



## Question Q215

**National Group:** Sweden

**Title:** **Protection of trade secrets through IPR and unfair competition law**

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### Questions

#### General

**Groups are asked to give a description of legal developments and the current situation in their jurisdiction with regard to trade secret protection, answering the following questions:**

**1. Legal developments on trade secrets**

**How did trade secret protection evolve in your jurisdiction? For example, what kind of practical influence did the TRIPS agreement have on trade secret protection?**

The current Swedish Act (1990:409) on the Protection of Trade Secrets [Trade Secrets Act] replaced the Act on Unfair Competition (1931:152). The provisions on the protection of trade secrets in that Act were the same as in the Act on Unfair Competition of 1919 (1919:446). The 1919 Act on Unfair Competition was to a great extent inspired by the German Act on Unfair Competition (1909). The core provisions were mere translations of the equivalents in the German Act. Art. 10*bis* of the Paris Convention was the main reason for the creation of the 1919 Act.

The current Swedish Trade Secrets Act stands on three pillars: One being rules on trade espionage; one being rules regarding the relations between employer and employees and; one being part of regulating unfair competition. A unique feature of the Swedish Act on Protection of Trade Secrets is that employees normally do not have a penal liability in situations where they use or disclose the employer's trade secrets. This has been tried in by the Swedish Supreme Court (NJA 2001 p. 362) and in Svea Court of Appeals (Decision of 20 October 2003 in case 5221-03).

In 2008 an inquiry assigned to review certain issues on the protection of business secrets and to consider whether the Trade Secrets Act should be amended in certain respects was

presented (Swedish Government Official Report, SOU 2008:63). It is, however, still unclear when, if and how these proposals for revision will be effectuated.

Since the current Trade Secrets Act came into force already in 1990, the TRIPS Agreement was not considered. Nor has the Act been amended due to the Swedish ratification of the TRIPS Agreement (1 December 2005). The Swedish regulation was considered to comply with the requirements under Art. 39 of the TRIPS Agreement.

However, one part of the TRIPS Agreement that affects the Swedish protection of trade secrets is the rules on provisional measures in Sec. 50, which also are applicable to trade secrets. As pointed out by the Governmental Legislative Committee in 2008, the Trade Secrets Act need be amended accordingly, which so far has not been done.

Additionally and worth noting is that Sweden lacks a general act, or general provisions on specifically the protection against unfair competition. Nor is there a general clause with this aim. Instead, such protection is under circumstances available under specific Acts, namely the Trade Secrets Act and the Marketing Practices Act (2008:486); the latter has been adopted to implement the European Unfair Commercial Practices Directive 2005/29/EC.

## 2. Definition of trade secrets

**What is the definition of a trade secret in your jurisdiction? This may not be an easy question to answer. Some jurisdictions may adopt different definitions for different fields of law – unfair competition law or others. In some jurisdictions, no statutory law provides a definition of trade secrets. It may be useful to focus on the definition that is believed to be most important for your jurisdiction for discussion purposes. Your definition can be based on the conditions required by Article 39.2 of TRIPS Agreement for the protection of undisclosed information as well as the WIPO proposal for the definition of secret information, and/or if it is the case, the definition can be complemented by features required in your jurisdiction, such as the degree of secrecy, novelty and originality that is considered reasonable for enforcement purposes.**

In Sec. 1 of the Trade Secrets Act there is a definition of “trade secrets”. Under this definition, “trade secret” means *“such information concerning the business or industrial relations of a person conducting business or industrial activities which that person wants to keep secret and the divulgation of which would be likely to cause damage to him from the point of view of competition.”* It should however be noted that the following definition is only valid for this Act, while there are other definitions of trade secrets in other pieces of legislation.

