

# The Trade Secrets Directive—Czech Republic

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## 1. Trade Secrets Protection: Legal Framework

Protection of trade secrets in the Czech Republic is spread across three statutory laws: Act No. 89/2012 Coll., the Civil Code; the Act No. 40/2009 Coll., Criminal Code; and the Act No. 221/2006 Coll., on the Enforcement of Industrial Property Rights and Protection of Trade Secrets.

The EU Directive 2016/943 on Trade Secrets (the “Directive”) has been implemented in the Czech Republic through the adoption of the Act No. 286/2018 Coll. (the “Amendment”) which contained not only implementation of the Directive, but primarily concerned the trademark reform. The Amendment came into effect on 1 January 2019, with the exception of Part Two of the Amendment that deals with trade secrets, which came into force already on 28 December 2018.

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 legislature 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 No. 221/2006 Coll., on Enforcement of Industrial Property Rights Act (which was renamed to include “and Protection of Trade Secret”).

## 2. Definition

The definition of a trade secret is contained in Civil Code. Section 504 of the Civil Code provides that the trade secrets involve: (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 will be necessary to demonstrate that these six elements are met.

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

## 3. 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 section 2976 of 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 legislature took the view that the acts listed in Article 3 of the Directive, which after all 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.

## 4. Unlawful Acts

There has been no specific change to the current legislation as a result of the Directive. Section 2985 of the Civil Code provides that a breach 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 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

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caused by its action but it may also be a negligible 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.

## 5. 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”.

## 6. Enforcement: Measures Procedures and Remedies

Regional Courts are the competent courts for the first instance enforcement of trade secrets in the Czech Republic.

Where a court finds that there has been unlawful breach of a trade secret, the court may, at the request of the person affected by such breach, order one or more of measures against the infringer.

Claims that may be enforced by the person affected by any act of unfair competition (including a breach of a trade secret) are laid down in sections 2988–2989 of the Civil Code. In addition, the Enforcement of Industrial Property Rights and the Protection of the Trade Secret Act now explicitly states certain specific measures that apply to a breach of a trade secret. Actually, these measures are identical to those available for infringement of intellectual property rights such as trademarks, patents and designs.

The trade secret holder can, in particular, ask the court to request that the infringer stops the infringing activity and removes consequences of the breach. That can be done by:

- 1) Withdrawal of products from the market (because their production, placement on the market or storage of them has resulted in infringement or in threat of infringement);
- 2) Permanent removal or destruction of products (because their production, placement on the market or storage of them has resulted in infringement or in threat of infringement);
- 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 of course 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) to 3) would cause inadequate harm to the infringer, the court may order payment of financial compensation instead of these measures, if reasonable.

An interesting novelty is the possibility of determining the amount of damages, unjust enrichment and reasonable satisfaction based on the amount of a license fee that would be customary for the use of the respective trade secret. While this may have sense for intellectual property rights, given the scarcity of trade secret licensing in general, it is however, questionable whether such a customary license fee could be assessed in practice.

Lastly, upon request of the trade secrets holder the court may also order the defendant to publish the judgment at the defendant's expense.

## 7. Preliminary Injunctions

Preliminary injunctions are regulated in Act No. 99/1963 Coll., the Code of Civil Procedure (“the CCP”), in Sections 74 *et seq.* and Section 102. The CCP regulates the possibility of taking preliminary injunctions either before or after the commencement of main proceedings. Preliminary injunctions are fairly common in intellectual property and unfair competition cases as it may take years before the court finally decides on the merits and during that time it may be necessary to put the potentially infringing activity to a halt.

The court may, upon request, issue a preliminary injunction if the applicant lodges a deposit of CZK 50,000 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.

According to case law (decision of High Court in Prague, ref. R 3 Cmo 170/97), particularly in trade secret matters, the applicant has to:

- 1) Demonstrate that it is likely that certain facts are protected as trade secrets pursuant to the applicable legislation; and
- 2) That the subject matter of such trade secret is unlawfully exploited to the detriment of the applicant by activity described in the applicable legislation.

The court must take a decision on the application for preliminary injunction within 7 days and the decision

is effective upon delivery to the defendant. Given that it is *ex parte* proceedings, it is very difficult to defend against it and the defendant typically learns about it at the same moment it becomes binding and enforceable.

## 8. Alternative Measures

In addition to those civil law measures set forth above, breach of trade secret can also amount to criminal offence as set out in Section 248 of the Criminal Code. According to Section 248 a forfeiture of asset, prohibition of activity or an imprisonment up to three years can be imposed on an infringer who commits unfair competition including breach of a trade secret. More serious sanctions can be imposed if the crime is committed repeatedly, or as part of organized group or if it leads to more substantial consequences, including higher damages. For example, if the breach would lead to someone's bankruptcy, the imprisonment penalty can be up to 8 years.

## 9. Limitation Period

There is a general limitation period of 3 years under section 629 of the Civil Code. With respect to damages and unjust enrichment claims, however, there is (a) a subjective limitation period of 3 years that commences at the moment the harmed party becomes aware of the damages and the infringer; and (b) an objective limitation period of 10 years since the moment the damages were caused, or even 15 years when caused intentionally.

## 10. Trade Secrets as an Object of Property

According to legal theory, a trade secret is considered to be an "other asset with no tangible basis" within the meaning of Section 496 (2) of the Civil Code. Within the classification of assets, trade secrets would fall into the category of moveable, intangible and individually determined assets. Practically, that means for instance that assignment of rights in a trade secret by contract would become perfected upon the effectiveness of the contract. Classification of a trade secret as an object of property was historically rather complex. Since 2014, when the new Civil Code became valid and effective legislation in the Czech Republic, it is clearer that a trade secret is an object of the ownership/property right in the broad sense and, as such, is also protected by constitutional rights. However, as certain ownership/property rights apply only to tangible assets, it would not be possible, for example, to create a security right (such as pledge) over a trade secret under Czech law.

## 11. Protection of Trade Secrets in Court Proceedings

While Article 9 of the Directive provides quite detailed provisions to ensure that confidentiality of trade

secrets are preserved in court proceedings throughout the EU, including restricting access to any document containing trade secrets to a limited number of persons, the Czech legislature has not specifically reflected these provisions and left national law unchanged in this respect.

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.

National rules that would protect trade secrets do not, unfortunately, seem sufficient. The only specific protection is that provided by Section 116 of the 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 Act No. 141/1961 Coll., the Code of Criminal Procedure ("the CCrP"), 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.

## 12. Recommendations

As mentioned above, the Czech legislature 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 secrets in court pro-

ceedings 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 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.

Now is a good time for companies to review their trade secret policies and to implement proper measures to preserve confidentiality of their trade secrets and confidential information. Furthermore, given that identification of a trade secret and existence of active measures to protect it are indispensable, the right in-

struments must be put in place and well documented. In the international context, it may be prudent for companies to analyse any specific regulation in countries that are most important for their business in order to not only understand where the biggest risks could be but also where it might be best to take active steps for protecting their trade secrets. With respect to the assessment of any potential damages claims, it may be interesting to monitor and document any royalties that might be paid in connection with the use of a company's trade secrets. ■

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