Comparative Legal Description of Ensuring the Right to Commercial Secret in the EU and Ukraine

The topicality of the article is based on the fact that unlike the patents, signs for goods and services and copyright, there is no unitary international treaty generally defining and establishing the unified basis of legal protection of commercial secrets. Thus, the protection of commercial secrets is realized mainly within regional agreements. Therefore, it is necessary to describe in details the process of realization of commercial secrets under international law and national legal system by using system and legal analysis of international acts.

The purpose of the article is to research commercial secrets by analyzing international agreements the party of which is Ukraine. Tasks of the article are the following: firstly, to analyze international and legal agreements regulating commercial secrets; secondly, to compare condition of realization and protection of commercial secrets within the legal system of Ukraine and distinguish the ways to improve this legal phenomenon.

Analysis of research of the problem. The problems of realization of commercial secret was widely of researched in different branches of law, in particular: in criminal law it was researched by O. Radutnyi, in economic law and civil law – V. A. Dozortsev, A. Kolomiets, V. Kopylov, A. Kuzmin, K. Magri, K. Matsuo, M. Rassolov, V. Rozenberg, O. Sergeyev, O. Snytnikov, E. Solovyov, L. Tumanova, G. Shershenevych,
M. Yakushev, V. Yarochnin. But, nobody made the research on this issue in international law that caused the purpose of the article.

The provision of the Paris Convention for the Protection of Industrial Property of March 20, 1883 is important to understand the regime of protection of commercial secret. Thus, Article 1 of the Convention defines the following: “The protection of industrial property has as its object … the repression of unfair competition. Industrial property shall be understood in the broadest sense...” [1]. To our mind, such provision is not very good.

Though the above mentioned provisions of the Convention are imperfect and deficient in general to create a system of confidential information protection, they are often used in other international acts for primary argumentation (for example, in TRIPS).

The Stockholm Convention Establishing the World Intellectual Property Organization of July 14, 1967 is another international act which is important during the commercial secret description. According Article 2 of the Convention “intellectual property” shall include the rights relating to … protection against unfair competition…” [2].

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) done within the framework of the World Trade Organization (WTO) [3] refers to Article 10 of the Paris Convention [1]. The TRIPS Agreement was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994. It is the first integrated multilateral agreement administered by the WTO that ensures the commercial secret protection.

Article 1 of the TRIPS Agreement defines the commercial secret (it uses the term “undisclosed information”) as intellectual property together with other objects. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) contains Section 7 “Protection of Undisclosed Information” which consists of the Article 39:

1. In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.

2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

   (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

   (b) has commercial value because it is secret; and

   (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use [3].

Thus, the TRIPS Agreement consolidated three well-known criteria of commercial secret regime: secrecy, commercial value and taking the appropriate measures to ensure secrecy which are borrowed from the American legislation.

Thus, Article 39 of the TRIPS Agreement established minimum rules to be met by legislations of the WTO members. The wording of the Article provides a possibility to determine specific schemes conforming to the legal systems of the WTO members, but it is obligatory to include the above mentioned three necessary elements and legal coercion system to implement the appropriate provisions. It should be noted that the commercial secret definition, enshrined in Article 505 of the Civil Code of Ukraine [4], is very close to the one defined in Article 39 of the TRIPS Agreement.

The EU legal system (acquis communautaire) does not have a separate act on the commercial secret protection. In particular, it is because of the ideology of attitude to the protection of intellectual property objects (which is distinct from the American one) that comes from the priority of free competition and free movement of goods (works, services).

Even Article 36 of the EEC Treaty signed in Rome in 1957 determined that any prohibitions or
restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between member states [5]. Thus, the features of legal regime of commercial secret protection as well as other intellectual property objects depend first of all on the policy of ensuring the free competition. In particular, it means doubtfulness a possibility to recognize commercial secret protection unlimited in time, because it could be interpreted as the industrial property right violating the free circulation of goods.

The EU legal system gives protection to the information that makes commercial secret in the form of “know-how” contained in the European Patent Convention. The “know-how” means integral technical information that is secret, fixed in material objects and can be installed in any possible way. “Secret” means “one that is not generally known or readily available” [6].

