or not to sue, namely that the confidentiality of the trade secret in court proceedings cannot be assured.⁴⁵

I. Definition

The EU and its Member States are bound by the TRIPS Agreement, which provides minimum standards of protection. According to the Court of Justice of the European Union (CJEU), it is exclusively competent to interpret the WTO Agreements at Europe’s highest court, but it has equally held, in *Dior v Tuk* and *Assco v Layher*,⁴⁶ that: “TRIPS leaves to the Contracting Parties, within the framework of their own legal systems and in particular their rules of private law, the task of specifying in detail the interests which will be protected under TRIPS as “intellectual property rights” and the method of protection, provided always, first, that the protection is effective, particularly in preventing trade in counterfeit goods and, second, that it does not lead to distortions of or impediments to international trade.” Especially with a provision as non-committal as Article 39 TRIPS, this leaves a huge degree of freedom to the Member States to provide for protection of trade secrets.

The Directive provides the following definitions for trade secrets:

“Article 2 – Definitions

For the purposes of this Directive, the following definitions apply:

- (1) ‘trade secret’ means information which meets all of the following requirements: (a) it is secret in the sense that 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 that normally deal with the kind of information in question; (b) it has commercial value because it is secret; (c)

40. Trade Secrets Directive, *supra* note 19, recital 19.

41. See https://ec.europa.eu/growth/industry/intellectual-property/trade-secrets_en.

42. Trade Secrets Directive, *supra* note 19, recitals 13 and 20, Arts. 5, 7, 11, 13.

43. Trade Secrets Directive, *supra* note 19, Art. 2.

44. Trade Secrets Directive, *supra* note 19, Section 2, Arts. 10–15.

45. Trade Secrets Directive, *supra* note 19, Art. 9.

46. CJEU 14-12-2000, C-300/98 and C-392/98.

it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;

(2) ‘trade secret holder’ means any natural or legal person lawfully controlling a trade secret;

(3) ‘infringer’ means any natural or legal person who has unlawfully acquired, used or disclosed a trade secret;

(4) ‘infringing goods’ means goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed.”

This definition is largely based on Article 39 TRIPS and is quite similar⁴⁷ in content to the definition of the UTSA.⁴⁸ Preamble 14 of the Trade Secrets Directive indicates that the definition encompasses know-how, business information, and technological information where there is both a legitimate interest in keeping them confidential and a legitimate expectation that such confidentiality will be preserved. However, trivial information and the experience and skills gained by employees in the normal course of their employment is excluded from the definition. An important question in this regard will be what information is considered trivial. It would seem that what is meant is information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question. Whatever the employee has therefore learnt in the course of employment that is commonly available through training does not fall within the definition of a trade secret.

In light of the other definitions, we can conclude that anyone who factually controls confidential information qualifies as someone who can initiate an action against the acquisition, use and disclosure of trade secrets. This places licensees in a position equal to licensors and may raise questions as to whether trade secrets have been lawfully acquired.⁴⁹ Goods that have significantly benefited from the acquisition or use of a trade secret fall within the ambit of the Directive, not unlike goods produced by means of a patented process. Yet since inspection of the goods themselves may not reveal the extent to which unlawfully acquired trade secrets have been used in their production, establishing a causal link between the use of unlawfully acquired undisclosed know-how and business information and any significant benefit is likely to be a contentious issue. The more so since under Article 3 of the Trade Secrets Directive, lawful acquisition of a trade secret is possible through independent discovery or creation as well as through reverse engineering.

II. Remedies

Despite the relative protection afforded to undisclosed know-how and business information under the Directive, the definition of infringing goods and the related

47. Anna Aurora Wennakoski, “Trade Secrets under Review: A Comparative Analysis of the Protection of Trade Secrets in the EU and the US” (2016) 38:3 *European Intellectual Property Review* 154–71.

48. *Supra* note 15.

49. See Trade Secrets Directive, *supra* note 19, Art. 3.

remedies available to the holder of the right offered in Articles 10 (Provisional and precautionary measures)⁵⁰ and 12 (Injunctions and corrective measures),⁵¹ display a level of enforcement akin to those available to intellectual property right holders under the Enforcement Directive (IPRED).⁵²

A number of remedies that are available in case of intellectual property infringement under IPRED,⁵³ are not available in the context of the Trade Secrets Directive.

50. Trade Secrets Directive, *supra* note 19, Art. 10:

1. Member States shall ensure that the competent judicial authorities may, at the request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer: (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis; (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes; (c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.

2. Member States shall ensure that the judicial authorities may, as an alternative to the measures referred to in paragraph 1, make the continuation of the alleged unlawful use of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder. Disclosure of a trade secret in return for the lodging of guarantees shall not be allowed.

51. Trade Secrets Directive, *supra* note 19, Art. 12:

1. Member States shall ensure that, where a judicial decision taken on the merits of the case finds that there has been unlawful acquisition, use or disclosure of a trade secret, the competent judicial authorities may, at the request of the applicant, order one or more of the following measures against the infringer: (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret; (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes; (c) the adoption of the appropriate corrective measures with regard to the infringing goods; (d) the destruction of all or part of any document, object, material, substance or electronic file containing or embodying the trade secret or, where appropriate, the delivery up to the applicant of all or part of those documents, objects, materials, substances or electronic files.

2. The corrective measures referred to in point (c) of paragraph 1 shall include: (a) recall of the infringing goods from the market; (b) depriving the infringing goods of their infringing quality; (c) destruction of the infringing goods or, where appropriate, their withdrawal from the market, provided that the withdrawal does not undermine the protection of the trade secret in question.

3. Member States may provide that, when ordering the withdrawal of the infringing goods from the market, their competent judicial authorities may order, at the request of the trade secret holder, that the goods be delivered up to the holder or to charitable organisations.

4. The competent judicial authorities shall order that the measures referred to in points (c) and (d) of paragraph 1 be carried out at the expense of the infringer, unless there are particular reasons for not doing so. Those measures shall be without prejudice to any damages that may be due to the trade secret holder by reason of the unlawful acquisition, use or disclosure of the trade secret.

52. Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (2004) *Official Journal of the European Union*, 2 June 2004, L195/16.

53. *Ibid.*, Art. 6 – order for the presentation of evidence; Art. 7 – preservation of evidence; Art. 8 – right of information; Art. 9(1)(a) and 11 – injunction against intermediaries

However, the Trade Secrets Directive is a minimum harmonisation Directive, so the Member States can provide for equivalent measures should they so wish.

III. Confidentiality of Trade Secrets in Legal Proceedings

One of the key provisions in the Trade Secrets Directive addresses the dilemma that any holder of a trade secret faces, namely that he may be compelled to disclose the trade secret to the counterparty in the interest of due process. This means that lawyers and other representatives of the parties, court officials, witnesses, experts and all others participating in legal proceedings may learn of the most sensitive know-how and business information. Whereas the decisions can be removed or redacted and access to the proceedings can be restricted, there is a fundamental notion of fair trial that parties should be able to respond to claims in relation to the trade secrets in question. Article 9(2) of the Trade Secrets Directive allows for the circle of persons to whom confidential information is disclosed to be limited to at least one natural person from each party and the respective lawyers or other representatives of the parties to the proceedings. This limitation is subject to a proportionality test that will have to be conducted in light of the right to fair trial that is guaranteed by Article 6⁵⁴ of the European Convention on Human Rights (ECHR).⁵⁵

IV. Safeguards

In a democratic and open society, diversity and plurality of media is necessary to ensure the fundamental rights of freedom of speech and information.⁵⁶ The conditions under which lawful acquisition, use and dissemination of information can take place has to be clearly described.⁵⁷ Article 5 of the Trade Secrets Directive provides for the protection of media, whistle-blowers, and workers where the disclosure of information serves the purpose of adherence to Union or national law, with the pivotal notion that the revealing misconduct, wrongdoing or illegal activity is with the purpose of protecting the general interest.

whose services are used by a third party; Art. 9(4) – ex parte injunction; Art. 14 – full cost recovery.

54. ECHR Art. 6:

1. In the determination of his civil rights and obligations ..., everyone is entitled to a fair and public hearing by [a] tribunal established by law. Judgment shall be pronounced publicly but the press and public may be excluded from all or part of the trial in the interests of morals, public order or national security in a democratic society, where the interests of juveniles or the protection of the private life of the parties so require, or to the extent strictly necessary in the opinion of the court in special circumstances where publicity would prejudice the interests of justice.

55. See Guide on Article 6 of the European Convention on Human Rights (2013) Council of Europe, available at http://www.echr.coe.int/Documents/Guide_Art_6_ENG.pdf.

56. Art. 10 ECHR and Art. 11 Charter of Fundamental Rights of the European Union.

57. Jean Lapousterle, Christophe Geiger, Norbert Olszak and Luc Desautnettes, “What Protection for Trade Secrets in the European Union? A Comment on the Directive Proposal” (2016) 38:5 *European Intellectual Property Review* 225–61.

The Directive incorporates a statutory limitation of a maximum of six years during which action can be brought from the moment of acquisition, use or disclosure. This is very long considering that most ex-employees, the source of most disclosures, will have moved on. Third parties using information also need to be able to gauge their freedom to operate based on a reasonable certainty that they are in fact legitimate users. One can question whether a lot of know-how and business information is of such a nature that it is deserving of such a long limitation period. In an earlier draft of the Trade Secrets Directive the limitation period was two years. This was, however, increased at the insistence of the UK, which has a single legal instrument, the Limitation Act 1980, that employs a standard term of six years for torts.

Another safeguard concerns the right to the freedom to work of employees. Recital 14 indicates that the definition of trade secret “excludes trivial information and the experience and skills gained by employees in the normal course of their employment, and also excludes information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question.” However, it may not always be that clear what knowledge obtained by the employee in the course of his employment can be considered “trivial”, and what cannot. In order to ensure that ex-employees are not at risk of being financially crippled when they inadvertently and unintentionally continue to use their acquired skills in a new position, Member States may “limit the liability for damages of employees towards their employers for the unlawful acquisition, use or disclosure of a trade secret of the employer where they act without intent”.⁵⁸ Without proper harmonisation of post-contractual labour relations and restrictive covenants in the Union, however, the right to freedom to work of employees cannot be properly guaranteed.

E. CONCLUSION

The instruments for the protection of undisclosed know-how and business information in the United States of America and the European Union are converging. Not only is there a large degree of similarity in terms of definitions, procedures and remedies, there also is a common understanding that without proper guarantees for the preservation of confidentiality in the course of legal proceedings, plaintiffs risk disclosing more than they would like to. This is an impediment to the effective protection of trade, however, that seems to now be adequately addressed. United States legislation seems to be much more aware of cross-border and international problems related to the misappropriation of trade secrets, as compared to its EU counterpart. Enhancing the plaintiff's position in relation to the protection of trade secrets, however, has also raised serious questions in relation to safeguards for third parties, especially employees. Although the European Union Directive provides more safeguards that specifically address fundamental rights as compared to the US legislation, one issue remains problematic. This is the position of ex-employees in post contractual situations covering restrictive covenants, and will be addressed in the following chapter.

