ANALYSIS

Commercial secrecy and confidentiality regimes in Russian law—a test-drive by the High Court in the AutoStore v Ocado robots war patent dispute

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Abstract

The article considers the Russian law regulation of the duty of confidentiality that can be imposed either by creating commercial secrecy regime under the Law on Commercial Secrecy or by entering into an NDA having the necessary essential terms under the Russian Civil Code, and how trade-secret/know-how fits into this rubric. The authors also discuss whether email confidentiality disclaimer can create a duty of confidence. The legal issues discussed in the article have played a key part in AutoStore v Ocado, one of the largest patent disputes in the UK in recent years.

Introduction

According to art.29 of the Russian Constitution, everyone has the right to freely search information and to receive, transfer, produce and distribute it in any lawful manner. As such, any limits on the access to information, including by means of confidentiality, can only be introduced pursuant to the conditions provided for by a federal law. Although the ability to protect confidential information is paramount for business, the confidentiality regime has not received the attention it deserves in academic writings. The relevant legal provisions under which information may be regarded as confidential are as follows:

- the rules on the regime of commercial secrecy (the Law on Commercial Secrecy[1]);
- the general provision of the Russian Civil Code (RCC) on freedom of contract (art.421 of the RCC), where a contractual duty of confidentiality/non-disclosure of information can be imposed on contract parties; and/or
- the rules of the RCC on trade secret (know-how) (art.1465 of the RCC).

Confidentiality under the "Commercial Secrecy" regime

What is commercial secrecy?

Under the Law on Commercial Secrecy, information of any nature (e.g. technical, economic, organisational, etc.), which contains actual or potential commercial value because it is unknown to third parties, could be covered by "commercial secrecy" provided that the owner of that information has expressly introduced a special secrecy regime (art.3(2)).

What the owner is entitled to do?

The owner of the information constituting a commercial secrecy is entitled inter alia to authorise or prohibit access to such information, to determine the procedure and conditions of access to this information, and to require from the persons who have access to the information to comply with the obligations to protect its confidentiality (art.6.1 of the Law on Commercial Secrecy).

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[1] Federal Law No.98-FZ on Commercial Secrecy, 29 July 2004.

What is needed to protect it?

In order for the information to be protected by the special regime of commercial secrecy, the owner of the information should undertake a number of internal measures listed in art.10(1) of the Law on Commercial Secrecy:

- determine the scope of such information (i.e. type of information and what it concerns);
- restrict the access to such information by establishing the procedure for handling this information and monitoring compliance with such procedure (i.e. adopt an internal procedure for staff on dealing with such information and how this process is controlled);
- record persons who receive access to such information and/or persons to whom such information was provided or transferred (i.e. maintaining a list of persons accessing such information);
- organise the use of such information by employees on the basis of employment contracts and by counterparties on the basis of civil law contracts (i.e. both employment contracts and the contracts with the third parties should provide for the duty of the parties receiving confidential information to maintain its confidentiality and the procedures for using the information); and
- mark (label) the physical media (such as paper / electronic documents / other media) containing the information as "commercial secrecy" with the indication of the owner of such information.

When is the regime created?

The regime of commercial secrecy is deemed to be established only once the above-mentioned measures are taken by the owner of the information (art.10(2) of the Law on Commercial Secrecy).

Contractual Confidentiality Regime

Essential terms of non-disclosure agreement (NDA)

Russian civil law does not provide for a separate type of an agreement for confidentiality. However, under art.421 of the RCC, legal entities and individuals are free to conclude any type of agreement. As such, the parties may create a regime of confidentiality between them by virtue of their agreement, i.e. a contractual undertaking by a party not to disclose certain information as provided for in the agreement. Breach of such undertaking may trigger contractual liability. For instance, the court can award damages for breach of the duty or order to pay a contractual penalty aganist the party that is in breach of a confidentiality provision (provided such penalty was specified in the contract).

