

Piotr WIDERSKI\*

## NON-DISCLOSURE AGREEMENT IN THE PROCESS OF PROTECTION OF INTANGIBLE PROPERTY

### **Summary**

*The paper explains a legal concept of a non-disclosure agreement (NDA)/confidential disclosure agreement (CDA) as an effective tool for the trade secret protection. Ensuring the confidentiality of important information of a company is its key operation element. An incompetent protection of a secret may cause significant financial and image losses in every institution. In the paper there was taken an attempt to describe both statutory and contractual legal structures applied in order to secure the company's trade secret. There were also presented the characteristics of a non-disclosure agreement as an innominate agreements. There was discussed the position of such an agreement in the national and international legal system. The paper specifies essential components of such an agreement that should be applied to secure the interests of the parties. The advantages of applying an NDA as a tool that increases both the protection and possibility of claiming compensation were also specifically described.*

**Key words:** non-disclosure agreement, confidential disclosure agreement, trade secret

### **Introduction**

According to the Polish legal system, a non-disclosure agreement (NDA)/confidential disclosure agreement (CDA) can be included in the group of so-called innominate agreements. Pursuant to Article 353<sup>1</sup> of the Civil Code “the parties concluding an agreement may establish the legal relationship at their discretion”. The principle of freedom of contract expressed in this article enables free shaping of the legal relationship by the parties. The rule is only restricted so far as the content or the purpose do not stand against the character (nature) of the relationship, statutory law and the principles of social coexistence. Nominate agreements are those which feature a specific statutory regulation. They are mainly

---

\* Piotr Widerski MA – Jagiellonian University, Dean's plenipotentiary at the Faculty of Biochemistry, Biophysics and Biotechnology

regulated in Book III of the Civil Code Liabilities. The examples are: an agreement of sale, exchange, supply and a mutual agreement in agriculture, and many others which were included in codification by the legislator. Each of the specified agreements has its own characteristics, which determines the scope of duties and powers of the parties. They are intended to cohere so that the character of a given contractual relationship is stated comprehensively. “The legislator usually regulates specific agreements according to the needs that arose during the social activity in practice, which include interests of the parties typical for certain situations. From a pragmatic point of view, it is not recommended, however, to establish abstract and general standards if they are not intended to refer to mass phenomenon”<sup>1</sup>. The agreements defined in Book III are most commonly used. Nevertheless, many legal relationships which result in rights and obligations of the parties remain beyond the catalogue of agreements defined in the Civil Code. It does not mean that they are faulty. In order to validate them and contrary to the catalogue of nominate agreements, the legislator implements the principle of Article 353<sup>1</sup> of the Civil Code, so-called innominate agreements. Innominate agreements are usually of new nature and their provisions somewhat forestall the current legal situation. Business activity frequently requires establishing the legal relationship that extends the current law. Specifically, in case of rapidly changing market mechanisms, the existing solutions are insufficient. Therefore, there can be continually observed a process of moving foreign legal structures to the Polish ground. It is particularly noticeable in regulations of private economic law. Mostly, new agreements are modelled on ready-made common law institutions. For example, this is an agreement of factoring, franchising, outsourcing, forfaiting or an agreement of multimodal transport. This novelty and flexibility of common law solutions becomes a routine over time, which finally leads to an adoption of a given agreement into the group of agreements named according to the Code, with their clearly specified content and *essentialia negotii*, as for a lease agreement.

In order to focus on the proper characteristics of an NDA, there should be considered a possible scope of this agreement as an innominate

---

<sup>1</sup> Radwański Z., Panowicz-Lipska J., *Zobowiązania – część szczegółowa*, p.3. Issue No 11, 2015.

agreement. As Katner J.<sup>2</sup> says, for including a given legal activity into the group of innominate agreements, there should be established the criteria of separating such agreements from nominate agreements. Katner J. shares the dominating view in literature that in the Polish legal system there are two types of agreements, i.e. nominated and innominate agreements<sup>3</sup>, and so-called mixed agreements should be included into the catalogue of innominate agreements. To simplify, there can be stated that innominate agreements are those which have a clearly defined legal regime in the Code or in other law. According to the established concept that *sine qua non* conditions for locating a given legal action among innominate agreements, the following requirements must be fulfilled<sup>4</sup>:

- “1) An legal activity is a bilateral valid agreement;
- 2) There is no appropriate term for it, although, it does not have to be a specific title or notion; it can result from the context or a description;
- 3) There are no specified *essentialia negotii* of an agreement in the Civil Code or another law, despite the indications included on what such an agreement should cover;
- 4) There is no relation of an agreement with a nominate agreement or there is no similarity that would suggests the type of an innominate agreement or a significant exception from the principles of a specific nominate agreement;
- 5) The parties, subject and content of an agreement are determined, particularly rights and obligations of the parties;
- 6) Compliance with the legal system, which means the compliance of the created legal relationship (its content and purpose) with its properties (nature), laws and the principles of equity as well as good morals, (defined by Article 353<sup>1</sup> of the Civil Code on the principles of social coexistence)”.

The shaping process of a given legal relationship’s nature is usually long. As in case of lease agreements, the process required years of

---

<sup>2</sup> Katner J., *Prawo zobowiązań – umowy nienazwane*, Volume 9, Issue No 2, Warszawa 2015.

