

Employment Agreements and Cross Border Employment—Confidentiality, Trade Secret, and Other Restrictive Covenants In a Global Economy

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I. Introduction

Negotiating and drafting confidentiality and other post employment restrictive covenants for U.S. citizens reassigned abroad, or foreign residents employed in the U.S. and subsequently seconded to a third country, is far from simple. As the global economy continues to expand, executives and employers are increasingly challenged to craft provisions that are enforceable around the world. This is particularly challenging in foreign jurisdictions where courts disfavor post-employment restrictions in general, and such restrictions may supersede a U.S. court's decision on the merits. More commonly, a foreign court may set aside U.S. choice of law and jurisdictional provisions contained in an agreement because those provisions violate or run counter to its own legal requirements. In the end, thinking globally about these provisions while being attentive to local rules and customs is essential to the drafting and negotiating process.

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This paper will canvass the differences between the U.S. and foreign countries in defining confidential information and trade secrets as well as the standards for enforcing these and other post-employment obligations that tend to overlap with these restrictions, such as non-competition and non-solicitation provisions. It will also identify and analyze the privacy concerns that arise when employers try to restrict their employees' disclosure or use of certain information beyond their own borders. Finally, this paper will provide guidance for both parties in drafting these provisions in the context of an increasingly global economy with a growing population of multinational and mobile employees.

II. Review of U.S. and Foreign Law

A. U.S. Law

In the U.S., duties to the former employer may arise as a matter of common law and apply regardless of whether they were specifically provided for in an employment agreement.¹ In other countries, such obligations are not a matter of course and must be agreed upon in writing to be enforceable. Many foreign jurisdictions require that other conditions, such as financial considerations, be met before an employer can limit an employee's ability to engage in a competitive business or otherwise impinge on the employee's future employment by imposing post-employment restrictive covenants.

One common international post-employment obligation concerns the prohibition from using or disclosing the former employer's confidential information and trade secrets. In the United States, an employee's duty not to disclose or use confidential information arises under common law and thus need not be expressly contracted to be enforceable.² In contrast, under the laws of many foreign jurisdictions, no comparable post-employment duty exists unless clearly set forth in a contract. Also, because many foreign jurisdictions consider post-employment confidentiality clauses to be against public policy,³ they are usually unenforceable unless they are no more than reasonably necessary to protect the former employer's legitimate business interest in highly confidential information or trade secrets.⁴

1. See, e.g., *Lamorte Burns & Co., Inc. v. Walters*, 770 A.2d 1158, 1166 (N.J. 2001) ("Even in the absence of an [employment] agreement, however, the [common] law protects confidential and proprietary information.").

2. *Id.*

3. Peter Gottwald, *Principles and Current Problems of Uniform Procedural Law in Europe Under the Brussels Convention*, 1997 ST. LOUIS-WARSAW TRANSATLANTIC L.J. 139, 160-61 (1997).

4. For example, Japanese courts typically refuse to impose a duty of non-competition after termination because, even where there is general agreement amongst the parties concerning non-competition, the contract as drafted does not clearly describe the extent and limits of the employee's post-employment duty. Takashi Araki, *Legal Issues of*

However, many international labor courts state that each employment contract or employment relationship carries with it an implied obligation of confidentiality. This duty encompasses the employer's unique business, technical, and trade secrets. While the obligation of confidentiality in regard to the unique business, technical, and trade secrets survives the end of the employment relationship, the duty of loyalty and basic confidentiality usually ends when employment terminates, unless there is a contractual relationship that states otherwise.⁵

Other common post-employment restrictions found in many U.S. expatriate and post-employment agreements are non-solicitation and non-competition provisions, which prohibit an employee from engaging in competitive business activities and solicitation of clients and customers.⁶ The enforceability of these provisions abroad varies widely by country.⁷

Drafting enforceable post-employment restrictions with international scope will require research and analysis on U.S. enforcement of these covenants, foreign enforcement of U.S. covenants, and how a local foreign jurisdiction would treat them. Therefore, it is critical to know the key points of divergence internationally with respect to defining and enforcing these provisions.

1. Confidential and Proprietary Information Provisions

A U.S. employer seeking to enforce a confidentiality non-disclosure provision must first establish that the information at hand is indeed confidential or proprietary.⁸ If the information is publicly available or easily discoverable through public means or trade associations, courts will not deem it confidential information.⁹ Even if a court determines that certain information is confidential, however, it may still refuse

Employee Loyalty in Japan, 20 COMP. LAB. L. & POL'Y J. 267, 275 (1999) (citing *The Chubu Kikai Seisakujo Case*, 522 Hanrei Jiho 83 (Kanazawa Dist. Ct., Mar. 27, 1968)).

5. For example, in the U.K., "any post-employment limitation on competition or the use of confidential information can only be imposed by an express provision in the [employment] contract." Greg T. Lembrich, Note, *Garden Leave: A Possible Solution to the Uncertain Enforceability of Restrictive Employment Covenants*, 102 COLUM. L. REV. 2291, 2307 (2002).

