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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 considered 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.:

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?

The law does not distinguish between general skills or knowledge acquired during the course of employment, Notwithstanding, we understand that "*general skills*" are the academic abilities and other that the employee already held before starting work. On the other hand "*knowledge acquired during the course of employment*" everything learned by virtue of the tasks played during the course of employment.

Furthermore, there is also no definition for trade secrets in the Portuguese legislation.

Article 318 of the Industrial Property Code entitled "Protection of Undisclosed Information", contributes for a possible definition of trade secret, as it sets forth that: "an illicit act is constituted in particular as the disclosure, acquisition or use of the business secrets of a competitor without its consent, provided that said information:

a) is secret in the sense that it is not common knowledge or easily accessible, in its totality or in the exact configuration and connection of its constitutive elements, for persons in the circles that normally deal with the type of information in question.;

b) has commercial value, based on the fact that it is secret;

c) has been the object of considerable diligences on the part of the person with legal control over it, with a view to keeping it secret.”

Items a), b) e c) correspond exactly to items a) b) e c) of nº 2 of article 39º of TRIPS, thus being, a literal reproduction of the same.

Article 39 of TRIPS does not use the terms trade secrets, it refers to undisclosed information, although it does not provide a definition of undisclosed information.

Article 39 no. 2 does not define what “undisclosed information” consists of. It only specifies the conditions that the information needs to meet in order to be deemed “undisclosed and protectable: it should be secret, possess a commercial value and be subject to reasonable steps, under circumstances, to be kept secret.

Thus, the contribution for the definition of trade secret given by Portuguese law corresponds to the contribution for the definition of trade secret given by TRIPS.

The (EC) Regulation no. 240/96 of the Commission of January 31, 1996 (concerning technology transference agreements), contains the definition of trade secrets under the terms of which on article 10, it is understood by: “information as a body of technical information that is secret, substantial and identified in any appropriate form”.

“secret” means that the know-how package as a body or in the precise configuration and assembly of its components is not generally known or easily accessible, so that part of its value consists in the lead which the licensee gains when it is communicated to him; it is not limited to the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the licensor's business.

A trade secret is information of any type that is actually or potentially valuable to its owner and not generally known or readily ascertainable by the public, and which the owner has made a reasonable effort to keep secret.

Article 128, no. 1, paragraph f) stipulates the protection for the “*knowledge acquired during the course of employment*” foreseeing that an employee that must keep loyalty to the employer, including not trading on their own or others' account in competition with it, and not to disclose information about its organization, production methods or business.

The protection for both the confidential information and trade secrets is stipulated at Article 318 of the Industrial Property Code.

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

Confidentiality of all exceeding the above "organization, production methods or business" has to be expressly provided for by agreement between the parties, being common that such "protection" is stipulated at the employment agreements.

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 confidentiality rules provided for in the Labor Code only apply to employees, ie, during the term of the employment agreement. After the termination of the employment agreement, and in the absence of an agreement to the contrary, the employee is not, under any ground, bound by a duty of confidentiality. In any case, this does not exempt him / her from civil liability in general terms, for the event of loss / damage caused to the employer, in particular by unfair competition.

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

yes
If yes, is there any distinction between the type of knowledge they can use?:
no

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?

The rule, both on civil and criminal proceedings, is the publicity of the case. Although there are exceptions (related to the dignity of the persons, protection of privacy, public morality, risk of jeopardizing the efficacy of the decision to be given) there are no specific exceptions aiming to preserve the secrecy of trade secrets, that one might try to fit in this last exceptional situation (need of maintaining the secrecy due to the risk of the decision to be given becoming ineffective).

Furthermore the provisions regarding exception of publicity are as a rule constructed regarding restraining access to the case to entities external to the process.

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;

It is not expressly foreseen and the rule is that the hearing is public. There is the general possibility of the Judge determining that the hearing is not public (e.g. on the grounds of ensuring its normal course - in which this situation might fall, considering that the awareness of the hearing being public might condition e.g. the party's statement or testimonies, due to fear of revealing the trade

secrets at issue). Still the restraining of the publicity of the hearing does not imply that the parties will not participate on the same.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
It is not (expressly) foreseen

c) non-confidential versions of documents being provided to all except authorised individuals;
It is not (expressly) foreseen

d) only non-confidential parts of any judgment / decision publicly available;
It is not (expressly) foreseen

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?
Since there are no specific provisions relating to keeping the secrecy of the trade secret, the ruling of the referred measures or solutions, will have to be requested and the Court would have to decide on whether, not only the information merits protection, but also that protecting such information fits the exceptional provisions to the right of publicity, and/or that there are other legal provisions based on which the secrecy should be determined (e.g. constitutional law: e.g. access to law and effective judicial protection).

