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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. competion law)?
	no If not please comment.: In Austria, trade secret protection is not regarded as a restraint of trade, notwithstanding the EU group exemption on technology transfer.
a)	If so, under what circumstances and under which legal regimes (e.g. competion law)?
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?
	Under Austrian law there is no specific definition of a trade secret, even though the term “trade secret” (Geschäftsgeheimnis) appears in several laws. According to the majority opinion among Austrian scholars, a trade secret is defined as a fact and/or knowledge of an economic and commercial nature which is: • important with regard to the business of the company;

- relevant for its competitive position in a specific market;
- known only by individuals familiar from the inside with what concerns the business of the company; and,
- intended to be kept confidential and with respect to which there is a legitimate economic interest in its confidentiality (e.g., customer lists, customer contracts, strategic questions, conditions of purchase, distribution channels, turnover on customer accounts, origin of raw materials, price calculation, sample collection, tenders, recipes, information on the production and storage of goods, methods of production, design or engineering drawings, patented systems and the like).

On the other hand, Austrian case law and literature have excluded, inter alia, the following elements from the protection granted to a trade secret: obvious facts, literary knowledge accessible to everyone, and general economic data.

Thus, whatever does not fall within the definition of a trade secret is to be considered common knowledge and is not protected under the Austrian regime of trade secrets. This therefore also applies to general skills or knowledge acquired during the course of employment.

Areas of law other than unfair competition law and labour law recognize confidential information, eg. Corporate law which is to be distinguished from trade secrets.

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

A duty of confidence of employees is derived from their general fiduciary duty (such fiduciary duty being a concept known also related to other types of contract). It is safeguarded by provisions of the Unfair Competition Act[1].

According to Section 11 of the Austrian Unfair Competition Act, *anyone who, as employee of an enterprise [and] during the duration of employment discloses without authorisation any business or trade secret which due to his employment has been entrusted or has been made accessible [to him], to another [party] for competitive purposes shall be sentenced.*

In addition, Section 122 of the Criminal Act) provides *that anyone who discloses or exploits a trade or business secret (Para 3) which has been entrusted or made accessible to him in the course of his activity in exercising a surveillance, review or investigation enacted by the law or governmental order, shall be sentenced.*

In labour law, the Austrian jurisdiction has developed a definition for the term secret. A secret is a fact which is only known to a determined number of people are, which is not easily accessible for third parties and which affects the employer wishes to keep secret and upon which, the employer has an objective interest of secrecy.

A prerequisite for a confidentiality clause to be infringed is the presence of a trade secret. A certain protection of knowledge which cannot be considered a trade secret can be obtained by a non-competition clause. The case law on non-competition clauses is rather casuistic but a non-competition clause must not exceed one year. As a rule of thumb, one year is ok, provided that the non-competition clause is enforceable at all (which depends on various circumstances of the individual case). Confidentiality clauses are not considered non-competition clauses. The limitations on the term of non-competition-clauses provided by the Austrian Employees' Act are not applicable

(Austrian Supreme Court, 9ObA6/(03a)

Footnotes

1. ^ *Despite placed in the Unfair Competition Act these provisions are part of Austrian criminal law.*

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?

A prerequisite for a confidentiality clause to be infringed is the presence of a trade secret. A certain protection of knowledge which cannot be considered a trade secret can be obtained by a non-competition clause. The case law on non-competition clauses is rather casuistic but a non-competition clause must not exceed one year. As a rule of thumb, one year is ok, provided that the non-competition clause is enforceable at all (which depends on various circumstances of the individual case). Confidentiality clauses are not considered non-competition clauses. The limitations on the term of non-competition-clauses provided by the Austrian Employees' Act are not applicable (Austrian Supreme Court, 9ObA6/(03a)

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?:

Workers may use knowledge, which is not covered by an obligation of secrecy or considered a trade secret without restraints beyond section 12 of the Unfair Competition Act: *Anyone who, without authorisation and for competitive purposes, uses or discloses to another party any technical documents or requirements entrusted to him in the course of business shall be sentenced.*

The infringement of Section 11 Unfair Competition Act is limited to employees during the duration of their employment. After the term of employment, said provision is no more applicable.

