

## **The Concept and Conditions for Legal Protection of a Trade Secret and a Know-How**

There is no special law in the Republic of Kazakhstan that regulates the protection of trade secrets. Moreover, the legislation of the Republic of Kazakhstan does not provide for an exhaustive definition of the term 'trade secret'. The provisions on trade secrets are differentiated through various regulatory legal acts, which causes some inconvenience in determining how far the definition of trade secrets can extend.

Attempts to adopt a separate law on trade secrets in the Republic of Kazakhstan were made in the early 2000. The draft law of the Republic of Kazakhstan 'On Trade Secrets' was submitted for consideration by the the Parliament of the Republic of Kazakhstan in accordance with the Resolution of the Government of the Republic of Kazakhstan No. 1104, dated 25 July 2000. For unknown reasons, however, this draft law was withdrawn in 2001.

Pursuant to Article 126.1 and Article 1017.1 of the Civil Code of the Republic of Kazakhstan (hereinafter - the 'Civil Code'), a trade secret comprises valuable information that includes production secrets (know-how), production technology, management model, as well as ways and methods to increase profits.

At the same time, the enterprise cannot include any information into the list of trade secret objects. This issue requires selective and thoughtful approach, meeting the following three main criteria:

- the information must have actual or potential commercial value for the enterprise;
- the information must be unknown to third parties;
- a trade secret regime must be established for the information.

The trade secret objects may also include information on business entities and their areas of activity, as well as production, management, scientific, technical, and financial and economic information about the company's activities. Please note that Kazakhstan's legislation does not provide for a specific list of objects that cannot be classified as trade secrets.

Laws in some countries expressly provide a list of information that does not belong to trade secrets, such as:

- 1) the Charter of a legal entity, as well as documents that entitle to engage in business activity (state registration certificate, licenses, patents);
- 2) information on the employment, information on all vacant jobs (vacancies), on the forthcoming employees' release, their number and categories, and on the creation of additional jobs;
- 3) information on the working conditions and labour safety at workplaces, violations of the established labour safety and hygiene standards, industrial injuries;
- 4) information on the ecological state, compliance with the established sanitary and epidemiological standards of fire, technical safety and other facilities and equipment that pose a threat to the life and health of the population;
- 5) information on violations of law;
- 6) other information freely accessible according to legislative acts.

Publicly available information, which includes generally known information, as well as other information, access to which is not restricted, cannot be classified as a trade secret as well.

Thus, the Civil Code defines a list of objects classified as trade secrets, but at the same time, there are no listed objects in the regulatory legal acts that cannot be classified as trade secrets. Please also note that the list of trade secrets specified in the Civil Code is not exhaustive, which creates some inconvenience.



The right to protection of trade secrets is valid as long as the conditions provided for in Article 126.1 of the Civil Code are met, in particular, measures are taken to preserve the commercial value of information and to protect it against unauthorised access by third parties. This requirement is given in Article 1017.4 of the Civil Code, which states that the right holder has the right to protect this information from unlawful use provided that the conditions of Article 126.1 of the Civil Code are met.

Thus, the right holder is obliged to take measures to ensure a confidentiality for information of value to the enterprise. Pursuant to Article 28.4 of the Business Code of the Republic of Kazakhstan (hereinafter - the 'Business Code'), the establishment of a trade secret regime shall mean the following actions: 1) determination of the list of information constituting a trade secret; 2) limiting access to trade secrets by establishing a procedure for handling this information and monitoring compliance therewith; 3) registration of persons, who have access to trade secrets and(or) persons, to whom this information was provided or transferred.

When we compare the legislation of Kazakhstan and laws of other countries in terms of trade secrets, then, for example, the legislation of Russia provides more extensive requirements for establishing a trade secret regime. Pursuant to the Law of the Russian Federation 'On Trade Secrets', dated 29 July 2004, the owner of a trade secret shall take the following measures:

1. define a list of information constituting a production secret of trade secret;
2. limit and access to such information by establishing a procedure for handling the information and for control over compliance with such a procedure;
3. keep record of persons, who acquired access to the production secret and(or) persons to whom the secret was furnished or transferred;
4. regulate relations in using information constituting a trade secret by employees based on labour agreements, and by counterparties based on civil law contracts;
5. affix upon material media the information on the trade secret content specifying the holder of the secret.

As you can see, the legislation of the Russian Federation requires to apply marking on material media about the content of commercial information as contrasted with the legislation of Kazakhstan.

If, however, the above measures are not taken by the trade secret holder, then in Russia the trade secret regime will not be considered as active. In turn, in Kazakhstan there are no such strict requirements for the establishment of a trade secret regime. The minimum requirements for establishing measures to protect trade secrets are provided by Article 28.4 of the Business Code, which states that measures to protect information constituting trade secrets may include:

- 1) determination of the list of information constituting a trade secret;
- 2) restriction of access to trade secrets by establishing a procedure for handling such information and monitoring compliance with this procedure;
- 3) keeping record of persons, who acquired access to the production secret and(or) persons to whom the secret was furnished or transferred.

Failure to comply with the above minimum measures by the rightholder may entail risks for the business entity. So, if the rightholder goes to the court about the violation of his/her rights to a trade secret, the court may conclude that the rightholder did not take sufficient (due) measures to protect the trade secret and may dismiss the claim, since the rightholder was negligent in relation to his/her own trade secrets.

