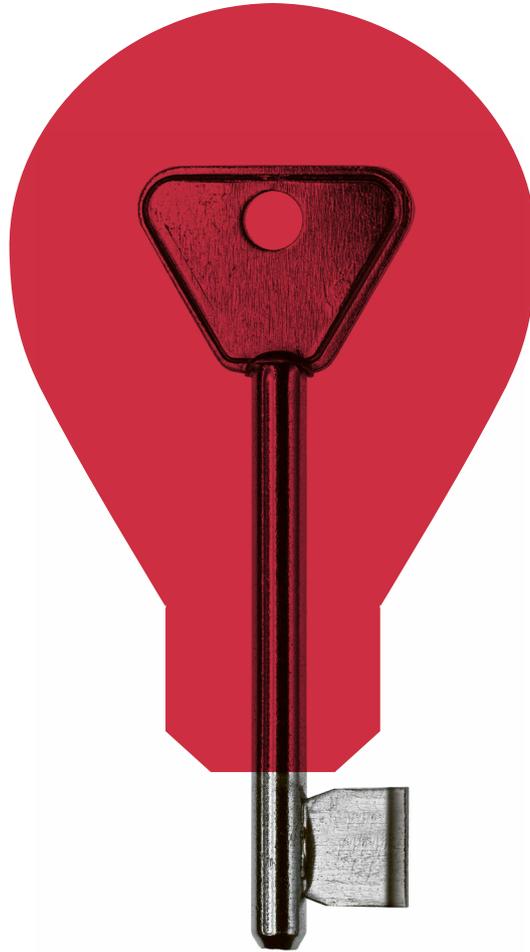


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EU Know-How Protection: Implications for Swiss Businesses

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Key Take-aways

- 1.** Through minimum standards given by the EU Directive and the implementation in legislation by the Member States, the EU has given itself new legal rules for the protection of trade secrets.
- 2.** The standardization and improvement of the level of protection of trade secrets is linked to higher requirements for own efforts to maintain confidentiality.
- 3.** These legal developments in the EU are also significant for Swiss businesses, particularly with regard to ensuring and documenting reasonable steps to keep a secret confidential.

1 Introduction

Trade secrets are important corporate assets. Know-how licenses are among the most common transactions involving intellectual property. At the same time, trade secrets still do not benefit from a level of protection equivalent to full-fledged intellectual property rights. EU Member State laws contained certain provisions for the protection of trade secrets, but they were fragmentary and varied from one Member State to another. In 2016, the EU legislator adopted a Directive on the Protection of Trade Secrets (2016/943, "**TS-DI**"), aiming to establish a minimum standard of protection, and the Member States had to adopt follow-on legislation. New trade secret rules are now in force e.g. in France, Germany and - albeit with an uncertain post-Brexit fate - Great Britain. In the following, we point out what Swiss businesses need to know about the new legal situation in the EU and - taking Germany as an example - in the Member States.

2 The EU Directive on the Protection of Trade Secrets

2.1 Trade Secret

Even though the TS-DI refrains from transforming trade secrets into **full-fledged intellectual property rights**, it **increases** their **level of protection**. At the same time, the **requirements** for trade secret protection tend to become **stricter**. To enjoy protection as a trade secret, information must be (1) **secret**, (2) of **commercial value** (because it is secret) and (3) subject to **reasonable steps to keep it secret**. However, the Directive does not specify what it accepts as "reasonable steps". The new trade secret requirements imply, in particular, that a **subjective interest in confidentiality on the part of the trade secret holder** is no longer sufficient. Compared to the subjective interest-criterion, the "reasonable steps" test is all the more restrictive because courts in EU Member States have, so far, often been ready to deduce an interest in confidentiality from the mere economic significance of the respective information.

2.2 Acquisition, Use and Disclosure of a Trade Secret

While information obtained lawfully may lose its trade secret status, the unlawful appropriation, use or disclosure of trade secrets may expose the infringer to legal sanctions. The Directive contains a number of provisions on the central question of when the acquisition, use or disclosure of a trade secret is (un)lawful. Particularly noteworthy are

- the statutory permission for **reverse engineering**, i.e. the disclosure of trade secrets by study, disassembly or testing of objects embodying them. However, such practices may be **prohibited by contractual clauses**, although it is not clear yet whether such stipulations can also be included into general terms and conditions;
- the - very broad - criterion of conformity with "**honest commercial practices**";
- the provisions on the unlawful use or disclosure of a lawfully obtained trade secret in case of breach of a **confidentiality agreement** or a **contractual or other duty limiting its**

use. In particular, these rules cover cases in which licensed trade secrets are used beyond what is contractually permitted;

- the fact that **bad faith** is not a prerequisite for illegality when trade secrets are obtained for the first time, but is a prerequisite for illegality with regard to their subsequent use. The subsequent use in connection with infringing products (i.e. with products resulting from a breach of a trade secret) is considered illegal as well, but only if the subsequent user acted in bad faith;
- the statutory permission for the pursuit of a socially relevant or otherwise "recognized legitimate interest" which, *inter alia*, partially covers **journalistic reporting** or **whistleblowing**.

