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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.:

*No, in Paraguay the protection of trade secrets is not specifically foreseen and cannot, in general, be considered a form of restraint of trade.*

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

Paraguayan legislation does not define specifically what constitute general skills or knowledge acquired during the course of employment, nor what is considered confidential information or what is to be understood by trade secrets.

It only refers vaguely to protection of trade secrets and confidential information in two legislative bodies: a) The Labor Code in Articles 81 "h" (revelation of industrial or manufacturing secrets or confidential matters by the employee as a good reason for finishing a work contract) and 65 "k" (the

duty of confidentiality with respect to technical, trade or manufacturing secrets that employees have during the course of a work contract) and b) Law No. 3283/2007 - On protection of undisclosed information and evidentiary data for pharmaceutical registration.

However, where the Labor Code foresees a duty for people under a work contract to preserve or keep some types of information confidential, it does not define or refer what sort of information should be considered confidential matters, trade or manufacturing secrets, etc.

On the other hand, Law No. 3283, which is aimed at protecting undisclosed information related to trade and industrial secrets, defines said undisclosed information as:

Article 3, "A": Undisclosed information: all sorts of technical, trade or business information that: 1) Is secret, in the sense that it is not, as a whole or in the precise configuration or assembly of its elements, generally known or easily accessible to people introduce in the circles where such type of information is normally utilized. 2) Has business value as a consequence of it being secret. 3) Has been subject to reasonable measures by the individual or corporation who has produced it or has it under his/her control to be kept secret

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

*Yes, due to the fact that in general, parties may contract freely so long as the terms of the contract do not infringe the law. Since such matters are not prohibited by the Labor Code, they can be lawfully introduced into a contract.*

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?

*The Labor Code does not specifically say. Therefore the timeframe within which the ex-employee is subject to a duty of confidence with respect to trade secrets can only be agreed upon or established in the corresponding work contract.*

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?:

*Yes, employees or workers are free to use knowledge acquired in the course of an earlier employment in the course of their new employment. There are basically no restrictions, except for the provision of Article 65 of the Labor Code (transcribed above), which more or less classifies the information to be kept secret by an employee or ex-employee.*

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?:

*Yes. Article 27 of the Labor Code establishes that employees in position of trust or "trustworthy employees" are those that provide counseling services or administer money or property which belongs to a corporation, as well as those that perform inspection activities and which, as a consequence of their duties, become aware of the employer's secrets.*

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

*Basically, none.*

*In Paraguay, Civil Procedures respond to a series of principles, especially those of "equality" and a "bilateral structure", with which both parties should have equal access to evidence submitted before the Courts. The claimant cannot request that certain evidentiary material be kept secret due to the sensitive information therein contained, nor can the Court order restricted access to the records by the parties to the process.*

*Evidence belong to the Courts; and in order for the Courts to make a fair and lawful judgement, the Judge has to necessarily have access to all evidence pertinent to the case, either submitted by the parties or at times, requested on his/her own initiative. Therefore, restriction or protection of secrecy of trade secrets, if such trade secrets are the main object of the trial is practically impossible.*

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?

*This is not applicable, according to what was explained above.*

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, due to the fact that evidence cannot be protected.*

Aspect (iii) - Valuation of loss

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

Aspect (iv) - Proving infringement

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

*In a Civil Procedure, every element, every aspect alleged by the claimant needs to be proved.*

*For instance, the misuse or misappropriation of the information, its acquisition (was it obtained through an employment contract? Was it obtained during the course of some other sort of agreement, such as a license agreement, for example?), the duty of confidentiality (where employees are concerned), the harm or injury caused to the claimant as a result of the use of the information, etc.*

*The judgement or resolution issued by the Court may only make reference to what was indeed tried and proved during the trial and cannot depart from there.*

*Therefore, the parties must make sure that all that is alleged is in fact proved and proved by effective means.*

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?