<sup>3</sup> Ibid., p.14.

<sup>4</sup> Ibid., p.16.

changes before it was established and a uniform legal regime was constituted. Usually, as a result of the international economic cooperation, businessmen come to the point where there is no reference to the domestic regulations. Then, there is an attempt to create provisions regulating a given legal relationship in terms of freedom of contract defined by Article 353<sup>1</sup> of the Civil Code. The result is the practice of copying proper regulations functioning in foreign legal systems and then moving them to the domestic ground. Another step is a several years process of establishing the given provisions in the legal culture and awareness of business entities, which may lead over time to defining such relationships as innominate that refer to the Code. It is obvious that moving legal solutions from a foreign legal system never takes place straightaway but through a several years process of adjusting the solutions to the economic practice, building up a specific nature of a legal relationship.

### **1. The basis for an NDA in some sources of international law**

In terms of the current economic importance, a non-disclosure agreement (NDA) has its roots in common law. In relation to the nature of this legal system, this agreement is not codified anywhere and the interest that it serves refers to the *trade secrets* protection. The practice of non-disclosure agreements derives from the provisions on the protection.

Recent history of international industrial property protection is based on the Paris Convention for the Protection of Industrial Property<sup>5</sup> signed in 1883.

In Article 10 bis (Unfair Competition) of the Convention of 1967, an unfair competition activity was defined as a negative standard by indicating the activities which oppose fair industrial and trade activities. With reference to this provision, there were regulated directives which constitute the basis for the trade secret protection and were more or less precisely incorporated to the particular domestic legislation. Those directives are defined in Section 2 Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)<sup>6</sup>. It states that

---

<sup>5</sup> Journal of Laws of 1975 No 9, item 51 The Paris Convention for the Protection of Industrial Property of 20 March 1883, as amended.

<sup>6</sup> The Agreement on Trade – Related Aspects of Intellectual Property Rights), the annex to the Journal of Laws of 1996 No 32, item 143.

the parties of an agreement have an ability to protect information from disclosure if this information meets the following requirements:

- It is confidential – which means that as a whole (or its particular pieces) it is not generally known or easily available to people outside the circles which normally deal with this type of information;
- They have a commercial value because they are confidential, and
- They were subjected to reasonable actions in certain circumstances, by the person who is in charge of it, in order to maintain its confidentiality.

Further provisions regulating the secrecy of information that has an economic significance were included in the European Commission Regulation on technology transfer<sup>7</sup>. The provisions refer to know-how as the issue of protection. The Regulation defines know-how as a package of non-patented practical information, resulting from the experience and research, which is:

- undisclosed (it is not commonly known or easily available),
- significant (important and useful in terms of manufacturing products covered by the agreement)
- identified (described clearly enough so that it is possible to verify if it meets the criteria of secrecy and significance).

The most recent regulation at the European level harmonising the issues related to the protection of information is the directive of the European Parliament and of the Council No 2016/943 on the protection of undisclosed know-how and undisclosed commercial information (trade secrets) from illegal sourcing, use and disclosure of 8 June 2016. The main basis for adopting the Directive is Article 114 of the Treaty on the Functioning of the European Union (TFEU) which provides adopting of the EU provisions harmonising the domestic law when it is necessary for the proper functioning of the internal market. The motivation for issuing the directive were also the research and consultations conducted within the general strategy of the European Commission “Europe 2020”, and particularly the Innovation Union project, in terms of which in May 2011

---

<sup>7</sup> The Commission Regulation (EC) No 772/2004 of 07.04.2004 on the application of Article 81 Section 3 of the Treaty establishing the European Community into the specified category of agreements on technology transfer, (Journal of Laws EU 2005 L 123/11, the Official Journal EU 2004), Chapter 8, i.e. 3, p.47.

the Commission adopted a comprehensive strategy on intellectual property and covenanted to analyse the protection of trade secrets<sup>8</sup>. This Directive is a basis for the trade secret protection from its illegal sourcing, use and disclosure<sup>9</sup> (Article 1). In Article 2 of the Directive there is a definition of trade secret which is identical with the definition in Section 2 Article 39 of the TRIPS Agreement. Therefore, all three requirements should be met so that the information can be considered trade secrets, these are: confidentiality, commercial value, information protection/security. In the Directive there was set the deadline of the transposition into the domestic law on 9 June 2018. However, so far<sup>10</sup> the Polish government has not proposed the draft law implementing the directive.

By comparison, the trade secret protection in the USA is based on the state or federal acts. In 1979 in the USA there was adopted the Uniform Trade Secrets Act (UTSA) which, after amendments, was then adopted by 47 states in 1985. This document was a basis for the trade secret protection. In 1996 there was issued the Economic Espionage Act (EEA) where in Section 18 of the United States Code (U.S.C.) Chapter 90 "Protection of Trade Secrets" (§1831-1839)<sup>11</sup> there was defined that a violation or theft of a trade secret becomes a federal crime. Additionally, as a continuation of this approach, on 5 July 2016 there was adopted the Defend Trade Secrets Act (DTSA)<sup>12</sup> on the basis of which

---

<sup>8</sup> The Commission Announcement to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions COM(2011) 287 of 24 May 2011– „*Jednolity rynek w obszarze praw własności intelektualnej - Wspieranie kreatywności i innowacji celem zapewnienia wzrostu gospodarczego, atrakcyjnych miejsc pracy oraz wysokiej jakości produktów i usług w Europie*”.