5)	Are certain employees subject to a higher obligation of confidentiality / non-use?

yes

If so, which employees, and what is the rationale for any distinction between employees?:

There is no distinction between the type of employee but the maximum term of a contractual non competition obligation changes according to the alternative possibilities of employment a person has at its disposition. If for example someone is specialized in an area with a very limited number of employers, a non-competition clause would result in a prohibition to work and would consequently be considered void.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

In general, or court hearings in Austria are public. By way of exception, the public may be excluded, precisely in case, a business or trade secret is at risk to be disclosed to this public. Court files, however are solely accessible to the parties of the proceedings.

It is not possible to exclude the other party from the access to the court file or to any document presented in court. The party bearing the burden of proof may decide to blacken certain parts of the documents it presents – it remains up to the court to evaluate the suitability of the remaining document as an evidence.

If court proceedings are anticipated by a provisional injunction and if in the course of these proceedings documents are seized, under certain circumstances defendant may apply for sealing the documentation which then can be accessed solely upon court order.

In Austria, only final decisions of the Supreme Court (and where applicable of the Vienna Higher State Court) are published. However there is no obligation of a party to keep a sentence secret.

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;

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

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

d) only non-confidential parts of any judgment / decision publicly 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 trade secret holder must make it plausible that a trade secret is at risk of disclosure if the court does not take the appropriate measures.

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?

No.

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?

No, not diluted

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?

Under Austrian criminal law, an aggrieved person may bring damage claims in the course of criminal proceedings. However, a conviction in criminal proceedings also serves as a basis for the assertion of damage claims in civil proceedings – which in most cases will have to be initiated independently of the criminal proceedings.

The pertinent provisions of the Austrian unfair competition act are considered protective laws. Consequently civil responsibility is not limited to intentional violation, but includes also negligence.

As regards the extent of indemnification, the general rules of the Austrian civil law can be applied. Section 16 Unfair Competition Act explicitly states that any person who is entitled to claim damages may also request compensation for lost profits. In addition, the court may award (in rare cases) a reasonable amount of money as a compensation for its insults or other personal disadvantages, if such an award is justified by the special circumstances of the case.

In the absence of court decisions it is unclear whether monetary claims can be calculated in the three different manners known from patent and trademark law, i.e.adequate monetary compensation in analogy to license fees, damages including loss of profits in case of culpability or in alternative the surrender of the profits made by the infringer.

Wherever the calculation of damages is unreasonably difficult, for example if extremely expensive, the courts may decide upon their own discretion. In that case the infringed person has to prove solely the first Euro of causal damage.

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?

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?

Both Austrian criminal and civil law have developed similar standards for the definition of trade and business secrets:

- Commercial or technical information or processes in relation to the business of a company which are important for the competitive position of the company, and which are
- only known to certain and limited circle of people,
- which shall be kept confidential and with regard to which
- there is a legitimate economic interest in the confidentiality of the information or process.

Each element must be proven in order to establish the violation of a trade secret. Whether a fact is a trade secret or not, is to be evaluated on a case to case basis. According to the Austrian case law, a process for the manufacture of films for sequins, printing processes and processes for galvanising screws were considered trade secrets. Qualified as business or trade secret are also: strategic questions, conditions of purchase, distribution channels, customer lists, tennis lists, turnover on customer accounts, print methods, origin of raw materials, price calculation, sample collection, tenders, recipes, information on the production and storage of goods, methods of production. No business and trade secrets instead are part of a machine which could easily be unbolted and was accessible to everybody was not considered a trade secret.

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 addition to confidentiality, it has to be established that the commercial or technical information or process is important for the competitive position of the company and only known to certain and limited circle of people. About that the proprietor of the trade secret has to establish that there is a legitimate economic interest in the confidentiality of the information or process.

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?

no

13)	Does your jurisdiction provide for discovery?

no

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 PI-proceedings, the plaintiff has to provide prima facie evidence that an infringement is more likely than not. In the main cause there is no specific threshold. Plaintiff has to provide full proof of a fact. In that case, the burden of proof then shifts to Defendant. In such cases, the court has to evaluate the evidence of both parties in its own discretion.

Austrian Criminal Law always requires full proof of the violation, ie at least proof of highest probability bordering on certainty. On the other hand, Austrian Civil Law only requires that the alleged violation must be true with a high probability.

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?:

Since all criminal provisions applicable in this context are enforceable only upon private initiative (thus not by the state prosecutor) , criminal house searches and seizures are available only to a very limited extent.

