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Q247

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

Responsible Reporters: by Sarah MATHESON, Reporter General John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General Yusuke INUI, Ari LAAKKONEN and Ralph NACK Assistants to the Reporter General

National/Regional Group	Czech Republic
Contributors name(s)	Karel ČERMÁK and Karel ČERMÁK
e-Mail contact	cermak@apk.cz
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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)?

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

No, trade secret protection is not viewed as a form of restraint of trade in the Czech Republic. Trade secret is subject to civil law protection under the Civil Code No. 89/2012 Coll., (hereinafter referred to as "Civil Code"), as well as criminal law protection under the Criminal Code No. 40/2009 Coll., as amended (herein after referred to as "Criminal Code").

Trade secret is defined in section 504 of the Civil Code as follows: "Trade secret comprises competitively significant, identifiable, evaluable and in relevant business community ordinarily unavailable facts that relate to the business and their confidentiality is accordingly ensured by their owner in his own interest."

Only those facts satisfying all criteria set out in the definition are subject to trade secret protection.

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?

With respect to the skills and knowledge acquired during the course of employment there are provisions on non-compete clause in the Labour Code No. 262/2006 Coll., as amended (hereinafter referred to as "Labour Code") aimed to protect employers against disclosure or use of skills and knowledge of specific nature acquired by the former employees.

According to section 310 subsection 1 of the Labour Code the employer may conclude non-compete clause (or an agreement) with an employee, based on which the employee undertakes, after termination of the employment relationship for a certain period not exceeding one year, to refrain from performance of any gainful activity that would be identical with the employer's business activity or that would be of a competitive nature to the employer's business activity, and the employer must undertake in the clause to provide adequate monetary consideration, at least in the amount of one half of the employee's average monthly earnings for each month when the said obligation is fulfilled.

Duty of non-performance under the non-compete clause must be justifiably required from employee with regard to the nature of information, knowledge, operational and technological know-how which the employee acquired during the employment relationship to the employer and the use of which in an activity pursuant to subsection (1) could substantially encumber the employer's activity.

There are no specific provisions in the Labour Code regulating trade secrets acquired during the course of employment. Provided the non-compete clause was not concluded, employee shall not act in a way that would violate trade secret under general provisions of the Civil Code or the Criminal Code.

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

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

There is no statutory provision in the Labour Code expressly imposing duty of confidence on the employees in the private sector. However, pursuant to section 301 letter d) of the Labour Code employees are obliged not to act contrary to legitimate interests of the employer. Obligation not to act contrary to legitimate interests of the employer impliedly imposes on employee duty of confidentiality towards his employer.

Certain groups of employees (e.g. state employees, public officials, etc.) are subject to higher obligations which include, among others, obligation of confidentiality regarding facts of which they became acquainted in the course of their employment and which, in the employer's interest, may not be disclosed to other persons (parties).

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

No, express confidentiality clause does not provide for broader protection of information.

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 absence of enforceable non-compete agreement, workers may use knowledge of any kind acquired in the course of earlier employment in their new employment. If applicable, even though their employment

relationship was terminated, it does not affect duration of their obligation not to disclose confidential information or trade secret.

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?:

This question is answered above (see answer to the question No. 3). Higher obligation of confidentiality maybe required depending on the nature of employment relationship.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

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;
- 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?

Pursuant to section 116 subsection 2 of the Act No. 99/1963 Coll., Code of Civil Procedure as amended (hereinafter referred to as "Code of Civil Procedure") the Court may exclude the public from the whole hearing or its part, if the publicity of the Court hearing would endanger confidentiality of protected information or trade secret.

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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?

Yes, the trade secret holder must prove that the information merits protection.

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?

Pursuant to section 116 subsection 3 of the Civil Code of Procedure when public was excluded from the hearing in whole or in part, the court may permit individuals to attend the hearing, instructing them not to disclose confidential information and of the legal (criminal) consequences of such breach.

