

Ukraine

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During its ordinary functioning an average legal entity uses massive amount of information. Only restricted data pretends to be protected in Ukraine. The information with commercial value can be protected as trade secret.

There are a number of priorities to have trade secret protected than to register any IP rights objects in Ukraine. They are the following:

- it takes not very long to have trade secrets protected;
- the term of trade secrets protection is not officially limited;
- there is no need to make any payments in order to have trade secrets protected;
- there is no need to obtain any official documents certifying trade secrets protection;
- information constituting trade secret shall be undisclosed (in comparison with obligatory disclosure of information during the process of registration of IP rights objects);
- the scope of information falls under protection as trade secret is not limited and just some spheres of such information are set forth under legislation;
- trade secrets can be considered as intangible assets of the company and such assets can be useful when conducting effective tax planning;
- there is a number of objects that cannot be registered under Ukrainian law, however, they can be effectively protected as trade secrets.

In view of such optionality, simple procedure as well as considerable possibilities concerning the scope and character of information falling under protection trade secrets become more and more useful in Ukraine.

1. Legislation

There is no single act containing provisions on trade secrets in Ukraine. However, a number of legal acts establish Ukrainian trade secret legislation.

The key elements of trade secrets are set forth under the provisions of Chapter 46 of the Civil Code of Ukraine². These elements represent in full the provisions of Article 39.2. of TRIPS agreement³.

Under Chapter 4 of the Law of Ukraine on Protection Against Unfair Competition⁴ it is stipulated what actions should be considered as illegal collecting, disclosure of trade secret as well as incitement to disclose trade secret and illegal use of the latter. The similar provisions are stipulated under Article 10 bis (2) of Paris Convention⁵.

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² Chapter 36 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>;

³ Article 39.2. of TRIPS (Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994), https://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm;

As regards the liability provided for illegal obtaining, use and disclosure of trade secrets the respective provisions are set forth under the Code on Administrative Offences of Ukraine⁶ as well as the Criminal Code of Ukraine⁷.

Therefore, the abovementioned legal provisions offering protection against trade secrets misappropriation are also applied towards any person who got access to trade secrets and then committed respective illegal actions.

2. Scope and Characteristic of Information Protected as Trade Secret

There is no strict scope of information that should be considered as trade secrets in Ukraine. In order to provide as much effective protection of trade secret as possible, there are just the key criteria and the categories thereof. Under Ukrainian legislation, the information pretending to be protected as trade secret should fall under the following key criteria:

- (i) confidentiality (it should be unknown and inaccessible);
- (ii) commercial value;
- (iii) preventive measures taken to protect such information from disclosure⁸.

In addition, it is determined that the information falls under the following categories may be considered as trade secret:

- (i) technical information;
- (ii) organizational information;
- (iii) commercial data;
- (iv) industrial information etc.⁹

The abovementioned list is uncomprehensive, thus the legal entity is free to determine which information should be consider as trade secret and to take appropriate measures to prevent such information from disclosure. Notwithstanding such optionality, the following information cannot establish trade secret in Ukraine¹⁰:

- (i) statutory documents, permits and approvals for business or commercial activity;
- (ii) information necessary for accounting and reporting;
- (iii) information for auditing calculation and payment of tax and the other kinds of compulsory payments;
- (iv) stuff data;
- (v) information on payment of tax and the other kinds of compulsory payments;
- (vi) data concerning pollution of environment, inobservance of safety working conditions, selling of goods inflicting on the health of individuals as well as information on the other approaches of infringements and the extent of damages;
- (vii) documents certifying insolvency;

⁴ Law of Ukraine on Protection Against Unfair Competition No 236/96-BP, dated 7 June 1996, <http://zakon2.rada.gov.ua/laws/show/236/96-%D0%B2%D1%80>;

⁵ Article 10 bis (2) of Paris Convention for the Protection of Industrial Property dated 20 March 1883, http://www.wipo.int/treaties/en/text.jsp?file_id=288514;

⁶ The Code on Administrative Offences of Ukraine (1884), <http://zakon4.rada.gov.ua/laws/show/80731-10>;

⁷ The Criminal Code of Ukraine (2001), <http://zakon4.rada.gov.ua/laws/show/2341-14>;

⁸ Part 1 of Article 505 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>;

⁹ Part 1 of Article 505 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>;

¹⁰ Resolution of the Cabinet of Ministers of Ukraine No 611 dated 9 August 1993 on The List of information which is not constitutes trade secrets, <http://zakon4.rada.gov.ua/laws/show/611-93-%D0%BF>;

- (viii) information on participation of authorities of legal entities in different kinds of business;
- (ix) the other information under disclosure pursuant to Ukrainian legislation.

