

TRADE SECRET PROTECTION IN UKRAINE AND GERMANY: COMPARATIVE ANALYSIS

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ABSTRACT

The article provides a comparative analysis of the problem of protection of trade secret in Ukraine and Germany. For this purpose, a number of legal acts of both countries regulating this issue have been processed. Various scientific approaches to the definition of trade secret have been investigated. It has been defined which information can be considered confidential and which information does not belong to this category. General and special guarantees of the right to trade secret have been considered. It has been proved that the most effective legal remedy for the protection of this type of confidential information is the special law, which prescribes all the rules that regulate this issue. As currently there is no such act in Ukraine, we turned to the positive experience of Germany, where the special The Draft Trade Secret Protection Act 19/4724 has been recently adopted. Some provisions of this Act are considered and the main changes to legislation regulating this issue have been described. On the basis of the research, the proposals on the necessity of adopting a similar act in Ukraine have been formulated.

Keywords: Trade Secret, Protection, Ukraine, Germany EU Directive, The Draft Trade Secret Protection Act 19/4724.

INTRODUCTION

Information is a strategic resource in the modern world; it has become the object of criminal intent, and its protection against unauthorized use, alteration or destruction is of primary importance today. Securing information is the way of preventing an unauthorized use of valuable information and avoiding violations of the rights and interests of their rightful owners.

Due to the large number of new information achievements, the State borders are becoming transparent to the circulation of information. Moreover, the more the industry is involved in commercial circulation, the more there is a need to protect the interests of owners of trade secrets. It is clear that computer technology is not the only threat to trade secrets.

Nowadays, in Ukraine, similarly to other countries of the world, a diversity of information objects of commercial value appear in the process of entrepreneurial activity, when creating new technologies, as a result of intellectual work. These may be methods of work, promising technical solutions, results of marketing research, etc., aimed at achieving business

success. Therefore, a company should take measures to protect its confidential information. Nowadays, the problem of protection of commercial information is very acute, as it is a valuable component of the professional activity of modern society.

The urgency of this topic is due to the fact that commercial information is a valuable component of the professional activity of modern society; it is of considerable economic interest to its owner, who carries out business activities in a competitive environment, since business activity in all spheres is goes hand in hand with obtaining and use of wide range of information, which is valuable for an enterprise, is used to achieve its goals and the publicity of which can make it impossible for an enterprise to realize these tasks, that is, poses a risk to the security of entrepreneurial activity.

MATERIALS AND METHODS

The materials studied are laws and by-laws of Ukraine and Germany regulating issues related to trade secret, scientific works of domestic and foreign scientists on the issues of definition of trade secret and the protection of this type of confidential information.

In the study general scientific and special methods were used, which are the means of scientific research. In particular, dialectical method reveals the general relationship between action and development of the institution for trade secret protection. Historical method allowed identifying the principal stages of the formation and development of the institution for trade secret protection. Special methods are: comparative legal method, which was used when comparing the substantive law of national legislation of Ukraine and Germany, as well as scientific categories, definitions and approaches. Historical and legal method gave an opportunity to reveal the definition of the concept of trade secret and to highlight the development of scientific views on some problematic issues. The method of system analysis was used for the complex generalization of peculiarities inherent in trade secret. With the help of the normative-dogmatic method, the content of normative legal acts of domestic and foreign legislation regulating the examined issue was analyzed. The legal modeling method was used to develop proposals for improving the normative framework, which regulates the problem of trade secrets protection in Ukraine.

RESULTS

The analysis of the current legislation of Ukraine and Germany, as well as scientific works of domestic and foreign scholars allowed comparing different approaches to the definition of trade secret, to distinguish its main features, as well as to investigate the legal mechanisms for its protection. It has been defined which information can be considered as trade secret and which data is commonly known and publicly available. It has been determined which measures can be undertaken by enterprises for trade secret protection. It has been proved that the most effective legal remedy for the protection of such information is the adoption of a single act regulating all issues related to trade secret. As Germany has already introduced such a positive experience, some particular norms of the Draft Trade Secret Protection Act 19/4724 have been studied, as well as the main changes that this Act provides to the current legislation have been outlined, in order to formulate proposals for the adoption of a similar normative legal act by the legislative body of Ukraine.

