

# Misappropriation of Trade Secrets in Germany and U.S. Discovery Aid

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## **Part I**

# **The Misappropriation of Trade Secrets**

# Introduction

- Enterprises increasingly rely on intangible or knowledge-based assets rather than tangible or physical ones
- While information society has made trade secrets more important, it has also made them more likely to be stolen
- Information technology itself contributes to mobility of information
- Does the legal framework on hand provide adequate protection against know-how theft?

# Definition of „Trade Secrets“

- All information connected to the business which is not public knowledge, and for which it has been made expressly known by the company owner that this should be kept secret for the purposes of economic interest.

# Definition Trade Secrets

## 4 Factors

- Where knowledge is not in the public domain
  - Problem: Reverse engineering
- Company relatedness
- Intent observance of secrecy
- Economic interest in the observance of secrecy

# Trade Secret or Patent? (I)

Advantages of trade secrets:

- Not being limited in time
  - continues indefinitely as long as the secret is not revealed to the public
- No registration costs
- Immediate effect
- No compliance with formalities
- No disclosure of the invention to the public

# Trade Secret or Patent? (II)

Disadvantages of trade secrets:

- Others may be able to legally discover the secret and be thereafter entitled to use it
- Others may obtain patent protection for legally discovered secrets
- More difficult to enforce than a patent

# How can Trade Secrets be protected?

## Protection measures during employment

- Physical restrictions
  - Security pass
- Security in the electronic environment
  - Digital security measures
- Training and awareness
- Non-Disclosure Agreements



# Non-Disclosure Agreements

- Considered most effective tool for protection of confidential information
- Facilitating the burden of proof and specification of trade secret in case of litigation
- Provide contractual protection in addition to existing law
- Provide notice to the employees that trade secrets are considered major asset of company

# Sec. 7 Trips-Agreement

## Protection of undisclosed information

- Article 39
- 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 practices (10) so long as such information:
  - (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.

# Protection of Trade Secrets in Germany

## Overview

- The German Act against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb* – UWG) penalizes betrayal of trade or industrial secrets in Sec. 17 (1),(2) UWG
- Sec. 18 UWG “Piracy of Samples” (*Vorlagenfreibeuterei*) legal sanction for the communication or use of samples that have been entrusted to somebody, e.g., to business partners
- Sec. 19 UWG broadens the offences of Sec. 17, 18 to cover also preparatory actions beyond the attempt phase
- Criminal offenses
  - Sec. 17, 18, 19 UWG
- Civil claims (injunctive relief, damages, etc.)
  - Sec. 3, 4 No. 9 (use of knowledge or materials, which have been unlawfully acquired) and No. 11 (breach of law), 8, 9 UWG
  - Sec. 823(2) German Civil Code (GCC), 17, 18 UWG
  - 826 GCC
  - 1004 , 823(2) GCC, 17, 18 UWG
  - 1004, 826 GCC

## „Betrayal of Secrets“ Sec. 17(1) UWG

- Unauthorized communication of entrusted secrets by employees to third parties
  - „unauthorized“ if breach of a contractual obligation of secrecy without justification
  - communication of trade secrets to third parties after employment and without confidential agreement not covered by Sec. 17(1) UWG
- for the purpose of competition, in self-interest, in the interest of a third party or with the intent to afflict damage on the owner of the business

# „Industrial Espionage“ Sec. 17(2) No. 1 UWG (I)

- Unauthorized procurement or saving of secrets with certain means that are enlisted in letters a) to c)
  - (a) Use of technical means
    - photocopying, copying of data files, the use of recording or listening devices in cases of oral reproduction of the secrets, etc.; or
  - (b) creating an embodied reproduction of the secret
    - such as the reworking of a certain recipe or a machine which embodies the secret; or
  - (c) removal of a thing which embodies the secret
    - data carriers, machines or machine elements
- for the purpose of competition, in self-interest, in the interest of a third party or with the intent to afflict damage on the owner of the business

## „Industrial Espionage“ Sec. 17(2) No. 1 UWG (II)

- Perpetrator can be a person affiliated with the company, or external third parties
- „Saving“ is more than procurement, since offender intensifies already acquired knowledge
  - Employees who may previously have acquired certain know-how lawfully, but who subsequently save these secrets unlawfully, e.g. shortly before leaving the company

