The Trade Secrets Directive—Slovakia

By Katarína Ondrovičová

1. Trade Secrets Protection: Legal Framework

The Slovak Republic transposed the EU Directive 2016/943 on trade secrets (hereinafter the "Directive") by Amendment No. 264/2017 Coll. amending the Slovak Commercial Code No. 513/1991 Coll. (hereinafter the "Commercial Code" or "CC"), with the effective date on 1 January 2018.

Instead of implementing the Directive as a single Trade Secret Act, Slovakia decided to amend the existing provisions of the Commercial Code protecting the trade secrets together with protection against unfair competition. Slovakia has kept this structure and also the measures, procedures and remedies for protecting trade secrets. They have not been implemented in the Civil Litigation Procedure Act (No. 160/2015 Coll.), but have been included in the Commercial Code wording. Thus, the Directive's provisions are included in one section of the Commercial Code governing Unfair Competition.

2. Definitions

The legal definition of "Trade Secrets" has not been amended. Like the Directive, the previous legal definition of Trade Secrets in Slovak law had already been based on the concept of three elements of trade secrets: being secret (not publicly available), being valuable and being subject to reasonable protection. However, in addition, in the Slovak definition, only such information which is connected or related with the enterprise is considered as a "Trade Secret". Also, the definition of the "Trade Secret Holder" requires that the holder be a person who lawfully controls the trade secret related to the enterprise (business) operated by that person in course of his business. This connection with business in the legal definition is one difference from the Directive. A Trade Secret is considered to be a right pertaining to the enterprise.

Moreover, the Slovak definition requires that a trade secret have an actual, or at least a potential, material or non-material value. Contrary thereto, the Directive requires that a trade secret have a "commercial" value. Thus, it could be concluded that the Slovak definition of trade secret is wider than that in the Directive, because it isn't required to have a commercial value: a potential material or non-material value being sufficient.

Other legal definitions, *i.e.* the trade secret holder, the infringer and the infringing goods are new in Slovak legislation.

The Slovak definition of the trade secret holder is slightly different from the Directive definition. In addition to the requirement in the Directive that the holder lawfully control the trade secret, the Slovak definition requires the holder to operate the enterprise related to the trade secret.

Also, the Slovak definition of infringer has a minor variation, being defined as natural or legal person that infringes or threatens the trade secret. Similarly, infringing goods are those goods which significantly benefit from the trade secret being infringed.

■ Katarína Ondrovičová,
Bird & Bird,
Senior Associate,
Bratislava, Slovakia
E-mail: katarina.ondrovicova@twobirds.com

Although there are some minor variations between Slovak legal definitions and the text of the Directive, in practice these should have no negative effect on the given protection, but could lead to rather broader protection, in that the Slovak definition of what constitutes a trade secret is wider than the definition of the Directive, *e.g.* business information with at least potential non-material value could be covered by the trade secret protection.

3. Lawful Acts

Definitions of lawful acts are rather new in Slovak legislation. Previous legislation did not provide for wording specifying when the acquisition of a trade secret shall be considered lawful (Article 3 of the Directive), unless it was specifically agreed in a contract, *e.g.*, in a non-disclosure agreement.

The Slovak legislature has used a definition of what constitutes a lawful act that is very similar to that used in the Directive. Under the Section 51(6) CC, the acquisition of a trade secret shall not be considered unlawful (*i.e.*, shall be considered lawful) when the trade secret is obtained by any of the following means:

a) independent discovery or creation;
b) observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the ownership of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret;
c) exercise of the right of employees or employees' representatives for information in accordance with Slovak law and Union law;

d) any other practice which is in conformity with honest commercial practices and doesn't interfere with the rights of third parties.

In addition, the Slovak text requires that the lawful acquisition of trade secret under d) can't interfere with third parties rights, something not explicitly provided for in the Directive, although it may be derived through interpretation from the Directive's requirement of the commercial practice being honest.

Like the Directive, under the Slovak Commercial Code, the acquisition, use or disclosure of a trade secret shall be considered lawful to the extent that it is allowed by Union or Slovak law; or if it is required in order to protect public interests, in particular in relation to the detection of unlawful conduct or other illegal activities.

4. Unlawful Acts

The Slovak Commercial Code introduces the term "Infringement of Trade Secrets" which includes the unlawful acquisition, use and disclosure of trade secrets, defined similarly to the Directive with only minor differences in the definition of Unlawful acquisition. Infringement of trade secrets is considered as unfair competition.

Under section 51 (2) CC, unlawful acquisition requires the acquisition of the trade secret without the consent of the trade secret holder via the unauthorised access to documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, that contain the trade secret or from which the trade secret can be deduced. This is similar to Article 4, section 2(a) of the Directive, but also requires this unlawful act to be (at the same time) contrary to honest commercial practices.