The term ‘information’ in this context, as stated in Sec. 1 *“comprises both information documented in some form, including drawings, models and other similar technical prototypes, and the knowledge of individual persons about specific circumstances even where it has not been documented in some form.”*

The definition of trade secrets does not set out any specific requirements as to what has to have been done in order to keep the information secret. Nor is there any formal requirement for non-disclosure agreements according to Sec. 1. Even though Swedish case law points out the need to make clear that the information is to be treated in a confidential way, how that is to be done is up to the one who wants to keep the information secret. See e.g. the Swedish Supreme Court in NJA 1998 p. 633.

For information to be considered as a trade secret it is required that the divulgation would be likely to cause damage [...] from the point of view of competition". That could be compared to the notion "has a value because it is secret" in Art. 39.2 of the TRIPS Agreement.

### 3. Control of trade secrets

**Also, who is entitled to control trade secrets should be discussed with respect to the employer-employee relationship. Can an employee who conceives an idea or invention may have primary control over it? Can the employer have control over information created by an employee under assignment from the employer even if personal knowledge and skills of the employee are involved? Is co-ownership of trade secrets addressed by your legislation or case law?**

The Swedish Trade Secrets Act contains specific rules on the relationship between the employer and the employees. It is not stated in the Act that the employer owns all ideas or inventions created. However, even information created entirely by the employees could be a trade secret of the company. This is supported by a precedent from the Swedish Labour Court (Case AD 2003 no. 61): The employer had made clear that specific information was to be seen as the company's information, although it was exclusively developed by two employees. The employer was successful when accusing them of (mis)using this information in their new workplace.

In regard of inventions, there is a specific Act (1949:345) relating to Employee Inventions. The employer can, depending on the circumstances, obtain all rights to, a licence to or an option to buy a patentable invention created by an employee. The employee has the right to expect additional compensation, also when inventing is (part of) his/her work. In case the employer chooses not to take over/license the invention, the employee gets primary control over it.

It is considered that the notion 'information' in Sec. 1 of the Trade Secrets Act clearly excludes personal knowledge and skills of the employees. It is pointed out in the preparatory works to the Act that if there are any doubts whether something is to be considered as personal knowledge and skills or as a trade secret, it should be seen as belonging to the individual (employee).

The question of what belongs to the employer and what belongs to the employee is often of greater importance when the employee has left his position. In Sec. 7 para. 2 of the Trade Secrets Act it is stated that, if a former employee uses trade secrets of his former employer he or she is usually not to be held liable. Employees' liability is limited to extraordinary reasons. This has for example been tried in the precedent of the Labour Court (Case AD 1998 no. 80) and by Svea Court of Appeals (Decision of 14 May 1997 in case T 81/96), where systematic planning and collecting of information has been deemed such extraordinary reasons.

Co-ownership is not expressly mentioned in the Trade Secrets Act, nor has it been addressed by case law. But nothing prevents co-ownership of trade secrets, which would fall under general civil law principles.

### 4. Source of law for trade secret protection

**Are statutory provisions available for the protection of trade secrets? Is protection awarded by case law or court precedents or direct application of the relevant provisions in the TRIPS Agreement? Under your laws, do trade secrets belong to the category of property rights? Or is the protection derived**

**from unfair competition law or other sources of law against misappropriation or dishonest commercial practices?**

A considerable case law, including court precedents from both the Supreme Court and the Labour Court under the Trade Secrets Act is the main source of law, apart from the Act itself. Moreover, the Public Access to Information and Secrecy Act (2009:400) and other Acts contain protection of trade secrets. The TRIPS Agreement is not self executing under Swedish law, which as mentioned has been considered to comply with TRIPS standards in this regard.

Trade secrets are not directly regarded as part of the intellectual property (IP) rights system, but their protection is still regarded as a part of Industrial Property and therefore closely related to those rights.