6. See generally *Campbell Soup Co. v. Desatnick*, 58 F. Supp. 2d 477 (D.N.J. 1999); *Plate Fabrication & Mach., Inc. v. Beiler*, No. 05-2276, 2006 U.S. Dist. LEXIS 52 (E.D. Pa. Jan. 3, 2006).

7. See Lembrich, *supra* note 5, at 160-61. In Italy, for instance, non-competition agreements that exceed three years for non-managerial employees, or do not contain reasonable limits on time, working ability, and geography, violate the Civil Code. *Patto di non concorrenza*, (Mar. 16, 1942), C.C. Art. 2125 (Italy).

8. *Silipos Inc. v. Bickel*, 1:06-CV-02205-RCC-DFE, 2006 U.S. Dist. LEXIS 54946, at *16 (S.D.N.Y. Aug. 8, 2006).

9. Where an employer sought to enforce a confidentiality agreement, whose scope was defined as "the world," upon a former executive with respect to his knowledge of customer pricing discounts and plans, the court determined that the customer information was known among both the employer's customers and competitors and did not qualify for protection. *Silipos*, 2006 U.S. Dist. LEXIS 54946, at *14, 16 (discussed in further detail *infra* section II.A.3(i)).

to enforce a confidentiality provision if enough time has passed such that the once-confidential information has become "stale."¹⁰

U.S. courts analyze proprietary information provisions similarly, in that they first determine whether the disputed information is actually proprietary and then determine whether the particular agreement is enforceable.¹¹ As with confidential information, courts will ask whether the purportedly proprietary information is publicly available or readily available through other sources.¹²

2. Trade Secret Provisions

Trade secrets are generally defined under U.S. law as "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others."¹³ Although parties to a restrictive covenant may agree that certain information will be deemed a trade secret, such agreements are not dispositive. Courts consider several factors when deciding if a particular formula, plan, or other information is a trade secret to support a restrictive covenant. The most commonly used factors are

- (1) The extent to which the information is known outside of the business;
- (2) The extent to which it is known by employees and others involved in the business;
- (3) The extent of measures taken by the business to guard the secrecy of information;
- (4) The value of the information to the business and its competitors;
- (5) The amount of effort or money expended by the business in developing the information; and,
- (6) The ease or difficulty with which the information could be properly acquired or duplicated by others.¹⁴

Thus, as with confidential information, the most important factor indicating the presence of a trade secret and supporting its enforcement is actual secrecy.¹⁵ In this sense, trade secrets are similar to

10. *Int'l Paper Co. v. Suwyn*, 966 F. Supp. 246, 258 (S.D.N.Y. 1997); *accord* *Bus. Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068, 1073 (S.D.N.Y. 1984).

11. *Silipos*, 2006 U.S. Dist. LEXIS 54946, at *16.

12. *See, e.g.*, *Detroit News, Inc. v. Policemen and Firemen Ret. Sys. of the City of Detroit*, 651 N.W.2d 127, 134 (Mich. Ct. App. 2002).

13. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

14. *Id.* at cmt. d.

15. *Id.* at cmt. b; *see also* *Estee Lauder Co. Inc. v. Batra*, 430 F. Supp. 2d 158, 175 (S.D.N.Y. 2006) ("[p]rice lists, product samples, and 'marketing plans' [were not] protected as trade secrets," nor was "an employee's 'knowledge of the intricacies of [his former employer's] business operation,'" because they were accessible within the industry). Additionally, some courts have found that business or financial information, such as market reports or strategies, do not qualify as trade secrets. *Silipos*, 2006 U.S.

confidential information because, once established, they can facilitate an employer to obtain injunctive relief even without proof of an employee's wrongdoing.¹⁶

An employee's wrongful use or theft of a trade secret is different and is referred to as misappropriation. In the United States, misappropriation of a trade secret is punishable under state civil and criminal laws and, since 1997, under federal criminal law as well.¹⁷ Generally, under state civil law, misappropriation of trade secrets is punishable by an injunction, damages, or even destruction of the misappropriated material. Federal law provides criminal penalties for trade secret misappropriation ranging from fines (\$250,000 for an individual, and up to \$5 million for corporations), to imprisonment of up to ten years, or both.¹⁸ If the trade secret was stolen or misappropriated for the benefit of any foreign government, instrumentality, or agent, the statute imposes fines of up to \$500,000 for an individual, imprisonment up to 15 years, or both.¹⁹ Employees and employers should be aware that trade secrets need not be removed from an employer's premises to trigger the federal law; copying, sketching, downloading, uploading, and emailing an employer's trade secret are prohibited as well.²⁰

3. Non-Competition Provisions

Generally, a non-competition provision (non-compete) prevents an employee from working for a competitor of a former employer after leaving its employ. Non-compete provisions whose geographic terms are international in scope are enforced in the United States along the same lines as those which impose only domestic limits.²¹ Therefore, a non-compete agreement will be deemed "reasonable and, therefore, enforceable, where it simply protects the legitimate interests of the employer, imposes no undue hardship on the employee, and is not injurious to the public."²²

While what constitutes a legitimate employer interest varies in the United States from state to state, generally provisions protecting trade secrets, customer relations, and confidential information will justify enforcement of restrictions.²³ An employer's desire to stifle

Dist. LEXIS 54946, at *12; *but see* *Pepsico, Inc. v. Redmond*, 54 F.3d 1262, 1270 (7th Cir. 1995).