The Directive provides for two types of conduct when the acquisition of a trade secret can be considered as unlawful under Art.4(2): (a) specifies particular actions which can be considered as unlawful act and (b) provides general wording allowing to consider as unlawful acquisition any other conduct which (under the circumstances) is considered contrary to honest commercial practices.

Article 4(2)(b) has not been implemented in Slovakia as a second possible manner of unlawful acquisition (*i.e.* any other conduct contrary to honest commercial practices). In Slovakia the access, copying, appropriation has to be done in a manner contrary to honest commercial practices in order to consider the acquisition of the trade secret as unlawful. Thus, the Slovak definition is narrower than the Directive definition.

Definitions of use and disclosure of the trade secret are the same as in the Directive.

Indirect forms of unlawful acts (acquisition, use or disclosure by a person who knew or to have known that the trade secret had been obtained from another person who was using or disclosing the trade secret unlawfully) are rather new in Slovak legislation and could bring better protection of trade secrets for their holders. Also, protection against infringing goods is to a certain extent new, before the Directive implementation Slovakia law only provided the possibility of protection against goods infringing copyrights or other registered intellectual property rights.

Legislation and legal wording explicitly protecting the lawful holder against goods infringing the trade secrets are new.

5. Exceptions

Article 5 of the Directive provides four exceptions from protection.

Only the exception specified in Article 5 b) (for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest) is mentioned explicitly in Slovak text. The other exceptions are not mentioned explicitly, but, these are also applicable in Slovakia, to the extent that acquisition, use and disclosure is required or allowed by Slovak laws or laws of the European Union. Thus, all the exceptions are applicable.

6. Enforcement: Measures, Procedures and Remedies

Trade secrets within the meaning of the previous, as well as the current, legislation are protected against unfair competition under the Commercial Code.

As a result of Directive implementation, a new section has been added in the Slovak Commercial Code, which provides trade secret holders with measures, procedures and remedies that are the same, or very similar to, those in the Directive. This specific section applies as *lex specialis*, in addition to both the means of general protection against unfair competition (*lex generalis*) provided in the Commercial Code as well as those general measures, procedures and remedies available under the Slovak Litigation Procedural Act (No. 160/2015 Coll.).

Before the implementation of the Directive, Slovak law just generally specified that the trade secret holder could apply for measures (provisional and/or injunctions) requiring the infringer to refrain from infringing acts, or to correct it. After implementation, the Commercial Code wording provides for specific provisional and precautionary measures and injunctions and corrective measures, as specified in Articles 10 and 12, thus bringing more certainty to trade secret holders. The court may choose to apply either one or several measures in parallel, depending on the circumstances. When considering an application of the measures and assessing their proportionality, the specific circumstances that the court must take into account are the

same as those set forth in Article 11(2) of the Directive.

Providing for specific injunctions and corrective measures instead of general provisions could improve the position of the trade secret holder in litigation, *e.g.* in requiring recall of infringing goods from the market, their destruction, etc. This was not previously specifically mentioned in Slovak legislation in connection with goods infringing trade secrets.

New in Slovak legislation is also implementation of Article 11(4) of the Directive: right of the court to make the measures referred to in Article 10 subject to lodging by the applicant of adequate security intended to ensure compensation for any prejudice suffered by the respondent or others affected by measures. This was not available before and could help to prevent malicious litigations.

The measures ordered may be revoked by court if the information in question no longer meets the legal conditions to be qualified as a trade secret, for reasons that cannot be attributed directly or indirectly to the defendant or if the reason why it was ordered cease to exist. This revocation is available only upon request of the infringer of the trade secret.

Finally, to contribute to the effective cessation of infringement of a trade secret, the court may also order the publication of all or part of the judgment. Publication of judicial decision could have been requested also before the Directive implementation, as this was available as one of general set of remedies against unfair competition. In addition, if trade secrets have been infringed the trade secret holder may also request the publication of the decision in infringer's premises. While web pages are not specifically mentioned in the Commercial Code, based on the Commercial Code amendment justification report, we are of the view that it is now possible. Thus, the publication could be effective and dissuasive. Persons other than the infringer who are mentioned in the judgment must be anonymized. Anonymization of the infringer would have an adverse effect on the purpose of the publication. Therefore, the infringer data may be publicized.