**5. Available remedies**

**What would be an outline on remedies available against trade secret violations in your jurisdiction? First, types of prohibited acts should be discussed, followed by available relief such as preliminary injunction or temporary restraining orders. It is probably useful to highlight issues particular to trade secrets. Please comment on the list of acts violating trade secret protection provided in the Q115 Copenhagen Resolution. Pros and cons of criminal or administrative remedies should be discussed. Are these remedies also available against someone who obtains trade secrets in good faith?**

**Does your legislation distinguish trade secret violations committed when the undisclosed information was accessed by means of an employment or other contractual relationship from those practiced by means of fraud, "espionage" or other improper means? Are the same remedies available for the two cases?**

**How does your jurisdiction apply the concept of "grossly negligent" third parties referred to in footnote 10<sup>1</sup> of Article 39,2 of TRIPS?**

**Which options are available for damages? How are damages calculated? Is the violation of trade secrets at all subject to punitive damages? If so, under what conditions?**

There are a number of remedies available against trade secret violations.

Criminal liability:

Criminal sanctions exist in the Trade Secrets Act against trade espionage and unauthorized tampering with a trade secret

Trade espionage

Anyone who wilfully and without authorization accesses a trade secret shall be sentenced for trade espionage to fines or imprisonment for not more than two years or, where the offence is grave, to imprisonment for not more than six years (Sec. 3). It is no prerequisite that the offender exploits or discloses the trade secret. The mere fact that the trade secret is accessed without authorization is enough; the reason for this being that the holder of the trade secret loses the control of the trade secret and risks to suffer damages as soon as the trade secret is accessed without authorization.

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<sup>1</sup> Footnote 10 states that: "For the purpose of this provision, 'a manner contrary to honest commercial practices' shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition."

In the evaluation of whether the offence is grave, special attention is given to whether the act has been of a particularly dangerous kind, concerned a considerable monetary value or resulted in a particularly serious damage.

Also, attempts and planning of trade espionage is punishable according to Ch. 23 of the Penal Code.

The judgment in the so-called Ericsson case (Svea Court of Appeals of 20 October 2003 in case B 5221-03) demonstrated deficiencies in the current rules. The case involved, among other things, an employee who had access to business secrets in his work and disclosed them to another person who in turn disclosed them to foreign intelligence agents. The prosecution of the employee for participating in grave corporate espionage was rejected, while the person who provided the details to the agents was sentenced to 8 years imprisonment for grave espionage. Apparently, the criminal responsibility under the Trade Secrets Act did not extend to also cover certain unauthorized disclosures and the use of business secrets effected by persons with lawful access to the secret, for example, employees.

#### Unauthorized tampering with a trade secret

Anyone who obtains a trade secret knowing that the person who makes available the secret, or anyone before him, has accessed it through an act of trade espionage shall be punished for unauthorized tampering with a trade secret to fines or imprisonment for not more than 2 years, or, where the offence is grave, to imprisonment for not more than 4 years (Sec. 4).

The two penalties under the Trade Secrets Act shall not be adjudicated where a more serious penalty would follow under the general Penal Code.

Criminal liability under the Penal Code may be relevant where trade espionage and unauthorized tampering with a trade secret is applicable, such as unlawful dispossession, unlawful disposal, breach of faith committed by an agent against his principal, unlawful use, taking a bribe, breach of professional confidentiality etc.

Furthermore, provisions on coercive measures under the Swedish Procedural Code, such as arrest and detention, body search etc., may be applicable in cases where there is a suspicion of crime.

#### Civil liability

In the Trade Secrets Act it is stipulated that anyone who is found guilty of trade espionage or unauthorized tampering with a trade secret the person shall pay compensation for the damage caused through the offence or through the fact that the trade secret is, exploited or revealed without authorization (Sec. 5).

It is further stipulated in the Trade Secrets Act that anyone who wilfully or through negligence exploits or reveals a trade secret in a person's business or industrial activity of which he has been informed in confidence in connection with a business transaction with that person shall compensate the damage caused through his action (Sec. 6).

Furthermore, also without any of the criminalized acts at stake, anyone who wilfully or through negligence exploits or reveals a trade secret which, according to what he understands or ought to understand, has been the subject of an action under this Act shall compensate the damage caused through his action. The same applies in where a person otherwise wilfully or through negligence exploits or reveals a trade secret, which, according to what he understands or should understand, has been revealed contrary to the provisions in the Public Access to Information and Secrecy Act (Sec. 8).