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings are terminated - of the information they gain during the proceedings?
It is not expressly foreseen by law that the Court restricts *ex officio* or per request the use of the information the parties gain during the proceedings. As such it will not automatically be determined or granted by Court. In some situations there could be legal grounds - e.g. for only this way having access to effective judicial protection and the claim would be frustrated without the maintenance of the secrecy - to further include a claim with the specific request for restriction of the use of the information gained during the proceedings.

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?
There are no specific legal provisions related to Trade Secret violation. In these circumstances the

general law applies and the damages should increase substantially with the publication, since with publication the trade secret is 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?

Portugal adopted the Directive 2004/48 / EC of 29 April 2004.

According to Industrial Property Code (articles 317^o, 318^o and 331^o), unfair competition (undisclosed information violations included) sets up an civil unlawful, resulting in an application of a fine (between 3000-30000 euros in the case of a company is concerned, and between 750-7500 euros in the case of an individual is concerned).

Also, if practiced intentionally or recklessly resulting in damages, may obligate the payment of proper compensation, in accordance with article 331^o of the Portuguese Industrial Property Code.

In determining the amount of compensation or damages, the court must meet particular to the profit obtained by the infringer and consequential damages and lost profits suffered by the injured party and should take into account the expenses incurred in the protection, research and cessation of the illegal conduct of its legal interest.

These profits include unjust enrichment of the violator at the expense of the injured party, which is the profit resulting from the interference in others' legal interests.

In calculating the compensation payable to the injured party, it should be taken into account the importance of the revenue resulting from the offender's unlawful conduct.

The consequential damages can be determined by the indirect and extraordinary costs in case of forced redundancies of workers due to reduced production, by an increase in the manufacturing costs or needs to lower the price charged in order to compete with counterfeit products, or expenses incurred by the infringed right holder as a result of this violation, including investigation costs.

The profits regarding the patent law are considered loss of revenues, the reduction of price and sales volume as a result of illegal competition and the value of the license fees that should have been requested by the offender to benefit from the good in question.

Failing to fix, pursuant the preceding paragraphs, the amount of damage suffered by the injured party, the Court may alternatively establish a fixed amount as a resort to equity, that is based at

least in the remuneration that would have been earned by the injured party if the infringer had requested authorization to use the industrial property rights concerned and costs with the protection of industrial property rights, as well as with research and cessation of harmful conduct of its law.

If the conduct of the offender constitutes repeated practice or proves particularly onerous, the Court may determine proper compensation to the injured party.

In any case, the Court shall fix a reasonable amount to cover the costs properly supported by the injured party with the investigation and cessation of harmful conduct of its law.

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

yes

Please comment:

Yes, the court should consider moral prejudice suffered by the trade secret holder (Portuguese Industrial Property Code, article 39^o- L, n.º 1).

Evaluation of an amount in respect of moral prejudice assumes a dual function: compensatory and punitive.

In setting the moral prejudice the court must judge within the limits that have been proven by (Article 566.^o Portuguese Civil Code), using equity, given the degree of guilt of the violator, its economic situation, the economic situation of the injured person or holder of compensation and other eventual circumstances of the case (article 496^o Portuguese Civil Code).

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 elements that must be proved to establish violation of a trade secret are defined in Article 318.^o of the Portuguese Industrial Property code (influenced by Article 39.^o no. 2 of the TRIPS Agreement).

Article 318.^o - "Protection of undisclosed information"

"Pursuant to the preceding article (unfair competition), an illicit act is defined in particular as the disclosure, acquisition or use of the trade secrets of a competitor without its consent, provided that said information:

a) is secret in the sense that it is not common knowledge or easily accessible, in its totality or in the exact configuration and connection of its constitutive elements, for persons in the circles that normally deal with the type of information in question;

b) has commercial value based on the fact that it is secret;

c) has been the object of considerable diligence on the part of the person with legal control over it, with a view to keeping it 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?

There are no additional elements that must be proved for a trade secret violation in comparison to a breach of confidence.

Trade secret violation and breach of confidence are different types of violation.

We must distinguish several situations as to

- if an employee discloses a trade secret, there is no unfair competition since the employee is not a competitor. The employee can face criminal and disciplinary penalties since there is a breach of confidence.
- if an ex-employee is not a competitor but he discloses the trade secret to a third party, same commits an act of unfair competition.
- if an ex-employee is a competitor and he uses the trade secret, he commits an act of unfair competition.