16. *See* *Batra*, 430 F. Supp.2d at 174-75; *see also* *Continental Group v. Kinsley*, 422 F. Supp. 838, 841 (D. Conn. 1976).

17. Protection of Trade Secrets, 18 U.S.C. §§ 1831, 1832 (2000).

18. *Id.* § 1832(a).

19. *Id.* § 1831(a).

20. *Id.* § 1832(a)(2).

21. *See, e.g., Destanick*, 58 F. Supp. 2d at 488.

22. *Id.* at 488-90 (quoting *Scuhalter v. Salerno*, 653 A.2d 596 (App. Div. 1995)) (internal quotations omitted).

23. *Beiler*, 2006 U.S. Dist. LEXIS 52 at *16.

competition, however, or to retain a workforce so as to avoid the cost of rehiring employees is not a legitimate interest that supports enforcement.²⁴ With respect to whether a non-compete agreement imposes an “undue burden” on the employee, one of the most important considerations is whether the employer will pay the employee part or all of her salary during the restricted time period.²⁵

(i) DEFINING GEOGRAPHIC SCOPE

While non-compete covenants with explicitly defined geographic scope might seem more enforceable than those without, U.S. courts still require a logical and definite connection between the employer’s legitimate interests and the means by which it protects those interests.²⁶ Courts can judge “the durational reasonableness” of a non-compete agreement by the employer’s need to protect its business interests, or, if appropriate, by “the length of time for which the employer’s confidential information will be competitively valuable.”²⁷

The existence of confidential information or trade secrets supports the enforcement of worldwide covenants not to compete in addition to the covenants discussed above that specifically prohibit non-disclosure of confidential information and/or trade secrets. In *Silipos*, the employee entered into a non-compete agreement prohibiting him from working in any capacity for a competitor of his employer anywhere in “the world” for one year.²⁸ Relying on the “reasonable” standard under New York law, the U.S. district court noted that “enforcement of a restrictive covenant is appropriate only if the covenant is: (1) necessary to protect the employer’s legitimate interests; (2) reasonable in time and area; (3) not unreasonably burdensome to the employee; and (4) not harmful to the general public.”²⁹ The court in *Silipos* held that while the one-year restriction was reasonable, the worldwide geographic restriction was unenforceable because it was unreasonably broad in light of the employer’s lone legitimate interest—protection of its client base.³⁰

24. *Desatnick*, 58 F. Supp. 2d at 489; *Batra*, 403 F. Supp. 2d at 179; *Deutsche Post Global Mail, Ltd. v. Conrad*, 116 F. App’x 435, 438 (4th Cir. 2004).

25. *E.g., Batra*, 403 F. Supp. 2d at 180.

26. *See, e.g., Desatnick*, 58 F. Supp. 2d at 488–90.

27. *Batra*, 403 F. Supp. 2d at 180.

28. *Silipos*, 2006 U.S. Dist. LEXIS 54946, at *3 n.2.

29. *Id.* at *8 (citing *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382 (N.Y. 1999)) (internal citation omitted). The court also found that the employer could not establish a legitimate interest in protecting either its trade secrets or ostensibly confidential information.

30. *Id.* at *18. Despite the employer’s international business (manufacturing and distribution with customers in five continents), the court ruled that it could have adequately protected its client base by restricting the employee, a sales executive, from servicing his old clients. Nor did the court enforce the provision that prevented the employee from working for anyone “directly or indirectly” engaged in the “Business of the

By contrast, in *Weseley Software Development Corp. v. Burdette*, a U.S. court enforced a one-year, non-compete provision between a software developer and a senior logistics analyst that prevented the analyst from competing with the employer in either the United States or Canada, "in light of [the employer's] business throughout the [U.S.] and parts of Canada."³¹ However, in *Tandy Brands, Inc. v. Harper*, the U.S. Court of Appeals for the Fifth Circuit refused to enforce a non-compete agreement covering the U.S. and Canada, finding it overbroad as to territorial scope where the plaintiff-employer, a furniture manufacturer, tried to prove it had protectable business interests in those areas because it advertised in magazines with national circulation, the majority of the company's gross sales came from its mail-order business, and the company's president testified that the defendant-employee's competitive business had a "nominal" effect on the plaintiff's nationwide sales.³² The difference in outcomes likely stems from the U.S. courts' general recognition that technology industries are more sensitive to competition by former employees.³³

While it is widely recognized in the United States that "geographic and temporal restrictions of a covenant not to compete must be no greater than necessary to protect the employer's interest," courts have enforced restrictive covenants without geographic and/or temporal limits where the employer conducts business internationally.³⁴ For example, in *Guang Dong*, a U.S. court addressed a two-year, worldwide covenant not to compete between a U.S. employer and a sales executive employee, a Chinese national.³⁵ There, the court rejected the argument that under state law such an unlimited geographic restriction was *per se* unenforceable, and enforced the agreement because the employer had an international business, and thus a localized restriction on the covenant would not have protected the employer's business

Company" because it would have totally barred his employment in the industry. *See also* *Ivy Mar Co. Inc. v. C.R. Seasons Ltd.*, 907 F. Supp. 547, 559 (E.D.N.Y. 1995).