*Since the Paraguayan legislation does not define "trade secrets", it is not possible to legally make a distinction between violation of a trade secrets and breach of confidence; hence, there are no additional elements that need 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?

yes

If so, in what circumstances? :

*This would be extremely difficult to prove, considering that there is no definition in the law as to what may constitute "constructive knowledge".*

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?:
	<i>Yes, the Paraguayan Code of Civil Procedure foresees a series of precautionary measures that may be requested either before the claim is filed or during the course of the procedure. Whoever petitions a precautionary measure is required to prove: the legitimacy of the right he/she is claiming and the urgency for the adoption of the measure requested or the danger of lost or frustration of his/her right; he/she shall also provide security. Precautionary measures include: attachments or seizures, the confiscation of goods, among other examples.</i>
	<i>In order to prevent abuse, the law sets forth that, where unnecessary damage may be caused to the owner of the goods/property as a result of the measure, the judge may either modify the measure requested or limit it. It also sets forth that whoever requests a precautionary measure shall necessarily provide a bond, the amount of which shall include the judicial costs and the possible damages the measure may produce on the other party.</i>

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?
	<i>Seizures are available for the purpose of securing evidence</i>

## 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?:
	<i>No, limits should not be placed on the protection of trade secrets to avoid unlawful restraints on trade, due to the fact that such possible restraints may be avoided through other legal institutions/bodies, such as the Law for Protection of Competition.</i>

18)	Should different obligations of confidence / non-use apply to different employees? Why/why not?
	<i>Yes, employees that have access to the company's "secrets" or confidential information or that manage company's funds, assets, property, etc., in general, trustworthy employees should be subject to a stricter duty of confidentiality given the sort of information they come across and knowledge they acquired throughout the execution of their daily work.</i>

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?

*No, because such requirement would considerably restrict his/her freedom and that would be against the principles of the Paraguayan Legal System.*

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, because if the information was developed independently and prior to the trade secret proceedings, such information duly belongs to the defendant and he/she is entitled to its use, even more so given that it was developed before the proceedings.*

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 also where an injunctive relief is not possible, is not adequate or is not necessary, due to the fact that where an injunctive relief fails to sufficiently compensate the injuries caused to the claimant, monetary compensation should be available, at least.*

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?:

*No, because such allegation would be extremely (if not impossible) to prove.*

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, pre-action evidence preservation orders and seizure orders should be available as they are the only measures that may ensure the correct and fair initiation of a lawsuit. They should take place in- audita parte, not ex parte, given the principles that govern the Paraguayan Civil Procedure.*

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

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

*He/she should extend his/her claim to the new secrets discovered during the course of the seizure.*

### III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

*Yes, it is.*

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.

*Currently, given that the protection of trade secrets is not legislated or foreseen in Paraguay, and thus individuals and corporations who consider that their rights have been infringed must rely on the ordinary civil procedure, usually by filing a claim for damages, no restraints to trade may arise from enforcement of such actions. Rather, restraints of trade may legally arise from other areas of the Law, such as the Law for Protection of Competition.*

*In any case, the reinforcement of the measures (already provided for in the law) to be granted by the judges in order to properly make up the case and secure evidence is recommendable, given that to-date, in certain situations, judges and/or courts are reluctant to granting such types of measures.*

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?

*The same answer for question 26 is also applicable to the present question*

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

*No, they shouldn't*

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?

*Protection of trade secrets during court proceedings meaning the restriction of access to, or non-disclosure of, information and/or evidentiary material is very difficult, given the principles that govern civil procedures in Paraguay.*

*Hence, attention should be centered on pre-action measures aimed at protecting or ensuring evidence before the actual initiation of a procedure.*

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?

*No confidentiality or non-use obligations should be applicable in such circumstances*

Aspect (iii) - Valuation of loss

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

*Damages should be quantified/established subsequent to an expert report, on the basis of the actual loss or possible loss caused to the individual or corporation as a consequence of the infringement/violation of trade secret.*

32) Should courts award moral damages?

*yes*

*If so, how should they be quantified?:*

*Moral damages should be awarded only in some cases. They should be quantified based on the evidence submitted to the trial.*

Aspect (iv) - Proving infringement



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

*The current precautionary and/or pre-action measures (presentation of documents, witness of signature in a document, seizure of goods, etc.), but as mentioned in question 26, subject to principles that allow effective grant by the Court(s) where needed.*

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

*No restrictions should be applicable to the use of seized evidence by the claimant up until a final judgement or resolution is issued by the Court.*

Summary

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