<sup>9</sup> The Directive of the European Parliament and of the Council (EU)2016/943 of 8 June 2016 on the protection of undisclosed *know-how* and trade secrets from their illegal sourcing, use and disclosure.

<sup>10</sup> As of February 2017.

<sup>11</sup> 18 U.S.C. United States Code, Title 18, Part I, Chapter 90, U.S. Governing Printing Office, 2011 Edition.

<sup>12</sup> S.1890 – Defend Trade Secrets Act of 2016, 114th Congress (2015-2016), Public Law No: 114-153, 05/11/2016

companies can bring civil actions in a federal court<sup>13</sup>. Before that such cases had been considered at the state level<sup>14</sup>.

## **2. The issue of the protection and an analysis of an NDA characteristics**

Running a business activity requires numerous operational activities, the aim of which is to increase the company value. Some of them consist in the protection of particular components of a company, which was regulated by Article 55<sup>1</sup> of the Civil Code. According to those provisions, a company consists of material and non-material components that are featured by the their function that they are intended for – running a business activity. The components of a company included in Article 55<sup>1</sup> are composite and their characteristics is different. One of them is a trade secret defined by Subsection 8 that can be considered a certain confidential information being an issue of the protection. The legislator defines a trade secret in Article 11 Section 4 of the Act on Combating Unfair Competition as “undisclosed technical, technological and organisational information of a company or other information on which an entrepreneur took necessary measures to maintain its confidentiality”. Therefore, an issue of the protection *erga omnes* is the information which can by characterised by secrecy and economic value. Therefore, the condition that has to be fulfilled so that some information can be considered a trade secret is a cumulation of the abovementioned parameters. The prohibition to disclose confidential information was also defined in Article 72<sup>1</sup> of the Civil Code which indicates an obligation not to disclose confidential information obtained by the parties during a negotiation process. Such information should be considered *sensu largo* and the types of information defined in Article 11 of the Act on Combating Unfair Competition, i.e. technical, technological and organizational information were the examples. As the case-law shows, from the procedural perspective it is important to determine the intention and actual actions of an entrepreneur, taken in order to protect the information. Commonly known information or information that did not

---

<sup>13</sup> Seyfarth Shaw LLP, *Trading Secrets, Latest Updates on Federal Trade Secrets Legislation*, Copyright 2017.

<sup>14</sup> Forbes Magazine: *The New Defend Trade Secrets Act is the biggest IP development in years*, Goldman E., April 28, 2016.

undergo proper security measures cannot be considered trade secrets. Therefore, not all data that have an economic value can be an issue of the procedural protection. This is only information that an entrepreneur secured properly. However, the legislator did not decide on indicating the range of actions that should be taken so that the protection can be considered necessary.

A trade secret has definitely had a great significance for the success of a business activity. The importance of the protection is a key factor for keeping the competitive advantage of the entities that do their business on the market. The detailed technical information on the properties of an offered product require the protection from competitive entities. Also, the information on a strategy of a given business activity, business talks with other entrepreneurs, the catalogue of customers, an intention to purchase or sale securities – these are examples of information that can be defined as confidential. Even such an activity like negotiations with another entity can be considered a trade secret. Such information has always been kept confidential from potential competitors. The first contemporary example in this field is the case of *Vickery v. Welch*<sup>15</sup>, which was the issue of a trial in 1837 and concerned the ownership of the method of producing chocolate. The ruling proved the exclusive right of the buyer to “secret arts” of the acquired technology and it also confirmed a breach of the agreement by the seller due to the disclosure of the technology secrecy to other interested entities, which resulted in an obligation of compensation to be paid to the buyer.

Law literature is not very comprehensive when it comes to descriptions of the NDA characteristics. *Per analogiam*, this can be done by a reference to a much more particularly defined “Know-how Agreement” or “Agreement of Trade Secret Disclosure”. Additionally, in the lawyer’s discussion there appear two types of interpretation – the confidential information is the subjective right<sup>16</sup> or it is not<sup>17</sup>. Apart from

---

<sup>15</sup> Michalak. A. *The comment to „Ustawa o zwalczaniu nieuczciwej konkurencji”*, (ed.) Zdyb. M., Sieradzka M., Warszawa 2016, p. 387.

<sup>16</sup> Sołtysiński S., *Licencje na korzystanie (...)* p.170 and *„Ustawa o zwalczaniu nieuczciwej konkurencji (...)* (ed.) Szwaja J., 2016, p.438, and also Wojcieszko-Głuszko E., *„Ochrona (...)* p.164 and Michalak A., *Ochrona tajemnicy przedsiębiorstwa, Zagadnienia cywilnoprawne*, 2006, p.153 et seq.

<sup>17</sup> Gawlik B., *Umowa know-how (...)*, p.65 et seq. and Promińska U., *Prawo własności (...)*, (ed.) Promińska U., p.23.



this interesting view exchange, there should be indicated some essential features of a non-disclosure agreement.