31. 977 F. Supp. 137, 144 (D. Conn. 1997). Significantly, the court in *Weseley* upheld the restrictive covenant as to Canada even when the employer operated only one facility there and was only *in the process* of competing for potential Canadian customers and hiring a salesperson in Canada. *Id.* at 145 n.7.

32. 760 F.2d 648, 653 (5th Cir. 1985).

33. *See, e.g., Bus. Intelligence Servs. Inc.*, 580 F. Supp. at 1072 (enforcing non-compete provision of employee who had extensive knowledge of former employer's computer software); *see also* *Webcraft Techs. Inc. v. McCaw*, 674 F. Supp. 1039, 1045 (S.D.N.Y. 1987) (preliminary injunction granted to employer, a printing manufacturer, where employee learned employer's business procedures, technical capabilities, and methods of estimating and quoting prices).

34. *Guang Dong Light Headgear Factory Co. v. ACI Int'l, Inc.*, No. 03-4165, 2008 U.S. Dist. LEXIS 526, at *62 (D. Kan. Jan. 2, 2008); *Beiler*, 2006 U.S. Dist. LEXIS 52, at *19; *Batra*, 403 F. Supp. 2d at 181.

35. *Guang Dong*, 2008 U.S. Dist. LEXIS at *62.

interests.³⁶ Therefore, even in districts where unlimited restrictive covenants are not generally enforced, an employer's showing of specific, viable business interests worldwide may warrant enforcement by a U.S. court.³⁷

(ii) U.S. ENFORCEMENT MECHANISMS

In the United States the enforcement mechanism for restrictive covenants generally begins with preliminary injunctive relief. Often in an effort to prevent its former employee from disclosing confidential information or from working for a competitor, an employer seeks a temporary restraining order for immediate relief in a U.S. court. This is an aggressive tactic that is usually brought on by the employer when money damages will not be a sufficient remedy for the breach of the covenant. The theory is that if the defendant is not restrained, irreparable harm will occur to the employer. In these situations, courts will also look to the state of the employer's industry to determine the enforceability of such a confidentiality or trade secret provision and whether an injunction should be issued.³⁸

To obtain an order for injunctive relief to enforce a confidentiality or trade secret provision, for example, an employer must demonstrate that it would suffer "irreparable harm"³⁹ without the injunction (*i.e.*, because money damages are inadequate), and either (1) it will likely succeed on the merits, or (2) there are serious questions on the merits and the "balance of hardships" tips "decidedly" towards the employer.⁴⁰ Several courts use an "actual or threatened" standard to determine whether an injunction should be granted regarding disclosure of confidential information.⁴¹ Ultimately, these cases are won and lost at this stage of the proceeding because if the employer loses the ability to restrain the employee immediately, it will wait months or likely years for the case to be heard on the merits, and at that point the alleged harm has already occurred.

36. *Id.* at *63; *see also Hudson*, 580 F. Supp. at 1073.

37. *See Batra*, 403 F. Supp. 2d at 181; *but see Deutsche Post Global Mail*, 116 F. App'x at 438-39 (two-year, worldwide non-compete agreement between an international mail service and two former sales managers was unenforceable because if "taken literally, [it] would restrict [defendants] from using a competitor's mail service for any purpose, business or personal").

38. *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 629 (E.D.N.Y. 1996); *Hudson*, 580 F. Supp. at 1072.

39. For instance, in the *Suwyn* case, where the employee was an executive who agreed not to disclose his employer's confidential information to "any major paper company," without geographic limitation, the court rejected the employer's examples of ways the confidential information could be disclosed because they did not present a "significant level of irreparable harm" that would justify an injunction. *Suwyn*, 966 F. Supp. at 257-58.

40. *Lumex*, 919 F. Supp. at 628.

41. *Pepsico*, 54 F.3d at 1267.

