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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.:

In general, trade secret protection is not perceived as a restraint to trade. The general view is that trade secret protection is needed to protect the investments made by entrepreneurs, especially when such investments can not be protected through other rights (ex. patents).

Trade secrets are not considered to be a separate intellectual property right under Polish laws, including those implementing Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights. The information/materials protected as trade secrets can be, however, at the same time subject to intellectual property rights' protection (e.g. as a work subject to Copyright Law protection) and/or subject to limited industrial property rights protection (e.g. as an invention, industrial design or utility model, if undisclosed).

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

Competition law is the main mechanism in Poland to protect trade secret (see art. 11 and art. 23 of the Act on Counteracting Unfair Competition). Labor law also imposes obligations on employees to keep employer's information in confidentiality (see art. 100-101⁴ of the Labor Code). Finally,

company's secret is listed as an element of company's property (see art. 55¹ of the Civil Code).

The employee have duties to keep confidential the trade secret both during their employment and after the expiration of the employment agreement. However, as a general rule, such obligations to keep trade secret confidential expires after 3 years as of termination of the employment agreement.

The Polish law is not based on case law. We list below the main provisions protecting trade secret in Poland:

Act on Counteracting Unfair Competition:

Article 11. 1. It is an unfair trading practice to provide, disclose or use trade secret of another entrepreneur, or to acquire such information from an unauthorised person, if such practice threatens or undermines the interests of another entrepreneur.

2. The provisions of paragraph 1 also apply to a person who was employed on the basis of an employment relationship or other legal bases - over a period of three years after termination of employment, unless otherwise provided for in the contract or unless the obligation of confidentiality expires.

3. The provisions of paragraph 1 do not apply to a person who, in good faith, acquires confidential commercial information from an unauthorised person on the basis of a non-gratuitous legal transaction. The court may order the purchaser to pay relevant compensation for using that information over a period not exceeding the duration of confidentiality obligation.

4. A trade secret is understood to mean the technical, technological and organisational information of an enterprise, or other information of commercial value to an enterprise that is not publicly available and whose confidentiality is protected by the entrepreneur.

Civil Code

Article 55¹ . An enterprise is an organized set of intangible and tangible assets, which is dedicated to conduct economic activity.

It shall include in particular:

[...]

8) enterprise's trade secrets;

Labour Code

Article 100. § 1. An employee shall perform work conscientiously and with due diligence, and shall comply with the work-related instructions of his superiors, unless they are contrary to the provisions of law or the contract of employment.

§ 2. An employee shall in particular:

4) take care of the best interests of the employer's establishment and keep confidential any information whose disclosure could cause damage on the part of the employer;

5) comply with the confidentiality obligations in accordance with separate regulations;

Article 101¹ § 1. To the extent specified in a separate agreement, an employee shall not engage in any activity in competition with the employer, and shall not perform work under an employment relationship or on another basis to the benefit of any entity involved in such an activity (non-competition clause).

§ 2. If an employer suffers damage due to the employee's breach of the non-competition provisions of the contract of employment, the employer may claim compensation for the damage suffered from the employee, in accordance with the provisions of Chapter I in Section 5.

Article 101² § 1. The provision of Article 1011 § 1 shall apply accordingly to any post-employment non-competition agreement concluded by an employer and an employee who has access to particularly sensitive information whose disclosure could cause damage on the part of the employer. The agreement shall also define the term of the non-competition clause and the amount of compensation due to the employee from the employer, subject to the provisions of § 2 and 3.

§ 2. The non-competition clause referred to in § 1 shall become invalid before the expiry of the term of the agreement referred to therein, if the grounds justifying the non-competition clause have ceased to exist, or if the employer is in breach of the obligation to pay compensation.

§ 3. The compensation referred to in § 1 shall not be lower than 25 per cent of the employee's remuneration received prior to the termination of his employment relationship during the period equal to the term of the non-competition clause; the compensation may be paid in monthly instalments. In the event of any disputes, compensation shall be awarded by the labour court.

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?

Polish law and case law do not draw a clear line between general skills or knowledge acquired during the course of employment and trade secret.

Trade secret (tajemnica przedsiębiorstwa) is defined in the Act on Counteracting Unfair Competition as technical, technological, organizational or other information having a commercial value, not revealed to the public, in relation to which the entrepreneur took necessary steps to maintain its confidentiality. As explained above, trade secret is protected by a number of legal acts in force in Poland.

Confidential information (informacje poufne) is governed by the Act on Trading in Financial Instruments and relates to disclosure of sensitive information for the trading of financial instruments. For the purpose of this report, we will refer to confidential information as a trade secret in the meaning of the Act on Counteracting Unfair Competition, not as defined in the Act on Trading in Financial Instruments.

The Polish law does not explain how to define general skills or knowledge acquired during the course of employment. As a general rule, the employer can not restrict the employee from using the general skills or knowledge acquired during the terms of his/her employment (please see judgment of the Supreme Court - Civil Chamber of 2000-10-03 I CKN 304/00, where the court found that the use by an ex-employee, in his/her own business activity, of information acquired during the employment agreement, in respect of which no measures to preserve its confidentiality were undertaken, should be treated as use of general, although specialized, knowledge which does not give grounds for the former employer's claims.).