A non-disclosure agreement (NDA) is consensual, causal, free of charge and binds one party to transfer the confidential information, and the other – to maintain the confidentiality of the information. In practice, non-disclosure agreements never function solely but are an complementary element of an agreement of cooperation with another entrepreneur or financial investor. It also occurs that confidentiality provisions are not a separate agreement but an additional clause to other agreements aimed at cooperation. Then, there appears a problem with interpretation of confidentiality provisions if an agreement of cooperation does not become valid or is terminated<sup>18</sup>. In such a case it should be investigated what the intention of the parties and the purpose of the agreement are, in accordance with Article 65 Section 2 of the Civil Code.

### **3. The structure of an NDA – the results of a characteristics analysis**

A non-disclosure agreement (NDA) as an innominate agreement can be formulated by the parties at their discretion, as indicated in Article 353<sup>1</sup> of the Civil Code. The only restriction is the condition that the content or purpose of the discretion is not contrary to the characteristics (nature) of the legal relationship, the law and the principles of social coexistence<sup>19</sup>. The entities of this legal relationship are two parties. Also, multilateral agreements are possible (e.g. an agreement that involves three or more partners, or a consortium agreement) or multiplicity of entities or third parties for whom or with whom a contractual legal relationship is realized.

A non-disclosure agreement (NDA) should contain at least minimum elements characteristic for every important agreement. They are: a proper introduction, indicating the purpose of the agreement, mutual relations/obligations of the parties, the agreement period, the notice period to terminate the agreement and the signatures of the parties. However, according to the fact that innominate agreements are not covered by the legal regime of statutory agreements, they can be flexibly

---

<sup>18</sup> Michalak A., *Ochrona tajemnicy przedsiębiorstwa, Zagadnienia cywilnoprawne*, 2006, p.238-239.

<sup>19</sup> Journal of Laws of 1964 No 16 item 93 the Act of 23 April 1964 the Civil Code, as amended.

shaped. Nevertheless, non-disclosure agreements as innominate agreements should have features typical for their characteristics (nature). The author of the paper is far from saying that those agreements can be freely formulated. Non-disclosure agreements should contain features of the agreements that have been shaped over years of business transaction practice. On the other hand, bearing in mind that it is an innominate agreement, one may say that a minimum requirement for this legal action to be valid is the mutual declaration of the parties. In fact, even the written form is not required in this case because according to Article 60 of the Civil Code, the mutual declaration of the parties can be expressed in any way. This is only a theoretical discourse because it is difficult to imagine an entrepreneur, who cares about the trade secret protection, concluding non-disclosure agreements orally. From the legal perspective, it is a possible situation but claiming rights in a trial due to a breach of the agreement by the other party would be very difficult. Therefore, entrepreneurs who sign a non-disclosure agreement try to do it in a proper form, i.e. proper for the purposes of evidence. The written form can be the proper one. According to Article 65 Section 1 and Section 2 of the Civil Code, the content of a non-disclosure agreement should at least correspond with the intention of the parties and the purpose of the agreement, should be compliant with the principles of social coexistence and established practice.

As A. Michalak<sup>20</sup> claims, “concluding non-disclosure agreements allows the parties to:

- Provide a stronger protection of information than it results from the tort protection (e.g. during negotiations);
- Extend the term of protection of information;
- Modify the principles of liability for disclosure of information;
- Simplify the claiming by the entitled person (e.g. by a contractual penalty)”.

For years of applying of non-disclosure agreements in the *common law* system and later the civil law system, there have been developed some specific components of those agreements. Some of them are:

---

<sup>20</sup> Michalak A., *The comment to „Ustawa o zwalczaniu nieuczciwej konkurencji* , (ed.) Zdyb. M., Sieradzka M., Warszawa 2016, p. 428.

- Defining the liability by indicating the conditions of the agreement for each party. For example, one of the parties commit themselves to transfer confidential information and the other – to maintain the confidentiality of the information. As a result, both parties commit themselves to take particular measures towards each other. It is also significant for a potential evidentiary proceeding. The structure of this part of the agreement may be more complicated and consist in mutual commitment of the parties to maintaining the confidentiality of the information obtained from the other party. Such situations usually take place during trade negotiations.
- Indicating the information that shall be disclosed. When analysing various non-disclosure agreements, too broad and general commitment to confidentiality by the parties is frequently noticeable. A party often agrees not to disclose any, which means none of the information that they obtained during a meeting, negotiations. When interpreting that, one may come to a conclusion that a party accepts a possibility of imposing a contractual penalty on them even for disclosing information of very little significance, far from the essence of the negotiations or information commonly known, which is unacceptable due to the fact that a disclosure of commonly known facts is not a criminal offence. It is worth indicating the exact catalogue of information that are considered confidential. According to Article 11 Section 4 of the Act on Combating Unfair Competition, the criterion of confidentiality is satisfied by the information that is publicly known, is of technical, technological or organisational nature, or any other that has an economic value. In contrary to the abovementioned provision, the confidential information protected on the basis of the agreement can also be the information that has no economic value so it cannot be legally covered by the definition of trade secret. On the other hand, the information which is illegal, against good morals and the principles of social coexistence shall not be protected.<sup>21</sup>
- Determining the method of transferring and securing confidential information between the parties. A significant element of the agreement is to determine how the confidential commercial

---

<sup>21</sup> Mozgawa M., *Zwalczanie nieuczciwej konkurencji środkami prawa karnego*, p.25, Gdańsk, 1997.