58. Trade Secrets Directive *supra* note 19, Art. 14.

CHAPTER 2

“Pacta sunt servanda” – sed quousque?¹

Christopher Heath

A. INTRODUCTION

This chapter addressed the question as to what, if any, should be the limits to contractually agreed non-competition agreements in the context of employment. There are a number of different terms for the obligation of a former employee not to compete with his former employer after termination of the employment contract. The first English decisions refer to this obligation as a “restraint of trade” (see below D.). Nowadays, it is more common to call these obligations post-contractual obligations not to compete, non-compete covenants, covenants not to compete or, as used in this article, restrictive covenants.²

From a comparative perspective, the law on restrictive covenants in employment relations has been guided by a number of often conflicting principles. Depending on the era and jurisdiction, certain principles have featured more prominently, or been given precedence over others. The main principles that have shaped legislation and jurisprudence in this area are:

- “Pacta sunt servanda” (B.)
- The inequality of bargaining power (C.)
- The reluctance to uphold restraints of trade (D.)
- The freedom of persons to find employment (talent must be free) (E.)
- The protection of trade secrets (F.)
- Mixed approaches (G.)

An analysis is provided under H. below.

1. Agreements should be observed – but up to which point?
2. Covenant deriving from the Latin *convenium* agreement, pledge.

B. "PACTA SUNT SERVANDA"

The sacredness of contracts ("*pacta sunt servanda*",³ from which the chapter derives its title) was the guiding principle of many jurisdictions when deciding on the validity of restrictive covenants in the 19th century. A typical example is an 1875 English decision where the Master of the Rolls nailed his colours to the mast:

"It must not be forgotten that you are not to extend arbitrarily those rules which say that a given contract is void as being against public policy, because if there is one thing which more than another public policy requires it is that men of full age and competent understanding shall have the utmost liberty of contracting, and that their contracts when entered into freely and voluntarily shall be held sacred and shall be enforced by the courts of justice. Therefore, you have this paramount public policy to consider – that you are not likely to interfere with this freedom of contract."⁴

German parliamentary debates in the late 19th century reported a similar line taken by the German courts:

"Also the courts have experienced a reckless abuse of such non-compete clauses. While the courts try to combat such a state of affairs, the legal remedies under current law against such covenants are insufficient for the courts to grant proper redress. The Supreme Court takes the general view that non-compete clauses are unenforceable to the extent that they no longer permit sufficient economic activity and thereby contravene good order and public morals. Yet, this principle is only successful in extremely severe cases."⁵

Also in France, the Supreme Court decisions on restrictive covenants until the year 2000 emphasised the freedom of contract with the exception of clauses that reduced the employee's freedom to pursue a professional activity in a general and absolute way, unlimited both in time and geography.⁶

The judiciary thereby enforced the alleged principle of Roman law that the freedom of contract was to be upheld. Never mind Rousseau's *Social Contract*,⁷

3. This nice Latin term is not a principle of Roman law, however. Under Roman law, only determined types of contracts were enforceable by a corresponding action. "*Pacta*", on the other hand were not contracts, but rather non-enforceable agreements. Only mediaeval law abolished this distinction and came up with the rule that also other agreements should be enforceable.
4. English High Court, *Printing and Numerical Registering Co. v Sampson*, L.R. 19 Eq. 462, 465 (1875). The case concerned a non-competition obligation.
5. *Materialien zum Handelsgesetzbuche für das deutsche Reich* (Berlin 1897) 30. The passage is an utter euphemism: the courts, as is stated in the last sentence, did not intervene even in the most egregious cases.
6. Prominently French Supreme Court, 7 November 1984, 82-16882, *Société Elan*.
7. "To say that a man gives himself gratuitously, is to say what is absurd and inconceivable; such an act is null and illegitimate, from the mere fact that he who does it is out of his mind. To say the same of a whole people is to suppose a people of madmen; and madness creates no right" (*Social Contract*, 36).

the notion that people should be free rather than held to contracts did not feature prominently in legal decisions.

An interesting twist can be detected in the Netherlands, however. While in best mercantile tradition, contractual agreements are generally upheld, restrictive covenants in order to keep their validity must be re-negotiated every time the employee changes position.⁸ This is nothing but a consistent application of the contractual principle that an obligation must be precisely specified and must be re-negotiated when the basis for the contract changes (*clausula rebus sic stantibus*; *Wegfall der Geschäftsgrundlage*). A consistent application of the principles of contract law, so to speak.

C. THE INEQUALITY OF BARGAINING POWER

Eventually, it dawned on the legislature of some countries that the courts with their underdeveloped skills in social engineering could not be entrusted with levelling the playing field between employers and employees. After all,

"In legal reality, the freedom of contract and ownership in the hands of the socially powerful is different than in the hands of the socially weak. The freedom of ownership in the hands of those who have turned the freedom to dispose of things into the freedom to dispose of people ... The legal freedom of contract in social reality becomes the freedom of the socially powerful to dictate, and of the socially weak to obey."⁹

As a consequence of the failure of the judiciary to see things as clearly as Gustav Radbruch, the German Parliament discussed at length what to do. A number of clearly abusive covenants that required even the most menial workers to sign a post-contractual non-compete clause of three to five years with a geographical range encompassing Germany, Switzerland, Austria/Hungary and Italy and a penalty of 20 annual salaries in case of contravention, were mentioned in the parliamentary debates in 1913/1914. These covenants even had to be pledged by word of honour. The parliamentary commission responsible for drafting the Commercial Code thus recommended inserting a provision whereby a post-contractual non-compete covenant pledged by a shop clerk to his employer would only be enforceable if reasonable as to its time, geographical scope and object, and to the extent that such covenant would not unduly limit the shop clerk's future career. This then led to the introduction of provisions in the Commercial Code (secs 74, 74a) whereby a post-contractual obligation not to compete had to be in writing and could not extend over more than two years. It would only be enforceable if necessary to protect the legitimate commercial interests of the employer and if reasonable in scope (sec. 74a German

8. Dutch Supreme Court 9 March 1979, *Nederlandse Jurisprudentie* 1979, 467 (*Van Uffelen v Brabant*), and Dutch Supreme Court 25 October 2002, ECLI:NL:HR:2002:AE9260 (*Epenhuyzen v Van Baarlen*).
9. Gustav Radbruch, *Der Mensch im Recht* (Göttingen 1957) 38–39. Orly Lobel (*Talent Wants to Be Free* (Yale University Press 2013)) states: "Field studies revealed that a high percentage of employees feel compelled, perhaps even coerced, into signing a non-compete that was presented to them [even] after [(!)] they had already accepted a job offer."

Commercial Code). The main control of restrictive covenants however is effected by the employer's duty to pay the employee half his previous salary for the time of the covenant: a restrictive covenant is void unless accompanied by the employer's pledge of proper payment of at least half of the previous salary. Exceptions are agreements that are not considered restrictive covenants, in particular agreements that would prevent former employees from actively soliciting clients of their former employer.¹⁰ Apart from that, restrictive covenants without due compensation are not only void, but even unconstitutional.¹¹

In **Italy**, sec. 2125 Civil Code (dating back to 1942) tries to strike a balance between the interests of the employer and those of the former employee by providing that post-employment restrictive covenants need to be in writing, may not exceed a duration of five years (for managers) or three years (for other employees), must offer compensation, and be limited as to subject matter and territory. These provisions are less precise than the German ones, but at least provide the courts with a guideline on how to approach restrictive covenants in the field of labour law.

A similar provision can be found in **Spain** in sec. 21 Workers' Statute. According to this provision, a post-contractual restrictive covenant is only valid if three conditions are met: a) the agreement is limited to a period of six months, or at the maximum two years, depending on the employment level, b) the employer has an actual industrial or commercial interest, and c) the ex-employee is paid adequate economic compensation. Agreements that do not comply with these requirements are void.

In **Mainland China**, the 2007 Labour Contract Act (effective 2008) contains some explicit provisions on non-compete clauses between employers and employees: an employer may enter into an agreement with his employee to require the latter to keep the business secrets and intellectual property of the employer confidential. For an employee who has the obligation to keep information confidential, the employer and the employee may stipulate a non-compete clause in the labour contract or in a confidentiality agreement and agree that once the labour contract is dissolved or terminated, the employee shall be given monthly compensation within the non-competition period. If the employee violates the non-competition agreement, he shall pay the employer a penalty for breaching the contract (sec. 23). The persons who are subject to non-compete clauses shall be limited to senior managers, senior engineers and other employees who have the obligation to keep secrets of the employer. The non-competition period shall not exceed two years from the date of the dissolution or termination of the labour contract (sec. 24).

The legislative approach works less well with general clauses that give no further guidance.

In **Taiwan**, the courts have used sec. 252 of the Civil Code to reduce the burden of restrictive covenants.¹² In one case, two employees had worked for three years for their employer before leaving for another company. The employer sued for breach of non-competition and confidentiality clauses and demanded the agreed penalty

10. German Federal Supreme Court, 27 September 1988, Betriebsberater 1989, 984.

11. German Constitutional Court, 27 February 1990, Neue Juristische Wochenschrift 1990, 1469.

12. Sec. 252 of the Civil Code reads as: "If the agreed penalty is disproportionately high, the court may reduce it to a reasonable amount."

of TWD 1,000,000.¹³ The Taichung High Court reduced the penalty to TWD 200,000 and TWD 250,000 for each defendant respectively after considering their monthly salaries (TWD 28,000 and TWD 30,500) and educational background (college graduate majoring in electronics and electric engineering).¹⁴ In another case where the employee had worked for the employer for only 4.5 months before joining another competitor, the Taiwan High Court reduced the agreed penalty from ten times the earned salary paid by the former employer to only twice.¹⁵

While this is perhaps well-meant, it does not do much to protect the employee from overly onerous obligations.

In countries where the scrutiny of restrictive covenants is left to the courts, the issue of unequal bargaining power has normally been one of the factors the courts would consider, see below G. "Mixed Approaches".

D. RESTRAINTS OF TRADE

I. The Common Law Position

Ever since the 1621 Statute of Monopolies, common law has looked with great suspicion on agreements trying to monopolise trade, inter alia by contractual restraints. As prominently as this principle features in the position on restrictive covenants in the **UK**, the **US** and **Australia**, its absence is as notable in continental law jurisdictions (at least until very recently).

The long line of **English** decisions on restrictive covenants dates back to a case of 1711. In that case, the defendant had assigned to the plaintiff a lease on a "messuage and bake house" for the term of five years, while the defendant should not exercise the trade of baker within the parish during the said term. The defendant subsequently breached that covenant. The court first distinguished between general restraints that "are all void, whether by bond, covenant or promise, etc., with or without consideration and whether it be of the party's own trade, or not." In contrast thereto, a particular restraint of trade that "appears to be made upon a good and adequate consideration, so as to make it a proper and useful contract, is good." This, according to the court, was so because "a man may, upon a valuable consideration, by his own consent, and for his own profit, give over his trade; and part with it to another in a particular place." The reason: "To obtain the sole exercise of any known trade throughout England, is a complete monopoly, and against the policy of the law. [Yet] when restrained to particular places or persons (if lawfully and fairly obtained), the same is not a monopoly." The court then goes on to find a more specific reason for the above distinction. The court notes in particular:

"That all things prohibited by law, may be restrained by condition; and therefore these particular restraints of trade, not being against law, in a proper sense, as being neither *mala in se* nor *mala prohibita*, and the law allowing them in some instances, as in those in customs *assumpsits*, they may be restrained by condition.

13. The exchange rate between TWD and EUR is about 33:1.

14. Taichung High Court, 11 June 2003 (2003 ShangZi 39).

15. Taiwan High Court, 31 March 2008 (2007 LaoShangZi 79).

Secondly, affirmatively; the true reasons of the distinction upon which the judgements in these cases of voluntary restraints are founded are, first, the mischief which may arise from them, first, to the party, by the loss of his livelihood, and the subsistence of his family; secondly, to the publick, by depriving it of a useful member.