Therefore, the abovementioned information cannot be protected and should be disclosed on the request of state controlling or enforcement authorities as well as on the request of the other legal entities.

Under Ukrainian legislation trade secret is qualified as specific intellectual property rights object. The rightholder is a person who defined the information to be trade secret and consequently protected. Under the Civil Code of Ukraine¹¹ the following economic intellectual property rights to trade secret are stipulated:

- (i) right to use of trade secret;
- (ii) right to allow use of trade secret;
- (iii) right to prevent from illegal disclosure, collection or use of trade secret;
- (iv) the other intellectual property rights provided under Ukrainian law.

As regards the term of protection of trade secrets in Ukraine we should emphasize that it depends in full on trade secrets proprietors. As long as the latter supports the observance of the abovementioned 3 criteria for trade secrets in Ukraine, so is the term of the respective protection.¹²

3. Remedies for trade secret misappropriation

It should be noted that in Ukraine the liability provided for trade secret misappropriation is graver in comparison with the liability for illegal disclosure of confidential information. There are several approaches of liability, which may be applied depending on the grave nature of the trade secret misappropriation. While the first and the second approaches of liability is applicable only with respect to the employee of the trade secret proprietor, the other approaches of liability may be applied concerning all possible variants of trade secrets misappropriations. Therefore, Ukrainian legislation provides the following types of liability in this regard:

(i) Disciplinary liability

This approach of liability is applicable in case the trade secret misappropriation occurs when an employee breaches the rules and orders on confidentiality and trade secrets established within the company. Therefore, it can be considered as disciplinary infraction;

(ii) Material liability

Like the previous approaches of liability this one is also applied in case of trade secret misappropriation within the company. The scope of liability for breakage is limited with the amount of monthly salary of an employee. However, in case the employer is able to prove that the employee was out of work when committing trade secret misappropriation there is a possibility to call the latter to complete liability for breakage (which will directly depend on the amount of employer's damages);

When the abovementioned remedies are applicable during the pretrial stage the following remedies should be taken as a consequence of the court proceeding concerning trade secret misappropriation.

(iii) Civil liability

¹¹ Article 506 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>;

¹² Article 508 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>;

Under Ukrainian law there is no exact extent of damages provided in case of trade secret misappropriation. Consequently, the parties may set forth the amount of recovery for such infringement in the respective labour and/or confidentiality agreements.

Additionally, there is a possibility to bring an action concerning compensation for losses for disclosure of trade secret. In such a case, the principal thing for the proprietor is to establish the following 4 elements: to prove the fact of trade secret disclosure, to point out what is the exact kind of damages got in result of such disclosure, to assess what is the extent of damages and to provide evidence thereof.

In Ukraine the trade secret proprietor can also obtain damages for the moral prejudice suffered. The relevant procedure provided under Ukrainian court practice, namely under the Decision of the Plenum of the Supreme Court of Ukraine No 4 dated 31 March 1995¹³. Under this Decision trade secret misappropriation should be considered as a kind of moral damages. In this context, the exact amount of such loss depends on the character of moral losses, for example its continuity, the level of decrease of business reputation etc. According to the common rules the court should be guided by the principles of rationality, suspension and justice.

(iv) Administrative liability

Under the Code on Administrative Offences of Ukraine, there is a particular approaches of liability called to in case of unfair competition. The liability for obtaining, use and disclosure of trade secrets in order to injure the business standing or property provides fine imposing in the amount from 9 till 18 amounts of tax-free personal allowance (1 amount of tax-free personal allowance constitutes UAH 17 (about EUR 0.7), therefore the fine amount may vary from EUR 6 to EUR 12)¹⁴.

(v) Criminal liability

There is no doubt, that it is the gravest liability approach for illegal obtaining and/or use as well as intentional disclosure of trade secret. The character of criminal actions is the same. However, there are some features:

- the abovementioned actions should lead to extensive damage in such a case. There is no clear understanding regarding “extensiveness” of damages. Therefore, this feature is subject to assessment in full. The matter whether illegal obtaining, use, intentional disclosure of trade secret lead to extensive damages should be considered particularly in each case. In this context the following aspects should be taken into account: money equivalent and economic condition of trade secret proprietor;

