

Newsletter

# Special Edition

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## The new EU-Trade Secret Directive and Switzerland – are we similar?

In June 2015, the European Parliament voted on and accepted the new European trade secrets directive. The directive has now entered into force and EU member states will have two years to implement the directive into their national legislations. This development could bear a distinctive impact on Switzerland. Switzerland is not a member of the EU. Consequently, it is possible that certain European businesses could refrain from disclosing confidential information to partners in Switzerland with the concern that Switzerland would not provide a comparable trade secret protection level. This newsletter attempts to shed light on (i) the legal framework provided under the new European trade secrets directive, (ii) the concepts of trade secret protection in Switzerland and to provide (iii) a short comparison of both systems to address possible concerns. Precautionary measures are recommended to avoid disparities between both systems.

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## The new EU-Trade Secret Directive and Switzerland – are we similar?

### 1. Background and concerns

In November 2013, the European Commission has proposed a new directive for the protection of trade secrets. In May 2014, the Council has provided an own legislative draft which entered into parliamentary debate. In June 2015, the European Parliament voted on and accepted the new European trade secrets directive in the form of a finalized (and slightly amended) draft ("**EU-TS-Directive**"). The EU-TS-Directive has now entered into force and EU member states have a deadline of two (2) years to implement the directive into their national legislations (see Chapter III, Art. 18 EU-TS-Directive). This development might have a distinctive impact on Switzerland. After all, Switzerland is not a member of the European Union and it is possible that European businesses might refrain from disclosing confidential information to partners in Switzerland with the uncertainty or concern that Switzerland does possibly not provide a comparable trade secret protection level as under the newly established EU-TS-Directive. The purpose of this newsletter is to shed light on (i) the essential framework provided under the EU-TS-Directive, (ii) the current concept of trade secret protection in Switzerland and to provide (iii) a short comparison of the two systems to address possible concerns in Europe about trade secret protection in Switzerland.

### 2. The EU-TS-Directive in a nutshell

Trade secrets are an important asset for all businesses. They are the core of competitiveness, in particular for businesses less dependent on technical innovations enjoying patent or copyright protection, but rather create "soft" innovations as frequently seen in companies of the service sector (e.g. manufacturing methods and processes, marketing techniques and/or business strategies unique to a company or customer-related information). Up to this day, trade secrets are not regulated unitarily on a European level. This has led to a patchwork of different regimes across Europe. The remedies available against the violation of trade secrets vary from country to country. The EU-TS-Directive is an endeavor to close this gap and to strengthen the European Economic Zone and to foster a marketplace where the cross-border-exchange of trade secrets is incentivized for the benefit of innovation and economic growth.

#### 2.1 Trade Secrets and protective scope under the EU-TS-Directive

The EU-TS-Directive defines trade secrets as any information that (i) is secret, i.e., not generally known or readily accessible to people in a wider community than the ones who typically deal with that information, (ii) has an actual or potential commercial value because it is secret and (iii)

has been subject to reasonable steps under the circumstances to keep it secret. The directive does not specify what information qualifies as a trade secret by category or content, but rather operates with the general principles mentioned above (Chapter I, Art. 2 EU-TS-Directive).

Under the EU-TS-Directive, a person who is lawfully entitled to control a trade secret is considered to be its rightful carrier. Thus, not only the original owner or creator of a trade secret enjoys protection under the EU-TS-Directive, but also, e.g., his licensee or similar contractual partners (Chapter I, Art. 2, para. 2 EU-TS-Directive).

The EU-TS-Directive provides for an objective test for the infringement of a trade secret. Any acquisition, use and disclosure of a trade secret gained by (i) unauthorized access, copying or appropriation or any other conduct considered contrary to honest commercial practices constitutes an infringement of a trade secret. The same applies, if (ii) a "secondary infringer", i.e., a third party involved, commits any of the above, if it knew or should have known that the trade secret it has received was directly or indirectly obtained from someone else that had unlawfully obtained it (Chapter II, Art. 3 EU-TS-Directive). Interestingly, the term "infringing goods" has been tailored subjectively. It only relates to confined, manufactured or distributed products which "to a considerable extent" benefit from the trade secret at hand (Chapter I, Art. 2, para. 4 EU-TS-Directive). Thus, there is considerable discretionary room left to escape the inference of a committed infringement, if one's product does not considerably benefit from an alleged trade secret.