Another reason is, the great abuses these voluntary restraints are liable to; as for instance, from corporations, who are perpetually labouring for exclusive advantages in trade, and to reduce it into as few hands as possible; as likewise from masters, who are apt to give their apprentices much vexation on this account, and to use many indirect practices to procure such bonds from them, lest they should prejudice them in their custom, when they come to set for themselves.

Thirdly, because in a great many instances, they can be of no use to the obligee; which holds in all cases of general restraint throughout England; for what does it signify to a tradesman in London, what another does in Newcastle? And surely it would be unreasonable to fix a certain loss on one side, without any benefits to the other. The Roman law would not enforce such contracts by inaction."¹⁶

As stated by *Aldo Nicotra* in the chapter on Australia, the **Common law** position has traditionally been unsupportive of agreements between private individuals that have the effect of limiting free competition in commercial markets. Accordingly, the common law restraint of trade doctrine applies the test of reasonableness for such restraints to ensure there is no undue interference with the freedom of trade, which includes the right for a person to sell his own personal labour.¹⁷

In essence, the restraint of trade doctrine operates to render provisions illegal which impose restrictions on a person's freedom to engage in trade or employment. These are consequently unenforceable at common law, *unless* the restraint is reasonable to protect the legitimate interests of the party seeking to rely on the restraint and is not contrary to the public interest. The application of the restraint of trade doctrine takes into account the interest of both parties and also the broader public interest. This doctrine has found its way into international law (see the following chapter on the UNCTAD Code of Conduct), as well as national competition laws.

II. EU and National Competition Laws¹⁸

Restrictive covenants are intended to restrain an employee from competing against his former employer. It would thus be surprising if the courts had not considered the

16. English High Court of Chancery, *Mitchel v Reynolds*, 24 English Reports 347 (1711) per Parker, C.J. In a US decision of 1999, *Outsource International Inc. v Barton*, US Court of Appeals, 7th Cir., 17 September 1999, 52 USPQ 2nd 1085, 1089, Judge Posner interpreted this case as follows: "The original rationale had nothing to do with restraint of trade in its modern, antitrust sense. It was paternalism in a culture of poverty, restricted employment, and an exiguous social safety net. The fear behind it was that workers would be tricked into agreeing to covenants that would, if enforced, propel them into destitution." I personally would read the decision as motivated by the unwillingness to uphold monopolies.

17. See *Nordenfelt v Maxim Nordenfelt Guns & Ammunition Co Ltd* [1894] AC 565.

18. The part on EU competition law was written together with Guy Tritton.

legitimacy of restrictive covenants against the competition provisions of the Treaty of the Functioning of the European Union (TFEU) and its predecessors.

Article 101 renders void anti-competitive agreements between undertakings that have an appreciable effect on trade between Member States. However, if the conditions of Article 101(3) are satisfied, then the agreement is not void.¹⁹ It might be thought that there can be no clash as the common law and Article 101 operate in parallel. In other words, if an agreement is contrary to Article 101 and not the common law, it is struck down, and vice versa if it is contrary to the common law but not Article 101, it is struck down. However, in one decision, the English courts have held that there is no room for the common law doctrine of restraint of trade where an agreement was found not to infringe Article 101 but had an appreciable effect on trade between Member States.²⁰

It has been said by English commentators that Article 101 has no applicability to contracts of employment.²¹ This is based on the ECJ's judgment in *Criminal Proceedings against Jean Claude Becu*.²² In that judgment,

"[26] It must therefore be concluded that the employment relationship which recognised dockers have with the undertakings for which they perform dock work is characterised by the fact that they perform the work in question for and under the direction of each of those undertakings, ... since they are, for the duration of that relationship, incorporated into the undertakings concerned and thus form an economic unit with each of them, dockers do not therefore in themselves constitute 'undertakings' within the meaning of Community competition law." [Emphasis added]

However, that case was concerned with the legitimacy of Belgian law concerning dock workers and not post-termination restrictive covenants in contracts. Whilst the above statement is true when an employee is working for an employer, it is not true once he has left that employment. From that point, the ex-employee and ex-employer are clearly not one economic unit. Moreover, it has long been recognised under EU law that an undertaking can be an individual. Accordingly, in the author's view, there is no reason why Article 101 is not *capable* of applying to a post-termination restrictive covenant.

In fact, restrictive covenants in the context of employment came under closer scrutiny of the European authorities on two occasions. The first was the post-contractual restriction on football players to freely change football clubs.²³ In this case ("Bosman"), the ECJ found that such rules limited the employee's freedom to freely chose employment and for this reason fell foul of Article 48 EC Treaty. The court thus

19. This may be through a finding of exemption by a competition authority; a court or via the operation of the "safe harbour" provisions of block exemptions e.g. the Technology Transfer Block Exemption.

20. *Days Medical v Pihsiang* [2004] EWHC 44 (Comm) applying the Advocate-General's Opinion in *Bundeskartellamt v Volkswagen and anor* (C-266/93) at paras 58 to 59.

21. Kate Brearley and Selwyn Bloch, *Employment Covenants and Confidential Information: Law, Practice and Technique* (3rd edn, Tottel Publishing 2009) para. 10.55.

22. European Court of Justice, 16 September 1999, case C-22/98 [1999] ECR I-5665.

23. European Court of Justice, 15 December 1995, case C-415/93.

did not have to decide on a possible contravention of the rules of free competition. For details of this case, see below E.

Another sports case is currently under investigation where the Commission suspects a violation of Article 101 TFEU. The case concerns the International Skating Union (ISU) whose eligibility rules ban skaters from international speed skating events such as the Olympic Games or the World Championship, if they participate in international speed skating events that are not approved by the ISU. If skaters break these rules, they can face a ban of up to a life-time. The Commission's preliminary view is that the rules restrict the athletes' commercial freedom unduly and result in a situation where they are not willing to participate in speed skating events other than those organised by the ISU or its members (national federations). This prevents new entrants from organising alternative international speed skating events because they are unable to attract top athletes. The case thus does not concern post-contractual limitations of competition, but those during the (relatively short) active period of sportsmen and may indeed be helpful to break the stranglehold of international sports bodies on athletes. The case, which has been under investigation since October 2015, was initiated following a complaint by two Dutch professional speed skaters.²⁴

There may thus be cases where Article 101 is potentially applicable to restrictive covenants in employment contracts, although this is generally not the case. As judge Posner put it in a US decision,

"It would be unlikely for the vitality of competition to depend on the ability of a former employee to compete with his former employer. So unlikely that it would make little sense to place a cloud of suspicion over such covenants, rather than considering competitive effects on a case by case basis."²⁵

Still, **German** jurisprudence applies German anti-trust law to any post-contractual non-compete clause between competitors (which the former employee may become), and allows these only where they are meant to protect an identifiable know-how, and limited in terms of time, geography and scope to the extent necessary,²⁶ regardless of any measurable effect on competition.

III. Anti-Poaching Agreements²⁷

Restrictive practices have the potential to stifle migration of knowledge and talent. In contrast, "the surrounding economy benefits as whole from the mobility of workers with the knowledge that they have accumulated".²⁸

24. http://europa.eu/rapid/press-release_IP-16-3201_en.htm.

25. *Outsource International Inc. v Barton*, US Court of Appeals, 7th Cir., 17 September 1999, 52 USPQ 2nd 1085, 1089. The two cases in Europe did not concern restrictions imposed on specific employees, but rather by associations imposed on its members.

26. Appeal Court Naumburg, 20 December 2012, BeckRS 2013, 01886 for a post-contractual non-competition clause imposed on the partner of a cooperation agreement for bakery products.

27. This part was written together with Aldo Nicotra.

28. Christopher Arup et al., "Restraints of Trade: The Legal Practice" (2013) 36(1) *University of New South Wales Law Journal* 3.

The benefits of preventing anti-competitive restraints can be seen in "cluster or network economies" such as Silicon Valley in the **US** where companies compete for specialised, sought-after employees.

However, for employers operating in highly competitive industries or zones (e.g. Silicon Valley), the threat of poaching the competitors' top performing talent is commonplace. While regulatory authorities (such as the US Department of Justice) take the view that this competition is ultimately for the benefit of consumers, for businesses the competition for talent can lead to a bidding war over a select group of employees with the desired skill set. Naturally this leads to increasing salaries and expectations of prospective employees in the talent pool. It follows that employers face a complex balancing act to attract and maintain the right talent while trying to contain labour costs in order to compete in a cost-sensitive environment.

Historically, the most significant "collusion" of companies in order to prevent the exodus of talent was the agreement of major **Japanese** companies during and after the First World War to introduce a seniority-based payment system for their skilled workers within the company (*nenkō jōretsu*). This effectively discouraged a move of employees between companies, as the employee in the new company would again start at the bottom of the salary scale. Japanese companies thereby avoided losing employees to competitors, and, combined with lifetime employment, reduced competition for talent to the first entry into the labour market.²⁹

More recently, companies in technology hotspots such as Silicon Valley have been caught out for engaging in anticompetitive conduct by entering into "no poaching" agreements. At the time of writing, eBay Inc. was the latest high profile Silicon Valley offender to be caught out by the US Department of Justice for entering into an agreement with Intuit to prevent the companies from recruiting each others' employees.

The US Department of Justice alleged that senior executives from eBay and Intuit made arrangements which were documented in electronic communications to limit "competition between the two firms for employees, distorting the labour market and causing employees to lose opportunities for better jobs and higher pay".³⁰ Under the proposed settlement announced on 1 May 2014, eBay is prevented from entering

29. Horst Hammtisch, *Japan Handbuch* (Wiesbaden 1981) 536. A number of other factors (mainly cultural) may have contributed to the introduction of this system, too. The system made restrictive covenants for employees practically unnecessary, as it discouraged employees from working for competitors by other means. It would be an interesting endeavour to compare the overall efficiency (not only in terms of innovation) of the Japanese system with the rather open one of the US. For the latter, particularly Orly Lobel (*Talent Wants To Be Free* (Yale University Press 2013); *id.*, *Human Capital, Knowledge Creation, and the Reach of Intellectual Property* (2014)) has advocated restrictive covenants be abolished, citing the success of Silicon Valley and the absence of restrictive covenants in California (see the following section). It may well be that the Japanese system exactly by not being "disruptive" created a culture of applied small-scale improvements that was needed to catch up.

30. Department of Justice (USA), Office of Public Affairs, "Justice Department Requires eBay to End Anticompetitive 'No Poach' Hiring Agreements" (Media Release, 1 May 2014 <http://www.justice.gov/opa/pr/2014/May/14-at-461.html>) citing Bill Baer, Assistant Attorney General, Department of Justice, Antitrust Division.

into or maintaining anticompetitive agreements with other companies restraining employee recruitment and retention for five years.³¹ On the same day, the State of California filed a settlement in its related case based on the same facts alleged by the US Department of Justice.³²

If approved by the US District Court, the proposed settlement will see eBay join Adobe, Apple, Google, Pixar, Lucasfilm and Intuit, which are all under court-ordered injunctions preventing them from engaging in anticompetitive practices following investigations into recruitment related misconduct targeted by the Antitrust division of the US Department of Justice.³³

The US Department of Justice reports more than 60,000 employees have accessed the justice system to seek monetary damages arising from the antitrust harm caused by the high-tech firms charged by the Antitrust Division in recent years. The scale and quantum of such “follow-on” private claims should serve as a deterrent to employers from engaging in such anticompetitive conduct.