B. Foreign Law

1. The U.K.

In the U.K., as in the U.S., the duty of good faith is implied into all contracts, but unlike the U.S., most employees in the U.K. have employment contracts. Therefore, the employee is prohibited from disseminating or using the company's confidential information or trade secrets for his or her own benefit during employment.⁴² However, the duty of loyalty and basic confidentiality ends with the employment relationship, unless it is continued by contract.⁴³ The confidentiality obligation in regard to an employer's trade secrets and highly confidential information does, however, continue post-employment.⁴⁴

While non-compete provisions are generally viewed as *prima facie* void on public policy grounds as restraint of trade, U.K. companies have begun to use "garden leave" clauses in their stead, which have proved more enforceable.⁴⁵ Under a garden leave clause, the employee agrees to give the employer a long period of notice (generally three to twelve months) before leaving and moving on to a competitor.⁴⁶ The employee receives a full salary and benefits during this period but does not go to work, cannot access the employer's confidential information, and presumably the confidential information that he or she already possesses becomes useless or less confidential as it ages.⁴⁷

In fact, the employee's continuing status as an "employee" on "garden leave" has led U.K. courts to enforce garden leave clauses rather than the traditional non-compete provisions.⁴⁸ This is also true in the U.S., where "garden leave" provisions, particularly in the financial services industry, are used to replace non-compete provisions, which are disfavored. U.S. courts are supportive of restrictions during such a period of quasi employment. Also, competitors may be deterred from hiring the employee given the long notice period during which time the employee is still actually employed because this can often further the length of the period of non-competition.

2. Other EU Countries

In France, where there is no at-will employment, all employees, and in particular senior executives, are subject to an implied obligation of confidentiality during the term of employment and after the employment ends. Breach of this obligation may justify summary termination

42. Bob Hepple, *Employee Loyalty in English Law*, 20 COMP. LAB. L. & POL'Y J. 205, 221 (1999).

43. Lembrich, *supra* note 5, at 2307.

44. Hepple, *supra* note 42, at 221-22.

45. Lembrich, *supra* note 5, at 2305.

46. *Id.*

47. *Id.*

48. *Id.*

without any notice or compensation due.⁴⁹ Disclosing confidential information for payment may even constitute a criminal offense under the French Criminal Code.⁵⁰ The same is true with respect to an employer's operational business secrets under the Austrian Federal Act Against Unfair Competition.⁵¹ France has also criminalized theft of trade secrets since the late 1800s, and, currently, directors or employees who steal manufacturing trade secrets are subject to criminal penalties.⁵² However, absent a contractual post-employment obligation, the employee is free to use the professional knowledge and skills acquired in his or her previous employment.⁵³ Regarding covenants not to compete, an employer must pay financial consideration for a binding non-compete agreement.⁵⁴ Any restriction in a contract of employment must also be limited in time, space, and scope, and is always subject to the overall condition that it must allow the employee to earn his or her living in an occupation consistent with his or her professional training and skills.⁵⁵

Employment relationships have special significance in Germany as they do in France and are considered almost a bond for life, (unless the term of employment is expressly limited) and carry with it certain personal obligations.⁵⁶ German employment contracts carry an implied obligation on the employee's part to respect the employer's business, technical, and trade secrets for the term of employment.⁵⁷ The obligation continues after the effective date of termination only if it is expressly included in the employment contract.⁵⁸ The restriction should be limited to the extent to which the employer has an interest in continued non-disclosure of the information and the employee's future career is not adversely impaired. If the continued confidentiality obligation restricts the employee in the use of knowledge he or she has gained through his or her personal efforts, the provision may be construed as

49. Christian Lachèze, *France*, in INT'L HANDBOOK ON CONTRACTS OF EMPLOYMENT 23 (Susanne Borch ed., Kluwer Law International 2007).

50. See generally, Katarzyna A. Czapracka, *Antitrust and Trade Secrets: The U.S. and the EU Approach*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 207, 231 (2008).

51. Bundesgesetz gegen den unlauteren Wettbewerb, 1984 [UWG] BGBl. Nr. 448, § 11 (Federal Act Against Unfair Competition of 1984), available at http://www.ris.bka.gv.at/Dokumente/erv/erv_1984_448.pdf (Austria) (employee who breaches duty of confidentiality regarding employer's operational or business secrets can be sentenced to three months imprisonment or a fine of up to 180 per diem "rates").

52. Czapracka, *supra* note 50, at 231.

53. Lachèze, *supra* note 49, at 24.

54. 1 INT'L LAB. & EMPL. LAWS, at § 3-19 (William J. Keller & Timothy J. Darby eds., 2d ed. 2003).

55. Lachèze, *supra* note 49, at 24.

56. Michael Kittner & Thomas C. Kohler, *Conditioning Expectations: The Protection of the Employment Bond in German and American Law*, 21 COMP. LAB. L. & POL'Y J. 263, 265-66 (2000).

57. 1 INT'L LAB. & EMPL. LAWS *supra* note 54, at § 4-31.