The EU-TS-Directive provides for limited exceptions to the infringement of a trade secret, notably (i) independent discovery, (ii) reverse engineering, (iii) legitimate use of freedom of expression or information

and (iv) legitimate whistle blowing or (ivv) a mandatory obligation to disclose such information to authorities so as to uncover a criminal offense or misdemeanor (Chapter II, Art. 4, para. 1 and 2 EU-TS-Directive).

## **2.2 Remedies against trade secret infringements under the EU-TS-Directive**

Finally, the EU-TS-Directive sets forth a range of robust remedies to enforce trade secrets against infringers. Overall, the remedies are shaped independent of an infringer's personal fault. However, they do not shift the burden of proof to an alleged infringer. The trade secret carrier invoking remedies carries the burden of proof. The remedies foreseen in the EU-TS-Directive cover (i) injunctions against further use or disclosure of infringing goods, (ii) taking further actions with regard to the infringing goods such as seizure of the infringing goods or (iii) a court order prohibiting these goods from being produced, marketed, sold, stored, imported or exported as well as (iv) recalls under which all documents, objects or any data embodying the trade secret may be ordered to be destroyed and (ivv) damage claims against a conscientious infringer (who knew or should have known about the infringement) based on all relevant factors, in particular the infringer's generated profits, reputational damages, or based on a hypothetical license fee (see Chapter III EU-TS-Directive). The EU-TS-Directive also establishes a protection of trust for trade secrets disclosed in the course of court proceedings. Courts are held to take appropriate measures to secure the confidential treatment of such trade secrets (Chapter III, Art. 8 EU-TS-Directive). The same applies for the publishing of court decisions (Chapter III, Art. 14 EU-TS-Directive).

## **2.3 Comment**

The ambitions underlying the new EU-TS-Directive are welcome. However, it is doubtful whether the envisaged harmonization goal will be achieved by it. The EU-TS-Directive leaves plenty of room for interpretation. The major relevant interpretation of what constitutes a trade secret under the general principles of the EU-TS-Directive remains in the sphere of the member states' courts (in particular, what ought to be considered "reasonable steps to keep knowledge secret" or which trade secret has "potential commercial value"). Also, it is unclear whether the directive stipulates a minimum or a maximum degree of harmonization among the member states. The Council's first draft reflected that member states may provide a higher level of protection, but neither the subsequent Commission's proposal nor the final draft of the parliament reflect this. It is also unpredictable in which way the EU member states will implement the directive, e.g., if they will shape trade secret protection in the form of an absolute "quasi" intellectual property right or if they will implement it under a more relative (equity-like) statute as, e.g., unfair competition law statutes. Another debated topic is the subject of employee mobility. Employee mobility is granted under the European legal framework (freedom of movement). In the course of the formulation of the new EU-TS-Directive, the European Parliament had expressed that trade secrets should not provide any grounds for limiting the use of experience and skills honestly acquired by employees in the normal course of their employment when occupying a new position. Nevertheless, in practice, it will be difficult to strike a balance between deciding what constitutes a trade secret and what should be considered as knowledge and experience gained by the employee. Here as well, local practices are likely to vary on this topic.

### 3. Concepts of trade secret protection in Switzerland

It is pertinent to mention that Switzerland is a signatory state to the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPS"), an international agreement administered by the World Trade Organization ("WTO"). The TRIPS-Agreement stipulates minimum standards for intellectual property regulation in the international trading system and includes the regulation of trade secrets. It is considered as one of the most comprehensive international treaties on intellectual property law.

The Swiss legal framework does not provide for a particular trade secrets act. There are, however, multiple provisions on trade secrets addressed in different statutes to ensure an overall-adequate, but also differentiated level of trade secret protection in line with the the TRIPS-Agreement. The most relevant statutes under Swiss law are (i) the Swiss Act against unfair competition (UCA), (ii) the Swiss criminal Code (CC) and (iii) the Swiss Code of obligations (CO), in particular its sections on employment law.