After all, these anti-poaching agreements have the same effect that Lobel describes for non-compete clauses: “In jurisdictions where non-competes are regularly enforced, compensation is lower but is also more salary-based, as opposed to performance-related.”³⁴ This is exactly the case for Japan.

E. THE FREEDOM OF PERSONS TO FIND EMPLOYMENT (“TALENT MUST BE FREE”)

I. Constitutional Guarantees

Although also strengthening the interests of the employee, this aspect is different from the above-mentioned issue of levelling the playing field between employer and employee. Certainly, the employee’s interests in earning a living has featured in some early decisions:

“The principle is this: Public policy requires that every man shall be at liberty to work for himself, and shall not be at liberty to deprive himself or the State of his labour, skill, or talent, by any contract that he enters into.”³⁵

31. Department of Justice (USA), “Remarks As Prepared for Delivery by Assistant Attorney General Bill Baer at the Conference Call Regarding the Justice Department’s Settlement with eBay Inc. to End Anticompetitive ‘No Poach’ Hiring Arrangements” (Media Release, 1 May 2014 http://www.justice.gov/atr/public/press_releases/2014/305619.htm).

32. *The People of the State of California v eBay Inc.*, referred to in Department of Justice (USA), Office of Public Affairs, “Justice Department Requires eBay to End Anticompetitive ‘No Poach’ Hiring Agreements” (Media Release, 1 May 2014 <http://www.justice.gov/opa/pr/2014/May/14-at-461.html>).

33. Department of Justice (USA), “Remarks As Prepared for Delivery by Assistant Attorney General Bill Baer at the Conference Call Regarding the Justice Department’s Settlement with eBay Inc. to End Anticompetitive ‘No Poach’ Hiring Arrangements” (Media Release, 1 May 2014 http://www.justice.gov/atr/public/press_releases/2014/305619.htm).

34. Orly Lobel, *Talent Wants To Be Free* (Yale University Press 2013).

35. English High Court, *Leather Cloth Co v Lorstont* (1869) L.R. 9 Eq. 345.

The employee’s freedom of profession was only discussed in earnest when a good number of national constitutions guaranteed the freedom of labour (**Italy, Japan, Germany, France**, inter alia). Thereby, the employee’s interest in mobility was upgraded to a constitutional right on a par with the protection of property:

“The use by a former employee of professional skills acquired during his previous work experience ... involves constitutional rights related, on the one hand, to the economic freedom and, on the other hand, to the freedom of expression of his own personality ... As a matter of principle, an employee is entitled to lawfully foster his professional chances within his relational life through the ... knowledge acquired during and thanks to his former job, as the latter has become part of his own personality. This principle applies both when other employers hire that employee and when the latter starts his own entrepreneurial activity”.³⁶

Also the **European Trade Secrets Directive 2016/943** attaches importance to the freedom of labour. Of greatest relevance in this regard is Article 1.3:

“Nothing in this Directive shall be understood to offer any ground for restricting the mobility of employees. In particular, in relation to the exercise of such mobility, this Directive shall not offer any ground for:

- (a) limiting employees’ use of information not constituting a trade secret as defined on point (1) of Article 2;
- (b) limiting employees’ use of the experience and skills honestly acquired in the normal course of their employment;
- (c) imposing any additional restrictions on employees in their employment contracts other than in accordance with Union or national law.”

The freedom of labour as enshrined in Article 48 EC Treaty was also at the heart of the ECJ case that concerned post-contractual limitations imposed on professional football players under which a professional footballer who is a national of one Member State could not, on the expiry of his contract with a club, be employed by a club of another Member State unless the latter club has paid to the former a transfer, training or development fee. According to the ECJ³⁷

“the transfer rules constitute an obstacle to freedom of movement for workers prohibited in principle by Article 48 of the Treaty. It could only be otherwise if those rules pursued a legitimate aim compatible with the Treaty and were justified by pressing reasons of public interest. But even if that were so, application of those rules would still have to be such as to ensure achievement of the aim in question and not go beyond what is necessary for that purpose. Since both types of rule to which the national court’s question refer are contrary to Article 48, it is not necessary to rule on the interpretation of Articles 85 and 86 of the Treaty.”

A particularly strong stance against a restriction of the employee’s freedom to procure employment has been taken by **California**. Here § 16600 Business and Professions Code rules that “[e]very contract by which anyone is restrained from engaging in

36. Italian Supreme Court, 11 October 2002, No 14479, *Dir. Industriale* 2003, 455; Italian Supreme Court, 20 March 1991, No 3011, *Foro it.* 1993, I.

37. European Court of Justice, 15 December 1995, case C-415/93 (Bosman).

lawful profession, trade or business of any kind is to that extent void”, the intention being to “protect the important legal right of persons to engage in businesses and occupations of their choosing.”³⁸

II. Distinctions and Limitations

In a society that increasingly relies on skills, talent and expertise, restrictive covenants deprive a former employee from looking for employment in the area of his expertise and must thus be considered a serious limitation to the right to find employment. On the other hand, restrictions as to certain, specified activities related to the use of a previous employer’s trade secrets may be less onerous and not be considered a limitation of the employee’s freedom to procure employment, as in such a case the employee would simply be put on a par with others who are not privy to the specific trade secret in question:

“Unlike the case of an obligation not to compete at all, such a post-contractual obligation to maintain trade secrets does not limit the employee in pursuing its lawful interests. Such an obligation puts the ex-employee on the same footing as those employees who do not know the trade secret at all, but does not lead to any further restriction.”³⁹

It is thus important to distinguish post-contractual secrecy obligations from post-contractual non-compete clauses, as only the latter would amount to an obstacle to the employee procuring employment:

“Certainly, the defendant [employee] pledged in the agreement to maintain trade secrets and not disclose or leak trade secrets to third parties, or enable third parties to use such trade secrets after the termination of the current employment. This, however, did not relate to knowledge acquired in the course of working for the plaintiff [former employer], but was limited to the trade secrets disclosed to the defendant in the course of employment. Because it could not be proven that the defendant did indeed make use of any properly maintained trade secrets after he ceased to work for the defendant’s company, he is not in breach of his contractual obligations. ... The plaintiff argues that the defendant’s obligations should be construed as a restrictive covenant. Yet, the defendant’s obligations towards the plaintiff related to properly maintained secrets and the use of information. There is no evidence that the defendant was indeed burdened with a genuine restriction of competition after his contract ended.”⁴⁰

The position expressed above by the **Osaka** District Court that the obligation to maintain trade secrets is a different cup of tea from refraining from post-contractual competition is shared by many jurisdictions, notably those that put further conditions

38. Supreme Court of California, 19 December 2002, *Advanced Bionics Corp. v Medtronic Inc.*

39. German Federal Labour Court, 16 March 1982, *Neue Juristische Wochenschrift* 1983, 134.

40. Osaka District Court, 10 September 1998, 1656 *Hanrei Jihô* 137 “Fujiwara Sangyô”.

on restrictive covenants, for example **Germany**,⁴¹ **Italy**⁴² or **France**,⁴³ which regularly or always require restrictive covenants to be financially compensated. The distinction is imperative for jurisdictions that prohibit restrictive covenants *in toto*, such as **California**.

III. Policy Considerations

From the point of view of invention policy, Orly Lobel in particular has argued against restrictive covenants and in favour of post-contractual freedom of employees.

Lobel’s argument is two-fold: first, that restrictive covenants are inappropriate in a society that no longer provides security of employment and requires a high degree of mobility: “Where in the past work relations promised certain degrees of security and stability, today employers constantly recruit new talent. Workers are expected to manage their own job-hopping careers and frequently re-skill without the expectation of long-term employment.”⁴⁴

And, secondly, that openness and mobility significantly increase innovation: “California’s refusal to enforce non-compete clauses has contributed to the success and growth of high-tech, high-velocity networks such as those in Silicon Valley.”⁴⁵ On the other hand, a “recent article (Marx, Strumsky and Fleming 2009) exploits Michigan’s inadvertent reversal of its non-compete enforcement legislation as a natural experiment to investigate the impact of non-competes on mobility. Using the U.S. patent database and a differences-in-differences approach between inventors in states that did not enforce and did not change enforcement of non-compete laws, the article finds that mobility decreased by 34% in Michigan after the state reversed its policies.”⁴⁶

In the course of the US discussion on the Defend Trade Secrets Act, it transpired that certain States had enacted a ban on restrictive covenants for certain types of employment, for example Hawaii for technology-related jobs, and New Mexico for

41. “Yet such an obligation of secrecy does not entail a further prohibition to solicit customers of the former employer. In this respect, a covenant would be necessary to prevent this. The law provides the instrument of restrictive covenants in order to limit the commercial activities after the termination of the employment agreement. In this respect, the law distinguishes between the obligation to maintain secrecy (sec. 90 Commercial Code), and a restrictive covenant (sec. 90a Commercial Code)”: German Federal Labour Court, 15 December 1987, *Neue Zeitschrift für Arbeitsrecht* 1988, 502.

42. Italian jurisprudence undertakes a multifactor test for determining the validity of restrictive covenants, and adequate compensation is one of those factors to be assessed on a case-by-case basis: Supreme Court, 4 April 2006, No 7835, *Redazione Giuffrè* 2006; Italian Supreme Court, 18 May 1998, No 4891, *Giust. civ. Mass.* 1998, 1041; Supreme Court, 26 November 1994, No 10062, *Dir. lav.* 1995, II, 40; District Court of Milan, 25 March 2011, *Riv. Critica Dir. Lav.* 2011, 3, 625; District Court of Milan, 25 June 2003, *Riv. critica dir. lav.* 2003, 711.

43. French Supreme Court, 15.10.2014, 13-11524, *Adex*.

44. Orly Lobel, “The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property” (2014–2015) 93 *Tex. L. Rev.* 789.

45. Orly Lobel, “Intellectual Property and Restrictive Covenants” (August 2008) University of San Diego Research Paper No. 08-059, 17.

46. Orly Lobel, “The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property” (2014–2015) 93 *Tex. L. Rev.* 789.

CHAPTER 7

Employees, Trade Secrets and Restrictive Covenants in France

Luc Desaunettes

“Dire le secret d’autrui est une trahison, dire le sien est une sottise.”¹

Voltaire, *L’indiscret*, 1725.

GENERAL REMARKS

An economic undertaking consists of heterogeneous resources: human, financial, material and intellectual. As part of the intellectual resources, trade secrets nowadays represent undertakings’ most valuable assets.² Different economic reasons explain this success: the absence of any administrative formality coupled with the possibility of immediate commercial exploitation, a very broad scope eventually able to include new forms of innovation and a potentially timely unrestrictive competitive advantage are only a few of them.

However, if trade secrets are the most valuable, they are also the most vulnerable. This vulnerability, originally only due to the evanescence of the information, is nowadays reinforced by the instability of another component of the undertaking itself: human resources. Employees are both economic assets and carriers of fundamental rights. Controlling the freedom of employees, while desirable from the point of view of the employer, must find its limits in the freedom of the individual. For undertakings, the main risk of this freedom, irrespective of the loss of key employees, is that they may have been in contact with strategic information during their employment and that it will be impossible after the termination of their contracts to erase this

-
1. “To tell the secret of others is a betrayal, to tell one’s own is folly”.
 2. See for instance the study by Cohen, Nelson and Walsh, “Protecting their intellectual assets: Appropriability conditions and why US manufacturing firms patent (or not)” (2000) Working Paper 7552.

knowledge from their minds. A tension therefore exists between the need for an employee's loyalty towards the employer and the employee's freedom. Balancing these competing interests is the task of the legislature, or, in the absence of legislative provisions, the courts.