information shall be disclosed to the other party. The more specifically it is stated in the agreement, the more certain one can be that sensitive information shall not fall into unauthorized hands. Therefore, it is very important to properly secure the information obtained from the obligee. First, information that shall be transferred should be specifically determined and classified as confidential. A properly formulated non-disclosure agreement (NDA) should contain a detailed catalogue of confidential information and the documented fact of its transfer. The transferred information can also be documented in the form of a recording with a stenographic record. Then, the party receiving the confidential information should take care of the proper protection. If the NDA does not impose additional precautions, the receiving party should apply precautions at least as effective as for their own confidential information. The party receiving the confidential information should also take measures in order to protect themselves from using the obtained trade secret by their own employees. This can be done by including an appropriate clause in the employment agreement<sup>22</sup>. Securing of the confidential information should be conducted both in the office of the providing party and the receiving party. According to the agreement, the party obtaining the confidential information is obliged to properly secure the information not only outside but also inside the company. Any act of disclosure of such information by the employees of the party obliged to confidentiality results in sanctions. The employer cannot successfully defend themselves against violations resulting from an activity or failing to act inside the company. The only possibility of defense is to prove the illegal activity caused by the third persons. It should be emphasized that the party that commit themselves to confidentiality is also obliged to protect the obtained information effectively. In case-law there can be found numerous descriptions of situations which clearly show that the commitment to confidentiality means to effectively keep the obtained trade secrets (as a completed process), not only an attempt to do so. On the other hand, the proper defining of the type of information to be protected according to the agreement is very important, as well as the method of securing it by

---

<sup>22</sup> Laszuk G. *Instytut Wymiaru Sprawiedliwości – „Ochrona tajemnicy przedsiębiorcy. Praktyka sądów (...)* p.8, Warszawa 2009.

the providing party. There cannot be stated a breach of confidentiality concerning the information improperly secured and, therefore, such information that are not confidential and is or becomes commonly known. This is the predominating position of the Polish judiciary<sup>23</sup>.

- Determining the purpose of using the confidential information. This is another clause of the agreement that should be taken into consideration. To avoid misunderstandings, there should be indicated in the agreement the cause and purpose of transferring the confidential information. The purpose should be clearly determined, beyond any doubt. For the providing party it is often important that certain information is used only once and for a mutually determined purpose. In case when there is not any restriction like this, the party may use the information for other purposes, commercial transactions, which will be difficult to contest in court. At this point it should be clearly defined what the receiving party should do with the information after the expiry or termination of the agreement.
- Liability, contractual penalties. With reference to the importance of this issue, special attention will be paid to it. The main purpose of non-disclosure agreements is preventing situations when the party receiving the information makes it available to other persons, which will cause a financial loss to the entrepreneur. The breach of a trade secret is protected itself *ex lege* under the international provisions and domestic law both on the civil law and criminal ground. As A. Michalak<sup>24</sup> continues, the provisions on the trade secret protection can be found in the Polish legal system already in 1926, in Article 10 of the Act on Combating Unfair Competition. The provision involves criminal liability for breaching a trade secret and this model was applicable until 1993, when the currently effective law was adopted, amended in 2002. Therefore, since 1993 the same model of mixed civil-criminal liability has been applicable. A trade secret is an intangible right protected *ex lege* and sanctioned in Article 18 Section 1 of the Act on Combating Unfair Competition. This provision

---

<sup>23</sup> Nowińska E., Instytut Wymiaru Sprawiedliwości, Warszawa 2014, “*An analysis of the court proceedings based on the provisions of the Act on Combating Unfair Competition*” of 16 April 1993 (Journal of Laws [Dz. U.] No 47, item 211, as amended.).

<sup>24</sup> Michalak A., *The Comment to „Ustawa o zwalczaniu nieuczciwej konkurencji*, (ed.) Zdyb. M., Sieradzka M., Warszawa 2016, p. 387.

involves the civil liability, particularly determined in this article as failing to act illegally, remedying the effects of an illegal activity, submitting a statement in the proper form and with a proper content, illegitimate recovery of profits, adjudging a proper amount, and also destroying or contributing the objects related to the criminal offence for the compensation of the damage. Besides, the provision indicates a possibility to claim liability under the general principles of Article 415 of the Civil Code. Article 416 is of similar nature in terms of legal entities actions. Moreover, it should be stated that according to Article 422 of the Civil Code, not only the culprit bears liability but also the assistant, the inciter and the person who benefited directly from the damage done to the injured party. The economic practice shows that NDAs are mostly concluded during negotiations between the trade partners. In the course of talks there are frequently transferred information to the parties that require a particular protection. An additional provision that enhances the position of the person providing the trade secret during the negotiations is Article 72<sup>1</sup> of the Civil Code. According to this article, the other party is obliged not to disclose and transfer it to other persons and not to use the information for their own purposes, unless the parties agreed otherwise. Section 2 of this article indicates a possibility of a compensation claim for the damage from the other party or recovering the benefits obtained by the party.