# „Exploitation of unlawfully acquired secrets“

## Sec. 17(2) No. 2 UWG

- He or she must have
  - acquired secrets through communication by employee during employment, or
  - acquired secrets through his or her own action through the use of one of the means mentioned in letters a to c, or
  - procured or saved secrets “otherwise” in unauthorized manner
    - Legally obtained documents during employment turn into unauthorized procured secrets after employment is ended, see Federal Supreme Court GRUR 2006, 1044, 1045 - *Client Data Program*

# Trade Secret violation after employment *case law (I)*

- Employees have right to use legally perceived knowledge, unless special circumstances establish a non-competing obligation, see Federal Supreme Court, GRUR 2002, 91 – *Injection Tools*
  - “special circumstances” depend on weighing the right of employer to be protected against unfair competition stemming from usurpation of trade secrets and right of employee to economic mobility and personal freedom to pursue preferred professional course
  - Relevant whether employee has been involved in technical development of invention kept under secret, see Federal Supreme Court, GRUR 1963, 367 – *Industrial Floors*



# Trade Secret violation after employment *case law (II)*

- Relevant whether employee is able to memorize acquired knowledge, see Federal Supreme Court, GRUR 1999, 934 – *Wine Counselor*
- Or whether one additionally needs to rely on supporting documents, see Federal Supreme Court, GRUR 1960, 294, 295 – *Cold Forming*; Federal Supreme Court GRUR 2003, 453, 454 - *Use of client lists*; Federal Supreme Court, GRUR 2006, 1044, 1045 - *Client Data Program*
- Employee's interest in exploiting secret client data is outweighed even if data rely to clients solicited by himself, see Federal Supreme Court, GRUR 2009, 603 – *Insurance Agent*

## Piracy of Samples (Sec. 18 UWG)

- Unauthorized communication or use of entrusted samples (not necessarily trade secrets) or guidelines of a technical nature
  - Business person entrusts technical drawings to other business for e.g. the purpose of having this other business manufacture products as a subcontractor
  - subcontractor then uses drawings in order to manufacture products for third parties or for his own use

# Available Remedies

## Injunctive Relief and Claim for damages

- Sec. 823(2) GCC, 17, 18 UWG; (1004) GCC
  - all criminal offences regarded as „protective laws“ within the meaning of Sec. 823(2) GCC
- Sec. 826, (1004) GCC
- Sec. 3, 4 No. 9 (use of knowledge or materials, which have been unlawfully acquired) and No. 11 (breach of law), 8, 9 UWG

# Part II

## **U.S Discovery Aid according to 28 U.S.C. §1782**

# Need for U.S. Discovery Aid in Trade Secret Litigation

- German litigant for obtaining evidences limited to “specifically-identified documents”
  - Sec. 140(c) German Patent Act; document identification and presentation if patent infringement exists with “sufficient probability”
  - Sec. 809, 810 German Civil Code: Inspection and presentation of objects and documents
  - Sec. 142 German Code of Civil Procedure: Order of the court to present documents
  - Sec. 421, 422 German Code of Civil Procedure: Inspection and Presentation of documents from the hands of the opponent
- obligation to “specifically-identify” documents often blocks out party’s ability to develop case
- U.S Discovery, in contrast, allows for broad claim based on categories without strict identification obligations

## U.S. Discovery Aid under 28 U.S.C. § 1782(a)

- Tool for obtaining assistance from U.S. Federal Courts in gathering evidence from U.S. entities and individuals for use in proceedings before foreign (i.e. non-U.S.) and international tribunals
- Vehicle to get U.S.-based discovery to support trade secret litigation in Germany

# U.S. Discovery Aid under 28 U.S.C. § 1782(a)

## THE STATUTE

“The district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal. . . . The order may be made pursuant to a letter rogatory issued, or request made, by a foreign or international tribunal or upon the application of any interested person. . . . To the extent that the order does not prescribe otherwise, the testimony or statement shall be taken, and the document or other thing produced, in accordance with the Federal Rules of Civil Procedure.”

# *Intel v. AMD*, 542 U.S. 241 (2004)

## 1782-Requirements

- Application must refer to the production of Evidences
- The person to provide discovery “resides” or is found in the district of the district court to which the application is made
  - Company’s principle place of business
- The information sought is “for use in a proceeding in a foreign or international tribunal”
  - Generally interpreted quite broadly, any first-instance decisionmaker (e.g., European Commission), qualify as “tribunal”
  - Foreign proceeding must yet not be “pending” or “imminent”, sufficient if “within reasonable contemplation”
- The application is made by a foreign or international tribunal or “any interested person”
  - any parties involved in foreign litigation are “interested persons”



## The 4 Intel-Factors (I)

If threshold requirements are met, court must determine whether or not it should exercise its discretion to order discovery, which depends on:

- Whether or not the person from whom discovery is sought is a participant in the foreign proceeding.
  - courts have noted that “the need for [s.1782(a)] aid generally is not as apparent as it ordinarily is when evidence is sought from a nonparticipant in the matter arising abroad.”
- Nature of the foreign tribunal and its receptiveness to the discovery
  - Would the German Court likely be receptive to any evidence obtained via § 1782?

