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Strictly Confidential: Trade Secrets in German Patent Litigation

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It is now almost a year since the new confidentiality regime for patent disputes in Germany entered into force. Since then, confidentiality requests have become a standard procedure in German patent litigation. Courts and counsel have translated the legal requirements into manageable routines. The Munich Regional Court even published guidance on how to proceed with confidential information in patent disputes. Time for a recap – what is the state of play and what uncertainties remain?

First, let's have a look at what the law allows.

Under the new confidentiality regime, patent courts can classify information as confidential if it may contain trade secrets (section 16 of the German Trade Secrets Act). In this case, access to the information is restricted to those persons directly involved in the proceedings. This includes, in particular, the parties and their counsel, witnesses, experts and, of course, the judges and their staff.

All persons having access are required to keep the classified information confidential and neither use nor disclose it outside of a judicial proceeding. However, there is some ambiguity as to what is meant by the phrase "a judicial proceeding". Does this mean that the information may be used in *any* judicial proceeding or only in the specific dispute in which it was disclosed? Considering that the Trade Secrets Act is implementing the EU's Trade Secrets Directive, a narrow interpretation appears to be required. Otherwise, a confidentiality order from a single court would be tantamount to a *carte blanche* for parties to use that information in any and all judicial proceedings they encounter in the future. This would hardly be in line with the Directive's objective of improving, rather than weakening, the protection of trade secrets. Consequently, the prohibition to use the confidential information outside "a judicial proceeding" must be construed as referring to the judicial proceeding in which the information was classified and subsequently disclosed.

Even with such a narrow interpretation, however, the question remains what exactly is encompassed by the term "judicial proceeding" – does it extend to appeal proceedings or parallel PI proceedings? What about enforcement, parallel proceedings based on other patents, parallel patents in other jurisdictions, etc.? The interpretation is clear at the edges – a general privilege for all legal disputes is obviously not appropriate, nor is an exclusion of counterclaims, second instance etc. Between those margins, however, a cautious handling appears advisable.

The restrictions imposed by a confidentiality order are particularly relevant for third party file inspections, because German court files are generally not public. To obtain access to a file, third

parties must demonstrate a legitimate interest, and the parties to the proceedings are heard before access is granted. Even before the Trade Secrets Act came into force, courts have been able to restrict file inspection to those parts of a file that were actually covered by the respective party's legitimate interest. Under the new regime, information classified as confidential must always be redacted before a third party receives access to a file (cf. section 16 para. 3 of the Trade Secrets Act).

Another crucial provision is section 19 para. 1 of the Trade Secrets Act, which concerns the personal scope of confidentiality clubs. "Attorney's eyes only" is still not possible under German law. It is a constitutional requirement that the parties themselves have access to the subject-matter of the dispute. However, section 19 provides that access to confidential information may be restricted to designated representatives of a party. Typically, the confidentiality order will provide that only a handful of named individuals from within the party's organization have access. The attorneys of record and their staff do not need to be named individually.

The interplay between sections 19 and 16 may not be clear at first sight. As set out above, section 16 provides that access to the confidential information is limited to persons involved in the proceedings (parties, attorneys, judges etc.), and that these persons may not use or disclose the information outside of the judicial proceedings at stake. Consequently, it already follows from section 16 that confidential information must not be freely disseminated within a party's organization, but that access should be restricted on a need-to-know basis. Going further, section 19 allows the court to specifically restrict access to designated individuals from within the parties' organizations. While this eliminates any flexibility as to who may have access, it also provides legal certainty. Considering the potential exposure to fines and damages claims, it may be preferable for parties that confidentiality orders expressly designate the persons having access, thus eliminating any ambiguity and reducing the risk of (unintended) non-compliance.

Unsurprisingly, the Trade Secrets Act also allows for excluding the public from the oral proceedings, including the pronouncement of judgments, as well as redacting judgments prior to their publication to remove any confidential information. This ensures that confidential information is not released by the court in conducting its ordinary business.

So, how are these rules applied in practice?