In addition to the above, the trade secret holder is also entitled to compensation for any damages suffered. Based on Slovak laws, the trade secret holder must prove that the damage occurred as direct effect of the infringing act and that the compensation for that damage is based on the concept of objective liability. Slovak courts look very closely on the *causal nexus* requiring the plaintiff to prove the direct causality between the infringing act and the damage. Thus, damages claims are usually very long lasting in Slovakia and compensation for damage is not as high as it is common (or expected) in other countries. However, the provision of other measures (including provisional and precautionary measures) which, when applied quickly, could significantly help to reduce the actual damage.

7. Preliminary injunctions

The purpose of preliminary injunctions should be to provide immediate protection to the trade secret holder, to limit the alleged infringement and to reduce the damage suffered by the trade secret holder. Slovak legislation sets forth the same provisional and precautionary measures as those specified in the Directive.

Instead of provisional and precautionary measures, the court may, at the request of the trade secret holder, order the trade secret (alleged) infringer to lodge a security deposit with the court to compensate for the damage or harm suffered due to the infringing the trade secret. It's explicitly specified that lodging the deposit doesn't entitle the infringer for disclosure of the trade secret. This alternative measure is new in Slovak legislation.

Before ordering the provisional and precautionary measures, the court may request proof that the trade secret exists, that the plaintiff is the trade secret holder and that the trade secret has been infringed or threatened. The urgent need for provisional and precautionary measures must be also proven. The court shall also make assessment of their proportionality and take into account circumstances as specified in Article 11 (2) of the Directive.

The court may order that the preliminary measures will only last for a specified period of time and will cease to exist by expiration of that time period. Whereas the purpose of preliminary measures is to provide for immediate and preliminary protection (not final protection), the court may decide that the plaintiff is obliged to bring an action to court for final decision in certain period of time. Failure to do so, may result in the preliminary measure ceasing to exist.

8. Alternative Measures

The concept of alternative measures as provided under Article 13(3) of the Directive (pecuniary compensation) is new in Slovak legislation. The conditions to be met to decide on pecuniary compensation are similar as those specified in the Directive. Also, the limitation of the pecuniary compensation is set forth similarly, *i.e.*, it shall not exceed the amount of royalties or fees which would have been due, had that person requested authorisation to use the trade secret in question. Although this concept may seem to be useful to provide immediate compensation, there are several difficulties which a Slovak court would face in course of applying this provision. It's important to notice that it is not common in Slovakia to execute a licence or other agreement granting the right to use the trade secret, subject to payment of a fee. Therefore, it would

be very hard to assess what could be considered appropriate compensation or what fees would have been due if the trade secret had been used lawfully. Therefore, it is expected that this alternative measure will not be used very frequently or will only be used in very limited cases.

9. Limitation Period

The Slovak Commercial Codes specifies different limitation periods for claims, depending on the title of the claim. The maximum limitation period had been ten years, which was not in compliance with the Directive. Therefore, the Amendment of the Commercial Code has set out that the duration of limitation period for claims related to trade secrets infringement cannot exceed six years.

10. Trade Secrets as an Object of Property

Unlike the protection of confidential information which is usually protected by non-disclosure agreements with effect only between the contracting parties (*inter partes*), the protection of trade secrets has effect against all third parties (*erga omnes*) and is of an absolute nature. As the trade secret is considered as a value pertaining to business, it is protected as part of the protection against unfair competition, although some of the aspects of the protection are similar to protection of intellectual property.

11. Protection of Trade Secrets in Court Proceedings

Article 9 of the Directive provides detailed guidance and specific measures which may be used to preserve the confidentiality of the trade secret during court proceedings. The Directive is very specific here, providing certain guarantee to the trade secret holder that the confidential nature of the trade secret can be maintained.

The Slovak legislature concluded that amendment of the current legislation is not necessary to implement Art. 9 of the Directive and, thus, the Slovak legislation sets forth in a very general way that judges shall take the necessary measures to ensure the protection trade secrets. In comparison with the Directive, protection under Slovak law (provided in Ordinance No. 543/2005 Coll.) is quite vague and brings some uncertainty to the trade secret holders as to whether or not the court will limit the access to documents as provided in Article 9 of the Directive.

12. Recommendations for Corporate Trade Secrets Policies

Although the definition and protection of trade secrets has not been changed dramatically in Slovakia, it is recommended for business companies to review their trade secret policies and to implement proper measures to preserve the confidentiality of its trade secrets. It is also recommended to clearly mark any information meeting the legal definition of trade secret, as a trade secret, or as confidential information; to enter into a non-disclosure agreement or licencing agreement when providing a trade secret and to include contractual penalties for failing to comply with terms and conditions protecting trade secrets. Revisions of contract templates or clauses relating to the protection of confidential information and trade secrets should also be considered. ■

Available at Social Science Research Network (SSRN): *https://ssrn.com/abstract=3420828*