- this crime should be considered as committed since there is extensive damages;
- the infringer should have express malice when committing such crime;
- the fine in the amount from 1,000 till 3,000 amounts of tax-free personal allowance (about EUR 708 – EUR 2,125) may be imposed in case of illegal collecting for the further use or simply use of trade secret¹⁵. Criminal liability is also provided in case of disclosure of trade secret with profit or personal cause. In this context, access to such information should be got in the course of execution of professional duties. The abovementioned infringements provide for imposing the fine in the amount from 1,000 till 3,000 amounts of tax-free personal allowance (about

¹³ Decision of the Plenum of the Supreme Court of Ukraine No 4 dated 31 March 1995, <http://zakon1.rada.gov.ua/laws/show/v0004700-95>;

¹⁴ Article 1643 of the Code on Administrative Offences of Ukraine (1884), <http://zakon4.rada.gov.ua/laws/show/80731-10>;

¹⁵ Article 231 of the Criminal Code of Ukraine (2001), <http://zakon4.rada.gov.ua/laws/show/2341-14>;

EUR 708 – EUR 2,125). In addition, the infringer may be deprived of the right to hold some positions or run some kinds of activities up to 3 years¹⁶;

- criminal liability cannot be imposed in case a person accidentally got to know the information constituting trade secret or in case such information was voluntarily reported to this person by the trade secret proprietor.

4. Procedural aspects of proceeding concerning trade secret misappropriation

First of all, it should be noted that Ukrainian legislation does not provide any specific measures to secure evidence of trade secret misappropriation, because it is considered that disclosure of trade secret constitutes irrevocable actions and any restitution thereafter is impossible. However, even if the subject of the case does not concern the matter of compensation for losses for disclosure of trade secret the proprietor prevails to impose ex parte injunction if there is a real risk to have any information constituting trade secret disclosed¹⁷.

Secondly, sometimes confidentiality is more than necessary in the course of proceedings. It should be mentioned that the state authorities, to be more precise public officers, are obliged to keep the confidentiality of trade secret *ex lege*. Notwithstanding the fact that Ukrainian court system is grounded on the principles of publicity and openness of case consideration¹⁸ the court may rule on close court hearing or publish court decisions with missed information. The respective provisions are stipulated under Ukrainian legislation:

(i) in criminal proceeding the court may make decision on holding close court hearing (or even the whole court proceeding) just in particular circumstances, defined under the Criminal Procedural Code of Ukraine¹⁹. Thus, among others, in case open proceeding leads to disclosure of the secrets, protected under Ukrainian law, *inter alia*, trade secret, the case will be considered in close proceeding;

(ii) in administrative proceeding the court may also issue a decision on holding close court hearing in order prevent disclosure, among others trade secrets;²⁰

(iii) in civil²¹ and commercial²² proceedings there is also a possibility to hold close court hearing on the grounds that there is a risk of trade secret disclosure.

Thirdly, it worth mentioning, that Ukrainian legislation does not contain any system of damages calculation in the event of trade secret misappropriation. However, any trade secret disclosure will be considered as trade secret misappropriation just in case there are some damages. In such it is a concern of the trade secret proprietor to prove that there are some damages as a result of trade secret disclosure. This matter is a subject of great importance in criminal proceeding, because criminal liability for illegal obtaining and/or use, intentional disclosure of trade secret is provided just in case there are extensive damages. In this context the extensiveness of damages shall be considered particularly in each case with the following aspects being taken into account: money equivalent and economic condition of trade secret proprietor. Therefore, we believe Ukrainian legislation will be amended and

¹⁶ Article 232 of the Criminal Code of Ukraine (2001), <http://zakon4.rada.gov.ua/laws/show/2341-14>;

¹⁷ <http://www.reyestr.court.gov.ua/Review/872544>;

¹⁸ Article 11 of the Law of Ukraine on Fair Justice No 2453-VI dated 7 July 2010, <http://zakon2.rada.gov.ua/laws/show/2453-17>;

¹⁹ Article 27 of the Criminal Procedural Code of Ukraine (2013), <http://zakon4.rada.gov.ua/laws/show/4651-17>;

²⁰ Article 12 of the Code of Administrative Proceedings of Ukraine (2005), <http://zakon3.rada.gov.ua/laws/show/2747-15>;

²¹ Article 6 of the Civil Procedural Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/1618-15>;

²² Article 4 of the Commercial Procedural Code of Ukraine (1992), <http://zakon4.rada.gov.ua/laws/show/1798-12>;

further any methodology on damages assessment will be provided. The other applicable variant will be settled court practice concerning the present matter in Ukraine.

