The Trade Secrets Directive—Hungary

By Eszter Szakács

1.Trade Secrets Protection: Legal Framework

Civil protection of Trade Secrets is provided by Act LIV of 2018 (Trade Secret Act), effective from 9th August 2018, which implemented Directive (EU) 943/2016 (Trade Secrets Directive) with the Civil Code and the Code of Civil Procedure applicable in a subsidiary manner. The Trade Secret Act follows the concept of other intellectual property sectoral laws, such as the Patent Act, the Trademark Act, etc. in terms of providing protection for trade secrets. In this structure, the property law character of trade secret is dominant as opposed to its the earlier dogmatic position as a type of personality rights.

The criminal provisions relating to the breach of trade secrets are contained in Article 418 of the Criminal Code (Act C of 2012. The Criminal Code also contains an Article relating to *"illicit access to data"* which names trade secrets as the legal subject of felony, the acquisition of which represents the purpose of the illicit access to private property, etc. (Criminal Code Article 422). The Criminal Code does not provide for its own definition of trade secrets, hence the civil law rules—now the Trade Secret Act—shall be relied on regarding its scope for criminal matters.

2. Definition

The Trade Secret Act defines a trade secret, as follows (Article 1):

"Trade secrets shall include any confidential fact, information and other data, or a compilation thereof, connected to economic activities, which are not publicly known in whole or in the complexity of its elements, or which are not easily accessible to other operators pursuing the same economic activities,—therefore it is marketable—where the proprietor of the secret has taken reasonable efforts that may be expected in the given circumstances to keep such information confidential."

The same article also defines "know-how", as follows:

"Know-how means technical, economic and other practical knowledge of value, including accumulated skills and experience and any combination thereof classified as trade secret, manifested in a form enabling identification."

The main difference compared to the text of the Directive and the TRIPS is that the Trade Secret Act defines know-how, emphasizing that it is conserved in some identifiable form. The dual definition is inherited from the earlier structure when trade secrets were still protected in the Civil Code. However, the Trade Secret Act makes it clear that know-how is a special subcategory of trade secrets and all provisions and measures relating to trade secret protection equally apply to know-how. The only distinction made is related to the list of lawful acts and exceptions in Art. 5, where the right of employees and their representatives as provided in Art. 3 (1) c) of the Directive does not extend to getting access to know-how.

The definition states that a trade secret shall relate to economic activities and the Hungarian definition does provides a more detailed list of what kind of information (fact, information, other data) belongs to the definition. However, according to the legislative commentary of the Civil Code, the definition provided in the Directive was considered in this regard as being in accordance with the existing Hungarian definition. Thus, in principle based on the legislative intention, these differences shall not be interpreted as narrowing the scope of the directive.

Furthermore, the Hungarian definition refers to "economic value" of the information rather than "commercial value" of a trade secret. The legislative commentary of the Trade Secret Act explicitly states that economic value is to be understood as a wider notion than commercial value, hence cannot narrow the scope of protection compared to the Directive.

The definition of the proprietor of the trade secret is also more qualified than in the Directive as it states: "proprietor of business secret shall mean any person lawfully controlling a business secret, whose lawful economic, financial and business interests would be breached by any infringement of his right to business secrecy". The express mentioning of the proprietor's lawful economic, financial and business interests are mentioned in order to emphasize the exclusion of protection of those persons who are involved, *e.g.*, in crimes related to trade secrets.

3. Lawful Acts

The Trade Secret Act provides for the implementation of Art. 3 of the Trade Secret Directive (the Lawful acquisition, use and disclosure of trade secrets") in Art. 5. of the Trade Secret Act.

In doing so, the Trade Secret Act provided a difference compared to the Directive for the benefit of the trade secret proprietor in that the lawful act under clause Art. 5(c) of the Trade Secret Act (which relates

to the same subject matter as Article 3(1)(c) of the Directive) does not extend to access to know-how since according to the legislative commentary the disclosure of a know-how is not necessary for the exercising of the subject right of employees.

A further difference can be seen under Art. 5(d) of the Trade Secret Act (which relates to the same subject matter as Art. 3(1)(d) of the Directive) which states that:

> *"d) any other practice which, under the circumstances, is in conformity with honest commercial practices and fair dealing."*

It is specified in the same clause that the acquisition of a business secret from a third party, in the course of trade, in good faith for consideration, shall be considered to be in conformity with this case.