To begin with, the party that wishes to introduce confidential information into the proceedings files a confidentiality request. The confidential information must be described in abstract terms (i.e., without disclosing it) and a justification must be given as to why it is deemed to contain trade secrets. In parallel, the brief or exhibits including the confidential information shall be filed, marked as confidential. If only parts of a document are confidential, these parts can be highlighted in grey, and a redacted version may be filed in parallel.

If the court finds the request to be well-founded, it issues a respective confidentiality order. From now on, the information concerned can be used freely in accordance with the provisions made in the order and the statutory provisions of the Trade Secrets Act. The order is valid for the entirety of the litigation, including potential appeals procedures. Hence, if parties file or cite the same information again in later pleadings, they can simply refer to the confidentiality order already in place. However, if a party wishes to introduce additional confidential information, a new request must be filed asking the court to either issue a new confidentiality order or to amend the previous one.

Bilateral agreements with opposing counsel, e.g. on the individuals to be included in the confidentiality club, may speed up the process and relieve the court. Moreover, the guidance provided by the Munich Regional Court suggests that serving a confidentiality request together with the confidential information on opposing counsel does not lead to a loss of protection. Instead, the opposing counsel shall treat the information as requested until the confidentiality order is in place. Otherwise, it must immediately return and delete the information.

Directly serving confidential information on the opposing party's counsel is, of course, no option when such information shall already be relied upon in the statement of claim. Before the action if served on the defendant and opposing counsel has indicated their representation, they are not formally part of the proceedings yet. If confidential information is included in the statement of claim, however, it may be disclosed to unauthorized persons during service and protection may be lost forever. A way to avoid this is requesting the court to set up a confidentiality club comprising the statutory representative of the opposing party and serving the complaint, together with the confidentiality order, on this person only. The representative is then bound by the confidentiality order from the outset. Further representatives can be added to the confidentiality club later.

Notably, this approach is only advisable when it is guaranteed that service of the action – including the confidentiality order – upon the defendant will be successful. If the defendant is a foreign entity, or if service must be made to a foreign address, there is always a risk of the service being unsuccessful or found invalid later on. This would mean that the information was disclosed without the recipient being bound by the confidentiality order, which would again mean that the protection is lost. In cases involving foreign parties, an option to consider may be serving a redacted version of the action only. The request for a confidentiality order and the submission of the confidential information should then only be made after the opposing counsel indicated their representation.

Another issue that has already arisen is the protection of trade secrets in enforcement proceedings. In a recent case, the defendant had to render information and account. It refused doing so as long as the court had not yet decided upon its respective confidentiality request. In first instance, the Mannheim Regional Court confirmed this approach. It held that a confidentiality order could still be sought during enforcement proceedings, provided that the information at stake and alleged to contain trade secrets was to be produced there for the first time (Landgericht Mannheim, Order of 13 January 2021, docket no. 2 O 73/20 ZV II). Later on, however, the court held that the confidentiality request did not have the effect of suspending or extending the time limit set for the defendant to comply with the judgment. It expressly noted that a defendant who has been unconditionally ordered to render information may not delay compliance until the court has ruled on a confidentiality request that was filed only after the judgment was handed down. This view was later upheld in second instance (Oberlandesgericht Karlsruhe, Order of 13 October 2022, docket no. 6 W 39/22). As a consequence, it is advisable to invoke any interests in keeping certain information confidential already in the main proceedings, even before a decision is made as to whether the information must be disclosed at all. Another interesting observation is that apparently at least the courts in Mannheim and Karlsruhe consider it possible to restrict rendering of information and account by applying the confidentiality regime.

In summary, the courts have come to terms with the new confidentiality regime. They have proven that they can find workable solutions to problems of all kinds that the legislature did not foresee in this way. However, there are still many uncertainties as to how exactly the courts will address specific situation. This requires careful advice and close communication with the courts to ensure that the parties' legitimate interests in keeping their trade secrets confidential are honored.

However it is already evident that the new trade secrets regime has proven to be an improvement over the rules previously in place.

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