Persons participating at the public hearing are under general obligation not to disclose information that would endanger protected information, trade secret, important interest of the parties or morality.

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, value is not diluted by publication.

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?

Damages are quantified as reduction of value of possession or loss of profits which the trade secret

holder could have achieved, had not the person committed illegal activity violating trade secret.

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.:

No, damages cannot be awarded for moral prejudice suffered by the trade secret holder.

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?

For an action to constitute trade secret violation, certain criteria must be met stipulated in section 2985 of the Civil Code and these must be proved during the litigation by the claimant:

1) Existence of a trade secret (pursuant to section 504 of the Civil Code).

2) Action of a person by which is the trade secret unlawfully disclosed, made available, or by which a person makes use of it for himself or of another person.

3) Potential of the trade secret to be used in competition.

4) Fact, that a person was entrusted with the trade secret or otherwise became aware on the basis of his employment relationship with the competitor, or other similar legal relationship, or in the exercise of the function designated by a court or another authority.

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?

There are no additional elements to be proved.

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?

no

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?:

Yes, the Court may issue an order to secure evidence, even at the pre-trial stage upon a proposal of the claimant, if there is a concern that it would not be possible to undertake it later or only with significant difficulties.

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 is available for the purpose of securing 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?:

No, in our opinion no limits should be placed on the protection of trade secrets. As we have already addressed this matter in the first question, the protection of the trade secret is not considered as a form of restraint of trade in the Czech legislation, thus no limits shall be imposed thereon.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

In our opinion certain groups of employees (e.g. state employees, public officials etc.) shall be subject to a higher obligation of confidentiality, because of the nature of information they became acquainted with in the course of their employment.

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?

In our opinion, trade secret shall be subject to protection also after the proceedings, as it was disclosed only for the purposes of litigation.

The obligation of trade secret confidentiality disclosed during the litigation is reflected in the section 116 subsection 3 of the Civil Code of Procedure (question No. 8).

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?

For the reasons mentioned in the question above the obligation of confidentiality should be attached to

both, information developed by the defendant either before or after the trade secret proceedings, provided all conditions for protection are fulfilled (as specified in question No. 10).

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?

no

If not please comment.:

xxx

b) only where injunctive relief is not adequate

no

If not please comment.:

xxx

c) only where injunctive relief is not necessary?

no

If not please comment.:

xxx

d) If by default, why?

In our opinion damages should be available as a remedy by default provided the trade secret holder suffered damage as a consequence of trade secret violation.

Aspect (iv) - Proving infringement

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

yes

If yes, in what circumstances? :

It is always up to the plaintiff to decide whether and to what extent he shall seek damages.

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?:

Yes, the said measures shall be available at the pre-trial stage for the purposes of securing evidence. With reference to the Czech legislation and practice, Court may issue evidence preservation order ex parte, however the party concerned may file an appeal to dismiss such an order. It is not common practice of the Courts to hold a public hearing for this purpose.

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?:

Yes, the said measures shall be available at the pre-trial stage for the purposes of securing evidence. With reference to the Czech legislation and practice, Court may issue evidence preservation order ex parte, however the party concerned may file an appeal to dismiss such an order. It is not common practice of the Courts to hold a public hearing for this purpose.

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

The claimant shall not misappropriate such information.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

In our opinion harmonisation is not desirable in this area.

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.

We do not have any proposals for improvement.

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?

We do not have any proposals for improvement.

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

We do not have any proposals for improvement.

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?

We do not have any proposals for improvement.

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?

We do not have any proposals for improvement.

Aspect (iii) - Valuation of loss

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

As we consider the current legislation in this matter as sufficient, we refer to the question No. 9 b. answered above.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

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

We do not have any proposals for improvement, because we consider our current legislation sufficient in this area.

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

We do not have any proposals for improvement.

Summary

The current Czech legislation concerning trade secrets as defined in 500 of the Civil Code N° 89/2012 Coll. (see point one) is considered as sententious and sufficient. In our opinion no further limits should be placed on the protection of trade secrets.

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