Pursuant to the Business Code, the procedure for classifying by categories of access, conditions for storing and using information constituting a trade secret shall be determined by the business entity.

## **Trade Secrets in Labour Relations**

Trade secrets in labour relations require special attention, since in labour relations the interests of the employer and the employee do not always coincide, and sometimes this leads to the fact that the employee allows the leak of confidential information. According to Article 22.2.6 of the Labour Code of the Republic of Kazakhstan (hereinafter - the 'Labour Code'), the employee's main duties include not disclosing information constituting state secrets, proprietary, trade or other secrets protected by law, which became known to him/her in connection with performance of his/her job duties.

In order to protect confidential information, it is advisable to reflect the following employee's duties in the employment agreement:

- to comply with the trade secret regime established by the employer;
- not to disclose information constituting a trade secret, the holder of which is the employer and its counterparties, and not to use such information for personal purposes without their consent;
- not to disclose this information after the termination of the employment agreement within the period stipulated by the arrangement between the employee and the employer concluded during the term of the employment agreement, or for three years after the termination of the employment agreement, if the said arrangement was not concluded;
- to compensate the damage caused to the employer, if the employee is guilty of disclosing a trade secret that has become known to him/her in connection with the performance of his/her job duties;
- upon termination of the employment agreement to transfer to the employer material media containing confidential information.

It is also necessary to take measures to protect trade secrets and to familiarise employees with the list of trade secrets against signature, as well as to create a clear system of handling the relevant information and documents. Such a system shall require:

- determining the procedure for classifying information as information constituting a trade secret;
- appointing a person responsible for keeping records of employees with access to confidential information;
- defining the rules for copying confidential information, appointing a person authorised to issue permissions to copy and move information outside the enterprise;
- for the employees, who work with confidential information create conditions for its proper storage, excluding the possibility of unauthorised access.

In practice, it turned out to be very difficult to hold employees liable for disclosing trade secrets. If the employer succeeds, then the employee can be brought to the following types of liability: disciplinary, material and criminal liability. There are very few trade secret related precedents in Kazakhstan. The bulk of cases related to trade secrets are disputes between an employer and an employee. Mainly, in such disputes, the courts rule against the employer, due to the fact that the employer did not take timely measures to establish a trade secret regime.

If there has been a leak of trade secrets, the right holder, in accordance with Article 917.1 of the Civil Code, may claim for compensation for the damage caused in full. Besides, based on

Article 918 of the Civil Code, the right holder may claim for the prevention (stopping) of the violation (leakage or disclosure) of trade secrets in the future. Please note that the court hearing on trade secrets, according to the Civil Procedure Code, will be held behind closed doors.

## **Know-How**

The legal definitions of 'Know-How' and 'Trade Secret' are very similar, and sometimes even intersect in certain terms resulting in confusion of both concepts. This is confirmed by the Civil Code, where 'Know-How' is equated to 'Trade Secret'; so according to Article 1017.1 of the Civil Code, a person, who lawfully possesses technical, organizational or commercial information, including production secrets (know-how), unknown to third parties (undisclosed information), has the right to protect this information against illegal use, if the conditions established by Article 126.1 of the Civil Code are met.

There is no uniformity in the concept of know-how in international law; the Paris Convention, which laid the foundations for the regulation of industrial property, does not even mention know-how. Researchers recognise the TRIPS Agreement as the first document that has international status and provides for the regulation of trade secrets (although it mentions undisclosed information).

In Kazakhstan, there is also no clear definition of the term 'know-how'. Many civilists in Kazakhstan civilians refer the following to the concept of know-how: information on processes, production technologies, inventions, projects, drawings, formulas, practical knowledge, sales methods and skills that are used in the production of products or provision of services. Know-how is essentially the ability to perform specific tasks or produce products and services based on this knowledge. While they may seem obvious in the course of day-to-day operations, these processes and ideas can be extremely valuable in generating profit and gaining a competitive advantage.

Recording a know-how on a tangible medium is important, even if the information is used by a small portion of your company. When this knowledge is gathered in one place, it becomes a valuable company asset that can underpin a company's competitive advantage.

The main difference between know-how and trade secrets is that know-how can be transferred under an alienation agreement and can be provided for use under a license agreement:

1. Under an alienation agreement for exclusive right to a trade secret, under which the exclusive rights are transferred in full by the rightholder to the acquirer. An important condition of such an agreement is that the rightholder upon the transfer of the exclusive rights to know-how shall keep maintaining the confidentiality of the know-how as usual.
2. Under a license agreement for the granting of the right to use a trade secret, under which the exclusive right is granted by the licensor for a specified period or without specifying the validity period within the limits established by the agreement.

With the development of the information society, the relevance of protecting production secrets increases. There are still gaps in Kazakhstan's legislation regarding the regulation of know-how. Effective legal protection of know-how is essential for all participants in civil transactions.

Thus, we would like to note that trade secrets and know-how are especially valuable information for their holders, which directly affects the interests of their holders and employees of enterprises, and clearly need proper protection in the territory of the Republic of Kazakhstan.

In summary, please note the importance of taking legal and protective measures when dealing with trade secrets and know-how at enterprises to minimise the risks of losing the value of trade secrets, since the subsequent protection and rights restoration will require significantly higher costs and, in fact, may not ensure the actual elimination of the violation.

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