5. Correlation of trade secret and know-how in Ukraine

Strange as it may seem, but under Ukrainian law in intellectual property sphere does not distinguish know-how as a particular intellectual property object. Commonly, any component in the transfer of technology is considered in Ukraine is trade secret because under the Civil Code of Ukraine²³ trade secret constitutes among others, any information in technical sphere. However, the definition “know-how” are directly used in Tax Code of Ukraine²⁴ (with understanding of “research experience”) being rated among intangible assets for the purposes of taxation. Taking into consideration that “know-how” is not distinguished as independent intellectual property rights objects under Ukrainian intellectual property legislation, in the event of breach of confidentiality or non-disclosure agreement protecting any technical information it will be considered as illegal disclosure or misappropriation of trade secret. Thus all abovementioned remedies will be available.

As regards the cases when there is just a contractual provision that information should be considered and, consequently, protected as trade secret without meeting the statutory trade secret standards, we should note the following. Under Ukrainian law there are 3 key criteria, under which any information should fall to be protected as trade secret. In case the abovementioned 3 criteria are not met, such information can be considered and protected as confidential information but not as trade secret, even the parties provided so in their contract. As a consequence, the liability for disclosure or misappropriation of such information is also provided, even in contractual provisions. However, it will be liability for disclosure or misappropriation of confidential information but not trade secret, thus the liability is likely to be more lenient.

6. Misuse of trade secret protection

The matter of trade secret protection is complicated enough in Ukraine. As a consequence, there are some proposal to amend Ukrainian legislation inserting provisions on more effective trade secret protection, more complex remedies and more grave liability.

Despite the fact that trade secret protection is not a routine matter, sometimes the cases of misuses of trade secret happens too. The following incidents are prevailing:

- (i) defining some information as trade secret in order intentionally not to disclose it before state authorities, during inspections and auditing;
- (ii) pretending to protect as trade secret the information that cannot constitute trade secret;
- (iii) bringing a claim before the court because of false and faked trade secret disclosure;
- (iv) intimidation of employees with their calling to account (including criminal liability) for allegedly illegal disclosure and misuse of trade secret for the purposes of further unlawful manipulations.

In Ukraine there is no definite list of remedies available if a trade secret proprietor misuses its trade secrets. However, there is a possibility to make him answer for such illegitimate actions in the following way. For instance, the Civil Code of Ukraine stipulates that the actions taken by a person in order to injure other person as well as any

²³ Article 505 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>;

²⁴ Article 39.2.1.4. of the Tax Code of Ukraine (2011), <http://zakon4.rada.gov.ua/laws/show/2755-17>;

other abuse of rights are strictly prohibited²⁵. Therefore, a person whose legitimate interests were infringed as a consequence of misuse of trade secret by trade secret proprietor is entitled to bring the latter to liability.

7. Personal reflections

It can be concluded that protection of trade secrets depends both on the remedies applicable under Ukrainian legislation and on the quality of legal mechanisms of information security established by the proprietor in order to protect the trade secret.

In Ukraine the situation when the trade secret of the employer is disclosed by the employee (even by the ex-employee) is more than prevalent. The following legal mechanisms are applicable in such cases:

The first variant is drafting and adoption of the internal documents on confidential information and trade secrets. In particular, such document should regulate the following aspects: the scope of information protected as trade secrets, access levels to trade secrets to the employees, rules for employees to be observed regarding trade secrets, basic organizational and technical mechanisms of trade secrets protection and processing. Further there should be presentation of such internal documents to the employees with providing precise information on the rights and obligations of the latter, the scope of trade secret to which the employee has direct access as well on the possible remedies in case of failure to follow the provisions of the respective internal document.

The second variant is establishing the department or appointment of the officer in charge of information security, inter alia trade secrets protection.

The third relevant variant is inserting special provisions on non-disclosure of trade secrets to labour contracts. Such mechanism allows both to stipulate a separate duty of the employee on observing non-disclosure of trade secret and warning the employee on possible remedies in case of failure to follow such provisions.

The fourth variant is conclusion of confidentiality agreements. In comparison with the foregoing variant, this mechanism can be effective both for establishing the obligation of non-disclosure of trade secrets for the current employees and for protection of trade secrets from disclosure by ex-employees.

All in all the abovementioned measures cannot be considered as security panacea and guarantee the absence of trade secrets misappropriations, but should be taken by trade secret proprietor in order to mitigate the risks of trade secrets disclosure incidents.

²⁵ Article 13 of the Civil Code of Ukraine (2004), <http://zakon4.rada.gov.ua/laws/show/435-15>.