DISCUSSION

According to article 420 of the Civil Code of Ukraine (Law of Ukraine, 2003) trade secret belongs to the objects of intellectual property rights. Trade secret is an information that is secret in the sense that it is generally or in a certain form and combination of its components is unknown and not readily accessible to persons who are usually dealing with the type of information to which it belongs, in connection with it has commercial value and was subject to measures that were adequate to the existing circumstances to preserve its secrecy by the person who legally controls this information. The definition of trade secret given in the Civil Code of Ukraine is formulated taking into account modern international legal approaches to the understanding of commercial secrets (TRIPS and NAFTA).

Based on this definition, one can distinguish the following signs of trade secret:

1. Informativeness of trade secret (in the sense that trade secret is an information);
2. Secrecy;
3. Commercial value;
4. The protection of the information constituting trade secret.

The similar signs of trade secret are listed in article 162, paragraph 1 of the Commercial Code of Ukraine (Law of Ukraine, 2003):

1. Commercial value (due to the fact that it is not known to the third parties);
2. Secrecy (other persons do not have legitimate access to this information);
3. Security (the owner of the information takes appropriate measures to protect its confidentiality).

The term of legal protection of trade secret is limited to the existence of a set of features of trade secret.

Trade secret may include information of technical, organizational, commercial, industrial or other nature, except those which, according to the law, cannot be classified as trade secret.

All types of information that can be qualified as trade secret can be divided into two groups: technical information and commercial information. The first group includes unpatented scientific and technical developments, databases and other computer programs created by a company, all kinds of know-how, technical projects, industrial designs, unpatented trademarks, etc. It should be understood that intellectual property objects, for which patents or copyright certificates have been received, need not be considered trade secrets, since such objects are protected by the relevant legislation, in particular, the Laws of Ukraine “*On the Protection of Rights to Inventions and Utility Models*”, “*On Copyright and Related Rights*”, “*On Protection of Rights to Industrial Designs*”, “*On Protection of Rights to Trademarks for Goods and Services*”. The second group includes the terms of contracts, data on suppliers and buyers, information on negotiations, marketing research, data on the calculation of selling prices, the size of discounts, etc. (Kolobov & Koliesnikova, 2016).

In view of the foregoing, one can conclude which information can be considered commercial (this list is not exhaustive):

1. Information on the methods of selling services, works or goods;
2. Information on marketing researches, marketing promotions, etc.;

3. Information on software and technical support of the company;
4. The content of the company's standard documents;
5. The content of the company's internal knowledge base;
6. Methods of providing services;
7. Methods for organizing the work of the company;
8. Information on the clients of the company (including their addresses, names, services provided, documents received, sales figures to individual clients);
9. Methods applied for attraction the clients;
10. Information on the internal structure of the company;
11. Information on the system of salaries of the company;
12. Internal reporting of the company, its financial indicators, balance;
13. Completed or uncompleted computer programs;
14. Original codes of computer programs;
15. Software applications (for mobile devices or web browsers);
16. Product design, images, etc.;
17. Unpatented and patented inventions;
18. Database.

According to the “*List of Information That Does Not Constitutes Trade Secret*” (Law of Ukraine, 1993) the following cannot be qualified as trade secret:

1. Statutory documents entitling to conduct business and its separate types;
2. Reporting documents;
3. Data necessary for verification of calculations and payment of taxes and other obligatory payments;
4. Solvency documents;
5. Information on the number and composition of employees, their wages in general and according to their professions and positions, as well as the availability of vacancies;
6. Documents on payment of taxes and other obligatory payments;
7. Information on environmental pollution, on failure to comply with safe working conditions, on selling products that can be harmful for health, as well as on other violations of the legislation of Ukraine and the amount of damages occurred;
8. Information on membership of company's officials in cooperatives, small enterprises, unions, associations and other organizations engaged in entrepreneurial activity;
9. Information, which is subject to announcement according to the legislation.

The guarantees of the right to trade secret can be divided into general and special ones. General guarantees include subjective guarantees of the right to trade secret, which are granted to each citizen; special guarantees are the system of means provided by the legislation aimed at the free acquisition and implementation of trade secret rights, the removal of obstacles to their implementation and effective protection against violations of these rights (Kolobov & Koliesnikova, 2016).