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. It is recommendable for employers to execute such agreements with employees with access to sensitive confidential information. Such agreements allow to cover by the duty of confidence information, which may not be subject to trade secret protection.

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 unfair competition law, the obligation not to transfer, disclose, use third parties' trade secret or acquire such information from unauthorized person also applies to a person who has been rendering work based on an employment agreement or another legal relationship for a period of three years from its termination, unless the agreement stipulates otherwise or there is no longer secrecy.

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, provided that the employee does not breach his/her duty to keep trade secret in confidence for a period of 3 years following the termination of the employment agreement (unless the employee and the former employer agree otherwise or the information is not secret anymore).

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?:

Certain employees may be subject to higher obligation of confidentiality. For instance, employers in the banking industry or certain professionals (inter alia, legal counsels) may be subject to higher obligation of confidentiality.

However, there are no general statutory rules that would impose higher confidentiality standards to more senior employers (for instance, managers).

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

As explained below, there is relatively little a party can do to protect its trade secret in court proceedings, especially vis a vis the adverse party. There are specific rules governing the disclosure of trade secret in competition cases. However, there are no similar rules in other cases. Also, it is strongly debatable whether the rules governing the disclosure of trade secret in competition cases can be applied to other cases per analogiam.

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;

Third parties do not have access to evidence, but can attend the hearing unless the court decides to hear the case behind the closed doors.

The civil court may order that the whole or part of a session to be held behind closed doors if confidential information may be revealed. The parties, indirectly intervening parties, their legal representatives and counsels and persons of trust, two for each party, may be present during the session held behind the closed doors. Therefore, the court order prevents third parties, but not the adverse party, from attending a hearing, when trade secret is discussed.

Also, in a criminal proceeding, the court may exclude the public from all or part of the trial, where the public nature of the hearing may threaten important private interests, such as confidential information.

As a general rule, only the parties have access to the files and evidence. However, in competition cases, the trade secret holder may demand that evidence containing trade secret are kept confidential. This rule is specific to competition cases and can not be extended to other type of cases (please see art. 479³³ of the Code of Civil Procedure).

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

As a general rule, no. However, in competition, the court may restrict access to evidence to the opponent or his representatives.

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

As a general rule, no (but please see comment to point 6.a above with respect to competition cases).

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

There are no specific rules governing the disclosure of trade secret in judgments or decisions. Although the judges have the duty not to disclose information subject to legal protection, in practice, it is the judges' discretionary power to decide if and to what extent disclose information in the judgements/decisions.

The judgments that are publically available should be anonymized. However, in practice, the protection of trade secret in judgments/decisions much depend on the experience of the judge.

In competition cases, the judge has the obligation to protect trade secret and thus not to disclose it in judgments/decisions.

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 persuade the court that the information merits protection and demand

that the measures to protect the trade secret are applied. In practice, the trade secret holder should indicate to the judge which information revealed in the course of the proceeding, the trade secret holder deems a trade secret and demand that it is kept confidential.

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?

Having access to trade secret of the adverse party during the court proceeding does not affect the obligation of the party to keep this information confidential and not use it. The party can only use the trade secret of the adverse party within the frames of the pending litigation.

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?

The publication of the trade secret by the plaintiff may destroy the confidential character of the trade secret and thus threaten the right of the plaintiff to demand compensation from the defendant.

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?

The trade secret holder, which trade secret was violated, may demand i) compensation for actual damages (*damnum emergens*) and lost profits (*lucrum cessans*) and ii) disgorgement of profits. The trade secret holder may rely on a reasonable royalty fee or licence to calculate its claims, especially the loss of profits.

Actual damages (*damnum emergens*) are calculated by comparing the difference in the financial status before and after the damage was incurred. Further, a causal link between the infringement and the reduction in the assets must be established.

Lost profits (*lucrum cessans*) are calculated by comparing the difference in the existing financial status after the damage occurred and the hypothetical financial status, if the infringement had not happened. Proving the precise amount of lost profits is difficult. Polish courts are reluctant to award damages based on lost profits and conservative in awarding such damages.

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?

yes

Please comment:

Yes.

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

The trade secret holder may claim moral prejudice, if the trade secret holder demonstrates infringement of personal rights related to the violation of trade secret.

There is no statutory definition of personal rights. In the legal doctrine, personal rights are defined as values of immaterial character that are related to the personality of a human being and widely accepted in the society (for instance, scientific achievements). For instance, in a trade secret violation case, the trade secret holder may argue that misusing or publishing his/her trade secret violates his/her personal right to scientific achievements.

Aspect (iv) - Proving infringement

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

The following elements should be proved to establish the violation of a trade secret:

- (i) the plaintiff is an entrepreneur – a natural or legal person, or an organization unit having no legal personality, carrying out economic activity;
- (ii) the act involves a transfer, disclosure, use or acquisition of an entrepreneur's trade secret from an unauthorized person;
- (iii) the plaintiff owns the trade secret;
- (iv) the act threatens or violates the interests of the entrepreneur.