A breach of a trade secret can also cause criminal sanctions. Such threats result from two provisions. The first is Article 266 of the Civil Code and the other is Article 23 of the Act on Combating Unfair Competition. The sanctions resulting from the Criminal Code are imposed on the person who, against the provisions of the law or the liability taken, discloses or uses the information that they got familiar with in connection with the preformed function, current employment, public, social, economic or scientific activity. In terms of the Act on Combating Unfair Competition the liability is borne by the person who, against this liability towards the entrepreneur, discloses the trade secret to another person or uses it for their own economic activity and as a result the person causes a serious damage to the entrepreneur. It should be noted that the provisions do not refer only to persons employed by the entrepreneur who suffered the damage. The provisions should be applied also in case of persons, entrepreneurs who breached a confidentiality agreement, non-disclosure agreement, trade secret disclosure agreement

or a know-how agreement. Obviously, these are the examples of agreements that regulate the issues connected with trade secrets. Another criminal sanctions that a person breaching a trade secret may be imposed on is an obligation to redress the damage in the criminal proceeding, and a possible prohibition of occupying a specified post or doing a specified job, as well as running a specified business activity if it threatens significant goods protected by Article 41 Section 1 and Section 3 of the Criminal Code. Additionally, a company that bears liability for the actions of a person convicted on the basis of Article 23 of the Act on Combating Unfair Competition (e.g. a member of the Management Board, an employee, a proxy), may get obliged to pay a fine of 1 thousand - 5 million zloty, although, not higher than 3% of the income obtained in a given financial year, in which the offence crime was committed, and which is the basis for liability of collective entities, in accordance with Article 7 of the Act on the Responsibility of Collective Entities for Acts Prohibited Under Penalty of 28 October 2002<sup>25</sup>. Against such collective entities the court shall order the seizure of: the items sourced at least indirectly by a criminal offence or items which were a part of, or were intended to be used to commit a criminal offence, material profits obtained at least indirectly by a criminal offence, the equivalent to the items or a material profit sourced at least indirectly by a criminal offence. Moreover, the court may order: a prohibition of promoting or advertising of the business activity, produced or sold goods, services or provided benefits; a prohibition of taking advantage of grants, subsidies or other forms of financial support with public funds; a prohibition of the access to the funds determined by Article 5, Section 3 Subsection 1 and 4 of the Act of 27 August 2009 on public finance<sup>26</sup>; a prohibition of benefitting from the assistance of the international organisations that the Republic of Poland is a member of; a prohibition of competing for public procurement, or disclosing the judgement to the public. Apparently, the sanctions can refer not only to a particular person but also the whole company if the infringing person acted on its behalf. This is possible through the Act on the Responsibility of Collective Entities for Acts Prohibited Under Penalty.

---

<sup>25</sup> Journal of Laws 2002 No 197 item 1661 i.e. Journal of Laws 2016 item 1541.

<sup>26</sup> Journal of Laws 2009 No 157 item 1240.

The abovementioned possibilities of claiming compensation or the provisions causing criminal sanctions for disclosing confidential information are provided in favour of the claimant usually after a long-term trial during which the suffered damage has to be proved. During the trial an expert is appointed who evaluates the damage on the basis of the actual condition as well as the lost benefits. The entrepreneur who suffered the damage should evaluate the loss by lending credence to the amount of the lost benefit which resulted from the disclosure of the trade secret. Therefore, the best and the fastest way for an entrepreneur to secure their interests is to apply a contractual penalty. A contractual penalty is much more effective instrument than liability borne on a general basis of Article 415 of the Civil Code. By applying a contractual penalty, it is possible to impose on the other party liability for paying an amount specified in an agreement without a necessity of proving the suffered damage. According to Article 484 Section 1 “the obligee is entitled to a contractual penalty in the amount specified for such a case regardless of the amount of the suffered damage”. When applying this provision, the obligee can enforce more rapidly the act of breaching a trade secret by the other party of the agreement. It is sufficient if the obligee presents only the evidence of disclosure. It puts an obligee in a privileged position, which reduces the time and costs of the court proceedings. According to Article 484 Section 1, any act of breaching a non-disclosure agreement (NDA) should result in a contractual penalty. The entrepreneurs who sign such agreements should be cautious because liability for the protection of the information established as “confidential” lies also on their employees. Even a disclosure of the information determined in the agreement as “confidential”, having no economic value, as in case of tort liability it may be charged with an enormous fine. The only possibility of reducing the penalty is proving by the debtor the inadequacy of the damage to the established penalty on the basis of the provision on mitigation. As the Supreme Court ordered on 8 August 2008 (V CSK 85/08), from the point of view of the obligee, a failure to perform an obligation itself is a damage and the established penalty is to compensate the damage in a general way, which in the economy based on the freedom of contract means a disciplining function, encouraging to perform commitments in accordance with their content. In the resolution of 6 November 2003 (III CZP 61/03) the Supreme Court presented the opinion that in the dispute on the legitimacy of the contractual penalty payment, the matter of the