4. Unlawful Acts

The Trade Secret Act transposes directly the unlawful acts set forth in Art 4. of the Directive.

5. Exceptions

By implementing the Directive, the list of exceptions has been expanded compared to the earlier rules in the Civil Code and they correspond to Art. 5 of the Directive.

6. Enforcement: Measures Procedures and Remedies

Similarly to the other IPR acts, the Trade Secret Act contains specific substantive procedural rules relating to the enforcement of trade secrets.

Competent Court, procedure

One of the 20 regional courts—depending mostly on the seat of the defendant—shall have jurisdiction in respect of civil actions brought in connection with the unlawful acquisition, use or disclosure of a trade secret, which reflects the importance of these procedures.

Objective sanctions

Sanctions of trade secret infringement include the declaration of infringement, as well as the injunctive and corrective measures listed in Art. 12 of the Directive. Furthermore, the trade secret holder may demand that the infringer returns the enrichment made out of the infringement.

All costs relating to the application of the listed remedies are to be borne by the infringer. This is a stricter rule from the point of view of the infringer as to what is required by the Directive. However, this is in line with the Hungarian civil procedural framework and also allowed by the minimum harmonization requirement of the Directive.

Importantly, all objective sanctions are only applicable together with the declaration of infringement, so it shall be requested by the proprietor in such a way. This is different from the other IPR acts, where cease and desist orders are available even without asking for a declaration of infringement (*e.g.* if the patent expired).

Proportionality

The court shall also take into account the specific circumstances of the case as listed in the Directive.

Applying proportionality for final injunctions is a novel feature in the Hungarian rules and may change the judicial practice which so far has quasi automatically ordered injunctive relief following the declaration of infringement—at least in IPR cases.

■ Eszter Szakács,
Danubia Legal,
Partner,
Budapest, Hungary
E-mail: eszter.szakacs@danubialegal.com

Reversal of Burden of Proof

Similarly to other IPR sectoral acts, the Trade Secret Act rules that:

"Where a party in an action filed in connection with an infringement of the right to business secrecy has already substantiated its statements to a reasonable extent, upon the request of the party requesting the evidentiary hearing, the court may require the other party:

a) to present the documents and other physical evidence in his possession, and to provide for inspection;

b) to disclose, and to present bank, financial or commercial information and documents in his possession.

Damages

The proprietor of a trade secret may also demand damages in accordance with the provisions of civil liability. If the court orders the infringer to pay general damages, the amount of compensation may not be less than the amount of royalties which would have been due.

7. Preliminary Injunctions

The competent court is the same as in case of the main proceeding, that is to say, one of the regional courts. The preliminary injunction can be requested also prior to the main proceeding.

The court may order a preliminary injunction upon request in the event at least one of the following alternative conditions are met:

(a) for the purpose of preservation of the status quo, if subsequent restitution would not be possible

(b) in order to prevent any failure of the applicant's subsequent exercise of rights

(c) in order to eliminate any harm the applicant may directly be exposed to

(d) in other cases of exceptional circumstances.

Furthermore, the court shall weigh the balance of interests of the parties when ordering a preliminary injunction.

The specific conditions of the Trade Secret Act on which the applicant shall be able to provide evidence—apart from the conditions laid down in the Code of Civil Procedure for ordering preliminary injunction—and may reasonably be considered to prove with a sufficient degree of certainty that:

a) the trade secret exists;
b) the applicant is the proprietor of the trade secret; and
c) the trade secret has been acquired unlawfully, is being unlawfully used or disclosed, or unlawful acquisition, use or disclosure of the trade secret is imminent.

In order to prove that the trade secret exists, the proprietor may have to prove every element of the definition, including the economic value, and that it made all efforts required by law to maintain secrecy.

According to Article 13 of the Trade Secret Act the court may order any of the following preliminary injunctions against the opposing party:

a) the cessation of or, as the case may be, the prohibition of the disclosure or use of the trade secret;
b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;
c) the seizure or delivery up of the suspected infringing goods, including imported goods to a specific person, so as to prevent their entry into, or circulation on, the market.

In addition, Art. 13 (2) of the Trade Secret Act provides for the equivalent of Art 10 (2) of the Trade Secret Directive, that is to say, permitting the continued use of the trade secret by the defendant in exchange of the deposition of security.

If preliminary injunction is ordered before the main action, there is a deadline set by the court but not exceeding 15 days within which the Claimant shall bring action otherwise the precautionary measures adopted in protection of the trade secret will be forfeited.