58. *Id.*

overly restrictive and unenforceable under the German Commercial Code.⁵⁹ Additionally, like France, Austria, and Poland, Germany criminalizes the misappropriation of trade secrets by employees and any third-party recipients of misappropriated trade secrets.⁶⁰

In Germany, a non-compete agreement will cease after the end of employment unless there is a new written agreement with adequate consideration.⁶¹ However, German employees are always subject to a statutory non-competition obligation during the term of the agreement if they are “commercial employees” under the 1980 German Commercial Code. This restriction is extremely narrow and prohibits an employee from actively engaging in competitive business during employment and intentionally persuading other employees to join in a competitive business.⁶²

3. Asia

In China, unlike many Western countries, the employee does not have a specific duty of loyalty to the employer.⁶³ While business secrets are protected by the unfair competition laws, technical and business information are not protected unless employers take specific steps to keep the information confidential. However, execution of a confidentiality agreement is considered acceptable.⁶⁴ Further, employees who breach a confidentiality agreement must pay the employer for the economic losses incurred by the breach.⁶⁵

In Japan, even without work rules or an express provision, a duty of loyalty is considered an ancillary duty of the employee.⁶⁶ An employee is obliged to keep confidential any trade secrets and business secrets obtained during the term of employment and not to compete with the employer’s business during the term.⁶⁷ Generally, the duty of loyalty does not continue beyond employee termination unless there is a specific contractual relationship detailing the continuation of the duty with regard to information that does not rise to the level of trade secret.⁶⁸ However, under the Unfair Competition Prevention Law, “trade secrets” (production methods, sales methods, and any other useful technological or operational information that is not publicly known) are

59. *Id.*

60. Czapracka, *supra* note 50, at 232.

61. Handelsgesetzbuch [HGB], Mar. 9, 2008, §§ 74 *et seq.* (F.R.G.).

62. *Id.* §§ 60–61.

63. George Ribeiro, *Drafting Effective Restrictive Covenants and Confidentiality Agreements in the People’s Republic of China*, EMPL. & INDUS. REL. LAW COMM. NEWSLETTER, Oct. 2007, at 23.

64. *Id.*

65. *Id.*

66. Araki, *supra* note 4, at 271.

67. *Id.*

68. *Id.* at 272.

protected.⁶⁹ Notably, solicitation of other employees to leave a company does not violate the duty of loyalty unless it is done in "bad faith and damages the employer's interest."⁷⁰

Further, post-employment non-compete agreements are generally not enforceable unless the employee is compensated in consideration of the restriction. In some EU countries, as well as in China and Japan, the compensation can range from 50 to 75% of total annual compensation.⁷¹ In Japan, an express restrictive covenant is required for the employer to enforce an employee's obligation not to compete post-termination, and payment may only be required when the restrictive covenant did not exist during the term of employment but rather was created upon termination.⁷² Japanese courts evaluate non-compete agreements based on many factors, including temporal and geographical limitations, type of business, whether or not compensation was paid, employer interests, employee interests, and public interests.⁷³

C. *Conflict of Law and Jurisdictional Issues in the EU*

Finally, in understanding whether or not a restrictive covenant will be enforced abroad, a country's conflict of law and jurisdictional provisions must be analyzed.

The European Communities Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters (September 27, 1968)⁷⁴ and the European Communities Convention on the Law Applicable to Contractual Obligations (June 19, 1980)⁷⁵ govern conflict of law and jurisdictional issues that are raised in post employment restrictions throughout most of Europe. Because most EU courts strongly disfavor post-employment restrictive covenants, particularly non-compete covenants, they will often set aside these U.S. provisions, finding them unenforceable.⁷⁶ In addition, EU courts may not uphold U.S. decisions enforcing non-compete provisions abroad unless the

69. *Id.* at 271. Some courts have implied a duty of non-competition where trade secrets obtained in the former employer's employ were used by the former employee in violation of the general duty of good faith and fair dealing. *See, e.g.*, Chesukomu Hisho Center, 651 Rodo Hanrei 161 (Tokyo Dist. Ct. Jan. 28, 1993).

70. Araki, *supra* note 4, at 278.

71. *See generally* 1 INT'L LABOR & EMP. LAWS, *supra* note 54, at § 32-23.

72. *See id.*

73. The Foseco Japan Limited Case, 624 Hanrei Jiho 78, 82 (Nara Dist. Ct., Oct. 23, 1970).

74. European Communities Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, September 27, 1968, 1972 O.J. (L 299) 32, *reprinted in* 8 I.L.M. 229 (1969).

75. European Communities Convention on the Law Applicable to Contractual Obligations, June 19, 1980, 1980 O.J. (L 266) 1, *reprinted in* 19 I.L.M. 1492 (1980).

76. *See* Duarte v. Black & Decker Corp., (2007) Q.B. 2720, 2007 WL 4190497 (Q.B. Nov. 23, 2007) (U.K.). (refusing to enforce Maryland choice-of-law provision); Samengo-Turner v. J&H Marsh & McLennan (Servs.) Ltd., (2007) EWCA (Civ) 723, 2007

agreement would otherwise be enforceable in the country where the employee performed services or was a resident. Usually, EU courts will not recognize foreign judgments if the enforcing court which decided the issue was not competent under the law of the foreign jurisdiction in which the judgment had to be recognized, or if the employee was unable to defend him- or herself adequately.⁷⁷

III. Where Privacy and Confidentiality Collide

As we have seen, employers around the world use post-employment restrictions to protect their confidential information from misuse or theft by employees. The definition of confidential information, however, varies from country to country and yields different answers to the question: to what extent can an employee (and sometimes his or her ideas and his or her privacy) be restricted or controlled by an employer. Thus, depending on the jurisdiction, an employer's definition of confidential information may contravene an employee's right to privacy and render many of these provisions unenforceable.