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?

The main difference is related to the nature of the information to be protected. In order to seek protection of trade secret, the plaintiff needs to establish that the information for which protection is sought meets the definition of a trade secret ie. the information i) has a commercial value, ii) has not been disclosed and iii) with regard to which an entrepreneur has taken necessary steps to maintain confidentiality.

In a breach of confidence case, the plaintiff will have to establish that the defendant had an obligation to keep an information in confidentiality, but breached that obligation. The plaintiff does not have to demonstrate that the information at issue met the definition of a trade secret.

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?:

It is possible to file with the court a motion requesting for the evidence to be secured. This may be done either prior to filing the statement of claim through an interim injunction motion or at any time during the litigation proceedings, if due to a risk that the use of evidence will become impossible or impeded, there is a need for determining the actual facts. Securing evidence prior to filing the statement of claim is permissible only in urgent matters, or if the defendant cannot be identified or if the defendant's place of residence/establishment is unknown, and to the extent the claims and the legal standing of the requesting party have been proved probable.

The court may also order to present a document which is in the possession of either party which constitutes crucial evidence for the case.

In practice, there are little safeguards to prevent abuse at the pre - litigation stage ie. when the adverse party is not yet informed about the litigation. In practice, at the pre-litigation stage, the courts tend to secure evidences in camera and thus rely on the evidence and arguments provided by the plaintiff only. Although parties should act in good faith and should provide only true information, there is room for abuse, where the adverse party does take part in the proceeding and does not have the opportunity to present its arguments and evidence.

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?

Seizures have multiple purposes, including securing evidences to allow their examination or preventing the infringing items from 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?

yes

If so, what limits? :

Yes, where the protection of trade secret is over-regulated and affect the trade. Most importantly, the legislator should balance the interests of entrepreneurs in protecting their trade secret and the free movement of employees, especially those with access to trade secret. The ex-employer should not be allowed to prevent the employee from using skills or general knowledge acquired with the ex-employer, while moving to a new employer.

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

Yes. The roles played by employees differ significantly and thus different obligations should apply to them depending on the circumstances.

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?
	Yes. The sole fact of revealing the trade secret to the defendant within the frames of a civil proceeding shall not grant that defendant the right to use that trade secret. The defendant should only use such trade secret for purposes strictly related to the proceeding.

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?
	Such obligations of confidentiality should not apply to the defendant if the defendant can demonstrate that the information was developed independently of the other party's trade secret. However, the burden of proof should rely on the defendant and any doubt should weigh in favor of the other party and against the finding that the information was developed independently of the other party's trade secret.

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?
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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. We believe that such approach would be too strict. It may unfairly sanction the new- employer and become a restraint to the free movement of employees as employers may fear to employ employees with knowledge of competitor's trade secret.

23)	Availability of pre-action evidence orders and seizure orders.
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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. Although abuse can not be excluded, the court should have the discretionary power to grant seizure and/or evidence orders <i>in camera</i> . In many cases, an order granted <i>inter partes</i> would be not effective and difficult to be successfully enforced.

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

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

For the same reasons as stated in 23 a) above.

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

The court has a duty to protect the defendant against the claimant's access to information unrelated with the litigation. If the claimant has access to defendants' new trade secret, the claimant should not be allowed to exploit it.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes, harmonisation is desired. Effective protection of trade secret on a single market like the EU requires similar measures to be available in different countries to counter trade secret violations, especially with transborder effect.

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 should fail where the trade secret holder would attempt to restrict employees from using their general skills and knowledge with the new employer. Also, in any case, the enforcement action should fail, if the trade secret holder targets information developed independantly of the trade secret holder.

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?

If an enforcement action would be barred as a retrain of trade, no relief should be given. However, trade secret violation should amount to restraint to trade and thus be deprived of protection only in well -j ustified cases.

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

Such employees with stricter obligation of confidentiality should be released from the duties, where public interest is at stake. Also, such employees should not be prevented from using general skills or knowledge aquired with the former employer.

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?

The court should have the right to restrict access to trade secret provided by one of the parties if the court judges that such information is confidential and may be exploited by the adverse party.

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?

The parties should be required to keep confidential and not to use any confidential information from the adverse party that was revealed during the proceeding with the explicit note to keep it confidential.

In order to avoid future disputes over the character of the information revealed during the proceeding, the party providing information it considers confidential should explicitly indicate that it reveals confidential information.

Aspect (iii) - Valuation of loss

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

The plaintiff should be free to choose any method of quantifying the damages that he believes best from his perspective. However, it should remain the court's role to verify whether the proposed method of quantifying the damages and supporting evidence are justified.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

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

We believe that the methods set forth in Polish law and described above are sufficient, provided the court acts fast.

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

The claimant should be under obligation to exploit the seized evidence only for the purpose of the litigation. The court should have the duty to balance the interests of the claimant and the defendant, when giving access to the defendant's trade secret to the claimant.

Summary

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