The EU patent law creates additional incentives to use the commercial secret regime to protect confidential information. This is due to the fact that patent protection may not be available for certain technologies in Europe (for example, methods of medical diagnosis and treatment, pharmaceutical and computer technologies, etc. cannot be the subject to patenting in some countries). Even if it is possible to patent a particular technology, protection of information as the commercial secret could be more attractive. It is connected with the fact that the European patent application is published before issuance of the patent and such situation gives competitors enough time to copy the technology. The patent application argumentation procedures, long-term period of entry into force of the patent after its issuance, insufficient protection also assist to the ineffectiveness of the patent protection. The patent protection effectiveness also depends on the prior user right which is peculiar to the European countries. The prior user right means the rights of the third party who has used the invention earlier before the patenting to continue such using [7].

We should also pay an attention to the First Council Directive 68/151/EEC of March 9, 1968 (with amendments) on co-ordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, with a view to making such safeguards equivalent throughout the Community. Article 2 of the Directive defined minimum set of documents that should be certainly disclosed (i.e. they can not be referred to the commercial secret), in particular:

a) the instrument of constitution, and the statutes if they are contained in a separate instrument;

b) any amendments to the instruments mentioned in (a), including any extension of the duration of the company;

c) after every amendment of the instrument of constitution or of the statutes, the complete text of the instrument or statutes as amended to date;

d) the appointment, termination of office and particulars of the persons who either as a body constituted pursuant to law or as members of any such body: i) are authorised to represent the company in dealings with third party and in legal proceedings; ii) take part in the administration, supervision or control of the company. It must appear from the disclosure whether the persons authorised to represent the company may do so alone or must act jointly;

e) at least once a year, the amount of the capital subscribed, where the instrument of constitution or the statutes mention an authorised capital, unless any increase in the capital subscribed necessitates an amendment of the statutes;

f) the balance sheet and the profit and loss account for each financial year that should be disclosed according to the Council Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC;

g) any transfer of the seat of the company;

h) the winding up of the company;

i) any declaration of nullity of the company by the courts;

j) the appointment of liquidators, particulars concerning them, and their respective powers, unless such powers are expressly and exclusively derived from law or from the statutes of the company;

k) the termination of the liquidation and, in Member States where striking off the register entails legal consequences, the fact of any such striking off [8].

The review of the international agreements relating to the commercial secret protection testifies that such protection is no longer exclusively matter of national legislation. International trade and investment have created preconditions for development of legal instruments of commercial
confidential information. The main motive force of the above mentioned changes was global investment of the developed countries that did not wish to invest abroad and disclose their “secret knowledge” if there was no appropriate level of commercial secret protection recognized by the international trade participants. Just trade and investment agreements became the impact to development of new systems of measures of commercial secret protection in legislation all over the world.

In the developed European countries the protection of confidential commercial information has its own long history. However, the approaches vary in every country. The United Kingdom has the most advanced system of protection due to the industrial revolution and the case law tradition. Just the English system originated the relevant legislation of USA.

In Great Britain there is no legislative protection of commercial secret, accordingly, there is no legal definition of this secret. Instead, developing over the last centuries on the case law basis the legal regulation of these relations was called as law of confidence. So, protection of commercial secret is based on the conception of “breach of trust”. In Seager v. Copydex LTD decision there was formulated the following: “The law applicable to this case does not depend on any agreement. It depends on the broad principle of justice under which those who received confidential information should not unfairly gain benefit from it. He should not use it in harm of the one who passed this information, if the last did not give the consent” [9]. Thus, the guiding principle is trust between the legitimate owner of the secret and user of the confidential information”.

The legislations of Germany and France also protect the commercial information. Thus, Section I of the law of FRG on unfair competition determines liability for damage to the person who makes actions inconsistent with the “fair practice” during the entrepreneurial activity with the competition purposes. However, the law does not exactly define such actions, its Section 17 determines liability for unauthorized use or disclosing the third party the commercial secret. Under the law the term “commercial secret” means information that has a privacy feature (i.e. it is open only to the limited number of the known people) and meets the condition under which the owner of this information has a reasonable interest to keep it [10]. Criminal liability for crimes related to violation of the commercial secret regime is also foreseen there. The labour legislation contains the employee’s obligation not to disclose commercial secret after termination of the employment relations.

