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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1)	Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?
	no If not please comment.:
	Trade secret protection does not form a de facto restraint of trade. In case of employment relationship, an explicit agreement on a restraint of trade clause must be entered in order the restraint of trade clause to apply. Such an agreement may only be entered into if it is necessary to protect the employer's special economic interest, in maintenance of confidentiality of which the employer has a legitimate interest. The employer is considered to have a legitimate interest especially if the employment relationship allows an employee to access the employer's trade secrets, and the use of such knowledge may harm the employer considerably. A restraint of trade clause shall be delimited reasonably and recognisably for the employee in terms of space, time and objects. ^[1] An agreement on a restraint of trade clause is void if it has been entered into in breach of the requirements provided above
	Footnotes
	1. ↑ Art 23 (2) and (3) of the Employment Contracts Act.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

Trade secret protection does not form a de facto restraint of trade. In case of employment relationship, an explicit agreement on a restraint of trade clause must be entered in order the restraint of trade clause to apply. Such an agreement may only be entered into if it is necessary to protect the employer’s special economic interest, in maintenance of confidentiality of which the employer has a legitimate interest. The employer is considered to have a legitimate interest especially if the employment relationship allows an employee to access the employer’s trade secrets, and the use of such knowledge may harm the employer considerably. A restraint of trade clause shall be delimited reasonably and recognisably for the employee in terms of space, time and objects.^[1] An agreement on a restraint of trade clause is void if it has been entered into in breach of the requirements provided above.

Footnotes

1. [^] Art 23 (2) and (3) of the Employment Contracts Act.

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

Estonian law does not expressly distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets. Furthermore, the law does not provide the definition of confidential information and trade secrets in Estonia. Therefore, the definition of trade secrets in art 39 of the TRIPS should be followed.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes
If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

In case of employment relationship, the employer may determine which information an employee is obligated to keep as a production or business secret. According to the Employment Contracts Act, the employer shall notify the employee of the content of the confidential information, which shall be in a written document (e.g. in the employment contract, rules of organisation).^[1] Therefore, there is no explicit duty of confidence without notice in this regard. However, the duty of confidence can be inferred from the general duty of loyalty. The Employment Contracts Act states that the employee shall perform his or her obligations before the employer loyally.^[2] Furthermore, regulation regarding the duty of confidence of board members can be applied by analogy. In case of service agreement with the member of the management or supervisory board, the Commercial Code explicitly provides that the board member shall preserve the business secrets of the company.^[3] However, the definition for the business secrets has not been provided.

The express confidentiality clause to protect classes of information is broader as the employer can determine the content of the confidential information whereas the duty of loyalty would probably cover only information that obviously damages the interests of the employer.

Footnotes

1. [^](#) Art 22 (1), 6 (3) and 5 (1) of the Employment Contracts Act.
2. [^](#) Art 15 (1) of the Employment Contracts Act.
3. [^](#) Art 186 (1), 313 (1) and 325 (1) of the Commercial Code.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

According to the Law of Obligations Act and the Employment Contracts Act, an employee's duty to preserve the business secrets of the employer shall continue after the expiry of the employment contract to the extent needed to protect the legitimate interests of the employer.^[1] Therefore, it follows that a statutory obligation to maintain confidentiality does not apply forever, but as long as the employer has legitimate interest in keeping the specific information secret.

Footnotes

1. [^](#) Art 625 (2) of the Law of Obligations Act and art 22 (1) of the Employment Contracts Act.

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes
 If yes, is there any distinction between the types of knowledge they can use?:

In general, if the employer and employee have not agreed on the application of the restraint of trade clause, the employees may freely choose the new employment and employees may use knowledge acquired in the course of earlier employment to the extent it does not breach their duty of confidentiality / loyalty to the previous employer.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?
 no

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;
 This measure is available.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
 This measure is not available.

c) non-confidential versions of documents being provided to all except authorised individuals;

This measure is not available.

d) only non-confidential parts of any judgment / decision publicly available?

