

Trade Secrets

Case Study

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ABC Ltd manufactures components for electrical goods and is a supplier for several large companies in the electronics industry. In addition to manufacturing, ABC Ltd is always working on improving existing products and developing new ones.

In this way, ABC Ltd has already successfully applied for several IP rights. The development work itself is only sporadically documented and there are no established processes for dealing with development work.



Case #1

Insufficient Protection of Trade Secrets

Case #1 – Insufficient Protection of Trade Secrets

What happened?

Some time ago, various documents seem to have ended up with a competitor, XYZ Ltd, for reasons that have not yet been resolved. This competitor has now applied for a patent that is very similar to a current research project of ABC Ltd and is thus specifically approaching (potential) customers of ABC Ltd.

Why is this a problem?

Practical point of view

Ideas, prototypes or design drawings as well as market analyses and customer lists have an economic value. Resources, especially time and money, have gone into the development and possible applications for property rights can be lucratively exploited.

In addition, know-how and market knowledge can provide a competitive advantage. Without taking appropriate protective measures in advance, it is very difficult to identify the cause of the problem.

Legal point of view

The lost documents and know-how may qualify as trade secrets and thus be protected under directive (EU) 2016/943. For claims pursuant this directive, however, it is necessary to actively protect trade secrets by appropriate measures.

ABC Ltd has not taken such protective measures, which is why it cannot take action against XYZ Ltd or other third parties on the basis of directive (EU) 2016/943.

Recommendation for action

In order to mitigate the risk of trade secrets being lost and to increase the legal possibilities for countermeasures, several steps are required:

- identification of trade secrets worthy of protection
- establishment of a concept of measures
- marking trade secrets as confidential
- informing employees and raising their awareness
- confidentiality clauses in relevant contracts
- access restrictions and monitoring of sensitive areas



There are a number of ways in which ABC Ltd's trade secrets came into XYZ Ltd's possession. This has implications for the practical and legal consequences as well as the (counter)measures to be taken.

Let's take a closer look at some case variants.

Case #2.1

The disgruntled employee

Case #2.1 – The disgruntled employee

What happened?

Let us say that Mr. E, a former employee of ABC Ltd, stole the confidential documents when he left in order to harm his old employer. He then used these documents at his new employer, XYZ Ltd.

Why is this a problem?

Practical point of view

Depending on the position from which Mr. E. was able to gain access to the files, ABC Ltd must think about its security precautions. Regardless of whether employees want to enrich themselves or carry out industrial espionage for third parties – employees who know their company well pose a different threat than outsiders. Stolen or lost documents can also affect customer relationships and cause additional damage.

Legal point of view

The consequences of violations of the directive (EU) 2016/943 are largely regulated by the member states in national law. Intentional violations for one's own benefit will generally have not only civil but also criminal consequences.

If a damage occurs – for example to a customer – ABC Ltd will likely have to take responsibility.

Recommendation for action

In order to mitigate the risk of trade secrets being lost and to increase the legal possibilities for countermeasures, several steps are required:

- implementation of an offboarding process
- implementation of an authorization concept
- strict access restrictions for all employees
- education of employees on the handling of documents
- agreement of confidentiality clauses in employment contracts

Case #2.2

The clueless employee

Case #2.2 – The clueless employee

What happened?

It does not require ill will to cause damage to the company. Let's assume that Mr. E just took the documents by mistake. He did not know they were confidential or that he even had them in his possession.

If employees can unintentionally take confidential documents with them, this indicates that there are considerable security flaws.

Why is this a problem?

Practical point of view

For ABC Ltd, this does not make much difference to the previous case. There is a risk that the documents become public, are used by Mr. E at his new employer or that important documents are lost forever.

Legal point of view

The legal consequences for Mr. E are less severe since he had no intent. For ABC Ltd however, the reason for the loss of the documents does not make a difference. If a damage occurs – for example to a customer – ABC Ltd will likely have to take responsibility.

Recommendation for action

In order to mitigate the risk of trade secrets being lost and to increase the legal possibilities for countermeasures, several steps are required:

- implementation of an offboarding process
- explicit marking of confidential documents as “confidential”
- training of employees in the handling of trade secrets, in particular confidential documents
- strict access restrictions for all employees



So far, we have only looked at the problem from ABC Ltd's point of view. However, it is not only important to protect one's own trade secrets, but also to prevent the use of third-party trade secrets.

Case #3

The new employee brings trade secrets

Case #3 – The new employee brings trade secrets

What happened?

There is also a Ms. F working at XYZ Ltd. Ms. F has also taken trade secrets from her old employer, LMN Ltd, and is now using them in her work. For what reason she has taken the trade secrets – whether negligently or intentionally – is irrelevant. In any case, XYZ Ltd knows nothing about it and believes that the newly developed products are based solely on its employees' own efforts. In truth, essential elements of the new products are based on the trade secrets of LMN Ltd.