Unfortunately, there is no special legislative act in the legislation of Ukraine, which would deal with the issues of commercial secrecy. The legal framework within which a person is entitled to exercise his (her) right to trade secret are enshrined in article 41 of the Constitution of Ukraine, which states that everyone has the right to own, to use and to dispose of his (her) property, the results of his (her) intellectual, creative activity.

The definition of data protection and the set of measures to protect information were introduced only in January 2011 by the Law of Ukraine “*On information*” (Law of Ukraine, 1992) in the new version. In particular, article 21 indicates that the information can be restricted. The Law recognizes such information as confidential, secret and service. According to the provisions of this legal act, the data protection is a combination of legal, administrative, organizational, technical and other measures that ensure the preservation, completeness of information and the proper access to it.

Legal principles trade secret protection are stipulated in article 432 of the Civil Code of Ukraine, which states that each person has the right to apply to the court for the protection of his (her) intellectual property rights in accordance with article 16 of this Code. The grounds for bringing to liability the person, who performed illegal actions related to trade secrets, are enshrined in chapter 4 of the Law of Ukraine “*On the Protection Against Unfair Competition*” (Law of Ukraine, 1996). These grounds are: illegal collection of trade secret (Article 16); disclosure of trade secret (Article 17); inducement to disclose trade secret (Article 18); unlawful use of trade secret (Article 19). Chapter 5 of the same Law provides for liability for the specified illegal actions, which is expressed in: imposition of a fine, compensation for damage, denial of false, inaccurate or incomplete information.

Article 231 of the Criminal Code of Ukraine (Criminal Code of Ukraine of April 05, 2001 no. 2341) provides for responsibility for deliberate acts aimed at obtaining information constituting trade or bank secret in order to disclose or use this information otherwise, as well as illegal use of such information if it has caused pecuniary damage to the subject of economic activity. Article 232 of the same normative act provides for criminal liability for intentional disclosure of trade or bank secret without the consent of its owner by a person, who knows this secret because of his (her) professional or official duties, if such acts were committed for mercenary or other personal motives and caused pecuniary damage to the subject of economic activity. In the absence of significant pecuniary damage an obtaining, use, disclosure of trade secrets, as well as other confidential information in order to cause damage to business reputation or property of another entrepreneur, shall be punished in accordance with article 164-3, part 3 of the Code of Ukraine on Administrative Offenses (Law of Ukraine, 1984).

As one can see, the legislation on protection of trade secret in Ukraine is fragmented and insufficiently regulated. In this regard, each enterprise, which operates in the territory of Ukraine, has the right to determine the composition and volume of information constituting trade secret and the procedure for its protection (Article 36 of the Civil Code of Ukraine). Such measures may include:

1. Drafting of instructions/provisions on the protection of trade secret. It is necessary to determine the list of information constituting trade secret. Such a list may be in a form a separate in-house regulatory act or to be a part of the text of the specially drafted trade secret regulation. The structure and the content of trade secret regulation are determined by the specifics of the company’s activity and by the types of information constituting trade secret;
2. The marking of data storage devices containing trade secrets. Once the company has identified a list of trade secret information, it should ensure the secrecy of such information, since valuable information cannot be a trade secret unless it is confidential;
3. Signing of non-disclosure agreements. In addition to the adoption of in-house regulations, it is necessary to ensure acquaintance of the employees, admitted to trade secret, with a list of the secret information on the establishment of confidentiality and the responsibility for its violation;

4. The determination of technical means for data protection. Technical means for data protection include the use of special programs and equipment, which prohibit the screening and/or copying of important electronic information. For this purpose, the access to the hard disk or the ability to use the variables of digital media are blocked;
5. Conducting trainings. Trainings for employees are conducted for the purpose of studying the rules of dealing with trade secret, as well as informing about well-known cases of unauthorized disclosure of trade secret and the negative consequences of such disclosure for both the employee and the company (Marushchak 2007).

However, in our opinion, the most effective legal remedy for protection of confidential information is the adoption of a single legal act, in which the mechanism for bringing those, who are responsible for violation of the right of others to trade secret, the grounds for liability, as well as the types of liability, to which the violators can be brought.

In view of this, the experience of foreign countries in protecting trade secret can be very useful. So let's turn to the practice of Germany, in which the special law regulating the issue under consideration was adopted very recently.