This measure is available.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

The Court may declare a proceeding or a part thereof closed at the initiative of the court or based on a petition of a participant in the civil, administrative and criminal court proceedings.^[1]

Footnotes

1. [^] Art 38 (1) 6 and 7 of the Code of Civil Procedure, art 77 (1) of the Code of Administrative Court Procedure, and art 12 (1) and (2) of the Code of Criminal Procedure.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

This has not been clarified in law.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Damages are available in case of public misuse and non-public misuse of confidential information.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

Damage subject to compensation may be direct patrimonial damage and loss of profit.^[1] If trade secret is considered to be intellectual property right (this is not clear under Estonian law), then additional remedies are available. Firstly, the court may determine compensation for the damage as a fixed amount, taking account, inter alia, the amount of fee the violator should have paid if they had obtained authorisation for the use of the relevant right. Therefore, damages can be based on hypothetical licence fee.^[2] Secondly, the person whose rights are violated may request that (i) a violator refrains from further violation, and (ii) destruction, recall and definitive removal of the infringing goods and materials.^[3]

Footnotes

1. [^](#) Art 128 (2) of the Law of Obligations Act.
2. [^](#) Art 127 (6) of the Law of Obligations Act.
3. [^](#) Art 1055 (3) of the Law of Obligations Act.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

no

If not please comment.:

Damages cannot be awarded for moral prejudice suffered by the trade secret holder. Moral prejudice by legal persons has been ruled out in Estonian law.

d) If so, how is moral prejudice defined and how are such damages quantified?

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

The following elements must be proved in order to establish violation of a trade secret in case of tort action (unlawful causing of damage): (i) objective event (act, damage, causal link); (ii) the causing of damage is unlawful; and (iii) the tortfeasor is culpable of causing the damage. In case of trade secret violation, it is possible to argue that the causing of damage is unlawful because the damage is caused by violation of the right of ownership or a similar right. For this, the following must be proved: (i) the information is objectively secret, (ii) the information has commercial value because it is a secret to the holder as well as other persons; and (iii) the holder has to take reasonable steps to protect its trade secret.

In case of misuse of confidential information under the Competition Act, the following must be established: (i) confidential information is regarding a competitor; (ii) use of such information; (iii) the corresponding information was obtained illegally.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

In case of a breach of confidence, the existence of duty of confidentiality (under the contract or law) shall be established.

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes

If so, in what circumstances? :

This has not been clarified in law.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Estonian law provides pre-trial taking of evidence. In general, pre-trial taking of evidence may be organised by a court ruling during court proceedings at the request of a party. However, in case a good reason exists, pre-trial taking of evidence may also be organised before proceedings are initiated if the opposing party agrees to this or if it can be presumed that evidence could be lost or using the evidence afterwards could involve difficulties. The court also initiates pre-trial taking of evidence in order to safeguard evidence if a person substantiates that the intellectual property rights have been infringed, or that a danger of infringement exists.^[1] Pre-trial taking of evidence can be against third parties.

Footnotes

1. [^](#) Art 244 (1) of the Code of Civil Procedure.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes

If yes, what is this threshold?:

In civil cases, a party must prove its claim or position by a preponderance of evidence. This standard is met if the proposition is more likely to be true than not true. The burden of proof lies with the applicant and it switches to the defendant if the applicant has met the standard.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

For securing evidence, seizures are available under Estonian law. If pre-trial taking of evidence is initiated in order to safeguard evidence due to an infringement or danger of infringement of intellectual property rights, the court may, among other, seize the infringing goods, or the raw materials, equipment and related documents necessary for the production or marketing of the goods.^[1] The court initiates and completes the pre-trial taking of evidence without informing the opposing party if a delay could result in irreparable damage to the applicant or if the evidence could otherwise be destroyed or lost.^[2]

In order to prevent abuse, the court may make the initiation or continuation of the pre-trial taking of evidence dependent on the provision of a security for compensation of the costs which may be incurred by the opposing party. The security must be provided by the due date set by the court. If the security is not provided by the set due date, the court refuses to initiate pre-trial taking of evidence or cancels the acts performed in the course of the pre-trial taking of evidence.^[3] Also, the party who applied for initiation of pre-trial taking of evidence shall compensate for the damage caused to the other party if certain prerequisites are met (e.g. a court decision on refusal to satisfy or hear the action enters into force).^[4]

Footnotes

1. [^](#) Art 244 (2) of the Code of Civil Procedure.
2. [^](#) Art 248 (4) of the Code of Civil Procedure.
3. [^](#) Art 247 (3) of the Code of Civil Procedure.
4. [^](#) Art 250 (1) of the Code of Civil Procedure.