#### 3.1 Trade secrets and protective scope in Switzerland

Swiss legal theory and the established court practice have provided a similar overall-definition of trade secrets, namely (i) *any information that is neither publicly known nor accessible, as of which* (ii) *the carrier of the secret has a legitimate interest on the maintenance of its secrecy* (objective requirement) and (iii) *wants to maintain such information secret* (subjective requirement). Although this definition does not explicitly mention "reasonable measures undertaken to keep information secret" (as, e.g., stipulated in the new EU-TS-Directive and in Art. 39 para. 2 TRIPS), a trade secret carrier will usually manifest his subjective will to maintain information secret to ensure that information

will not leak and become accessible. Thus, the requirements of a trade secret under Swiss law implicitly require the undertaking of security measures and can be considered aligned with the EU-TS-Directive.

The UCA prohibits the exploitation or use of trade secrets (also called "work results" in the wording of Art. 5 UCA) entrusted to someone, without the permission to further use or disclose it (Art 5 para. a. UCA), or unlawfully spied out or obtained (Art. 6 UCA), including the secondary infringement of a third party, if it knew or should have known that the information was received in an unlawful manner (Art. 5 para. b. UCA). The UCA also prohibits any conduct inducing employees, agents or other auxiliary persons to betray or spy out any trade secrets of their employer or principal (Art. 4 para. C. UCA).

Employment law provisions set forth that an employee must not exploit or reveal confidential information (including trade secrets) obtained while in the employer's service. The employee remains bound to his duty of confidentiality even after the end of his employment to the extent required to safeguard the employer's legitimate interests (Art. 321a Abs. 4 OR). Absent a contractual non-compete obligation, the employer's duty of confidentiality must always be balanced against his right to use the knowledge acquired in the course of his earlier employment.

Art. 162 of the CC also provides that anyone who divulges a trade secret that he is under a statutory or contractual duty not to reveal, or anyone who unlawfully exploits for himself or another a trade secret, such betrayal is considered a criminal offense and, upon the filing of a criminal complaint, subject to criminal sanctions of imprisonment not exceeding three years or the payment of a fine. Art. 273 CC also forbids and sanctions "industrial espionage", i.e., the unlawful

exploitation of trade secrets in order to disclose them to a foreign organization, private company or its agents. Depending on the individual circumstances, additional statutory provisions with criminal sanctions may also apply in case of a breach (e.g., the breach of the banking secrecy [Art. 47 Swiss act on banks and saving banks] or other specific protected secrets such as the professional secrecy [Art. 321 CC]).

#### 3.2 Remedies against trade secret infringements in Switzerland

The Swiss legal framework also provides for enforceable remedies to enjoin trade secret infringement and/or to claim for damages caused by a trade secret infringement. For trade secrets-infringements based on provisions of the UCA, the law provides for (i) injunctive relief (both preliminary and definite) (Art. 9 UCA). A trade secret infringement under the UCA does, however, require the showing of an erratic behavior on behalf of the infringer (i.e., a certain element of fault). The UCA does not explicitly mention the right to seize trade secret-infringing goods and to have them destroyed. Nevertheless, the UCA grants a right to remediation of ongoing infringements (in German: "*Beseitigungsanspruch*") and the prevailing scholarly opinion in Switzerland is of the view that (ii) seizure and destruction of trade secret-infringing goods can be established based on this general remediation claim. For trade secret-infringements occurring under employment contracts or contracts in general (with non-disclosure and non-compete obligations), contractual obligations to act or to refrain from doing something can also be enforced before a court at the infringer's cost (Art. 98 para. 3 CO).

In addition to injunctive relief or the enforcement of contracts, (iii) monetary remedies against trade secret infringements are also available. They are

assessed on the basis that the plaintiff should be placed in the position, which he would have been, if no infringement had occurred. A plaintiff may either request damages for the pecuniary loss that he has suffered or require the defendant to surrender the profits made as a result of the sale of the infringing products. Where the plaintiff is entitled to damages, he may request either compensation of lost profits or a reasonable royalty rate. Pursuant to a recent intellectual property infringement decision of the Swiss Federal Supreme Court, damages are only available where the plaintiff has himself exploited or licensed an intellectual property right and existing license agreements can serve as a reference point to determining the reasonable royalty rate. There is a certain risk that this rule could apply to trade secret infringements as well. Although, good arguments might be held against it, since trade secret-license agreements are less typically available in businesses than intellectual property-license agreements.