## The 4 Intel-Factors (II)

- Attempt to circumvent foreign proof-gathering restrictions
  - Applicability of § 1782 is not premised on whether the discovery mechanisms abroad are less restrictive than those in the U.S.
- Whether the document request is unduly intrusive or burdensome
  - Court may use Protective Orders in order to protect interests of involved parties
    - FRCP Rule 26(c):
      - „(c) Protective Orders. Upon motion by a party (...) the court (...) may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following: (...)“

# Are documents gained from § 1782(a) proceedings admissible in the German trial? (I)

- No explicit provision for admissibility of gained-abroad evidences
- Sec. 286 German Code of Civil Procedure recognizes the principle of free evaluation of the evidence ("Prinzip der freien Beweiswürdigung")
- Accordingly, the admission and weighing of all evidence lies within the discretion of the German Court
- Inadmissibility only where violation of fundamental principals of law exists, such as of the *Ordre Public*

# Are documents gained from § 1782(a) proceedings admissible in the German trial? (II)

## Significance of *Ordre Public*

- No German case law related to evidences obtained in § 1782(a) proceedings
- Procedural differences not considered sufficient for refusal of foreign judgments under Sec. 328 German Code of Civil Procedure,
  - does not amount to violation of fundamental law principles, *see* Federal Supreme Court, NJW 1968, 354, 355
- Fact that foreign judgment is based on pretrial discovery no reason for non-recognition, *see* Federal Supreme Court, NJW 1992, 3096, 3099

# Treatment of Protective Order Documents in Germany

Do German Courts have procedure to keep protective order documents confidential?

- Sec. 172 to 174 German Courts Act: German courts may wholly or partly exclude public from hearing
- Courts may „blacken out“ information to prevent knowledge of third parties requesting inspection of files (*Akteneinsicht*)
- Submitted documents are maintained in court file not publicly accessible

U.S. Discovery Aid in Practice:  
U.S. Court of Appeals for the Seventh Circuit,  
GRUR Int 2011, 361 – *Heraeus Kulzer*

- Appeal from orders of the district court denying applications brought by Heraeus Kulzer in U.S. federal court seeking discovery in aid of its suit for misappropriation of trade secrets pending in Germany
- In German lawsuit, Heraeus Kulzer alleged that it had disclosed certain proprietary information about its bone cement to a distributor so that distributor could obtain required regulatory approvals
- Distributor later entered into joint venture with a competitor of Heraeus Kulzer, competitor began selling bone cement similar to Heraeus Kulzer's product, Heraeus Kulzer prosecute its trade secrets claims
- Heraeus Kulzer sought discovery under 28 U.S.C. § 1782(a), but district court denied application

## Lower District Court based rejection on... (*Heraeus Kulzer II*)

- Seeking discovery the foreign tribunal would not allow into evidence
- Seeking discovery in the U.S. that is available under the foreign venue's discovery process, resulting in duplicative proceedings and an inference of harassment
- Swamping a foreign court with fruits of U.S. discovery that would be inadmissible in an U.S. court
- Seeking discovery that would impose undue burden/expenses on the respondent
- Seeking "arbitrary advantage" in the German litigation, where one party was able to avail itself of broad U.S. discovery, while the other party cannot

# Seventh Circuit Court Ruling (*Heraeus Kulzer III*)

“District Court committed two major legal errors”

- No circumvention of German law
  - “nothing to suggest that German court would be affronted by Heraeus’s recourse to U.S. discovery or would refuse to admit any evidence” obtained in the U.S.,”
  - once a § 1782 applicant demonstrates need for extensive discovery for aid in a foreign lawsuit, the burden shifts to opposing litigant to demonstrate, by more than angry rhetoric, that allowing the discovery sought . . . would disserve the statutory objectives”
- Refusal of application without requiring parties to meet and confer on scope of requested discovery
  - fact that respondent had “refused to meet” with Heraeus Kulzer, was “another example of its stonewalling.”
- Case remanded back to District Court
  - Work starts...



Thank you for your attention!