damage resting on the obligee is not significant, both as a premise updating the obligee's claim and in case of proving the lack of damage by the debtor. A matter of the lack of damage or its little size can be considered in relation to the mitigation of the contractual penalty. The possibility of modifying the amount of the penalty by the mitigation mentioned above was included in Article 484 Section 2 of the Civil Code, which allows a claim for a reduction of the contractual penalty in a situation when the commitment was mostly performed or the contractual penalty is excessive<sup>27</sup>. When evaluating the legitimacy of the demanded amount of the contractual penalty, there should be taken into account the relations of the contractual penalty amount to the size of damage suffered by the obligee (the judgement by the Supreme Court of 20 June 2008, IV CSK 49/2008). Also, the excessive amount of the penalty is not a basis for considering the agreement invalid in art or in whole. If there was such a possibility, it would mean a violation of the provisions on controlling legal activities. Article 484 Section 2 of the Civil Code is a provision not restricted by any exemptions included in the law (the judgement SN sign. I CSK 126/08). The provision on mitigation of the compensation claimed for by the debtor belongs to so-called judge's law that in the light of the specified circumstances determines individually the inadequacy of the penalty amount (the judgement of the Court of Appeals in Katowice on 17 December 2008, V ACa 483/08). When reducing the amount of the penalty, the judge cannot go below the damage suffered by the obligee as a result of a failure to perform or improper performance of the commitment. It is unacceptable to reduce the amount of the contractual compensation to the amount of the compensation that the person who suffered the damage could obtain on a general basis. Sometimes, in non-disclosure agreements (NDA) entrepreneurs include clauses restricting a possibility of mitigation of contractual penalties, which was, however, questioned by the case-law. The judgement of 18 March 2013 the Court of Appeals in Białystok – I Civil Department (sign. I ACa 872/12) states: "Article. 484 Section 2 of the Civil Code is a mandatory provision, which means that the parties cannot exclude from the agreement a possibility of mitigation of the contractual penalty, and any decisions in this field should be considered

---

<sup>27</sup> Inwestycje.pl: *Kiedy można żądać zmniejszenia kary umownej*, Adamus P. Rachelski i Wspólnicy, 06.10.2012.

invalid”. Therefore, the only possibility to reduce the contractual penalty belongs to the judge and the judge can decide not to apply it if they agree that the debtor contributed to the damage on purpose or was not cautious sufficiently about the performance. Additionally, in order to secure the interests better, particularly when it is not certain if the contractual penalty shall compensate the damage suffered by the trade partner, there should be included a provision on claiming for compensation also on the basis of the general provisions of Article 415 of the Civil Code.

Another significant issue that should be regulated in a non-disclosure agreement (NDA) is the period of the information confidentiality. In practice, it is established that this period is subject to any arrangement according to the intention of the parties. However, it should not exceed beyond the existing confidentiality status. Therefore, if the information included in the agreement lose the status of a trade secret, it would be reasonable to consider the commitment as unexisting from now on. Free shaping of the protection period can be restricted only in case of defining the period by no term due to the statutory prohibition of using such a term. One should agree with the thesis that “subjective rights expire after the specified time. An implementation of exclusive non-material property rights of eternal nature would be an obstacle for the development of the culture, science and technology<sup>28</sup>”. It must be considered that the protection of confidential information is always a temporary commitment but strictly connected with the purpose of the protection and restricted by its confidentiality status. The only statutory period established by the legislator to protect the trade secret results from Article 11 Section 2 of the Act on Combating Unfair Competition, according to which the protection in the relationship between the employer and the employee lasts up to 3 years of the date of termination of the employment relationship, unless the confidentiality status ended or the parties agreed to modify the protection period. The obligation of protecting the trade secret results also from Article 100 Section 2 Subsection 5 of the Labour Code. In case when the employer-employee relationship is terminated or it expired, the parties may also apply a separate non-compete agreement, i.e. non-competition clauses<sup>29</sup>.

---

<sup>28</sup> Niedośpiał M., *Know-how i sprawa porozumień (...)*, p. 230. ZN UJ 1977.

<sup>29</sup> Michalak M., *The comment on „Ustawa o zwalczaniu nieuczciwej konkurencji”*, (ed.) Zdyb. M., Sieradzka M., Warszawa 2016, p. 434 et seq.

## **Conclusions**

The structure of a non-disclosure agreement (NDA) described in the paper encourages to its application on large scale. The entities present on the market, particularly in innovative sectors should aim as widely as possible at providing security to the transferred information in trade relationships. It is commonly known that the value of trade secrets is comparable with the value of patents and other intellectual property rights.

A non-disclosure agreement (NDA) provides, by applying a contractual penalty, bigger claim possibilities in case of a breach of confidentiality of the protected information. Another factor encouraging to conclude non-disclosure agreements (NDA) is the current lack of harmonisation of the trade secret protection in the global space. Despite the fact that the problem was noticed and the Directive of the European Parliament and of the Council EU 2016/943 was issued, the EU Member States are in a threatened position in terms of relationships outside the EU framework of legal protection. It is also worth to emphasize that the adopted directive does not establish common standards of protection in terms of the abilities of criminal sanction application. Therefore, concluding a non-disclosure agreement (NDA) enhances the possibilities to protect the rights in economic relationships.

## **Literature**

- [1.] Gawlik B., Umowa know-how: zagadnienia konstrukcyjne, nakład UJ, PWN 1974.
- [2.] Katner J., Prawo zobowiązań – umowy nienazwane, Volume 9, Issue 2, Warszawa 2015.
- [3.] Laszuk G., Instytut Wymiaru Sprawiedliwości – Ochrona tajemnicy przedsiębiorcy. Warszawa 2009.