The very first regulation on trade secrets in France dates back to the Napoleonic Penal Code of 1810 with the incrimination of the disclosure of manufacturing secrets.³ Since Napoleon, the French legal system has been taking great pride of being one of the forerunners of legislative codification techniques, especially with respect to the systematisation capacity of the civil law tradition. However, since that time no further specific legislation on the protection of trade secrets has been approved.⁴ This is unfortunate since the applicable legal rules do not help very much in establishing the necessary equilibrium between the different interests involved. This task therefore falls upon the judiciary that is nevertheless not bound by precedent and lacks the democratic legitimacy to set rules in an abstract and general way. The result is a system that lacks legal certainty and that is therefore difficult to anticipate for the economic players involved.

In order to provide an evaluation of the whole spectrum of regulation applicable in France and to facilitate its comparison with other existing legal systems, the structure of the present study follows a formal law area classification, ranging from employment issues (A) to purely competition law issues (C), and in between the legal regime of restrictive covenants (B). Some procedural issues will finally be addressed (D).

A. TRADE SECRETS IN EMPLOYMENT RELATIONS

I. Definition, Nature and Attribution of Trade Secrets

The first difficulty any lawyer confronted with the legal protection of trade secrets in France faces is that there is no legislation of general application dealing with it. Even the terminology is not fixed: "savoir faire", know-how, undisclosed information or trade secrets are some of the terms used by the jurisprudence and scholars.⁵ The only provision explicitly dealing with the protection of certain secret pieces of information concerns the incrimination of the disclosure of "manufacturing secrets". As will be demonstrated, the scope of this criminal provision is pretty narrow.⁶ Nevertheless, when it comes to protection under civil law, the jurisprudence refers to the notion of trade secrets, whose object is broader. Indeed, even if to our knowledge the notion

3. See *infra*: A.II.1.

4. Notwithstanding some recent unsuccessful attempts: see Proposition de loi no. 3985 visant à sanctionner la violation du secret des affaires, registered by the presidency of the Assemblée nationale on 22 November 2011 and the Proposition de loi no. 2139 relative à la protection du secret des affaires, registered by the presidency of the Assemblée nationale on 16 July 2014.

5. The term "trade secret" will be preferred for the rest of the study, not least in light of the EU Directive No. 2016/943 of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.

6. See A.II.1.

was never explicitly defined by case law,⁷ scholars agree that the object of protection is in line with Article 39.2 TRIPS.⁸ According to the latter, trade secrets are secret information with commercial value and subject to reasonable steps of protection. Thus, any piece of information that is supposed to constitute a trade secret must be communicable, which excludes the general skills of the employee from trade secret protection.⁹ Beyond this requirement, the definition is not restricted to a particular type of information: technical as well as commercial information (customer lists, receipts, etc.) fall within its scope.¹⁰ The secrecy requirement is relative rather than absolute: more than one undertaking might rely on the secret information as long as it remains not generally known or easily accessible.¹¹ Concerning reasonable steps of protection, the analysis of the case law reveals adherence to a very low threshold. Case law considers any simple indication that an undertaking intends to keep the information secret to be sufficient. In other words, case law holds this condition to be met as soon as the infringer "could not ignore its secret character".¹²

Given the lack of any internal legal definition of trade secrets, it should come as no surprise that these are not recognised as exclusive rights under French law. French scholars are therefore reluctant to speak of trade secrets as "property", and refer therefore to their "reservation".¹³ This semantic caution does not solve the issue of the information's attribution though. In other words, the question revolves around who should have the right to "reserve" the information for its own benefit. This issue is particularly sensitive in cases when the secret information is developed by an employee during his employment. In the case of patents, sec. L. 611-7 Code of Intellectual Property (CIP) explicitly foresees a legal regime for employees' inventions. *A contrario*, in the absence of any specific legal provision, the principle remains that the secret is the employer's "property" as a result of the service rendered by the employee during his employment.¹⁴

7. With the same conclusion: Rebut, "Le secret des affaires" (19 November 2012) hors-série *JCP G* §8-10.

8. Schmidt-Szalewski, "Savoir-faire" (2009) *Répertoire de droit commercial* §5; Art. 2 of the trade secret directive (*supra*, note 5) also refers to the TRIPS definition.

9. Schmidt-Szalewski, *supra*, note 8, §11.

10. Generally concerning this point: Schmidt-Szalewski, *supra*, note 8, §7-9. For instance, the case law recognises the following types of information as potential trade secrets: strategic organisation of a network, Supreme Court 1 July 2003, 01-12699, *Contrat d'affiliation*; customer lists, working methods, Appeal Court Paris, 24 January 1975, *L'eplattenier*, PIBD 1975 III. 323; the fragrance of a perfume, Supreme Court, 13 June 2006, 02-44718, *Haarman et Reimer*.

11. Supreme Court 13 July 1966, *société bottonificio fossanese JCP* 1967. II. 15131.

12. See for instance: Supreme Court 20 June 1973, 72-92270, *Ulmic*; also Supreme Court, 19 September 2006, 05-85360, *Novovis*.

13. A term which is difficult to translate. In effect, the meaning is that while not being of proprietary nature, it can still belong, or it can still be allocated to a certain person or enterprise.

14. Becquet, *Le bien industriel* (Paris 2005) §87; Ollier, "Inventions de salariés" (2015) *Répertoire de droit du travail* §41; Beaussonie, "La pérennité de la protection pénale des biens incorporels" (2012) *Receuil Dalloz* 137-141, at 139-140.

II. Criminal Liability of Employees

As already mentioned, the first protection that was offered in France to trade secrets owners' dates back to 1810 and to the entry into force of the Napoleonic Criminal Code. This legislation criminalised the violation of "manufacturing secrets" in order to protect the French industry against foreign powers, especially against England during the continental blockade (1). Despite profound changes in the economy, this regulation has so far been only marginally amended. Like all French lawyers, we would like to think that the longevity of this provision is only one more proof of genius of Napoleon's legislation. Nevertheless, the fact that a new trend in the jurisprudence of the criminal courts exists, namely to broaden the scope of other criminal offences in order to extend the protection of trade secrets suggests that the rules of 1810 might in fact be outdated and their longevity may rather be the result of the French legislator's inertia (2).

1. Manufacturing Secrets

Still relying on its wording of 1810,¹⁵ the violation of manufacturing secrets is now regulated in sec. L. 1227-1 of the French Labour Code (LC): "The fact of revealing or attempting to reveal a manufacturing secret by any director or salaried person of the enterprise in which he is employed shall be punishable by imprisonment of two years and a fine of EUR 30,000."¹⁶

Despite the criminal nature of this norm, no legal definition of manufacturing secret is provided. The jurisprudence, on which this task has therefore fallen, defines this as a "manufacturing process presenting a certain originality, even though the inventive step might be modest, and which offers its owner a practical and commercial advantage".¹⁷ In the same way as under the TRIPS definition, the secrecy requirement is not absolute but relative: while the owner of a manufacturing secret may not be the only competitor to rely on it, the information should not be generally known.¹⁸ However, in contrast to the TRIPS definition, the types of the information embodied by "manufacturing secrets" are much more limited: manufacturing processes are only of a technical nature. Even though this condition should not be confused with a patentability test (there is for instance no requirement for a specific inventive step),¹⁹ the requirement for the information to have a technical character nevertheless excludes the whole category of business secrets (like development strategies, consumers' or suppliers' lists).²⁰

15. See sec. 418 Napoleonic Criminal Code.

16. This provision is also reproduced in the French Intellectual Property Code at sec. L. 621-1.

17. Supreme Court, 20 June 1973, *Ulmic et Ministère Public c/ Meineke, Lettiers et Cacermet* Ann. Prop. Ind. Art. Lit. 1974, pp. 85-93.

18. Supreme Court, 19 September 2006, 05-85360, *Novovis*; Paris Court, 13 June 1972, *Ulmic et Ministère Public c/ Meineke, Lettiers et Cacermet*.

19. Appeal Court Paris, 10 January 1862, *Serifiers v Crhistiens et autres* Ann. Prop. Ind. Art. Lit. 1862, (221-226).

20. Garinot, *Le secret des affaires* (Dijon 2013) 217, §260; Mathon, "La protection du Secret des Affaires: Enjeux et propositions" (2009) 29, accessible at http://www.claudemathon.fr/public/Secret_des_affaires_Rapport_final_17_avril_09.pdf.

From the perspective of the trade secret's owner, this provision contains another weakness resulting from the narrow definition of the material element constituting the offence: only the divulgation to a third party is prohibited, not its direct use by the employee himself.²¹ Condemnation of a third person for complicity (for instance a competitor who may benefit from the divulgation) is possible, however. The latter will nevertheless require establishing the existence of an act of provocation, aid or assistance before or during the tortious act, and merely benefiting of the divulgation of the trade secret is not sufficient.²²

These two restrictions (limitation to manufacturing processes, no extension to use by the employee himself), are clear signs of a regulation enacted in a totally different economic context – the industrial revolution – during which innovations were mainly industrial and establishing an undertaking implied significant capital investment which was out of the question for employees. Today, a single innovative idea may already be sufficient for the establishment of a very lucrative start-up. Because of the anachronistic nature of this regulation, some criminal courts, more responsive to the complaints of trade secret owners, are sometimes tempted to propose a broad interpretation to include more "general" offences.

2. Broadening of the Scope of Other Criminal Provisions (Theft and Breach of Trust)

In the face of inaction by the French legislator to modernise the criminal legal framework, the courts have tried to broaden the legal protection of trade secrets by applying general offences. Although this attempt was not conclusive regarding theft (a), its appears to be more promising for offences against breach of trust (b).

a. Theft (sec. 311 Penal Code)

Theft is defined by sec. 311-1 French Penal Code (PC) as "the fraudulent appropriation of a thing [official English translation] belonging to another person". As a "thing" is a specific identifiable physical object,²³ a literal interpretation does not allow the provision to be applied to intangible assets,²⁴ the more so since broadening analogies are not allowed under criminal law.²⁵ Two recent decisions of the Supreme Court

21. Paris Court, 30 June 1876, *Martin de Lignac et Schweitzer v Richeton, Baronnet et Bardet*; Garinot, *supra*, note 20, §260; Bouche, "La protection du savoir-faire" (2015) *AJ Contrats d'affaires* 346-349.

22. Supreme Court, 7 November 1974, 72.93034. *Bull. crim. No. 323*.

23. Lucas de Leyssac, "Vol" (2016) *Répertoire de droit pénal et de procédure pénale* §22-24.

24. Berlioz, "Quelle protection pour les informations économiques secrètes de l'entreprise" (2012) *RTD com.* §16; Rebut, *supra*, note 7, §18-21 at §20; Malaurie-Vignal, "Réflexion sur la protection du patrimoine informationnel de l'entreprise contre le piratage économique" (2012) *Recueil Dalloz* 1415-1424, at §16.

25. A recent, unpublished and isolated decision of the Supreme Court nevertheless raises doubts, as it recognises implicitly theft of information: Supreme Court, 4 March 2008, 07.84.002, *Graphibus*; obs.: Detraz, "Vol du contenu informationnel de fichiers informatiques" (2008) *Recueil Dalloz* 2213-2215.

however seem to acknowledge theft of information.²⁶ Nevertheless, because of the weakness of the argumentations developed, the two decisions seem to stand alone and it is unlikely that the Supreme Court wanted to alter its jurisprudence with these decisions.