2.3 Remedies for Breach of a Trade Secret

The TS-DI provides various remedies for the breach of trade secrets. It should be noted that these remedies are only the minimum standard for Member States and that they do not constitute claims directly applicable before Member State courts. The remedies are mainly directed at

- **specific conduct** such as the prohibition of further use or disclosure of trade secrets, the destruction of data (carriers), obligations to stop producing or marketing infringing products, or orders to recall and/or to destroy them;
- **pecuniary compensation** instead of injunctive relief, at the request of the infringer, if that person had no knowledge of an upstream trade secret breach and would suffer disproportionate harm as a result of conduct measures;
- **damages**, by taking into account the trade secret holder's lost profits, the infringer's unfair profits, and the moral prejudice caused to the trade secret holder, or, alternatively, a hypothetical, appropriate royalty;
- **publication** of judicial decisions in proceedings relating to the breach of a trade secret;
- **provisional and precautionary measures** and instruments for the **preservation of confidentiality of trade secrets in legal proceedings**.

Together with these remedies, the Directive contains general guidelines for their application, in particular the obligation to establish a **regime of protection and sanctions that is both effective and proportionate**.

3 Implementation by the Member States – German law as an Example

Among others, Germany has taken the TS-DI as an opportunity for a **general overhaul** of its law on trade secrets. While a detailed analysis is not possible here, the following aspects are of particular importance:

- The previous legal framework is largely **replaced** by the new **Trade Secret Act (GeschGehG)** of 2019, which also now contains the provisions on **penal sanctions**.
- In comparison with the Directive, the GeschGehG contains an additional requirement for information to become a trade secret, namely the existence of a "**legitimate interest in confidentiality**". The discussion on whether and how this

qualification squares with EU law, which in principle takes precedence of national law, is still ongoing.

- Regarding a **proportionality limitation** in the remedies for trade secret infringements, German law goes less far than the Directive, for instance by not including - at least according to the wording and structure of the GeschGehG - a proportionality requirement into the claim for damages.
- The GeschGehG codifies a far-reaching **right to information** not contained in the Directive and which extends, inter alia, to information on suppliers and purchasers of infringing products, on documents and electronic files containing trade secrets, as well as on persons from whom the infringer received the secret or to whom he disclosed it.
- German law also provides the **damage calculation options** of actual damage, infringer's profit, or license analogy.
- As to trade secret proceedings, German law largely **departs from the "itinerant jurisdiction"** (*fliegender Gerichtsstand*) principle otherwise frequent in intellectual property law, i.e. the forum shopping possibility of taking legal action wherever an infringement was committed. Instead, the court at the defendant's place of general jurisdiction is, in principle, competent to hear the case; courts at places of infringement only have jurisdiction if there is no place of general jurisdiction for the defendant in Germany. However, the German federal states have the option to concentrate trade secret proceedings at certain courts.

Businesses must meticulously document confidentiality protection measures.

4 The Legal Situation in Switzerland

In trade secret protection law, Switzerland does not automatically implement changes in the EU legal framework, and no Swiss law reform projects are underway. The **current legal framework remains, therefore, unchanged**. It protects trade secrets through a **scattered range of provisions**, including in criminal law (unauthorized appropriation of data, breach of manufacturing or trade secrets, industrial espionage), in the **Swiss Code of Obligations** (employee's duty of loyalty; information rights of shareholders), in the **law against unfair competition** (incitement to betrayal/spy out, prohibition of exploitation/disclosure of unlawfully acquired secrets). Whereas Swiss law permits, generally speaking, **reverse engineering**, it lacks clear rules on **whistleblowing** in connection with the disclosure of trade secrets. **Procedural protection** for trade secrets can be achieved, in particular, by excluding the public or granting protective measures (such as document redaction). To obtain protection under the law, appropriate confidentiality protection measures are not

required. Instead, a **subjective and perceptible interest in trade secret protection** suffices. Overall, the Swiss provisions on trade secret protection are less detailed and less extensive than the new legal framework in the EU.

5 Swiss Companies: Need for Action

Even though the new EU legislation does not apply to the business activities of domestic companies in Switzerland, **Swiss companies can be very easily affected** by it, for example if they maintain branches in the EU, do business within the EU, and/or are a party to trade secret litigation before an EU court. Since the Member States' implementations of the TS-DI differ, it is worth identifying the **EU Member States** most important to the respective company in the matter of trade secret protection and analyzing their **revised legislation and pertinent future court practice**.

For trade secrets a company owns or is obliged to protect, immediate action is primarily required with regard to **"reasonable steps to keep a secret confidential"**. Of key importance is the implementation of a **protective concept** that identifies confidential information and applies confidentiality measures according to the type, use and significance of the information. Know-how-related **contracts** may have to be adapted as well in order to ensure that confidentiality measures are maintained along the chain of several contracting parties. Furthermore, companies should establish **internal confidentiality protection mechanisms**, for example with regard to the drafting of employment contracts and the recruitment of persons previously employed by competitors. **Documentation** on the handling of relevant trade secrets is important, e.g. for being able to prove, if necessary, the implementation of "reasonable steps" to keep these secrets confidential.

If trade secrets are to be acquired or used on the **basis of the admissibility criteria** of the TS-DI (or the national implementing legislation), a **careful analysis of admissibility** is required. **Reverse engineering** operations, for instance, must take into consideration not only the trade secrets situation but also pertinent third party intellectual property rights (e.g. patents or software copyrights), the use of which is not automatically permitted by the TS-DI.

In case of a legal dispute before an EU court, companies should, early on, map their **procedural options** under the TS-DI and national law. For instance, interim measures, requests for information, and precautions for the protection of trade secrets during the lawsuit can significantly improve their litigation prospects.

6 Conclusion

The new EU law on the protection of trade secrets has brought important changes. Stronger and more homogeneous protection for trade secrets at the European level is linked to more demanding requirements for confidentiality protection measures. Many a Swiss company will be affected by the new legal framework and should react to it, in particular by implementing tailor-made **protection and documentation concept for the handling of trade secrets**.



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