The Draft Trade Secret Protection Act 19/4724 (hereinafter referred to as the Act 19/4724) was proposed by the Federal Ministry of Justice and Consumer Protection of Germany (Bundesministerium für Justiz und Verbraucherschutz) on April 19, 2018, and its implementation was scheduled for December of the previous year. However, the project stuck at the stage of its consideration by the Legal Committee. The main stumbling block was the norm on the protection of the so-called whistle blowers, which secured the privileged position of the latter, but only in cases of providing by them the information of public interest. The European Center for the Press and Freedom of the Media (ECPMF) has criticized this provision of the Act 19/4724, noting that it threatens the ability of journalists to disclose illegal or unethical corporate practices, since without the help of the whistle blowers they will not be able to bring to justice the authorities or influential persons to justice. Finally, after few months of heated discussions and deferrals, on March 21, 2019, the German parliament passed the Act 19/4724, which comes into force this year (European Centre for Press and Media Freedom, 2019).

Recently, there was no special law on trade secret protection in Germany. As in Ukraine, the provisions governing this issue were contained in various legal acts: the Law on Copyright and Related Rights (Urheberrechtsgesetz), the Law on Patent Rights (Patentgesetz), articles 17-19 of the Law against Unfair Competition (Gesetz gegen den unlauteren Wettbewerb), articles 823, 826, 1004 of the German Civil Code (Bürgerlichen Gesetzbuches), Section XV of the German Criminal Code (Strafgesetzbuch), and were of a fragmentary nature.

Besides, there was no generally accepted approach to the concept definition of trade secret to enable its protection against illegal obtaining, illegal use or disclosure. Besides, it was necessary for offenders to act with a particular intention-to compete in their favor or in favor of others for the application of the relevant provisions of the German Criminal Code. In practice, it was quite difficult to prove. Therefore, German companies tried to regulate this unsatisfactory legal situation with the help of non-disclosure agreements (Udo, 2018).

The Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (European Union Law, 2016) (hereinafter referred to as the Directive) became the catalyst for the adoption of the special law in Germany. It establishes rules for the protection of know-how (for example, construction drawings, manufacturing methods,

ingredients and recipes) and business information (for example, customer data, and marketing research and procurement prices) from illicit acquisition, use and disclosure and is designed to harmonize trade secret protection in Europe. Member States were required to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 09 June 2018 (article 19, part 1 of the Directive). In States where no relevant regulatory acts have yet been adopted (including in Germany), the provisions of the Directive continue to be applied when considering relevant issues.

The Act 19/4724 (Legislation, 2018), significantly conforms to the Directive, without considering some changes in terminology. In compliance with the Act 19/4724, the relevant amendments will be made to the Criminal Code of Germany and the German Law against Unfair Competition. In some ways, the Act 19/4724 extends the scope of trade secret protection, but at the same time introduces new requirements that must be met for the application of the appropriate measures.

The most significant change in relation to the adoption of the Act 19/4724 is the narrowing of the definition of «trade secret». From now on, the assignment of information to trade secret does not solely depend on the subjective assessment of its owner or the objective need for its assignment. According to the Act 19/4724 the term trade secret refers to information:

1. Which is not well-known or publicly available (that is, it is secret);
2. Which has economic value;
3. The owner of which must use appropriate measures to protect it in certain circumstances.

The definition does consider under the concept of «trade secret» publicly available information, experience and skills acquired by the employees of the company during the performance of their day-to-day tasks, as well as information that is well-known or accessible to those who usually deal with the particular type of information.

Trade secret, according to the Act 19/4724, includes information on production techniques, customers or suppliers lists, cost information, business strategies, market analyzes, models and formulas (§ 1 of the Act).

Another innovation is that confidential information will be considered trade secret (and therefore, will be legally protected) only if its owner can prove that he (she) has applied all measures to protect such information. As a result, companies will have to apply to additional contractual, organizational and technical measures to protect their trade secrets. Which measures will be qualified as sufficient to protect the relevant information depends on the type of trade secret and how it is used. These measures may include physical entailment on the access to information and contractual guarantees. According to the Explanatory Note to the Act 19/4724, it is not necessary to mark each piece of information as confidential. Instead, general security measures may be used for a particular type of information, such as, for example, technical access control. In addition, companies' owners may establish in-house rules on trade secret protection, which will be specified in employment contracts.