Some decisions nonetheless offered indirect protection of trade secrets by sanctioning the theft of the material support containing the information.²⁷ These decisions, although formally correct, nevertheless appear artificial: the carrier is often worth only a fraction in comparison to the information and the intent of the perpetrator is to obtain the information, not the carrier.²⁸

b. *Breach of Trust (sec. 314-1 PC)*

Unlike the offence of theft, the breach of trust seems to offer the most effective penal alternative to the misappropriation of trade secrets by employees. Pursuant to sec. 314-1 PC, a breach of trust “is committed when a person, to the prejudice of other persons, misappropriates funds, valuables or any property that were handed over to him and that he accepted subject to the conditions of returning, redelivering or using them in a specified way.” The conditions of this provision can be divided in two categories: the temporary handing over of a good for the purpose of the realisation of a specific contractual agreement (pre-condition) and its misappropriation (constituent element of the offence).

While the employment contract clearly satisfies the condition for a contractual agreement, the question of whether trade secrets should be interpreted as a “good” in the sense of this provision was subject to some misgivings by the courts.²⁹ Yet, following a reform of its wording in 1994, sec. 314-1 PC now encompasses “funds, valuables or any property” and is thus no longer restricted to tangible goods.³⁰ Thus, the Supreme Court decided that intangible goods could also fall under this provision.³¹

26. Supreme Court, 4 March 2008, 07.84.002, *Graphibus*; obs.: Detraz, *supra*, note 25, 2213–2215; Supreme Court, 20 May 2015, 14-81336, *Agence nationale de sécurité sanitaire*; obs.: Saenko, “Vol par téléchargement de données numériques” (2015) *Recueil Dalloz* 1466–1470; Matsopoulou, “Vol par téléchargement de données informatiques” (2015) *Revue de Science Criminelle*.

27. Supreme Court, 8 January 1979, *Logabax*; Supreme Court, 12 January 1989, 89-82.265, *Bourquin*; Lucas de Leyssac, *supra*, note 23, §33 ff.

28. Huet, “Vol de fichiers informatiques” (2008) *Communication Commerce électronique* 12, at 14–15; Lucas de Leyssac, *supra*, note 23, §43.

29. Mascala, “Abus de confiance” (2016) *Répertoire de droit pénal et de procédure pénal* §46; Malaurie-Vignal, *supra*, note 24, 1415–1424, at 1418.

30. Thomassin, “Le bien susceptible d’abus de confiance (réflexion sur la jurisprudence récente)” (2012) *Recueil Dalloz* 964–970, at 966–968.

31. Supreme Court, 14 November 2000, 99-94.522, *numéro de carte de crédit* regarding the misappropriation of a credit card number; See also: Supreme Court, 16 December 2015, 14-83.140, “*le pire n’est pas certain*”: no need for the intangible good to be constitutive of an intellectual property right. It should be noted that such a crime could only be committed by an employee or a person in direct relationship to the trade secret owner. A third person receiving information from the employee could not be charged because there would be no relationship of trust.

Once it is accepted that the communication of a trade secret in the framework of an employment contract satisfies the pre-conditions of sec. 314-1 PC, the material component of the offence, i.e. misappropriation, has to be proven.³² The definition of an act of misappropriation as the non-restitution of a good delivered on a temporary basis raises some issues regarding the public-good’s nature of information. First, information is a “non-rival” good: the fact that a second person obtains such information does not deprive the first one of it.³³ Therefore, there is no dispossession and the trade secrets owner only “shares” the information with his employee.³⁴ Furthermore, information is also non-excludable: it is impossible to charge people for using it.³⁵ This feature cannot be ignored by the trade secrets owner: it is the reason why he keeps the information secret. Thus, even if the employer may communicate the information to the employee for the specific purpose of an employment activity, the expectation of post-employment amnesia is unrealistic.³⁶ This explains why the courts normally require the misappropriation of a support, for example digital files containing the information.³⁷ It must nevertheless be mentioned that a decision of the Supreme Court has accepted direct misappropriation of information as sufficient for an offence.³⁸ The decision seems yet to be an isolated case, even if a part of the literature has approved it.³⁹

The extension of the breach of trust offence to trade secrets also raises criticisms from a systematic perspective. The protection of manufacturing secrets based on sec. L. 1227-1 LC appears indeed as *lex specialis*. Under a broad interpretation of sec. 314-1 PC, this specific provision appears pointless: why should sec. L. 1227-1 LC describe an offence that happens to be included in a more general provision that moreover provides a stronger penalty?⁴⁰ Some authors therefore argue that sec. 314-1 PC should not be applicable to cases already falling within the scope of sec. L. 1227-1 LC.⁴¹ However, such an interpretation appears teleologically inconsistent, as it would mean that manufacturing secrets that are the subject of specific protection are actually less protected due to stricter requirements and lighter penalties.

32. The following remarks would also be true for the theft, on the assumption of the opening of its scope of protection to intangible assets.

33. Pindyck, Rubinfeld, *Microeconomics* (6th. edn, 2005) 665.

34. Thomassin, *supra*, note 30, 964–970, at 969–970.

35. Pindyck, Rubinfeld, *supra*, note 33, 665.

36. Thomassin, *supra*, note 30, 964–970, at 970.

37. Supreme Court, 22 October 2014, 13-82.630, *courtage d’assurances*; obs.: Beaussonie, Bargain, “Abus de confiance et biens incorporels: banalisation en droit pénal, expansion en droit du travail” (2015) 3 *JCP édition générale* 52, at 89–91; Mendoza-Caminade, “La protection pénale des biens incorporels de l’entreprise: vers l’achèvement de la dématérialisation du délit?” (2015) *Recueil Dalloz* 415–419.

38. Supreme Court, 16 November 2011, 10-87.866, *SCT Télécom*; obs.: Thomassin, *supra*, note 30, 964–970.

39. For an extension: Mendoza-Caminade, *supra*, note 37, 415–419, at 419; Thomassin, *supra*, note 30, 964–970, (970); against: Mascala, *supra*, note 29, §47.

40. The breach of trust is punished by three years’ imprisonment and a fine of EUR 375,000, whereas the violation of a manufacturing secret by imprisonment of only two years and a fine of EUR 30,000.

41. Thomassin, *supra*, note 30, 964–970, at 968.

Due to the above inconsistencies and uncertainties, the French legislature would be well advised to finally enact a consistent framework for the criminal protection of trade secrets: after all, the new European Trade Secrets Directive does not require any harmonisation of the criminal provisions and it offers no assistance in this respect.⁴²

III. Contractual Liability of the Employee⁴³

The contractual liability of an employee because of the misappropriation of an employer's trade secret can be based on two legal grounds. First, on the employment contract's general duty of loyalty that obliges the employee to maintain confidentiality, at least during the employment (1), and, secondly, on specific confidentiality clauses (2).

1. Legal Duty of Loyalty Inherent in the Employment Contract

In addition to the general obligation to fulfil any contractual obligation in good faith,⁴⁴ sec. L. 1222-1 LC states that "the employment contract must be executed in good faith". From this provision, the courts derive an obligation of loyalty and therefore confidentiality of the employee.⁴⁵ If the existence of such an obligation deriving *ipso facto* from the employment contract and therefore enforceable even in the absence of any explicit agreement between the parties seems undisputed, its material and temporal scope presents many uncertainties.

From a material perspective, the first issue is to determine what information, because of its content, should fall under this obligation. It is difficult to draw a clear line in the jurisprudence: the assessment of good faith is by its nature contingent on its factual context. Thus, the degree of confidentiality will for instance depend on the function exercised in the undertaking.⁴⁶ It nevertheless seems clear that information with a direct competitive interest, such as trade secrets, should be included.⁴⁷ Another question, still unclear, is whether the employer has to explicitly

42. Lapousterle, Geiger, Olszak, Desauettes, "What Protection for Trade secrets in the European Union? A Comment on the Directive Proposal" (2016) 38:5 *E.I.P.R.* 255-261, at 256.

43. Before starting to analyse the different civil mechanisms susceptible to offering protection for trade secrets, it must be added that pursuant to sec. 2 of the French Code of Criminal Procedure, a "civil action aimed at the reparation of the damage suffered because of a felony, a misdemeanour or a petty offence is open to all those who have personally suffered damage directly caused by the offence". A trade secret's owner, given being a victim of one of the previously mentioned criminal offences, will therefore be able to claim the reparation of his prejudice under this provision.

44. See sec. 1134§3 French Civil Code (CC) and following the Ordonnance no. 2016-131, 10.02.2016, "portant réforme du droit des contrats, du régime général et de la preuve des obligations", from 1 October 2016, Art. 1104 French CC.

45. Latreille, "Réflexion critique sur la confidentialité dans le contrat (1re partie)" (2006) 156 *Les Petites Affiches* §30; Del Sol, Lefranc-Hamoniaux, "La protection de l'information confidentielle acquise par les salariés et leur représentants" (2008) 52 *JCP social* §2; Leclerc, "Sur la validité des clauses de confidentialité en droit du travail" (2005) *Droit social* §1.

46. Latreille, *supra*, note 45, §30.

47. Leclerc, *supra*, note 45, §7; Del Sol, Lefranc-Hamoniaux, *supra*, note 45, §4.

state the secret character of the information to be protected.⁴⁸ Although the Supreme Court has remained silent on this issue so far,⁴⁹ it is likely that the answer would be fact-specific and therefore a matter for the fact-finding court.⁵⁰

The temporal dimension of this confidentiality obligation is also not perfectly established: although it is clear that the obligation lasts for at least the whole period of the employment contract, its survival thereafter is questionable. The Supreme Court has not yet taken a decision on this matter. The majority of academics nonetheless consider that with the termination of the employment contract, the employee recovers – under the restriction not to commit an act of unfair competition⁵¹ – his complete freedom.⁵²

Both the vagueness of the scope of this obligation and its likely restriction to the period of the employment contract explain why trade secret owners often rely on explicit clauses of confidentiality.

2. Explicit Confidentiality Clauses

The recourse to confidentiality clauses might appear an efficient way to solve the uncertainty about the scope of confidentiality and to ensure its duration beyond the termination of the employment contract. This solution is nevertheless far from being perfect. On the one hand, the very essence of a socially inspired labour law is to establish a binding legal framework aimed at protecting the employee, so that the contractual liberty of the parties is restricted in this area.⁵³ Sec. L. 1121-1 LC therefore states that "no one can put the rights of persons and the individual and collective freedoms under restrictions which are not justified by the nature of the task to be accomplished and proportionate to the purpose intended". Even if it has the purpose of limiting the contractual freedom of the parties, this provision also gives a legal basis for contractual restrictions and therefore confidentiality clauses.⁵⁴ Besides this general clause, there is no legal provision specifying the regime of confidentiality clauses, while the courts have taken a stance that one author describes as being "as discreet as the obligation it aims to produce".⁵⁵ Therefore, the level of restrictions (both from a material and temporal perspective) the courts might accept as being

48. Del Sol, Lefranc-Hamoniaux, *supra*, note 45, §5.

49. Del Sol, Lefranc-Hamoniaux, *supra*, note 45, §5.

50. Comp. generally on the factual caractere of appreciability the good faith: Le Tourneau, Poumarède, "Bonne foi" (2014) *Répertoire de droit civil* §16.

51. See under C.II, *infra*.

52. Stoffel-Munck, "L'après-contrat" (2004) 1 *Revue des contrats* §14; Sassolas, "La durée des clauses de confidentialité" (2015) *RTD com.* 625-640, at 626; Del Sol, Lefranc-Hamoniaux, *supra*, note 45, §12; for an opposite view: Malaurie-Vignal, "Le parasitisme des investissements et du travail d'autrui" (1996) *Receuil Dalloz* §3; Latreille, *supra*, note 45, §113.