For instance, in *RN-BashNIPIneft v Level Up*, the claimant (customer) and the defendant (contractor) concluded agreements, under which the contractor was obliged to organise and conduct corporate events for the claimant's employees. According to the contracts, any information that is valuable to the customer due to the fact that it is unknown to third parties and is not intended for public distribution is deemed "confidential information". The parties were obliged to take all measures for its preservation and not to allow its disclosure to third parties without prior written consent of the other party. Meanwhile, in violation of the terms of the contracts and in the absence of the customer's consent, the corporate event materials of the company (photos, information about preparation and implementation of events) were placed on Level Up's website for marketing purposes. The courts found the defendant to be in breach of the contractual undertaking and ordered it to pay a contractual penalty.[2]

Therefore, if the duty of keeping the information confidential is established by an agreement between the parties, they must observe it.

However, the courts would assess whether the non-disclosure agreement was duly concluded. The parties must reach agreement on all essential terms in order for the contract to be duly concluded and enforceable. According to art.432(1) of the RCC, such essential terms are:

- the subject matter of the contract (i.e. the nature of the fundamental obligations agreed by the parties);
- terms defined in the law as essential for that specific type of contract; and
- terms which must be agreed upon a declaration of one of the parties.

Although there is no prescribed list of essential terms for a confidentiality agreement, based on the commentaries and case law, we consider that it must contain the following essential terms to be deemed concluded:

- the scope of the confidential information;
- the parties' obligations not to disclose confidential information; and
- the time period of the confidentiality obligations of the parties.

It is beyond doubt that any enforceable confidentiality agreement would require the parties to agree upon the scope of such information (i.e. it should be identified one way or another, and the issue of precision is secondary; primary point is that it must be specified to be protected)

[2] *RN-BashNIPIneft v Level Up*, judgment of the Commercial Court of the Ural Circuit in case No.A07-33331/2019, 16 October 2020.

and the actual obligation to keep the information in confidence (because there is no such implied duty by default as we explain below).

As for the time-period, it is arguable whether the term is essential or not. On the one hand, it is inconceivable and unreasonable to have a perpetual duty of refraining from taking an action (i.e. so-called negative obligations, like a non-disclosure obligation). Based on the idea that contractual obligations that restrict economic freedom should be time-limited, Russian law generally does not favour contractually imposed everlasting negative obligations.[3] Therefore, a duty to keep information confidential should have a period during which it remains effective.[4] On the other hand, it can be argued that the time period of such obligation is not essential, because the period can be defined by resorting to the concept of "a reasonable time" having regard to the circumstances of the case. For example, if a contractor working on a TV lottery show enters into an NDA with a TV studio providing no specified time of a non-disclosure obligation, and during the broadcasting of the show he learns the results of the lottery, it would be reasonable for a non-disclosure duty to expire (discharge) after the show is aired. This is because after the show the information ceases to be of any value and we cannot assume that the reasonable parties would have reasonably intended this obligation to last longer than that moment in time.

However, it is not always possible to establish the term by invoking the said concept. For instance, if the parties signed an NDA for a potential business acquisition, and during due diligence a potential buyer has learned confidential information about the target business, it would be difficult to interpose any reasonable term for the buyer to keep the information confidential. Naturally, the seller would want the information to be kept confidential for as long as possible, particularly where the sale transaction did not go ahead. One way to approach this is for information to be kept confidential for at least as long as the target business is a going concern. There is, however, no highest judicial authority on this point; and the issue is yet to be put to the test.

Disclaimer in an email as an NDA

It is very common in business practice to add automatic disclaimers in emails that prescribe that the information contained within is confidential. There is no authority on this, and this is a measure of precaution. As such, there is no basis to conclude that such text on its own could provide any basis for creating a duty of confidentiality.

As it follows from the provisions of Russian law, the contractual confidentiality regime between the counterparties cannot be established in a unilateral way by one party only.

Moreover, according to art.435(1) of the RCC, an offer (a disclaimer in such instance) should be sufficiently definite, express the intention of the offeror to consider himself as having concluded a contract with the addressee, and contain the essential terms of contract. Consequently, in order to determine whether the confidentiality disclaimer is an offer, a Russian court would consider whether it was specific, defined the scope of confidential information, contained a party obligation not to disclose confidential information, and a time-period of the obligation. Notably, a disclaimer that is being automatically added at the bottom upon sending each email does not meet these criteria and will not have the effect of an offer, which is deemed accepted upon reading the email. However, the enforceability of such disclaimer has not been tested by Russian courts.