#### Prohibition under penalty of a fine

Anyone who has violated a trade secret under the Act may be prohibited by a court, under penalty of a fine, to exploit or reveal the trade secret. The action may be brought by the person who has been the subject of the unlawful violation (Sec. 11).

#### Interim measure

In cases where the person who has applied for prohibition under penalty of a fine under shows a probable case that a trade secret has been violated under the Act and it can reasonably be assumed that the defendant, through the continuation of his violation diminishes the value of the trade secret, the court may order a prohibition under penalty of a fine for the time until the case has been finally adjudicated or otherwise is decided (Sec. 13).

#### Surrender against compensation, etc.

Where a person has violated a trade secret under the Act, the court may order that documents or objects which he has in his possession and which contains the secret shall be surrendered to the person who has been the subject of the unlawful violation. The court may order that the surrender shall take place against the payment of compensation. Where a document or an object containing a trade secret can not without prejudice be surrendered the court may order that the document or the object shall be destroyed or altered or that another action shall be taken so as to prevent misuse (Sec. 14).

#### Infringement investigation

It should be reminded that the Swedish Government Official Report (SOU 2008:63) proposed the introduction of provisional measures for the investigation of evidence into the Trade Secrets Act. The inquiry's findings was that Sweden's obligations under the TRIPS Agreement include rapid and effective interim measures to preserve evidence of relevance for attacks on business secrets, and that it was doubtful whether this obligation was fulfilled under the current legislation.

Nevertheless, based on special provisions in the IP legislation, holders of IP rights such as patents, trademarks and copyright may obtain a court order prior to or during a trial for an "infringement investigation" at the premises of the alleged infringer. The purpose of such an "infringement investigation" is to seek to secure evidence of the existence and extent of an alleged infringement, which evidence will be relevant for deciding the extent of damages.

In line with the principle of free evaluation of evidence, which is fundamental to Swedish procedural law, an infringement investigation which discloses a violation of trade secrets may be used as evidence, despite the fact that the evidence was obtained in search of breach of an IP right. In urgent cases, an 'infringement investigation' may be obtained *ex parte*. The standard of proof for the infringement (*'probable cause'*) is relatively low.

#### Security measures under the Procedural Code

Security measures relevant to trade secrets are also available under the Swedish Procedural Code: The court may order suitable measures to secure the applicant's right. if a person shows probable cause that he or she has a claim against another, which is or can make the basis of judicial proceedings or determined by another similar procedure, and if it is reasonable to suspect that the opposing party, by carrying on a certain activity, by performing or refraining from performing a certain act, or by other conduct, will hinder or render more difficult the exercise or realization of the applicant's right or substantially reduce the value of that right. Such measure may include prohibition, subject to a default fine, of carrying on a certain activity or performing a certain act or an order, subject to a default fine, to have regard to the applicant's claim.

It is stated that no application may be granted unless the opposing party has been given an opportunity to respond. However, in urgent cases the court may decide *ex parte*.

Security measures may only be granted if the applicant deposits with the court security for the loss that the opposing party may suffer.

#### Duty to disclose

Swedish civil procedural law provides a limited duty to disclose: A party, e.g. someone exposed to violations of his/her trade secrets, can require documents from the other party that may be relevant to the case based on specified conditions set by law. Swedish courts can order a party to legal proceedings, as well as a third party, to produce evidence in the form of written documents or physical property at the request of one of the parties.

#### Inspection

For the inspection of immovable property, objects that cannot be brought conveniently to the court, or the scene of a particular occurrence, the court may hold an inspection at the locus in quo.

#### Preservation of evidence for the future

If there is a risk that evidence concerning a circumstance of importance to a person's legal rights may be lost or difficult to obtain and no trial concerning the rights is pending, a district court may take and preserve for the future evidence in the form of witness examination, expert opinion, view, or written evidence.