In the U.S., confidential information can include confidential and proprietary information developed, held, and used by a company, including a client's identity and all information and knowledge about that client, generally unknown to the public.⁷⁸ Sometimes, it can even refer to information that is intangible and relates to "know-how" and other skills learned on the job. While U.S. courts balance the employer's rights to its confidential or proprietary information against other interests, there is nothing inherently controversial about an employer seeking to control information that may only reside in the employee's mind (as opposed to misappropriated documents, plans, or other tangible objects). An example of this is the inevitable disclosure doctrine.⁷⁹

WL 1942883 (Civ. July 12, 2007) (U.K.) (denying New York choice-of-law clause in a restrictive covenant and ruling the case could only go forward in London).

77. Gerlind Wisskirchen, *Jurisdiction in Employment, Choice of Law in Employment, and Covenants Not to Compete: Germany*, 6 (Feb. 2007) (on file with author).

78. See BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 383 (1999).

79. *Pepsico*, 54 F.3d at 1269. Inevitable disclosure claims have two distinguishing features: "they support competitive prohibitions even absent evidence of actual misappropriation, and the remedy for inevitable disclosure claims is an injunction barring employment, not merely an injunction prohibiting disclosure of the trade secret." W. Andrew Scott & R. Samuel Snider, *The Inevitable Disclosure Doctrine in Franchise Disputes*, 22 FRANCHISE L.J. 207, 207 (2003).

Four U.S. states have expressly resisted or significantly limited the inevitable disclosure doctrine: California, (*Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 281 (Cal. Ct. App. 2002)); Florida (*Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp. 2d 1326, 1336 (S.D. Fla. 2001)); New York (*Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 65 (N.Y. App. Div. 2003)); and Virginia (*Gov't Tech. Servs., Inc. v. Intellisys Tech. Corp.*, 51 Va. Cir. 55 (Va. Cir. Ct. 1999)). Fourteen states have adopted the inevitable disclosure doctrine in either full or slightly limited form. See Joshua M. Goldberg, *The Maryland Survey: 2003-2004, Recent Decisions: The Court of Appeals of Maryland*, 64 MD. L. REV. 1183, 1197 (2005). Still four more states, Indiana, Michigan, Missouri, and Pennsylvania,

In comparison, many EU countries have far more robust privacy laws, which can affect the employment relationship as well as a U.S. company's ability to implement certain codes of conduct. For example, both French and German authorities have invalidated U.S. companies' attempts to monitor employee's computers or implement anonymous hotlines by which employees could report wrongdoing or violations because of its conflicts with national privacy laws.⁸⁰ The French Supreme Court has held that an employer who read personal e-mails sent and received by employees at the workplace, during work hours, even when the employee was subject to an agreement that explicitly prohibited personal use of company e-mail, violated French employee privacy rights.⁸¹ Additionally, several Western European countries have enacted laws prohibiting the transfer of an employee's personal data across country lines.⁸²

In Spain, courts have supported an employer's right to inspect employee computers at work, including all documentation and contents therein, provided that the inspection is (1) necessary to protect the property of the employer, (2) carried out at work during work hours, (3) respectful of the employee's dignity and privacy, and (4) conducted in the presence of another employee.⁸³

Contrary to these safeguards, the U.K. seems to be moving away from privacy protections, and in two recent cases demonstrated that the English trend is to accept an employer's assertion of control over information that passes through work computers. In *Hays Specialist Recruitment (Holdings) Ltd. v. Ions*, the employer alleged that the employee had wrongfully copied and retained client confidential information gleaned from a social networking site that the employer encouraged its employees to use to contact clients.⁸⁴ The High Court determined that all the business contacts on the employee's personal

have expressed their willingness to adopt the doctrine but there are few if any cases doing so. *Id.* at 1197 n.119.

80. See Marisa Anne Pagnattaro & Ellen R. Peirce, *Between a Rock and a Hard Place: The Conflict Between U.S. Corporate Codes of Conduct and European Privacy and Work Laws*, 28 BERKELEY J. EMP. & LAB. L. 375 (2007). In a French case, McDonald's France attempted to impose a system where employee-generated complaints, including those concerning disclosure of company confidential information, would be sent to the company ethics department, and the French Data Protection Authority held that it violated the French Data Privacy Law. McDonald's France, La Commission Nationale de l'Informatique et des Libertés (CNIL), Decision No. 2005-110, May 26, 2005, available at <http://www.cnil.fr/index.php?id=1833> (French version). In Germany, a court invalidated a portion of Wal-Mart's global policy implementing an anonymous telephone hotline for employees to report violations as applied to German workers. Wal-Mart, Beschluss des Arbeitsgerichts Wuppertal vom, 5th Div., June 15, 2005, 5 BV 20/05 (F.R.G.).