For trade secret-infringements assessed under provisions of the CC, criminal sanctions such as imprisonment or the payment of a fine can be triggered. However, this requires the filing of a criminal complaint with a state attorney, based on which he would start a criminal investigation. E.g., trade secret betrayal under Art. 162 CC is not persecuted “ex officio”, but requires a victim’s request for criminal prosecution (persecution “upon demand”). Also, since criminal fines have a societal deterrence function, they must be paid to the state. They will not be forwarded to the victim of a trade secret infringement. Therefore, criminal law remedies are not the most suitable measures to remediate a trade secret infringement quickly and to receive monetary compensation.

The Swiss code on civil procedure (“CCP”), the Swiss code on criminal procedure (“CCrP”) and the Swiss code on administrative procedure (“CCAP”) all contain provisions providing a basis for confidential treatment of trade secrets by courts (see e.g., Art. 156 CCP, Art. 70 and 101 CCrP, Art. 26 CCAP, e.g., in combination with Art. 25 of the Federal Act on Cartels and other Restraints of Competition). If requested, courts usually ensure confidential treatment by disclosing “blackened” versions of court documents to an adversary party. Thus, Swiss procedural law also provides for a basic protection of trust for trade secrets disclosed in the course of legal proceedings. However, the protection of trust must always be balanced against an adversarial party’s right to due-process, which might sometimes require gaining access to certain documents to preserve its own rights.

Finally, it is noteworthy that the Swiss federal act on data protection (“FADP”) provides for a striking particularity: Unlike in countries of the European Union countries, Swiss data protection law not only protects personal data of individuals, but also personal data of *legal entities*. Consequently, the broader scope of data protection in Switzerland may also extend to trade secrets. After all, a trade secret consists of data owned by a legal entity. Thus, trade secret protection in Switzerland is backed with supplementary protection under the FADP.

The prevailing opinion of scholars on the Swiss trade secret framework is that it is aligned with the parameters imposed under the TRIPS-Agreement. Swiss statutory provisions which are not literally in line with it must be interpreted in the sense of the TRIPS-Agreement in order to comply with international law standards.

#### 4. Comparative Outlook and precautionary measures

Based on the foregoing, it can be stated with confidence that the Swiss legal framework for trade secret protection is comparable with the EU-TS-Directive and considered aligned with public international law standards set forth under the TRIPS-Agreement. It is noteworthy that all EU-member-states are also members of the TRIPS-Agreement. This supports the conclusion that Switzerland and its European neighbors already live under a similarly shaped trade secret regime. Therefore, the EU-TS-Directive is rather unlikely to trigger considerable shifts within the European territory. Disparities in the treatment of trade secrets throughout Europe are, however, still expected to remain, since the EU-TS-Directive leaves discretionary room for national implementations. All the more, it is recommended to take a few precautionary steps to mitigate such disparities, namely:

- Identify, document and classify all trade secrets in your business and verify the paper trail of ownership of trade secrets.
- Store your trade secrets in a restricted area. Control and log any physical and logical access to such trade secrets and the areas where they are stored. Access should only be granted to staff that needs such information for the performance of its work.
- Make sure that appropriate legal arrangements, i.e., contracts, are in place for all persons and parties with whom information is or might be shared with (employees, contractors, freelancers, affiliates, suppliers, business partners and licensees etc.). Two benefits arise therefrom:

- Contracts mitigate the risk of disputes on whether information constitutes a trade secret or not. If information is agreed to constitute a trade secret in an agreement, this amounts to a contractual obligation and any disclosure of it will be considered a *breach of contract*.
- Contractual arrangements provide for suitable proof of *adequate security measures* to maintain secrecy of trade secrets (see above).
- It is recommended to back contractual confidentiality arrangements with *contractual penalties* for the event of an infringement (i.e., a fixed amount to pay). In practice, it can prove difficult to substantiate damages and to plausibly demonstrate in which regard they were truly caused by an unlawful disclosure of a trade secret. Penalties can mitigate such risk.
- The EU-TS-Directive and/or the TRIPS-Agreement can serve as *reference terms* in contractual agreements to make sure that both parties will adhere to and respect the trade secret protection rules established under these frameworks.

The Walder Wyss Newsletter provides comments on new developments and significant issues of Swiss law. These comments are not intended to provide legal advice. Before taking action or relying on the comments and the information given, addressees of this Newsletter should seek specific advice on the matters which concern them.

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