#### Law in the workplace

The Trade Secrets Act stipulates that an employee or former employee under certain circumstances shall compensate the employer for damages caused.

The provision in the Trade Secrets Act sets out that anyone who wilfully or through negligence exploits or reveals the trade secret of his/her employer of which he/she has been informed in the course of employment under such circumstances that he/she understood, or ought to have understood were not to be revealed, shall compensate the damage caused by his action. It is furthermore stated that where the action took place after the termination of the employment, the provision shall apply only where there are extraordinary reasons for it (Sec. 7). Under this proviso, the liability to pay damages does normally not extend to agency staff.

Even though not explicitly mentioned in any legal Act, the principle of loyalty is fundamental to Swedish labour law. It is based on the notion that an employee must not harm his or her employer. The principle of loyalty has been further developed in case law and the legal writing.

The scope of the employees' duty to be loyal may differ. How far this duty extends depends on the circumstances in the particular case. Main factors are: the nature of the employment, the customs in the specific business sector and the position of the employee at the work place. A person in a managerial position, directors and other key persons, have a wider duty to be loyal to the employer than other employees. Guidance of the scope of the duty may also be found in various collective agreements.

The principle of loyalty includes the duty of confidentiality to the employer. Even where there is no explicit confidentiality clause in the employment agreement, confidentiality is considered to follow implicitly.

The duty of confidentiality includes any kind of information that would harm the employer if disclosed. In other words, the information does not have to be a 'trade secret' under the Swedish Trade Secrets Act.

The sanctions that generally apply to a breach of the duty to be loyal are termination of the employment contract or dismissal, but also an obligation to pay damages may be applicable.

Whether or not the conditions for termination or dismissal are met depend on a number of factors, the most important being (i) the nature of the misuse, (ii) the damages suffered, (iii) the position of the employee at the workplace and (iv) if the employee's action has a justified excuse.

It can be concluded that the violations of trade secrets listed in sec. 11.11 in the Q115 Copenhagen Resolution appear to be covered by Swedish law.

#### Pros and cons of criminal or administrative remedies

There are many obligatory requisites that have to be fulfilled for criminal sanction to apply, which sometimes are difficult to prove. This is one reason why it is appropriate to have both criminal sanctions and civil liability, i.e. duties to pay damages etc. And as noted above, the mere misappropriation of trade secrets is liable to damages.

#### Good faith

The Trade Secrets Act explicitly states that the Act only applies to unwarranted infringements of trade secrets. As an 'unwarranted infringement' is not considered the fact that someone exploits or divulges a trade secret about which he/she or someone before him/her acquired knowledge in good faith" (Sec. 2 para 3).

Furthermore, as 'an unwarranted infringement' is not to be considered the fact that someone acquires, exploits or divulges what is a trade secret of a person conducting business or industrial activities in order to make available to the public, or before a public authority divulge something that may be an offence for which imprisonment may be adjudicated, or which may be considered to be another serious incongruity in the business or industrial activity of a person conducting such activities (Sec. 2 para 2).

This provision has its special history and was inserted to avoid that the Act protects information that would prevent e.g. an employee to disclose something that may be an offence or which may be considered to be a serious incongruity in the workplace. It may be noted that the freedom to communicate information, as well as freedom of speech in general, has a strong protection under the Swedish Constitution.

The Trade Secrets Act only distinguishes between acts committed wilfully or through negligence. Gross negligence is not mentioned.

The general starting point when awarding damages in Sweden is that the sufferer shall be compensated for his/her loss, but not more.

In the determination of the compensation under the Trade Secrets Act for a violation of the trade secret of a person conducting business or industrial activities, consideration shall also be given to his/her intent that the secret not be exploited or revealed without authorization and to other circumstances of other than purely economic importance (Sec. 9). The motivation behind this proviso was to make the calculation of damages more effective by introducing preventive aspects and to set the damages awarded at a level which should prevent the possibility to gain from a violation calculating by only having to pay minimal damages.