81. See generally, INT'L LABOR & EMPL. LAWS, *supra* note 54, at § 3-18.

82. Gerlind Wisskirchen, *Privacy and Global Employee Data Transfer*, 2004 COMPUTER L. REV. INT'L 168, 173 (2004).

83. See 1 INT'L LAB. & EMPL. LAWS, *supra* note 54, at §§ 6-30, 6-31.

84. (2008) Ch. D. 745, 2008 WL 2443198 (Ch. D. Apr. 16, 2008) (U.K.).

social networking page were the employer's confidential information and ordered their disclosure and return.⁸⁵ Also, in *PennWell v. Publishing (UK) Ltd. v. Isles*, the High Court ruled that a contact list created and maintained by a journalist on his employer's computer system properly belonged to the employer, including the personal contacts and business contacts that the employee possessed prior to working for the employer.⁸⁶ It is important to note that the unwillingness of certain foreign jurisdictions to allow employers to exercise proprietary rights over the contents of an employee's mind or interfere with an employee's privacy will prevent enforcement of certain confidentiality or non-disclosure provisions in U.S. agreements.

Ireland is another country that recognizes an element of sanctity for the contents of an employee's mind. There, employees are free to use skills or knowledge acquired at work in future employment, except for trade secrets, which they must keep confidential.⁸⁷ Finland also allows employees to use "know-how," defined as "memory-based information," gained from a former employer in future employment, providing that trade secrets (information in documented or physical form) are not disclosed.⁸⁸ In countries such as Ireland, France, or Finland, which have articulated policies protecting an employee's ability to use his or her mental "know-how" without limit in future jobs, a U.S. employer arguing that an employee should be restrained from working for a competitor because of the inevitable disclosure of that "know-how" is not likely to prevail in these foreign courts.

Accordingly, the inherent right to privacy is one which many countries outside the U.S. still find sacrosanct (whether it be information on the computer of an employee or in the employee's mind). Therefore, it is likely that the courts in these countries will be reluctant to consider enforcing contractual provisions which define confidential information as information that an employee possesses by virtue of his or her privacy right and will find that information not worthy of protection.

IV. Drafting Advice

When drafting restrictive covenants, particularly confidentiality and trade secret restrictions where global enforcement is important, such as in an expatriate or other multinational employment agreement, it is important for both parties to understand what considerations and other factors will be relevant for a U.S. or a foreign court

85. *Id.* at 745.

86. (2007) Q.B. 1570, 2007 WL 1685115 (Q.B. June 18, 2008) (U.K.).

87. Kelly Irene Phair, Note, *Enabling American High-Tech Companies to Protect Their Secrets Abroad: A Comparative Analysis of Irish and American Trade Secret Regulation*, 24 HASTINGS INT'L & COMP. L. REV. 507, 525 (2001).

88. Erika C. Collins, *Labor and Employment Developments from Around the World*, 38 INT'L LAW. 149, 160 (2003).

to consider in terms of its enforcement. It is critical to ensure that the restriction is not overly broad and is only given to the key employees that have access to confidential information or trade secrets, that the information is such that without protection the legitimate business interests of the employer will not be protected, and that the geographic and temporal scope is limited to what is absolutely necessary to protect unfair competition.

As discussed above, most countries will enforce these provisions if they are expressly written into an agreement and the position of the employee is one where he or she is privy to highly confidential information and trade secrets. In order to bind these employees not to compete, however, the employer will usually need to commit a percentage of total compensation as consideration for this restriction. In addition, it is important that the restriction is one which will allow the employee to continue to perform productive work in the same or similar skill set that he or she possesses.

Finally, it is important to consider the local law in a particular jurisdiction where the employee will be working or residing. In fact, it may be prudent to use a different choice of law or jurisdictional provision in regard to post-employment restrictions from that which is being applied to the rest of the employee's agreement. As noted above, local privacy rights must also be considered in particular jurisdictions where employees have a right to, and an expectation of, privacy. Defining confidential information too broadly and restricting "know-how," acquired skill, and knowledge learned on the job can render a restriction unenforceable. In the end, this may mean that minimal demands on the employee may give the employer maximum protection in protecting its confidential information and trade secrets abroad.

V. Conclusion

As companies become increasingly global, and information and technology cross all borders, the protection of confidential information becomes vital in maintaining a competitive advantage with other businesses with which they compete. This has motivated companies to include in their employment agreements post-employment restrictions that attempt to prevent employees from going to a competitor and/or taking this information with them.

However, ensuring that U.S. courts and, more importantly, foreign courts will enforce these prohibitions is a complex analysis. As observed herein, various countries define this information differently and the public policies of one jurisdiction may not in fact mirror that of another. What is a protectable interest may be a cultural difference reflected in the law of a particular place. Also, what constitutes unfair competition or advantage may vary on how competition is viewed and understood. The right to employee privacy and the value on independence and

personal choice may also factor in to how these restrictions are treated in different jurisdictions.

What is clear is that case law in this area is evolving, and U.S. companies can no longer rely on U.S. law to determine the enforceability of employment agreement provisions. Rather, they must look to how U.S. law is interpreted by foreign courts and how intimately the foreign jurisdiction where the employee is working or residing will utilize and analyze its own laws to decide the enforceability of these provisions.