

Bird & Bird & Trade Secrets

Implementation of the Trade Secrets Directive – Some comments from the Czech Republic

This is the 9th in a series of articles written by members of International Trade Secrets Group highlighting specific aspects of protection of Trade Secrets in various jurisdictions.

In this article we will take a look at the Czech Republic where the Trade Secrets Directive (the "**Directive**") has been implemented through the adoption of the Act No. 286/2018 Coll. (the "**Amendment**") containing not only implementation of the Directive but primarily introducing the EU trademark reform into Czech law. The Amendment as a whole came into effect on 1 January 2019 except for the part dealing with trade secrets that came into force on 28 December 2018. We outline the main changes to the previous law as well as their practical impact.

Trade secrets protection prior to the Directive

Protection of trade secrets in the Czech Republic is spread across three statutory laws: the Civil Code; the Criminal Code; and the Act on the Enforcement of Industrial Property Rights and Protection of Trade Secrets.

The definition of a trade secret is contained in the Civil Code, which provides that a trade secret must be (i) competitively significant, (ii) identifiable, (iii) valuable, and (iv) in relevant business circles normally unavailable facts (v) related to the enterprise, (vi) whose confidentiality is adequately ensured by the owner in his own interest. In order to bring action for the protection of trade secrets, it is necessary to demonstrate that all these six elements are met.

When comparing the definition of trade secret under the Directive with the definition under the Civil Code, the Czech legislator came to conclusion that the Directive definition does not contain any significant differences. Therefore, the definition under the Civil Code has not been changed in any way as a result of the implementation of the Directive.

Implementation of the Directive in the Czech Republic

According to the explanatory report on the Amendment, the Czech legal order had already complied with a large part of the provisions of the Directive. For this reason, the Czech legislator went for a rather minimalist approach to implementation and incorporated only Articles 12, 13 and 14 of the Directive, which resulted in just a few changes in the regulation of court orders, remedies and compensation. These changes were reflected in the Act on the Enforcement of Industrial Property Rights (which was renamed to include "and Protection of Trade Secrets").

Lawful Acts

Czech law does not contain a list of lawful acts that would mirror Article 3 of the Directive. From the perspective of

Czech law, breach of a trade secret is an act of unfair competition. As such, the infringing behaviour would always need to fall within the general clause of unfair competition under the Civil Code which requires the following conditions to be simultaneously met: (i) the infringer acted in the course of business relations, (ii) such conduct is in conflict with good manners of competition; and (iii) such conduct could be capable of causing harm to other competitors. Apparently, the Czech legislator took the view that the acts listed in Article 3 of the Directive, which presume "conformity with honest commercial practices" (see letter (d) of Article 3), could be all understood as not being in conflict with "good manners of competition" and therefore being generally lawful. In the absence of specific provisions enshrined in Czech law, it is likely that Article 3 of the Directive will have a greater interpretational role in the Czech Republic than in other countries which adopted the same or similar wording as the Directive.

Unlawful Acts

There has been no specific change to the current legislation as a result of the Directive. The Civil Code provides that a breach of trade secrets occurs when a person unlawfully discloses or makes available to another person, or uses for himself or for another person, trade secrets which can be used in competition and of which the person learned

- a) as a result of having been entrusted with the secrets or as a result of the secrets having been made available to him otherwise under his employment relationship with a competitor, or under another relationship with the competitor, or, where applicable, in the discharge of the office to which he was selected by a court or another body; or
- b) by the person's own act or the act of another which is in breach of a statute.

Action of the infringer does not have to always be caused by their action but it may also be a negligent act (especially when trade secrets are made available).

As mentioned in the previous paragraph, the unlawful act would also need to fulfil the requirements of the general unfair competition clause.

Exceptions

Unlike in Article 5 of the Directive, there are no exceptions specifically listed in Czech law which would dismiss the measures, procedures and remedies provided by the Directive in case of a trade secret breach. In the absence of specific national regulation, Article 5 of the Directive will inevitably need to be used for the purposes of interpretation of the above described principles of Czech law, in particular to draw the line between "lawful" and "unlawful".

Enforcement

In Czech civil proceedings, the claimant generally bears the burden of proof which means that the claimant must sufficiently demonstrate and prove that (a) certain information is a trade secret and (b) that such trade secret has been infringed or endangered. At the same time, the opposing party and any third party that shows sufficient legitimate interest can access to the court file and take copies of the file. Let alone that the court hearings are by default public.

In case of unlawful acquisition, use or disclosure of a trade secret the authorized person may seek the infringer to refrain from acts infringing/endangering the rights and to remove the consequences of such endangering or infringement.

In particular, the authorized person may request:

1. withdrawal of products from the market;
2. permanent removal or destruction of products;
3. withdrawal, permanent removal or destruction of materials, apparatus and equipment designed or used exclusively or mainly in activities infringing or threatening the law.

The trade secret holder can also request monetary remedies in the form of damages, unjust enrichment or, in the case of immaterial harm, reasonable satisfaction (which can include money). In the event that the infringement was not intentional and not a result of negligence and the measures listed above in points 1 – 3 would cause inadequate harm to the infringer, the court may order payment of financial compensation instead of these measures, if reasonable. The trade secret holder can also request publishing the judgment at the defendant's expense.

The court may also, upon request, issue a preliminary injunction if the applicant lodges a deposit of CZK 50,000 (approx. EUR 2000) together with application for the preliminary injunction which must sufficiently demonstrate that there is either a need for temporary arrangement of the parties' matters or if there is a concern that enforcement of a later judgment could be threatened.

Protection of Trade Secrets in Court Proceedings

While Article 9 of the Directive provides quite detailed provisions to ensure that confidentiality of trade secrets is preserved in court proceedings throughout the EU, including restricting access to any document containing trade secrets to a limited number of persons, the Czech legislator has not specifically reflected these provisions and left national law unchanged in this respect.

National rules that would protect trade secrets do not, unfortunately, seem sufficient. The only specific protection is that provided by the Civil Procedure Code ("CCP") which

allows the judge to exclude public from the proceedings (from the whole or part of the proceedings) if the presence of public endangers a trade secret. However, the court may still allow some persons to be present during the proceedings even if the rest of the public is excluded. The court has to instruct such persons to keep the confidentiality of all the trade secrets which they have heard during the proceeding. In addition, CCP also contains a rather broad and general requirement that during the evidence taking phase of the proceedings, secret information and confidentiality obligations set out by law or recognized by the state must be protected. That said, any protection of trade secrets would hardly apply in connection with having the right to access the court file by parties and their representatives.

In criminal proceedings that are governed by the Code of Criminal Procedure, the term trade secret is not used by the legislation at all. Law enforcement authorities may require persons to provide explanations or testimonies that are relevant to criminal proceedings. Such persons are obliged to comply, even if by such cooperation a trade secret could be endangered.

Summary

As mentioned above, the Czech legislator went for a minimalist approach to implementation of the Directive and focused practically only on Articles 12 and 14 of the Directive. Although it is conceivable that Czech law needed no specific changes in connection with many aspects of the Directive, there are several issues which have simply not been implemented well. These include for example the missing description of lawful acts, absent protection of trade secret in court proceedings by a confidentiality club and an unclear provision of limitation period that may in certain situations exceed the limit prescribed by the Directive. This all means that it will not be sufficient for global businesses to simply assume that the trade secret protection in the Czech Republic is fully harmonized with the EU law, but they will need to understand the *couleur locale* in order to effectively protect their trade secrets.

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