If the disclaimer meets the mentioned conditions, the next question for the court would be to determine whether full and unconditional acceptance was received from the addressee.

Furthermore, Russian law provides for special rules on a written form of contracts. Under arts 160(1) and 434(2) of the RCC, a contract in a written form may be concluded by drafting up one document signed by the parties or by virtue of an exchange of documents by means of, inter alia, electronic communication that reliably establishes that the document (offer/acceptance) proceeds from a party to the contract being made. There exists some case law which shows that communication via exchange of email messages could not establish reliably that a document comes from a party to the contract. Russian case law considers that the exchange of documents by email is sufficient to identify a person only in a limited number of instances, e.g. when a particular email address is specified in a contract, or the parties have historically engaged in correspondence via email using same email addresses.

Implied duty of confidentiality

There is no general implied duty of confidentiality under Russian law. As explained above, any duty of confidentiality would require at least agreeing upon its essential terms, such as the scope of the information that should be protected from disclosure, the time-period of the duty, and the obligation of a person to keep it in secret.

Interrelation between statutory "commercial secrecy" regime and contractual confidentiality regime

Since a contractual duty of confidentiality is established by contract between two or more parties, it does not extend to third parties who received access to such

[3] A.G. Karapetov, *Execution and Termination of the Obligation: Commentary to Articles 307 - 328 and 407 - 419 of the Civil Code of the Russian Federation* (Moscow: M-Logos, 2022); see also Information Letter No.147 of 13 September 2011 of the Russian Presidium of the Supreme Commercial Court, para.9.
[4] Consider IV. E.—2:203: Confidentiality in the DCFR.

information. In contrast to the statutory commercial secrecy regime, the contractual confidentiality regime cannot be enforced against third parties.

If the parties intend to create a contractual confidentiality regime without resorting to the statutory regime, it is important to make it clear that the contract does not refer to the commercial secrecy regime under the Law of the Commercial Secrecy. Otherwise, there is a possibility that a court would consider that the parties intended to be governed by the said Law and determine if the rigorous statutory requirements were complied with.

For instance, in *Sibenergotrade v IDGC of Siberia*,[5] the agreement for electric power transmission services provided that all information about the parties' activities obtained by them during the conclusion, amendment, execution and termination of the contract, as well as its content, was deemed a "*commercial secret*" (as opposed to "confidential") and should not be disclosed to third parties during the term of the contract and for three years after its termination. After one of the parties disclosed the contractually protected information to a third party, the other party brought a claim for recovery of losses. However, the courts denied the claim holding that the commercial secrecy regime is deemed established only once the owner of the information has taken the measures specified in art.10 of the Law on Commercial Secrecy. Since the conditions established in the law were not met, the courts found no grounds to consider the disclosed information as a commercial secrecy.

It is quite probable that the parties in this case intended to create a contractual obligation on non-disclosure without resorting to the rigorous commercial secrecy regime. However, the court's interpretation of the parties' intent appeared to be quite the opposite likely due to a lack of clarity in the contractual terms.

Trade secret (know-how)

Russian law provides for one more legal regime that can be easily confused with the commercial secrecy regime—it is a trade secret. However, the way both pieces of legislation have developed in 2011–14 resulted in an impasse whereby the definition of a "trade secret" is very similar to the "information constituting 'commercial secrecy'": the information of any nature on the results of intellectual activity in the scientific and technical sphere and on the methods of professional activity, which have actual or potential commercial value due to them being unknown to third parties. The use of the identical terms by the legislator has made it impossible to draw a borderline between the commercial secrecy and know-how, including whether the former still can be considered independent or whether it is in fact a part of the know-how regime (thus leaving no room for a stand-alone "commercial secrecy" being absorbed by the know-how concept).

However, according to art.1465 of the RCC, the owner of such information should take reasonable measures to maintain its confidentiality, including but not limited to introducing a commercial secrecy regime. Consequently, one of the differences is that implementing the measures under the Law on Commercial Secrecy is not required to protect the know-how.[6] It would be sufficient to take other reasonable measures, such as for example, storing documents on a special file storage facility with no access by third parties. This, however, creates a conundrum as to what type of situation would it be where the notions of commercial secrecy and know-how are same. Where one person creates a know-how over certain information and protects its by means other than those provided by the Law on Commercial Secrecy, whereas another person creates a commercial secrecy regime over the same information and protect it by means of the said Law. There is no obvious logical reason to treat both differently or to allow lesser protection regime to know-how (an understandable creature of the IP law).