The preliminary injunction can be lifted upon the request of the defendant if the information ceases to be a trade secret—out of reason that is not the fault of the defendant.

Art 14 (6) of the Trade Secret Act provides that any third person affected by the preliminary injunction may claim the compensation of their damages from the Applicant.

8. Alternative Measures

The Trade Secret Act provides for a direct transposition of Art. 13(3) of the Directive.

9. Limitation Period

The general statute of limitation provided by the Civil Code is five years, which can be stayed or recommenced in line with the rules of civil law. Importantly, mere warning letters do not make the limitation period recommence, only judicial enforcement and other acts specified in the Civil Code. Regarding patents, it has been confirmed in the courts' practice that patents possess the nature of property rights, hence claims for declaration of patent infringement can be enforced irrespectively of the general civil law limitation period, while to those claims that relate to monetary compensation the five year limitation period applies. It is to be seen what practice the courts will adopt in this regard in light of Art. 8 (2) of the Directive.

10. Trade Secrets as an Object of Property

The Trade Secret Act does not contain specific rules relating to co-ownership, thus the provisions of the Civil Code relating to joint ownership shall be applicable. These provide detailed rules for the rights of co-owners, particularly right of preemption, rights to use, *etc.*

Article 4 of the Trade Secret Act provides for the transferability of trade secrets, as well as provides the proprietor of the trade secret with the exclusive right to grant a license to use the trade secret.

The legislative commentary of the Trade Secret Act expresses clearly the economic nature of the right to trade secrets by stating that the right to trade secrets is marketable and for the exploitation of the trade secret contracts may be concluded between the parties.

The trade secret exploitation contract is a subtype of a license agreement, which is not specifically regulated in the Civil Code but is a type of scientific contract, in abstract manner "a right to use, or utilize a protected title protected by a property right" as a license.

Since the Civil Code serves as a background for the Trade Secret Act, there shall be no provision for the contents of the assignment and license agreement, because the general contractual rules fill the gap.

11. Protection of Trade Secrets in Court Proceedings

The provisions of the Trade Secret Acts are specific to litigation in which the subject of the action is the infringement of trade secrets and are not generally applicable to all types of civil litigation. In trade secret litigations, the general rules of civil procedure or the rules of the IPR actions apply relating to the protection of confidential information during the lawsuit will apply.

Article 9 (1) and 9 (2) of the Directive have been transposed in the Trade Secret Act to ensure protection of trade secrets during the lawsuit.

Furthermore, in line with Art. 9 (2) of the Trade Secret Directive, and in order to protect trade secrets in civil proceedings, at the reasoned request of any party, the court may restrict access to the documents of the case and to participation at the hearing.

The Trade Secret Act also directly transposes the points in Art. 15 (3) of the Directive which are to be considered by the court when ordering the publication of the decision made in an infringement proceeding.

12. Recommendations for Corporate Trade Secrets Policies

Since the definition of a trade secret in the Trade Secret Act provides that the proprietor should do every measure expected from him or her in the given situation to protect the trade secret, proof relating to fulfillment of this condition is required from the trade secret proprietor. Thus, it is important, in order to ensure protection and to ensure a good position for enforcement, to appropriately document the ensuring of secrecy, *e.g.* by unambiguously classifying trade secrets as such and have confidentiality policies and confidentiality agreements in place that can be used as evidence. Importantly, trade secret proprietors shall make certain that they do their best to ensure that confidentiality clauses apply to everyone to whom the trade secret is disclosed with the proprietor's knowledge, even if not contracted with them directly (*i.e.* to oblige contracting parties to extend secrecy clause to their partners as well).

Furthermore, with respect to the expanded list of exceptions, it is crucial, to appropriately regulate confidentiality in employment contracts and furthermore to make sure that know-how can be identified as such, since the exceptions do not extend to getting access to know-how.

Since economic value is part of the notion of the trade secret it is recommended to have the value of trade secret possibly indicated in the book keeping of the proprietor firm so that this part of the definition can be proven. Other means—*e.g.* the value indicated in a transfer or license agreement—are also appropriate.

With respect to the separate definition of know-how, it remains a recommendation with respect to Hungary to conserve know-how in some identifiable and well protected form.

With respect to the possibility in court procedures to limit access to documents containing trade secrets, it is recommended to indicate precisely which part of a document is or contains a trade secret. ■

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