



Date: 7th June 2015

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	Ukraine
Contributors name(s)	Yuriy KARLASH
e-Mail contact	mail@aippi.org.ua
Date	05-06-2015

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)?

yes

Please comment.:

Trade secrets are protected as intellectual property in Ukraine.

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

On the one hand article 9 of the Ukrainian Law On the Protection of Economic Competition says that prohibition of anticompetitive concerted actions shall not affect agreements on transfer of intellectual property rights or on granting a right to use intellectual property in the part restricting economic activities of the party to the agreement, to whom the right is transferred to, unless this restriction exceeds the limits of legitimate rights of IP rights owner. The Law provides that restrictions regarding the scope, period and territory of effect of the authorization to use intellectual property rights, as well as the type of activity, sphere of use and the minimal manufacturing output, do not exceed the limits of the legitimate rights of IP rights owner.

On the other hand the Ukrainian Law On Information in article 29 provides that limited access information may be disseminated if it is socially requisite, i.e. is of interest to society and the right of the public to know this information prevails the would be harm should it be disseminated. The socially requisite information is that on the threat to the national sovereignty, territorial integrity of Ukraine; that ensures the implementation of constitutional rights, liberties and obligations; proves to possible violation of human rights, leads to public misrepresentation, witnesses to ecological harm or other negative repercussions in the wake of physical/legal persons’ activities and such.

Article 21 (2) of the Ukrainian Code of Labour Laws says that an employee has a right to realize his potential for productive and creative work by being employed at one or simultaneously at several enterprises, institutions, organizations, unless otherwise provided by law, collective agreement or agreement between the parties.

For the moment we know about one case heard by court where an employee recovered compensation from the former employer on the ground of non-compete provisions of his employment agreement (Judgment of the Court of Appeals of the Odessa Region of July 24, 2013, case No. 22-Ñ/785/5725/13).

The situation in general gives rise to the conclusion that the legislator rather awkwardly regards trade secret protection as a form of restraint of trade.

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 an access mode information is divided into open information and information with restricted access. In turn, restricted access information based on its legal status is divided into secret and confidential one. Secrete information includes information containing information constituting a state or other secret defined by law. Secrete information includes, among others: secret information recognized as a state secret; information deemed a banking secret; information constituting a medical secret, secret of adoption, attorney’s secret, and notarial act secrets.

Confidential information is information that is in possession, use or disposal of certain individuals or legal entities, and which can be distributed at their wish or in situations provided by law. Confidential information in the sphere of economic (business) activity includes information, recognized by law as confidential (new technical solution and knowledge revealed to a contractor under an independent contractor agreement), trade secrets.

Thus, if knowledge lawfully acquired during the course of employment does not fall under the category of any information with restricted access, and even if it does, but the relevant information is also available by legal means, such as by studying open data and analysis of samples of products, publications etc., then there are no restrictions for use of such information.

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

no

If no please comment:

The general answer is NO; they are not under such a duty if it is not set up in their employment contract (employment contracts may miss such duties). It depends on the category and sphere of employment.

For some categories of employees provisions of legislation provide a duty of confidence in respect of a certain class of information (state officers, customs clearance agents, medical staff, officials of companies etc.). For other categories there are no such requirements and the employer has to develop a policy, employment manuals into which the employer will include sources and information to be protected, and will specify obligations of the employees.

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

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?

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?:

Probably of the highest importance are obligations of state and municipal officials, since the Ukrainian Law "On Prevention of Corruption" sets them up. On the second place there are issues of protection of professional secrecy for advocates, auditors, notaries, medical staff, insurance company staff, bank staff. As regards other employee categories the legislator left within discretion of their employers, if they have such a wish, the organization of protection of their restricted access information by themselves.

As regards previous question 4, There is no general guidance or regulation on this issue in respect of all categories of employees.

For example, article 26 of the Ukrainian Law "On Prevention of Corruption" says that persons authorized to perform state or local government functions who quitted their positions or otherwise terminated the activities associated with the performance of state and local government functions, shall be forbidden: 1) for a period of one year from the date of termination to enter into employment agreements (contracts) or to engage in legal transactions in the realm of entrepreneurial activity with legal entities of private law and individual entrepreneurs, if they, within a period of one year prior to the date of termination of the performance of state or local government functions, executed the authority involving the supervision, overseeing, or the preparation or the adoption of the relevant decision affecting the activities of such legal entities of private law and individual entrepreneurs; 2) to disclose or otherwise use in their own interests such information as became known to them in connection with the performance of their official powers, apart from cases established by law; 3) for a period of one year from the date of termination to represent the interests of any persons (including in proceedings considered by courts) where the

other side is the body (bodies) were they worked.