Nevertheless, there is one noticeable difference between the definitions of a trade secret and "information constituting commercial secrecy" is that the law defines trade secrets as "results of intellectual activity", whereas the "commercial secrecy information" may cover any information, even that which does not have the attributes of "the results of intellectual activity". Presumably, products and services of artificial intelligence can fall within the ambit of the latter notion. However, it does raise the same question as to why it should require a harsher protection regime for 'commercial secrecy' as compared with a know-how.

Russian law on confidentiality as the key for the outcome of AutoStore v Ocado

AutoStore v Ocado, one of the largest recent patent disputes in the UK in recent years, was resolved last year: the claim by Autostore Technology against the Ocado group was dismissed after the High Court applied Russian law on confidentiality.[7]

The claimant (AutoStore) specialises in the development of robots for warehouse automation technology. The defendant (Ocado) is a British technology company that develops software and automation systems for online stores. AutoStore alleged infringement of its utility model patents and claimed damages, it was also seeking to bar Ocado from using the claimant's patented models in its business.

Ocado denied these allegations given that it has its own proprietary technologies. As part of its defence strategy, Ocado had to prove that the disputed claimant's models

[5] *Sibenergotrade v IDGC of Siberia*, judgment of Supreme Commercial Court in case No.A27-12862/2011, 23 August 2012.
[6] Originally, art.1465 of the RCC did require complying with the Law on Commercial Secrecy in respect of means of protection for a trade secret, but that provision was amended in 2014.
[7] *Autostore Technology AS v Ocado Group Plc* [2023] EWHC 716 (Pat) at [440].

were not patentable as they lacked "novelty". To do this, as a matter of English law, Ocado had to demonstrate that the claimant, prior to applying for registration of its patents, had distributed information about the model to anyone in the world who was not bound by a duty of confidence in relation to this information.

It was established by the High Court that AutoStore had disseminated some information about its products to be supplied to Russia with a Russian distributor before entering into a distribution agreement containing a non-disclosure provision. AutoStore accepted that the disclosures had been made and further accepted that if they were made without any obligation of confidence on the part of the recipients of the relevant information, both patents lacked novelty. The key question remained unresolved: whether the disclosed information was protected by confidentiality, which had to be established in accordance with Russian law.

Relying on Russian law evidence, Ocado was able to prove to the court that the claimant had disclosed information to its Russian counterparties who were not bound by the duty to keep information confidential, and that a confidentiality clause disclaimer at the end of some emails, as a matter of Russian law, could not create a non-disclosure obligation between the sender and recipient of the email. The court particularly emphasised that the wording of the "general disclaimer at the end of the email" could not be interpreted as an offer, because it did not contain the essential terms of a confidential agreement to be enforceable:[8]

> "In my view, had there been a contract, it would require a standard email disclaimer to do much more work than any reasonable offeree would have understood for it to act as a term binding [the recipients]."

Based on that, the court held that there was no email from the addressee containing its acceptance of any non-disclosure obligation: "it is equally not possible to say how silence could have constituted an acceptance of anything". The court also held that there is no standalone obligation of confidence as a matter of customs of commerce under Russian law.

This English judgment is a good illustration for commercial parties in general, and cross-border development businesses in particular, that a short-sighted handling of valuable information may boomerang even years later and deprive the inventions of legal protection. The judgment is thus a good reminder that it would be a good rule of thumb for a technological or any development business to include a trivial confidentiality clause or sign a "one-page" NDA with its partner before taking off the project.

All in all, in our view, the court's conclusion regarding the Russian law on confidentiality and, in particular, inability of a disclaimer in an email to constitute an offer if it does not contain the essential terms of an agreement, was rendered in line with Russian law.

[8] *Autostore Technology AS v Ocado Group Plc* [2023] EWHC 716 (Pat) at [380]–[382].