16)	Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?
	Seizure can be used in order to secure evidence as well as to prevent items entering into circulation.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17)	Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?
	<p>yes</p> <p>If so, what limits? :</p> <p>In Estonia, it is not necessary to place additional limits on the protection of trade secrets to avoid unlawful restraints on trade. There is very limited case law regarding the trade secret protection in Estonia, however, due to the notification requirement in the employment relationship and burden of proof described below, it is unlikely that the enforcement of the trade secret protection amounts to a restraint of trade.</p> <p>In order the confidentiality obligation to apply, the employer shall notify the employee of the content of the confidential information, which shall be in a written document. The employer may determine the information confidential only if the employer has a legitimate interest in keeping information confidential, above all if information is employer’s production and/or business secret.</p> <p>In order the restraint of trade clause to apply, an explicit agreement in this regard must be entered and the employer shall notify the employee of the content of such agreement. If the employer and employee have not agreed on the application of the restraint of trade clause, the employee may freely choose the new employment and the employee may use knowledge acquired in the course of earlier employment to the extent it does not breach their duty of confidentiality to the previous employer.</p> <p>In case of litigation, the employer has the burden of proof, i.e. the employer has the burden to prove that the former employee has breached the duty of confidentiality by a preponderance of evidence. Therefore, the confidential information protected must be specific in order the case to be successful. The employee’s own skill and knowledge cannot thus be protected as a trade secret.</p> <p>However, in jurisdictions where trade secret protection forms a de facto restraint of trade, limits should be placed on the protection of trade secrets. If the employer wishes the restraint of trade clause to apply, then an explicit agreement in this regard should be entered into between the parties. Furthermore, if the employer wishes the restraint of trade clause to apply after the expiry of the employment contract, the employer shall pay the employee reasonable compensation for adherence to such agreement. Without the aforementioned requirements, employees would become locked into employment in one enterprise, which would inhibit the development of a competitive economy</p>

18)	Should different obligations of confidence / non-use apply to different employees? Why/why not?
	<p>Different obligations of confidence / non-use shall not apply to different employees as the confidentiality obligation shall depend on the information accessed or learned, rather than the status of the employee. Even though, it is clear that employees in senior level acquire more confidential information due to their position, the confidentiality obligation shall not differ because of the position itself.</p>

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

A defendant who becomes aware of a trade secret through participation in legal proceedings should not be able to use or disclose the information they have learned after the proceedings because it would give unfair advantage to the defendant (the same principle should apply in case the claimant learns confidential information of the defendant). Whether the case is successful or unsuccessful should not change the aforementioned principle.

It would hinder the proceedings if the defendant could use confidential information of the claimant learned during the proceedings. There is a high risk that the claimant would not file an action or would not provide all the evidence/information necessary to decide the case because the claimant would be afraid that in the event of an unsuccessful case, the defendant would use the trade secrets of the claimant after the proceedings. Even if the access to the trade secrets is restricted in the legal proceedings upon application of the claimant, it may not be possible to restrict access to all the confidential information. The defendant should have the possibility to provide their counterarguments, which may not be possible if they do not have access to the respective information.

However, the claimant should mark the information being subject to confidentiality obligation and/or provide a respective list to the defendant. However, if the defendant uses such information after the proceedings and the claimant files an action, the defendant can always argue that the information is not a trade secret of the claimant.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

Due to the general principles regarding the protection of trade secrets, the obligation of confidentiality shall not attach to information that the defendant developed independently prior or after the trade secret proceedings. A defendant should not be prevented from independently duplicating and using the secret information; however, the defendant should be able to prove the independent development in case of the litigation.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

yes
If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?

b) only where injunctive relief is not adequate

c) only where injunctive relief is not necessary?

d) If by default, why?

Damages should be available by default and in addition to injunctive relief. If there are no damages,

then injunctive relief is an appropriate measure. However, there should always be a possibility to claim damages.

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

no

If no, why not?:

In general, constructive knowledge of a trade secret by an ex-employee should not be imputed to their new employer as it could constitute a restraints on trade. However, if a new employer uses or discloses confidential information of the previous employer, then the fact of the new employment could be used as an evidence supporting the argument that (i) the ex-employee has breached their duty of confidentiality to previous employer; and/or (ii) the new employer is misusing confidential information regarding the previous employer.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Pre-action evidence preservation orders and seizure orders should be available. The hearings to decide whether or not to grant them should take place without informing the opposing party if a delay could result in irreparable damage to the applicant or if the evidence could otherwise be destroyed or lost. However, a ruling on application of a measure should be served on the opposing party immediately after application of the necessary measures. The opposing party should be able to request from the court the substitution or cancellation of a measure for safeguarding evidence provided that the evidence was safeguarded without good reason.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

The claimant should not be able to use or disclose trade secrets of the defendant that they learn during the course of a seizure.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

We believe that harmonisation in this area is desirable in the European Union as the laws of the member states are remarkable different when it comes to the protection of trade secrets. Therefore, companies from different member states are faced with substantial differences in national laws, there are important gaps and shortcomings, which gives rise to uncertainty,

A harmonization of the national laws of the member states by way of establishing common definitions,

procedures and sanctions with respect to trade secrets is desirable. However, such rules should not undermine legitimate competition and facilitate anti-competitive behaviour.