If it is reasonable, the compensation may be reduced or removed in its entirety. This proviso is primarily intended to apply in relation to employees, i.e. where termination and dismissal are the most important sanctions.

Punitive damages are not part of Swedish law.

## 6. Protection of trade secrets before and during litigation

**This question has two aspects: one is the protection of trade secrets during, say, patent infringement litigation, and the other the maintenance of secrecy of trade secrets so that the person lawfully in control can safely seek remedies before the court. How does your statutory law incorporate the rule contained in the last sentence of Article 42, TRIPS?<sup>2</sup> What specific measures or means are available for the effective protection of trade secrets before (in discovery and seizure proceedings) and during litigation?**

The Trade Secrets Act does not contain any particular provisions on how to protect trade secrets before and during litigation. Guidance for these issues must thus be looked for in other Acts, such as the 'general' Code of Judicial Procedure and the Public Access to Information and Secrecy Act.

The basic principle of Swedish procedural law is that all information relied upon in court litigation should be available to the general public. This principle is laid down in the Swedish Constitution and an exception can only be made by legislation; it is thus not possible e.g. for the parties in a trial to agree to keep some information secret.

In accordance with the Public Access to Information and Secrecy Act (Ch. 36, Sec. 2), information about an individual's business and the operation of the same can be classified as secret during court proceedings, if it can be assumed that the proprietor would be caused considerable harm if the information was made public. The information must thus be of some importance to the individual for the secrecy provision to be applied.

Furthermore, in accordance with Ch. 5, Sec. 1 of the Code of Judicial Procedure, a court may order that proceedings be held behind closed doors in relation to information to which secrecy is applied under the Public Access to Information and Secrecy Act. By 'held behind closed doors' is meant that the public has no access to the proceedings. Only judges, other officers of the court, the parties and their counsels are allowed to be in the court room when the information is presented. If the proceedings have been so held behind closed doors, the court may order that no-one present at the proceedings may further disclose the information.

The court can also direct in its judgment that information presented behind closed doors will continue to be kept secret after the proceedings have come to an end (the Public Access Information and Secrecy Act, Ch. 43 Sec. 8). Consequently, parts of the judgment containing the information in question are labelled as secret. However, an appeal instance is not bound by a lower court's decision on secrecy and may make its own assessment on the nature of the information presented in proceedings.

A party can thus only request that his trade secrets are kept secret during litigation, but it is up to each court to decide on secrecy of trade secrets. As a consequence a party submitting its secret information to the Court can never be certain that the Court will indeed classify the information as secret. Also, even if a party requests the Court to take such an action at the same time as the information is submitted, it may take some time before the Court has decided on the question of secrecy and during that time the information is left open for inspection.

Discovery is as such not a measure available in Swedish court proceedings. However, under Swedish procedural law anyone who is in possession of a document of importance as evidence in litigation may under certain circumstances be required by a court order to supply the requesting party with the document in question. There are a number of prerequisites to

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<sup>2</sup> Article 42, entitled "Fair and Equitable Procedures", provides, at its last sentence, that: "The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements."

be met by the requesting party to have such a court order issued; the main ones being that the document must be sufficiently named, no 'fishing expeditions' are allowed, and that it must be clearly stated how the document will serve as evidence for his case. An exception to this rule of producing evidence is made for documents containing trade secrets (Ch. 38 Sec. 2 and Ch. 36 Sec. 6 of the Code of Judicial Procedure). Having said that, there is however also an exception to the exception: Even documents containing trade secrets may be ordered to be produced, if the court finds extraordinary reasons to examine the document in question.