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 the 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?:

Article 338.^o D, no. 1 of Industrial Property Code foresees that, whenever industrial property rights are

infringed, or there are grounds to believe that a third party may cause serious, difficult-to-repair harm to said rights, the interested party may request urgent and effective provisional measures aimed at preserving evidence of the alleged infringement.

Those legal provisional and urgent measures are the following:

- Description of the seized goods;
- Seizure of the goods suspected of violation industrial property rights as well as, whenever considered appropriate, of the materials and instruments used in producing and manufacturing said goods, and related documents.

The Claimant should:

- Submit evidentiary proof of the infringement of its industrial property rights or the well-founded fear that others cause serious and irreparable harm to said rights;
- Demonstrate the danger of dissipation of evidence.

It should be noted that, in light of what is provided in the article 338.⁹ - C, regarding the measures for obtaining evidences, the Portuguese law did not provide for the protection of confidential information in the article 338.⁹ - D, regarding the measures for securing evidences, partially failing the transposition of the Enforcement Directive no. 2004/48 of April 29, 2004.

To that extent, a conforming and consistent interpretation with the Directive - which expressly foresees that the rules on evidence should take into account the rights of the defense and provide for the necessary guarantees, including for the protection of confidential information - should be made. The court should, therefore, monitor and ensure the protection of the confidential information even in proceedings for securing evidences.

Although the general rule in this matter is the hearing of the opposing party, article 328.⁹ - E, no. 1 of Industrial Property Code foresees that such the prior hearing may be waived if:

- It is claimed and demonstrated that any delay in ordering those securing evidence may cause irreparable damages to the applicant, or
- It is claimed and demonstrated that there is a serious risk of destruction or concealment of evidence.

In case the measures for securing evidence are ordered without the prior hearing of the Defendant, the latter should be notified and may request a review of the ordered measures within a period of ten days, by providing evidence and submitting arguments that were not taken into account by the court.

In order to avoid the distortion or misuse of the securing evidence measure, the article 338.^o - G of Industrial Property Code provides that the ordering of such a measure may become dependent on a bail or on other security by the Applicant, which will be determined by taking into account the economic capacity of the same.

This guarantee can be ordered on Court's initiative or at the request of the Defendant. It is also foreseen that the Claimant may be condemned, at the request of the Defendant, to pay appropriate compensation if:

- it is established that the ordered measure is unjustified;
- the measure ceases to produce effects due to a fact attributable to the claimant;
- no infringement or well-founded threat of it may cause a serious and irreparable harm to an industrial property right is proved.

Finally, particular attention should be paid to as aspect related to the trade secrets and the crime of infringement of a computer system. Indeed, whenever the crime of infringement of a computer system results in the infringement of trade secrets or confidential information protected by law, the imprisonment may be aggravated up to 5 years, according to the Portuguese Cybercrime Law (Law no. 109/2009, of September 15).

The Cybercrime Law provides for the following measures for securing and obtaining evidence:

- Expedited preservation of data (Art 12);
- Expedited disclosure of traffic data (Art 13);
- Order for presentation or grant access to data (Art 14);
- Computer data search (Art 15);
- Seizure of computer data (Art 16);
- E-mail Seizure and similar communication records (Art 17).

The criminal procedure system for preserved or conserved electronic evidence in computer systems provided by Law 109/2009, of 15-09, the Cybercrime Law, should be assisted by Law No. 32/2008, of July 17, transposing into national Law Directive 2006/24/EC of the European Parliament and of the Council of 15 March 2006 on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks and amending Directive 2002/58/EC, namely if we are facing evidence by "conserved cellular localization".

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?

The seizure foreseen in article 338.^o D of Industrial Property Code is only available to secure evidence.

II. Policy considerations and proposals for improvements of current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets in order to avoid unlawful restraints on trade?

no
If not, why?:

18) Should different obligations of confidentiality apply to different employees? Why/why not?

As a general principle the confidential / non-use obligations must be the same to every employee. Notwithstanding, by agreement between the parties the obligations can be increased. We understand that this kind of obligation does not vary on the type of employee or the information he / she is aware of.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who has 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?

If on the one hand the risk of not restricting the use of information regarding the trade secret could affect the right of the claimant to access to law and effective judicial protection, on the other hand it would be disproportional to keep the defendant from independently (without violating the secret) developing (and using) the information.

As such restricting the use of information in this situation would result in granting the owner of the trade secret a kind of "not foreseen exclusive right" as he could sue to restrain the competitors from using the information they could independently develop.