Or, article 419 of the Ukrainian Customs Code provides that information received by the customs broker and his employed customs clearance agents from the client in the course of completing customs formalities may be used only for the purpose of such formalities.

In addition article 23 of the Ukrainian Law On Economic Partnerships says that officials of a company (president and members of the executive body, head of the auditing commission etc.) shall keep and not disclose commercial secrets and confidential information.

We could not detect any official documents where this issue has been raised or clarified. So far, there is only the Guidance of the Tomakivka District Department of the Ministry of Justice of the Dnipropetrovsk region "On legal aspects of protection of a trade secret" http://tomakovka-just.at.ua/index/metodichni_rekomendaciji/0-38 [http://tomakovka-just.at.ua/index/metodichni_rekomendaciji/0-38] , dated 2013, where they just say that in respect of information that is a trade secret by virtue of a company order, a contract may be recognized invalid by courts, since otherwise it would prevent competition and the possibility of an employee to use his skills and knowledge in favour of a new employer. Further search on the Internet gives reason to think they took this idea from the Double Rise Development Limited v Leung Kit Chuen case heard in Hong Kong in 2013.

And in addition we can refer also to the Advisement of the Kremenchuk City Department of the Ministry of Justice of the Poltava region named "Trade secret or illegal refusal?" <http://kremenchuk.just.gov.ua/info/36/> [http://kremenchuk.just.gov.ua/info/36/] , dated 2010, where they list variants of obtainment of information, which should not be considered infringement of trade secret rights. Among such variants there are 1) independent discovery (information was obtained as a result of someone's own research); 2) reverse engineering analysis (reengineering); 3) obtainment in good faith, that is, if a person obtained the information from its illegal holder not knowing and not being able to know about it in the circumstances.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

See below.

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;

YES, restricted access to a hearing is available.

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

NO, not available.

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

YES, partially available. It is not prohibited to file versions of documents with deleted confidential parts, but upon justified request of the other party the court may request a full version copy to see the content, and an original to compare.

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

NO, except names of individuals, their addresses, contact details, tax identification numbers, details of bank accounts, other information, which makes it possible to identify an individual.

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?

A court may initiate on its own a closed hearing, but it needs to have preconditions to understand that namely a trade secret requires protection. Since this is only the owner of a trade secret who knows what he protects and what measures of protections he applies the court without intrusion and evidence provided by the owner of rights to a trade secret practically will not be able to decide if restricting measures should be introduced.

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?

Practically NO; courts have no such powers, unless a separate proceeding is started based on a lawsuit claiming restriction in respect of the disclosed information. That is why such sources, carriers of such information should be marked as confidential or secret.

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 is no guidance regarding this question.

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?

There are only general provisions on how damages should be calculated. In accordance with article 22 of the Ukrainian Civil Code the damages include: 1) losses incurred by a person as a result of destroying or damaging thing as well as expenses, which a person has incurred or must incur in order to restore its violated rights (real losses); 2) incomes that a person could receive under ordinary circumstances if his/her/its right would have not been violated (the lost profit). If a violating person receives incomes with this

connection, the amount of the lost profit to be indemnified to a person whose right was violated may not be less than incomes received by a violating person.

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, damages can be awarded for moral prejudice. Since the issue is mostly about trade secrets of legal entities we could provide some information identifiable in current case law. Non-pecuniary damage caused to a legal entity is non-property losses that occurred due to degrading of goodwill, infringement of a trade name, trademark, disclosure of trade secrets, as well as actions aimed to reducing prestige or trust to activities of the legal entity. The court shall determine the amount of compensation for non-pecuniary damage depending on the nature of intangible losses (their duration, recovery, etc.) and other circumstances. In particular, it shall take into account the severity of changes in its industrial relations, degree of lowering the prestige, reputation, time and efforts necessary to restore the previous state. The court must come from principles of reasonableness, balance and fairness.