Civil law, instead, following the requirements and within the framework of the EC-Enforcement Directive 2004/48/EC, provides for the possibility of house searches via provisional injunctions to secure evidence. Such provisional injunctions can also be issued to secure evidence ex-parte. The Austrian civil procedural laws do not provide for a possibility of seizures but copies/photos of the evidence found can be made. Furthermore, the Austrian Code of Civil Procedure provides (i) that certain documents referred to by one party as evidence have to be brought forward (ii) that evidence may be preserved in case there is a risk that the evidence is not available at a later point of time.

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?

Yes, seizure is available under Austrian law in order to secure evidence.

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?
	no If not, why?: The Austrian practice does not meet any difficulties on regard, therefore no additional restraints on trade are considered necessary.

18)	Should different obligations of confidence / non-use apply to different employees? Why/why not?
	Each employee may become aware of critical information in his professional life. The Austrian group therefore does not see need of differentiation which would render the applicability of the rules on the protection of trade-secrets even more complicated.

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?
	The Austrian group is concerned that such a possibility could be used by plaintiffs to unlawfully block unrelated third parties from using know-how which is not protected by registered rights.

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?
	No, The fact that two parties independently developed know-how should not limit one of them in the exploitation thereof.

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?
	no If not please comment.: According to the Austrian case law, cease and desist obligations cannot be substituted by damage claims, because the damage goes far beyond the loss of sales. Consequently injunctive relieve should always be available if there are proven (i) the existence of a trade secret and (ii) its breach.

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?:

Such an obligation would have a negative impact on employees, because employers may refrain from assuming high skilled people when they have to fear to be imposed severe obligations to cease and desist from any action they cannot predict.

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?:

The Austrian law is very conservative in this regard. The means provided for by the Enforcement Directive are applied only very restrictively. The Austrian group would welcome strengthening pre-action evidence preservation via house-search in connection with seizures, provided there are introduced, too, appropriate safeguards to avoid the abuse of information so obtained by the plaintiff.

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?:

The Austrian law is very conservative in this regard. The means provided for by the Enforcement Directive are applied only very restrictively. The Austrian group would welcome strengthening pre-action evidence preservation via house-search in connection with seizures, provided there are introduced, too, appropriate safeguards to avoid the abuse of information so obtained by the plaintiff.

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

The Austrian group supports the introduction of rules preventing the claimant from (ab)using such information.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

The Austrian group appreciates the harmonisation of the protection of business and trade-secrets.

Trade secrets and their protection appear to be important to all business sectors, reflecting their pervasiveness and importance to virtually all firms in the internal market, regardless of their size, as relevance of trade secrets is acknowledged with the same level of importance by large as well as medium and small firms. With specific focus on SMEs, trade secrets appear of particular importance because innovation in this segment tends to be more incremental in nature and of core significance to firm value and performance. Trade secrets protection complements the protection offered by patents, copyrights and other protection mechanisms. As there exists no uniform definition of “trade secrets”

within the EU and - as a consequence -no uniform legal regime, we consider a sound legal environment to protect trade secrets as contribution to fostering innovation.

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.

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?

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

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?

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?

Aspect (iii) - Valuation of loss

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

32) Should courts award moral damages?

Aspect (iv) - Proving infringement

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

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

Summary

In Austria, trade secret protection is prevalently governed by criminal provisions provided by the Unfair Competition Act and the Criminal Code. They are supported by civil provisions that make it possible claiming cease and desist orders and payment of damages. In addition to that, labour law and corporate law recognize confidential information.

When developing the law on trade secrets, one major focus should be the protection of trade secrets in the course of enforcement. While the law provides for the possibility to exclude the public, the remedies against disclosure of a trade secret versus the opponent are very limited. The fundamental principles of

a fair procedure, in particular the Principle of Fair Trial, the Principle of Immediate Taking of Evidence and the Principle of Oral Hearings have always to be kept in mind.

Another important issue in the enforcement of trade secret violations is, that in many cases the presumed infringer would be able to develop the very same solution as protected by the business secret or to achieve the very same know-how during the respective enforcement. No cease and desist order must prohibit anything which can also be accessed in a legal way. Therefore cease and desist order often remain without effect currently.

Restraint of trade instead is an argument that does not play a significant role in the Austrian practice on trade secrets.

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