The Act 19/4724 also contains a list of authorized and illegal actions concerning the acquisition, use and disclosure of trade secret. Particularly significant is the provision on the so-called reverse engineering (deconstruction of the product made by the third-party to determine its structure or to obtain other information on the product). Previously, the courts recognized such

actions as illegal; the Act 19/4724 establishes the lawfulness of the reverse engineering, unless the contract provides otherwise, and if the following requirements are met:

1. The product or object is available to the public;
2. It is legally owned by a person who is free from any legally enforceable duty to maintain confidentiality.

The law provides companies with the right to sue those who have illegally acquired, used, or disclosed trade secrets. In addition to claims for damages, injunctive relief and information, companies may also have claims for recall and destruction of products that were manufactured and marketed as a consequence of infringement of a trade secret (§§ 6-7 of the Act). However, a mere pecuniary compensation, in the form of a notional license fee, may be paid to the infringed party (replacing any other liability) if the infringer did not act culpably and if a pecuniary compensation to the infringed party appears reasonably satisfactory (Section 10 of the Act).

Also, claims do not exist as far as they would be excessive considering the specific circumstances of the case, including:

1. The value of the trade secret;
2. The measures taken to protect the trade secret;
3. The conduct of the infringer in acquiring, using or disclosing the trade secret;
4. The impact of the unlawful use or disclosure of the trade secret (section 8 of the act).

In addition to civil law claims against an infringer, consequences under criminal law will still be possible (§ 22 of the Act).

Finally, the Act 19/4724 seeks to protect the confidentiality of trade secret during court proceedings, providing for the permission to transfer the cases on the infringement of the right to trade secret to specialized courts, for the possibility to consider such cases in closed hearings at the request of the party, as well as for limitation the number of persons having right to access to hearings.

CONCLUSION

There is a constant interaction in the process of doing business: between specialists and clients, employers and employees, etc. Clearly, most of the information is public and freely accessible. However, some data are confidential because they contain information on the sources of income for the company, and if third parties access to it, the success of the entire business will be at risk. That is why protection of trade secrets is one of the urgent needs of modern times.

In order to ensure proper protection of trade secrets, and to harmonize the legislation of the Member States on this issue, the Directive 2016/943 was adopted. Since the Directive does not contain rules of direct effect, the EU Member States were required bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by June 09, 2018. Although Germany has delayed this term for almost a year, on March 21, 2019, however, it still passed the Draft Trade Secret Protection Act 19/4724, which comes into force this year.

For Germany, the adoption of such a law is of particular importance, because according to the results of the research of Bitcom's Digital Association, German companies lose 50 billion euro annually because of theft of trade secrets and data (Klos, 2019).

The German Draft Trade Secret Protection Act 19/4724 is largely in line with the Directive 2016/943. It significantly changes the existing laws on the protection of trade secret, for example, provides a new definition of the concept of trade secret. Besides, it legitimizes “reverse engineering” and the need for compulsory use of adequate measures to protect information. In this regard, German companies are encouraged to take practical measures to ensure the confidentiality of data and to adapt to future changes.

Since Ukraine is not currently a member of the EU, the provisions of Directive 2016/943 do not apply to this country. So far, there are no preconditions for the adoption of a single legal act regulating the protection of trade secret. Although in 2008 the Cabinet of Ministers of Ukraine approved the Concept on the protection of trade secret, it was not displayed in any normative act. So, this issue is currently regulated by separate provisions of the Constitution of Ukraine, the Civil Code of Ukraine, the Commercial Code of Ukraine, the Criminal Code of Ukraine and other laws and by-laws. In this regard, each company that carries out its activity in the territory of Ukraine determines, at its own discretion, the composition and the amount of information constituting trade secret, as well as the procedure for its protection. Clearly, the lack of a unified approach to this issue leads to the diversity of court practice and the adoption of controversial decisions on the same type of legal problems.

Since Ukraine intends to become a member of the EU, it is necessary to bring Ukrainian legislation in line with European norms. All Member States have already adopted or are at the stage of adopting legislative acts and administrative provisions to comply with the requirements of Directive 2016/943, which is intended to harmonize the legislation of European States on the issue of trade secret protection. Therefore, we believe that Ukraine also needs to learn from this positive experience and to adopt a special law that will regulate all the problems related to trade secret.

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