We would stress that exclusive rights are granted when specific requirements are met and their protection is legally foreseen as they are deemed to bring benefits to the society (eg. Patent protection - total disclosure of the invention) If the information concerning the trade secret meets such requirements the trade secret holder could have opted for other means of protection (applying for patent, utility model), and there is no advantage for the Society to disproportionately protect the holder of the trade secret with disadvantage for its competitors.

The same applies to the situation of e.g. an invention that does not meet the requirements to be protected by patent.

It seems fairer to regulate the access to the information in the Court proceedings (in order to avoid the need to disclose/ limit the disclosure of the contents of the trade secret) and avoid creating such situations.

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 for the reasons above

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.:
	Damages should be available by default, since the client should have the right to choose or use the legal instruments which he considers the best for the protection of its interests and he cannot be prejudiced in principal action if he has previously chosen not to proceed with an injunctive relief.

Aspect (iv) - Proving infringement

22)	Should constructive knowledge of trade secrets by an ex-employee be imputed to their new employer?
	no If no, why not?:
	Constructive knowledge of a trade secret by an ex-employee shall not be imputed to the new employer. As a consequence of the general principle of our Law stated in Article 342 Civil Code - " <i>who claims a particular fact has the obligation to prove it</i> " - the new employer must not be obliged to prove a negative fact.

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, pre-action evidence preservation orders and seizure orders should be available.
	Since it constitutes a strong restriction on the fundamental rights of defense and of the right to an inter partes hearing, we believe that the proceedings regarding the ordering of a possible securing evidence measure without the hearing of the opposing party should be an exception.
	The restriction on the principle of contradiction is only admitted if it is necessary to safeguard other constitutionally protected rights or interests (Article 18, paragraph 2, of the Portuguese Constitution).

It should be stressed that the delay of the contradictory is only justified in cases involving the possibility of losing evidence or causing an irreparable damage to the Claimant. Considering that no threat of an immediate and severe harm for the Claimant seem to exist in proceedings for obtaining of evidence and information, we believe that this exceptional regime should not be available in these cases.

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?
We believe that the Defendant should require at the court for the protection of confidentiality of trade secrets disclosed in the submitted documents, in order to prevent their use by the Claimant.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

If yes, please respond to the following questions with regard to international 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 and circumstances in which trade secret enforcement actions should fail, because such actions would in fact result in a restraint of trade.
If the legal principle is met, there is no restriction of trade.

27) What relief should courts grant when a trade secret violation has occurred or is about to occur, but an enforcement action is considered as a restraint of trade?
In this case, the Court should grant an equitable compensation to the holder of the trade secret.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?
No. Such released can only be made by the employer, except if ordered by a Court and such order is based on a superior interest.

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?
What protection should be available?
• Limited access to hearing and evidence;
• Confidential and non-confidential versions of documents

- Keeping records of the persons that have access to the hearings and
- Keeping record of the persons that have access to the confidential version of the documents.

Conditions for protection to be given:

- The grant of provisions regarding keeping the secrecy of the trade secret being decided by the Judge, upon request of any of the parties.
- The elements to be restricted should be clearly identified.

The maintenance of the secrecy should not be an obstacle to the exercise of the adversarial right by the other party.

30) If an enforcement action fails (e.g. because the defendant has 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?

None

Aspect (iii) - Valuation of loss

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

In small cases, a lump sum can be sufficient. In available, the emerging costs and profits (taking into account lost profits) will be considered, as well as the unfair profits. The moral prejudice suffered by the trade secret holder may be taken into consideration.

If the violator is an employee and discloses a trade secret of his company, he must be criminally punished for misappropriation of trade secret and breach of confidence.

When he moves to another employment and adopts or discloses the trade secret, the new employer should be punished for unfair competition.

When ex-employer becomes a competitor and he uses the trade secret, he commits an act of unfair competition.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Yes, the courts award moral damages. In setting the moral prejudice, the court must judge within the limits that have been proven by (Article 566.º Portuguese Civil Code), using equity, given the degree of guilt of the violator, its economic situation, the economic situation of the injured person or holder of compensation and other eventual circumstances of the case (article 496º Portuguese Civil Code).

Aspect (iv) - Proving infringement

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

We believe that the measures already foreseen in the Portuguese Law, such as the description of the seized goods, and the seizure of the suspected goods, and closely related materials, instruments and documentation are adequate.

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

We believe that the claimant should not be allowed to use Defendant's confidential information disclosed on the seized evidence.

Summary

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

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