Unlike ABC Ltd, LMN Ltd has implemented a comprehensive approach to protecting trade secrets and does everything it can to protect them.

Why is this a problem?

Practical point of view

If LMN Ltd learns that its trade secrets have been used without authorization by XYZ Ltd, a legal dispute is likely to ensue. This means a stop to any further use of the disputed trade secrets. Depending on how extensively XYZ Ltd has already made use of the trade secrets, this can have significant economic consequences.

Legal point of view

LMN Ltd can request XYZ Ltd to cease and desist and to pay damages; import bans and, in the worst-case scenario, even the destruction of the affected products is possible.

Depending on national law, both companies may also take action against Ms. F. However, as soon as the damage has been done, meaning that the trade secrets have been exploited, the main part of the legal dispute takes place between LMN Ltd and XYZ Ltd.

Recommendation for action

In order to mitigate the risks that may arise from such cooperation and to legally protect oneself, several steps are required:

- implementation of an onboarding process
- consistent identification and tracking of the company's own trade secrets
- training of employees in the handling of trade secrets
- establishment of processes and structures to provide an overview of the own development processes
- agreement of confidentiality clauses in employment contracts



Employees are not the only source of risk that can steal or introduce trade secrets without authorization. When cooperating with business partners, it is also important to keep an eye on the company's own trade secrets and to prevent the unintentional introduction of third-party trade secrets.

Case #4

The disastrous cooperation

Case #4 – The disastrous cooperation

What happened?

Let's go back and assume that ABC Ltd and XYZ Ltd settle their disputes and decide to cooperate to develop a joint product based on each other's expertise. However, the handling of the respective trade secrets is not regulated in the cooperation agreement. In addition, Ms. F still works at XYZ Ltd and uses trade secrets of LMN Ltd for the new project.

Why is this a problem?

Practical point of view

As in the previous case, ABC Ltd and XYZ Ltd run the risk of being sued by LMN Ltd because of their new product. The investment in the joint project could be wiped out.

Furthermore, the relationship between ABC Ltd and XYZ Ltd is uncertain in relation to the own trade secrets. Such projects can give the other party valuable insights into each other's business and development processes. The cooperation will not last forever – a relationship purely based on trust carries the risk of further economic disasters.

Legal point of view

LMN Ltd can also assert the previously mentioned claims in this case – but now against both companies.

Any questions of guilt, the degree of responsibility and other misconduct of the two business partners must be resolved between them internally. The basis for this is primarily the cooperation agreement. It is therefore of great importance to define rights, obligations and liability in the cooperation agreement.

Recommendation for action

In order to mitigate the risk of trade secrets being lost and to increase the legal possibilities for countermeasures, several steps are required:

- establishment of a concept for the protection of trade secrets
- training of employees for the handling of intellectual property and trade secrets of third parties during a cooperation
- contractual regulation of the handling of pre-existing intellectual property and trade secrets
- contractual obligation of the business partner not to use intellectual property and trade secrets of third parties without authorization
- contractual obligation of the business partner to implement technical and organizational measures to ensure proper handling of trade secrets

Case #5

Informing the competitor

Case #5 – Informing the competitor

What happened?

The employees' manager spread a rumour regarding a contract terminated by one of the employer's clients, that the employees' work relationship would be terminated as a result of the lost contract. At the same time, the manager helped the competing company that had won the lost contract to set up a limited liability company in Hungary. Thereafter during working hours, the manager and the competing company organised information sessions for the employees working on the lost contract to introduce the competing company and the possibility of the employees' keeping their jobs. The competitor, with the manager's cooperation, obtained a list of the employees concerned, their personal data and the characteristics of their employment relationship (job title, role in the employer's organisation, salary, other benefits, etc.).

Why is this a problem?

Practical point of view

The manager's position gave them the opportunity to access the employees' data and trade secrets related to their employment relationship. By providing this confidential information to the competing company, the competitor was able to make an offer on unchanged terms to a pool of employees with the necessary customer knowledge, and many of them accepted the offer and resigned from the employer.

Legal point of view

The information and characteristics of the employment relationship may qualify as trade secrets and thus be protected under directive (EU) 2016/943. Pursuant this directive, at the request of the injured party the competent judicial authorities can order an infringer to pay the trade secret holder damages appropriate to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret.

Recommendation for action

To mitigate the risks that may arise from such cooperation and to legally protect oneself, several steps are required:

- establishment of a concept of measures
- agreement of confidentiality clauses in employment contracts
- informing employees and raising their awareness
- access restrictions and monitoring of sensitive areas



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