53. Aubrée, "Contrat de travail (Existence – Formation)" (2016) *Répertoire de droit du travail* §3-4; Radé, "La figure du contrat dans le rapport de travail" (2001) *Droit social* §4-14.

54. Radé, *supra*, note 53, §7.

55. Stoffel-Munck, *supra*, note 52, §20; see also: Moreau, "La protection de l'entreprise par des clauses contractuelles de non-concurrence et de confidentialité" (1999) 69 *Droit et Patrimoine* 56.

proportionate and whether there is a necessity to provide a financial compensation remain uncertain.

First of all, from a substantial perspective, the necessity test requires the undertakings to have a legitimate interest in the protection of the information.⁵⁶ This condition should not raise much concern regarding trade secrets.⁵⁷ The main issue in this area will be for the trade secret's owner to define precisely what information he wants to keep confidential, as otherwise the contract would be too vague to be enforceable.⁵⁸ Indeed, the less precisely the obligation is described, the greater the chance that it is found too broad and therefore disproportionate.⁵⁹

The second issue on which neither the law nor jurisprudence offer a clear answer is whether confidentiality clauses without any time limit are legal under French law. Contrary to non-compete requirements, the obligation of confidentiality cannot be limited to a certain territory due to the evanescence of the information.⁶⁰ The only possible restriction is therefore a temporary one. So far, the Supreme Court has not taken a clear position on this sensitive issue⁶¹ and French legal scholars are split on the subject.⁶² Sec. L. 1121-1 LC only imposes the obligation to balance the interests of the trade secret's owner and the freedom of the employee (in case of confidentiality clauses, the freedom of speech). Sec. L. 121-1 LC does not therefore impose a general temporal limitation. From this perspective, it seems perfectly possible that a confidentiality clause restricted to very specific and for instance technical information, but not limited in time, may be necessary and proportional to the restriction imposed on the freedom of speech of the employee.⁶³

Beyond sec. L. 1121-1 LC, some legal scholars put forward other arguments to justify such a limitation in time. Some make an analogy with the jurisprudence on non-compete agreements.⁶⁴ This argument is not persuasive, however: if the confidentiality clause has the effect of a non-compete agreement, the court should simply requalify it.⁶⁵ Others find a justification for this general temporal limitation in the principle that perpetual agreements are prohibited. This principle, that in the past was not legally established and was debated among scholars,⁶⁶ has now been

56. Leclerc, *supra*, note 45, §15-17.

57. Moreau, *supra*, note 55, 56, (I.A.)*

58. See: sec. 1129 Code Civil and following the Ordonnance no. 2016-131, 10.02.2016, "portant réforme du droit des contrats, du régime général et de la preuve des obligations", Art. 1163 Code civil.

59. Supreme Court, 8 December 2009, 08-17191, *Dassault*; Leclerc, *supra*, note 45, §8; Del Sol, Lefranc-Hamoniaux, *supra*, note 45, §9.

60. Sassolas, *supra*, note 52, 639, see beyond for the condition of non-compete clauses.

61. Sassolas, *supra*, note 52, 628.

62. For a limitation: Leclerc, *supra*, note 45, §19 who however only addresses the case where the confidentiality clauses has the effect of a post-contractual non-competition clause; Latreille, *supra*, note 45, §113; against a principle of temporal limitation: Caseau-Roche, "La clause de confidentialité" (2014) *AJ Contrats d'affaires* 119-121.

63. Different views: Sassolas, *supra*, note 52, 631.

64. For the regime of restrictive covenants, see B.II-IV.

65. Sassolas, *supra*, note 52, 635-637.

66. Sassolas, *supra*, note 52, 629-630; Garinot, *supra*, note 20, §239.

enshrined in new sec. 1210 Code Civil (CC):⁶⁷ "Perpetual contractual agreements are prohibited. Each party may terminate such agreement under the conditions foreseen for a permanent contract", meaning at any moment, provided that previous notice is given and a reasonable period for termination is respected. Such an interpretation will be unfavourable to the interest of the trade secret's owner, who would then be forced to conclude only agreements limited in time.⁶⁸ It is nonetheless uncertain if a confidentiality clause without a defined period of time will be considered a perpetual clause. It may indeed be argued that such agreement is by nature limited until the time the information falls into the public domain.⁶⁹ The fulfilment of this condition does not necessarily require the employee to contravene his obligations, but may simply be the result of reverse engineering or self-development by third parties. How the courts would see this argument is nevertheless difficult to assess.⁷⁰

The last uncertainty concerning confidentiality clauses beyond the employment contract is to know whether financial compensation is necessary for the agreement to be valid. Some scholars regard this as necessary by drawing a parallel between the regime of confidentiality and non-compete clauses.⁷¹ This was not persuasive for the Supreme Court, which in a recent decision has limited the obligation of financial compensation to cases where the confidentiality clause actually restricts the employee's freedom to exercise his professional activity (and should therefore be considered as a restrictive covenant).⁷²

3. *Difficulty of Proving Violation of a Confidentiality Obligation*

Beyond the uncertainty as to the validity of secrecy obligations, proof of a breach also poses high hurdles.

The obligation of confidentiality is analysed as an obligation of result: upon the mere finding of non-performance, fault is presumed.⁷³ But the obligation of the debtor is limited to the divulgation through his own behaviour, and independent access by a third party without any help from the employee can never be excluded. The creditor, as claimant, will therefore de facto be compelled to prove the existence of an act of divulgation by the debtor, and any doubts will benefit the latter.⁷⁴

67. See Ordonnance no. 2016-131, 10.02.2016, "portant réforme du droit des contrats, du régime général et de la preuve des obligations".

68. Latreille, *supra*, note 45, §113.

69. Latreille, *supra*, note 45, §111.

70. For a substantial analysis of this hypothesis, leading to the adaptation of the general legal framework developed by the courts to confidentiality clauses see: Sassolas, *supra*, note 52, 630.

71. See *infra*, B.I.

72. Supreme Court, 15 October 2014, 13-11524, *Adex*; obs.: Garinot, "Validité de la clause de confidentialité dépourvue de contrepartie financière" (2014) 345 *Gazette du Palais* 9-11.

73. Garinot, *supra*, note 20, §232.

74. For substantial developments on this point: Latreille, "Réflexion critique sur la confidentialité dans le contrat (suite et fin)" (2006) *Les Petites Affiches* 157, at §§120-2, 133-7; also: Garinot, *supra*, note 20, §241.

Because of the weaknesses and uncertainties of the French legal system regarding the protection of trade secrets, their owners may thus look for alternative solutions, one of them being the imposition of restrictive covenants.

B. RESTRICTIVE COVENANTS

An efficient way to prevent a misappropriation of trade secrets by a former employee or manager is to prevent them from working as or for a competitor. The legal regime of restrictive covenants obliges differentiation between the case of employees (I), who are in a relationship of subordination and therefore enjoy the protection of labour law, and the case of managers (II), to which only commercial law applies. Lastly, some words should be devoted to the sanctions applicable to restrictive covenants that do not respect these legal prescriptions (III).

I. Restrictive Covenants under Labour Law

1. Object and Jurisprudential Development

Even if the trade secret owner's motivations for making use of a restrictive covenant may be the same as for confidentiality clauses, these two instruments must not be mixed up. While confidentiality clauses only oblige the employee not to divulge certain information, the object of a restrictive covenant amounts to a restriction on the employee's freedom to pursue a professional activity in the domain where such information may present as competitive asset.

French law has no specific legislative provisions related to the validity of restrictive covenants. Their whole legal regime is therefore the outcome of case law which evolved over time. The first decisions were indeed very favourable towards the employer: the only limit on contractual freedom was the prohibition of clauses that reduced the freedom to pursue a professional activity in a general and absolute way, meaning unlimited both in time and geography.⁷⁵ The jurisprudence radically changed its course with three landmark Supreme Court decisions of July 2002.⁷⁶ These decisions, which emphasised the principle of freedom to exercise a professional activity under sec. L. 1121-1 LC,⁷⁷ made the validity of restrictive covenants subject to three cumulative conditions. Restrictive covenants should (1) be indispensable for the protection of the employer's legitimate interests, (2) safeguard the freedom of the employee to pursue a professional activity, and (3) provide financial compensation.

75. See for instance: Supreme Court, 7 November 1984, 82-16882, *société élan*; Dissaux, "Fasc. 256: clause de non-concurrence" (2014) *JurisClasseur Commercial* 38; Picod, Robinne, "Concurrence (obligation de non-concurrence)" (2015) *Répertoire de droit du travail* §37.

76. Supreme Court, 10 July 2002, 99-43334, 99-43336, *Heppner transitaire v MSAS cargo international*; Supreme Court, 10 July 2002, 00-45135, *La Mondiale*; Supreme Court, 10 July 2002, 00-45387, *Brossard*; obs.: Serra, "Tsunami sur la clause de non-concurrence en droit du travail" (2002) *Receuil Dalloz* 2491-2498.

77. Sec. 120-2 LC under the numbering preceding the revision of the Labour code. For a reproduction and translation of sec. L. 1121-1 LC see A.III.2.

Leaving aside issues of proof, a restrictive covenant need not be made in writing, and an oral agreement to this effect is perfectly valid under French law.

2. Protection of Legitimate Entrepreneurial Interests

As a first condition of validity, a restrictive covenant must be necessary in order to protect legitimate interests of the employer. This condition, which was stipulated in a decision of 1992,⁷⁸ must be evaluated from the perspective of society. While every undertaking has an interest in reducing the competitive pressure on itself, the general public has an interest in free competition.

Even if not expressed in these terms, the test chosen comes close to that used under unfair competition law: the clause protects a legitimate interest of the employer when it prevents the employee from abusing his previous position in the company so as to harm it afterwards.⁷⁹ The protection of trade secrets is perhaps the most significant example for such a type of interest.⁸⁰

Even if cases refer to the need for the restrictive covenant to be "indispensable", in reality the courts do not rigorously apply this high threshold.⁸¹ The indispensability seems much more interpreted as a condition for "necessity" encompassed in a proportionality test.⁸²

3. Safeguarding the Employee's Freedom

The second condition adds some safeguards for the employee to freely pursue his professional activity. As a complete restrictive covenant would make it impossible for the employee to exercise any activity consistent with his professional experience,⁸³ the main question concerns the necessity for limiting the covenant in time and geography. As far as employees are concerned, the Supreme Court decisions of 2002 require a limitation in both dimensions.⁸⁴ While this is clear, there are uncertainties as to the appropriate limits, and it is impossible for the courts to set a clear limit that would be generally applicable to each case.⁸⁵ The correct balancing of interests thus

78. Supreme Court, 14 May 1992, 89-45300, *Marietta*; obs.: Serra, "Une clause de non-concurrence souscrite par un salarié n'est valable que si elle est indispensable à la protection des intérêts légitimes de l'entreprise" (1992) *Receuil Dalloz, (jur.)* 350-351.

79. Compare Dissaux, *supra*, note 75, §44.

80. See for instance: Supreme Court, 14 February 1995, 93-43898, *Puma*; Bucher, "Fasc. 111: Clause de non-concurrence - Validité" (2012) *JurisClasseur Concurrence - Consommation* §42-6.