The French legislation contains the concept of industrial or production secrets (secret de fabrique) and commercial secret (secret de commerce). The first category is derived from the French Criminal Code and includes confidential information that has industrial use and can be commercially valuable. Commercial secret is not explicitly defined by the legislation, but this concept is wider than the concept of industrial secret. It can refer to the organizational structure of the company, supplier list, staff personnel files, contracts with other organizations, customer lists, business development plans, schemes of distribution, etc. Industrial and commercial secrets are not considered as property in France and they are protected as offences in unfair competition and contractual obligations [7].

In the Anglo-Saxon legal family (first of all in Great Britain and USA) they still discuss on the nature of commercial secret protection and there exist mainly four approaches to understanding this legal regime, some of which are also important for continental national legal systems, including the Ukrainian one.

Theory of contractual obligations. The obligation not to disclose or use commercial secret is derived from the contractual relations between the owner and the person who has been granted access to the relevant confidential information. Thus, confidentiality originates from the contract and it is based on the “pacta sunt servanda” doctrine [Latin for “agreements must be kept”] and does not require anything else to protect information provided under its provisions. So, in this case the commercial secret protection depends on the contractual proviso on the confidential information protection [11].

This theory also includes license agreements on granting the right to use information that is a commercial secret, and labour contracts. The labour contracts sometimes cause conflict between the rights of the owner of the right to commercial secret and employee’s rights to use the knowledge acquired during work under the labour contract. For example, the US Court of Appeals noted that in cases on commercial secret courts try to find the balance between the employer’s rights to own the
information and the employee’s rights to use his/her knowledge, skills and experience to obtain a livelihood. Hereby, US courts consider such factors as the employee’s previous general experience and skills, the employer’s ability to separate confidential commercial information from such knowledge and skills [11].

*Theory of fiduciary (trusting) relations.* By this theory certain types of relations determine presuming obligation to keep secrecy. Thus, confidentiality does not depend on the conclusion of the interim agreement. The obligation not to disclose confidential information derives from trust that relies on user of the commercial secret by its owner during providing the confidential information. From the very beginning of this institution in the majority of the Anglo-Saxon legal systems the commercial secret protection was grounded just on the theory of trusting relations. This theory remains its importance also for relations between employer and employee, when they did not conclude separate agreement on non-disclosure of confidential information and it is believed that the information is provided by the trusting obligations [12].

*Theory of illegal appropriation.* This approach assumes that commercial secret should not be received by using unauthorized means. Unlike the patent, commercial secret does not grant its owner the absolute right to use confidential information. It is believed that a person does not legally use the commercial secret, unless he/she has illegally received the confidential information. Hereby, the theory of illegal appropriation points that commercial secret is non-material asset for which there exist peculiar relations of ownership (proprietary interests) similar to the right of ownership. Industrial espionage is the most popular way to appropriate the commercial secret illegally. On the other hand, reverse engineering and independent discovery are considered the legitimate ways of “disclosing” the confidential information [13].

*Theory of unfair competition.* The “proprietary” nature of the commercial secret remains unresolved. Researchers characterize commercial secret as the object of the right of ownership as the owner has the right to use the commercial secret and disclose it to the third party with further restrictions on use and disclosure. Instead, the English law denies the concept of the right of ownership regarding the confidential information and it is based on the so-called right of confidentiality (based on the relations between the parties and the context in which the relevant information has been provided). In the majority of legal systems of the continental legal system this issue is discussed in terms of the unfair competition practices [14].

Thus, different legal systems and legislation all over the world pay much attention to such legal and economic phenomenon as the commercial secret. It means a broad perspective in problems we have studied concerning realization of the commercial secret in national legal system.

### References


8. First Council Directive 68/151/EEC of 9 March 1968 on co-ordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, with a view to making such safeguards equivalent throughout the Community. Official Journal L 065, 14/03/1968, P. 8-12.