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 plaintiff has to prove that namely a trade secret was violated, and to show existence of the elements of a trade secret (Article 29 (2) of the TRIPS). The concept of trade secrets has such features as informational character, confidentiality, and commercial value, keeping secret the information constituting a trade secret (Judgment of the Kirovsky District Court of the City of Kirovohrad of April 09, 2010, case No. 2-719/10). Accusations of unlawful disclosure of trade secrets are possible only against the person who lawfully possessed this information and spread abroad it illegally (Ruling of the Kyiv City Court of Appeals of February 19, 2014, case No. 22-Ñ/796/3092/2014).

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 is no guidance on this question. In one of the cases the court found that the plaintiff had not cared about keeping trade secrets, because he handed the document to a third party without concluding a confidentiality agreement, so that the document became easily accessible, and therefore it could not be considered a trade secret (Judgment of the Cominternivsky District Court of the City of Kharkiv of December 22, 2011, case No. 2-732/11).

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?
	yes
	If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:
	In order to secure evidence courts may request materials, documents, explanations from other persons upon a justified request of the party to the proceedings.

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 should be a well-grounded motion for such measures. Courts may oblige the claimant to post a bond in order to prevent misuse of rights.

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?
	In addition to the mentioned ones it can be used to prevent disclosing of information that constitutes a trade secret.

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? :
	There should be some provisions outlining the borders. Since, for example, it might be unclear what an employee may do when he did not want to get to know a trade secret and had no obligation to know it in order to perform his work, but got acquainted with the trade secret without his will, i.e. it was disclosed at his presence.

18)	Should different obligations of confidence / non-use apply to different employees? Why/why not?
	NO. The nature of the information is not changed regardless of the person to whom it was disclosed. If anyone can become a source from which the information can be obtained regardless of his employment position then there should not be different obligations.

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; he should be required so, if there are still grounds to ascertain that the secret remains the secret of the plaintiff.

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?

Since the defendant knows what part of the information is the part of the trade secret of the plaintiff he should respect the right of the plaintiff in that part.

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?

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? :

Taking into account that TRIPS lists among manners contrary to honest commercial practices in article 39 acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such dishonest commercial practices were involved in the acquisition, Ukraine has chosen the concept of constructive knowledge.

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?:

In accordance with the current Ukrainian legislation pre-action evidence preservation orders and seizure orders are available, including ex-parte hearings.

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?:

In accordance with the current Ukrainian legislation pre-action evidence preservation orders and seizure orders are available, including ex-parte hearings.

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

It is not excluded that state officials also will know trade secrets during the course of a seizure. In this situation they are to keep the secrets, and so the claimant must be to.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

YES

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.

Forbidding an employee from seeking employment in a similar sphere for a long period.

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?

It could be a lump sum determined between a minimal and maximal limits provided by law.

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

There should be exclusions. For example if the employee knew the information before obtaining access to the information, or the information was provided to the employee by a third party not under an obligation of confidence.

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?

Disclosure of evidence only to the legal representatives of the opponent (attorneys at law, intellectual property attorneys or specified by name legal representative), but not to the opponent themselves could be an option to try to introduce.

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?

If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it) no type(s) of confidentiality or non-use obligation should continue to apply.

Aspect (iii) - Valuation of loss

31)	Please propose the principles for quantifying damages for trade secret violations.
Actual loss, including its lost profits, or a reasonable royalty or a lump sum lump sum determined between a minimal and maximal limits provided by law.	

32)	Should courts award moral damages?
yes	
If so, how should they be quantified?:	
As summarized in question 9 (c) above.	

Aspect (iv) - Proving infringement

33)	What measures to secure or preserve evidence should be available?
The current state of the Ukrainian law as summarized above should be preserved.	

34)	What restrictions should apply to the use of seized evidence by the claimant?
The claimant must keep secret the information, which was identified as secret or confidential.	

Summary
<p>The review of the situation in Ukraine shows that neither legislation nor case law substantially dealt with or governed this issue and treated trade secrets as a restraint of trade. Thus the concepts or doctrines of <i>non-compete covenants</i>, <i>non-poaching covenants</i>, inevitable disclosure, springboard etc. are not available in laws and regulations, though they might be implemented in employment contracts between employees and large companies, mostly foreign ones, acting in the Ukrainian market. We can see that the legislator has already made attempts to provide regulations for post termination relations of former public officials, and in the absence of other regulations they could serve as a legal analogy. In general Ukraine still needs legislative provisions outlining the scope of rights of trade secret owners as employers and their employees in post employment period, as well as laying down provisions ensuring better guaranties of protection of trade secrets in judicial proceedings and recovery of damages.</p>

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