For an example, under Estonia law, it is not clear whether trade secrets can be classified as intellectual property rights. However, the establishment of damages and measures regarding obtaining evidence to prove infringement (including pre-trial taking of evidence) depends on this classification. Therefore, there is uncertainty regarding the measures available for trade secret protection in Estonia.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

Trade secret enforcement action should fail because such action would be de facto restraint of trade if the trade secret enforcement action prevents an employee from working for the employer's competitor or engaging in the same economic or professional activity as the employer without there being an actual violation of confidentiality obligation. In other words, trade secret enforcement action should fail if it has the same effect as that of the restraint of trade clause.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

In case a trade secret violation is about to occur, an injunctive relief should be available. In case a trade secret violation has actually occurred, an injunctive relief as well as damages should be available.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

The employee should be released from the obligation to keep information confidential if the employer has no legitimate interest in keeping such information confidential (even if contractual obligation to keep certain information confidential exists).

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

Seizing documents necessary for the protection of trade secrets and prohibition to use or disclose trade secrets should be available during court proceedings. These measures should be available if the applicant shows that there is a reason to believe that failure to apply these measures may cause irreparable harm to the applicant and/or render enforcement of a court judgment difficult or impossible.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

If an enforcement action fails, confidential information of the other party should continue to be confidential. If there is overlap between the confidential information of the applicant and defendant, then the defendant is free to use or disclose their confidential information. However, the defendant may not disclose the fact that their confidential information is also confidential information of the claimant. Also, the defendant may not disclose any other confidential information of the claimant that they learn during the proceedings.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

In case of trade secret violations, damages may be based on hypothetical licence fee. This is the court may determine compensation for the damage as a fixed amount, taking account, inter alia, the amount of fee the violator should have paid if he or she had obtained authorisation for the use of the relevant right. Also, compensation may be direct patrimonial damage and loss of profit.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

In order to secure or preserve evidence, pre-trial taking of evidence should be available, including seizure of evidence, infringing goods, equipment and related documents necessary for the production or marketing of the goods. The court should be able to initiate and complete the pre-trial taking of evidence without informing the opposing party if a delay could result in irreparable damage to the applicant or if the evidence could otherwise be destroyed or lost.

34) What restrictions should apply to the use of seized evidence by the claimant?

The claimant should have the limited right to use the seized evidence for proving the infringement and the amount of damages, as well as for determining their position regarding other possible remedies. The claimant should not use/disclose the confidential information of the defendant that they may learn from the seized evidence after the proceedings.

Summary

In Estonia, it is not clear whether trade secrets can be classified as intellectual property rights. As the establishment of damages and measures regarding obtaining evidence to prove infringement depends on this classification, there is uncertainty regarding the measures available for trade secret protection in Estonia.

We believe that harmonisation in this area is desirable in the European Union as the laws of the member states are remarkably different when it comes to the protection of trade secrets. A harmonization of the national laws of the member states by way of establishing common definitions, procedures and sanctions with respect to trade secrets is recommended.

Regarding the overlap with restraint of trade, we are of the opinion that trade secret enforcement action

should fail if it has the same effect as that of the restraint of trade clause. If the employer wishes the restraint of trade clause to apply, then an explicit agreement in this regard should be entered into between the parties.

In order to ensure confidentiality during and after court proceedings, a person who becomes aware of a trade secret through participation in legal proceedings should not use or disclose the information they have learned. Whether the case is successful or unsuccessful should not change the aforementioned principle.

In case of trade secret violation, damages may be based on hypothetical licence fee. We are of the opinion that courts should not award moral damages for trade secret violations. Patrimonial damage, injunction, destruction and removal of infringing goods are appropriate remedies in case of trade secret violation.

In order to secure or preserve evidence, pre-trial taking of evidence should be available. This includes seizure of evidence, infringing goods, equipment and related documents necessary for the production or marketing of the goods.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.