- [4.] Michalak A., The comment to „Ustawa o zwalczaniu nieuczciwej konkurencji” , (ed.) by Zdyb. M., Sieradzka M., Warszawa 2016.
- [5.] Michalak A., Ochrona tajemnicy przedsiębiorstwa, Zagadnienia cywilnoprawne, 2006.
- [6.] Mozgawa M., Zwalczanie nieuczciwej konkurencji środkami prawa karnego, Gdańsk, 1997.
- [7.] Niedośpiał M., Know-how i sprawa porozumień międzynarodowych. ZN UJ PrWynalaz. No 10, 1977.
- [8.] Nowińska E., Instytut Wymiaru Sprawiedliwości, Warszawa 2014, An analysis of the court proceedings based on the provisions of the Act on Combating Unfair Competition of 16 April 1993 (Journal of Laws No 47, item 211, as amended). Available at: <http://www.iws.org.pl/pliki/files/2%20IWS%20Nowińska%20Analiza%20postępowania%20sądowych%20przepisy%20ustawy%20o%20ozwalczaniu%20nieuczciwej%20konkurencji.pdf>
- [9.] Promińska U., Prawo własności przemysłowej, ed. U. Promińska, Warszawa 2005.
- [10.] Radwański Z., Panowicz-Lipska J., Zobowiązania – część szczegółowa, Issue 11, 2015.
- [11.] Sołtysiński S., Licencje na korzystanie z cudzych rozwiązań technicznych, Warszawa 1970.
- [12.] Szwaja J., Ustawa o zwalczaniu nieuczciwej konkurencji, The Comment, Issue 4, Warszawa 2016.
- [13.] Wojcieszko-Głuszko E., Ochrona prawna know-how w prawie polskim na tle porównawczym, ZN UJ Kraków 2002.
- [14.] The Act on the Responsibility of Collective Entities for Acts Prohibited Under Penalty of 28 October 2002 (Journal of Laws 2002 No 197 item 1661 i.e. Journal of Laws 2016 item 1541).
- [15.] The Act of 27 August 2009 on public finance (Journal of Laws 2009 No 157 item 1240).
- [16.] The Act of 23 April 1964 the Civil Code (Journal of Laws 1964 N 16 item 93, as amended).
- [17.] The Act on Combating Unfair Competition of 16 April 1993 (Journal of Laws No 47, item 211, as amended).
- [18.] The Commission Regulation (EC) No 772/2004 of 07.04.2004 on the application of Article 81 Section 3 of the Treaty establishing the

- European Community into the specified category of agreements on technology transfer, (Journal of Laws EU 2005 L 123/11, Official Journal EU 2004).
- [19.] The Commission Announcement to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions COM(2011) 287 of 24 May 2011.
- [20.] The Agreement on Trade – Related Aspects of Intellectual Property Rights), the annex to the Journal of Laws of 1996, No 32, item 143.
- [21.] the Paris Convention for the Protection of Industrial Property of 20 March 1883 as amended (Journal of Laws of 1975 N 9, item 51). Available online on WIPO website at: [http://www.wipo.int/treaties/en/text.jsp?file\\_id=288514](http://www.wipo.int/treaties/en/text.jsp?file_id=288514)
- [22.] The Commission Announcement to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions COM(2011) 287 of 24 May 2011– „Jednolity rynek w obszarze praw własności intelektualnej - Wspieranie kreatywności i innowacji celem zapewnienia wzrostu gospodarczego, atrakcyjnych miejsc pracy oraz wysokiej jakości produktów i usług w Europie”. Available online at: <http://ec.europa.eu/transparency/regdoc/rep/1/2011/PL/1-2011-287-PL-F1-1.Pdf>
- [23.] The Directive of the European Parliament and of the Council (EU)2016/943 of 8 June 2016 on the protection of undisclosed know-how and trade secrets from their illegal sourcing, use and disclosure. Available online at: <http://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:32016L0943&from=EN>
- [24.] 18 U.S.C. United States Code, 2011 Edition. Title 18, Part I, Chapter 90, U.S. Governing Printing Office. Available online at: <https://www.gpo.gov/fdsys/pkg/USCODE-2011-title18/html/USCODE-2011-title18-partI-chap90.htm>
- [25.] S.1890 – Defend Trade Secrets Act of 2016, 114th Congress (2015-2016), Public Law No: 114-153, 05/11/2016. Available online at: <https://www.congress.gov/bill/114th-congress/senate-bill/1890/text>
- [26.] Seyfarth Shaw LLP, Trading Secrets, Latest Updates on Federal Trade Secrets Legislation, Copyright 2017. Available online at: <http://www.tradesecretslaw.com/latest-update-on-federal-trade->

secret-legislation/

- [27.] Forbes Magazine: The New Defend Trade Secrets Act is the biggest IP development in years, Goldman E., April 28, 2016. Available online at: <https://www.forbes.com/sites/ericgoldman/2016/04/28/the-new-defend-trade-secrets-act-is-the-biggest-ip-development-in-years/#98ec3114261e>
- [28.] Inwestycje.pl: Kiedy można żądać zmniejszenia kary umownej, Adamus P. Rachelski i Wspólnicy, 06.10.2012. Available online at: <http://inwestycje.pl/prawo/Kiedy-mozna-zadac-zmniejszenia-kary-umownej;180191;0.html>