81. Picod, Robinne, *supra*, note 75, §46.

82. Blanc-Jouvan, "Fasc. 18-25: Clause de non-concurrence" (2012) *JurisClasseur Travail Traité* §60.

83. For instance: Supreme Court, 18 September 2002, 99-46136, *Go sport*.

84. Picod, Robinne, *supra*, note 75, §52.

85. For example, a competition restraint applicable to the whole French territory in a field where the employee had nine years of experience was considered illegal: Supreme Court, 27 May 1992, 89-42351, *Witte*; whereas a clause forbidding an activity for a duration of five years, but limited to certain region in France was considered legal: Supreme Court, 10 October 1990, 89-43739, *société Cheville*.

depends on a case-by-case analysis carried out by the courts.⁸⁶ If legal uncertainty is the price for flexibility, one has to bear in mind that legislature never intervened in this area in the first place.

4. Need for Financial Compensation

The last condition of validity is the need for financial compensation. Before 2002, the Supreme Court continually repeated that in the absence of any legal provision, the need for financial compensation was not a condition of validity.⁸⁷ This jurisprudence was criticised by the majority of scholars as being incompatible with the *cause* obligation,⁸⁸ being inequitable and not taking into account the interests of society to see these types of clauses restricted.⁸⁹ If the first argument was purely legal, opening the possibility for jurisprudential adjustment, the two others were rather political assessments, which explains the reluctance of the Supreme Court to assume the function of the legislature. Nevertheless, confronted with the inaction of the legislature and the isolation of the French system in Europe,⁹⁰ the Court finally overturned its own jurisprudence with the three decisions of 2002 by holding that a restrictive covenant must foresee financial compensation for the employee.⁹¹

The determination of the amount of the compensation is in principle left to the parties, and the courts cannot themselves set an equitable amount on behalf of the parties.⁹² Case law however offers some guidance regarding the nature of this financial compensation which is meant "to compensate the employee, who after the termination of his employment contract, is bound by an obligation, which limits his possibility to exercise his economic activity".⁹³ The obligation for financial compensation is thus compensation for the employee's obligation not to compete:⁹⁴ therefore, the amount of compensation cannot be made dependent of the length of the labour contract or of the circumstances of its termination.⁹⁵ The second control the judge may exercise over the amount of compensation is to make sure that the sum is not unreasonably low. If so, this should lead the judge to the conclusion that the restrictive covenant is invalid and need not be observed. The Supreme Court nevertheless considered that appreciation of what is unreasonably low is a matter

86. Blanc-Jouvan, *supra*, note 82, §43. *

87. Supreme Court, 20 September 1993, 91-40393, *Société AGF*; Picod, Robinne, *supra*, note 75, §57.

88. This notion means that the engagement or obligation of one party should find its *raison d'être* – its *cause* – in the engagement or obligation of the second. In the absence of a *cause* (here: financial compensation), the engagement (here: restrictive covenant) should have no effect.

89. Serra, *supra*, note 76, 2491–2498, at 2494–2495.

90. Picod, Robinne, *supra*, note 75, §60.

91. Serra, *supra*, note 76, 2491–2498, at 2494–2496.

92. Supreme Court, 16 June 2012, 11-10760, *Société TSAF*; obs.: Radé, "Le juge et la contrepartie financière à la clause de non-concurrence" (2012) *Droit social* 784–787.

93. Supreme Court, 7 March 2007, 05-45511, *Société Pierre Johanet*; Bucher, *supra*, note 80, §88.

94. Picod, Robinne, *supra*, note 75, §64.

95. Picod, Robinne, *supra*, note 75, §64.

of fact, whose appraisal is not a question of law and is therefore left to the judge in each case.⁹⁶

II. Restrictive Covenants under Commercial Law

The use of restrictive covenants to protect trade secrets is not limited to employees: due to its strategic position, a company might be well advised to impose such covenants upon its managers. Even if, as in labour law, the lawfulness of the clause is still conditional on its necessity to protect a legitimate entrepreneurial interest and needs to be proportionate, the jurisprudence is more liberal in the area of commercial law.⁹⁷ Regarding the geographical and temporal limitations, the two requirements are no longer strictly cumulative, but part of a general proportionality test.⁹⁸ Last but not least, financial compensation is not considered as a condition of validity.⁹⁹

III. Sanctions

The aforementioned conditions are required for the validity of the restrictive covenant. Failure to comply with them theoretically obliges the judge to declare it void. Beyond this principle, the possibility for the judge to declare a covenant only partially void and therefore to engage in a reduction to a legally permissible scope was admitted in a Supreme Court decision.¹⁰⁰ This decision was criticised as affecting the cogent character of the legal regime: if applied in a systematic way, employers would no longer have any incentive to respect the conditions set by case law.¹⁰¹ Anyway, the conditions under which this reduction might take place remain very uncertain:¹⁰² a recent decision of the Supreme Court suggests for instance that such a possibility should only exist if the employee is not asking for the full agreement to be declared invalid.¹⁰³

The above analysis should make clear that an intervention by the legislator in this field would be highly desirable. Unfortunately, implementation of the Trade

96. Supreme Court, 3 February 2010, 07-44491, *Société Ciffreo Bona* some scholars argued that compensation below 10% of the salary of the employee is generally considered by the judges as derisory see: Radé, *supra*, note 92, 784–787, at §2; for Picod and Robinne, a reference might be found in compensation varying between one and two thirds of the previous salary, *supra*, note 75, §63.

97. Supreme Court, 4 January 1994, 92-14121, *Locafret*.

98. Supreme Court, 19 May 1987, 85-16840, *Etrama*; Supreme Court, 30 October 1989, 88-16804, *Multipubli*; an isolated decision nevertheless seems to require a cumulative restriction both of the geographical and temporal scope: Supreme Court, 24 November 2009, 08-17650, *Medis*.

99. Supreme Court, 21 September 2004, 00-18265, *CGRP*.

100. Supreme Court, 18 September 2002, 00-42904, *GAN-vie*; another example of judicial limitation of the geographical scope: Supreme Court, 15 March 1998, 95-41543, *Nordson France*; for a limitation of the temporal scope of the clause: Supreme Court, 22 October 2008, 07-42035, *Abrival*.

101. Picod, Robinne, *supra*, note 75, §79.

102. Dissaux, *supra*, note 75, §71; Blanc-Jouvan, *supra*, note 82, §98.

103. Supreme Court, 12 October 2011, 09-43155, *Sofimo*.

Secrets Directive will not be of any help: this indeed leaves it up to the Member States to regulate the post-employment contract phases.¹⁰⁴

C. KNOW-HOW AND COMPETITION ISSUES: COMPETITION FROM CURRENT OR FORMER EMPLOYEES

In the absence of any restrictive covenant, employers are still not deprived of any legal action against competition from their current or former employees. While still in employment, the employee may only prepare future competition under certain conditions (I). After the employment period, the law of unfair competition may then forbid certain actions by the employee regarding the use of trade secrets of their former employer (II).

I. Preparatory Acts during the Employment Period

The obligation on the side of the employee not to commit any act of competition against his current employer is good law at least since a decision of the Supreme Court from 1965.¹⁰⁵ As for the obligation of confidentiality, this jurisprudence now finds its legal basis in sec. L. 1222-1 LC.¹⁰⁶ Because the duty is inherent to the employment contract, there is no need for an explicit clause.¹⁰⁷

The main difficulty in this area remains the distinction between current and future competition, in other words between preparatory acts and future activities. In two well-balanced decisions, the Supreme Court distinguished between *preparatory* acts of competition, which are lawful, and *effective* acts of competition, which constitute a breach of the employee's duty.¹⁰⁸ Thus, while the setting-up of a new company is not considered an effective act of competition and therefore lawful,¹⁰⁹ starting the company's activity before the end of the employment is not.¹¹⁰

II. Competition Issues after Termination of the Employment

1. Notion of Unfair Competition

After the termination of employment and in the absence of any confidentiality clause or restrictive covenant, the freedom of commerce and industry again becomes

104. Lapousterle, Geiger, Olszak, Desaunettes, *supra*, note 42, 255–261, at 259.
 105. Supreme Court, 8 February 1965, *Blumenthal-Ries v Weyland* Recueil Dalloz 1965, IR (96); Picod, Robinne, *supra*, note 75, §7.
 106. See A.III.1.
 107. Bucher, “Fasc.110: clause de non-concurrence – notion, généralités” (2013) *JurisClasseur Concurrence- Consommation* §18.
 108. Picod, Robinne, *supra*, note 75, §13.
 109. Supreme Court, 13 March 2001, 99-11178, *Sagette Gauthier*; Bucher, *supra*, note 107, §19.
 110. Supreme Court, 15 November 1984, *Peintures européennes* Recueil Dalloz 1985, IR (383); Picod, Robinne, *supra*, note 75, §15.

the norm.¹¹¹ The latter allows the former employee to freely compete and to reuse any information not protected by an intellectual property right.¹¹² This freedom is tempered in certain respects by what is considered by the courts to amount to acts of unfair competition.

Unfair competition law is almost exclusively case law and not based on any coherent legal framework.¹¹³ In the absence of any other legal basis, unfair competition claims are based on the general tort clause of new sec. 1240 CC, which states that “every act whatsoever of man that causes damage to another, obliges him by whose fault it occurred to remedy it”. This provision, not created for the purpose of resolving unfair competition disputes, nevertheless allows their inclusion because of its widely open scope and the obligation to repair any type of damage.¹¹⁴ For a claim under sec. 1240 to succeed, three elements must be demonstrated: an act of fault, a damage suffered and the causal link between these two. It should also be noted that in the domain of unfair competition, the proof of damage is often unnecessary by the mere finding of a fault: because of a competitive relationship between the parties, any action undertaken by one of them affects, by way of consequence, the position of the other on the market.¹¹⁵

Thus, the main issue relates to the determination of what should be considered false or unfair behaviour. Indeed, because of the principle that competition is lawful even if it leads to damage, the claim of unfair competition is fundamentally different from general tort law. From analysis of case law, a certain number of underlying principles can be deduced: the disregard of commercial practices, the abuse of freedom, the necessity for loyalty or the disregard of a level playing field are some of them. In particular, two types of conduct recognised as unfair may apply in order to protect trade secrets: parasitism and the poaching of employees with the purpose of obtaining trade secrets of another undertaking.

2. Claim of Parasitism

Parasitism is defined by the courts as an act “by which an economic actor follows the lead of another in order to profit from its efforts and know-how, without making own investments”.¹¹⁶ This notion was first developed in order to protect the reputation of undertakings by prohibiting acts that could confuse the consumer as to the origin of a product.¹¹⁷ Subsequently, case law broadened the scope of its application to encompass

111. Le Goffic, “Fasc. 223: Procédés de désorganisation – Débauchage de personnel” (2014) *JurisClasseur Concurrence – Consommation* §§65–77.
 112. Schmidt-Szalewski, *supra*, note 8, §43.
 113. Picod, Auguet, Dorandeu, *Concurrence déloyale*, Rép. com. Dalloz, no. 129 à 133., 2014, (§14–28).
 114. Unlike for example sec. 823 Civil Code in Germany whose scope of protection is limited to the protection of special proprietary-like interests only.
 115. Supreme Court, 12 February 2008, 06-17501, *Yoplait*; Picod, Auguet, Dorandeu, *supra*, note 113, §121.
 116. Supreme Court, 26 January 1999, 96-22457, *Sociétés Canavese v Société Murisseries du Centre*; Supreme Court, 4 February 2014, 13-11044, “Miss Dior”.
 117. Picod, Auguet, Dorandeu, *supra*, note 113, §§199–211; Legeais, “Fasc. 254: Concurrence déloyale et parasitaire” (2014) *JurisClasseur Commercial* §1.