Anyone called as witness – if called one is in principal obligated to give evidence – may refuse to testify if in doing so he/she would reveal a trade secret, unless the court finds that there is extraordinary reason to examine the witness on this particular matter (Ch. 36, Sec. 6 of the Code of Judicial Procedure

In addition, it should be noted that when the so called Enforcement Directive recently was implemented (Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights) in Sweden a new sanction was introduced. If a right holder or e.g. a licensee shows a probable cause that someone has committed an infringement, the Court may issue an "order to provide information" concerning the origin and distribution networks for the infringing goods or services. Such an order can be issued against, not only the potential infringer but also e.g. Internet Service Providers and similar. This kind of orders may only be issued if it can be assumed that the information would facilitate an inquiry into the infringement. However, an increased risk for trade secrets being disclosed as a consequence of such orders can be anticipated.

Furthermore, as discussed above all IP laws contain interim measures called infringement investigations. Such investigations may result in (unwanted) disclosure of trade secrets of the party being investigated. It is not particularly regulated how such trade secrets are to be protected, but the court shall take into account all circumstances before granting an infringement investigation. The reasons speaking in favour of an investigation must outweigh the inconvenience or other harm to the party to which the measure is directed or any other opposite interest. This principle of balancing of interest is thus meant to pay regard also to the protection of trade secrets.

## **7. Licensing trade secrets**

### **What are issues relevant or important for contractual aspects regarding trade secrets? How important are anti-trust considerations in your jurisdiction?**

If one decides to grant a license of trade secrets, usually as part of a patent license, it is important to define the scope of the license; confidentiality obligations should be carefully drafted in order to avoid any disclosure of trade secrets and payment of royalties should be considered. The license could be exclusive, and in this case EU competition law rules together with the block exemption system must be considered in order to avoid any antitrust issues.

In the case of licensing of know-how, the above mentioned contractual considerations would equally apply.

In relation to franchising agreements, it is important to take into consideration the franchising disclosure law and the guidelines to the EU-Commission's Block Exemption Regulation on vertical agreements, (EC) No. 2790/1999. In this regard, the Act (2006:484) on the duty of a franchisor to provide information imposes requirements to disclose certain information during a reasonable period of time before a franchise agreement is entered into. According to this Act, the following contractual provisions must be disclosed to the franchisee: (1) information

on in term and post term non compete clauses that are contained in the franchise agreement; (2) information on the term, the conditions for amendment, renewal or termination; (3) the financial consequences in case of termination; (4) information on how disputes in relation to the contract are to be resolved and the provision on liability for costs in relation to such a dispute.

## **8. Effectiveness of non-disclosure and non-use agreements**

**What is the practical effectiveness of non-disclosure and non-use agreements in your jurisdiction? Are any important court precedents available? Which of contract law or unfair competition law prevail in this regard? Is unilateral imposition of non-disclosure after leaving the company or retirement possible in your jurisdiction? Does the US doctrine of inevitable disclosure exist under your laws?**

In Sweden, a non-disclosure agreement will typically contain non-use restrictions of confidential information. Thus, there is no distinction between a non-disclosure and non-use agreement. In addition, the non-use restrictions contained in the non-disclosure agreement will limit the receiving party to reveal/disseminate the information to third parties and it will impose on the receiving party obligations how to protect the information.

The non-disclosure agreement is commonly used by employers to protect confidential information given to their employees during the employment. Access to confidential information by consultants or part-time hired staff is also protected by non-disclosure agreements. But also when the employment has ended, there is still a duty to protect confidential information provided by the former employer during the employment. A non-disclosure/non-use agreements between an employer and a former employee can however not be enforced after at most three years.

It is worth mentioning that the Swedish Supreme Court in the Case NJA 1998 p. 633 determined that market research information, marketing plans, prices and advertising campaign and any other information related to the business and operation of the company will fall under the definition of trade secret in Sec. 1 of the Swedish Act. Accordingly, unauthorized disclosure and use of trade secrets which have been disclosed in confidence and in connection with a business transaction will give the right to claim and be compensated for damages (Sec. 6 of the Trade Secrets Act). Moreover, information will remain secret if disclosed only to employees who need to know this information to perform their duties.

Recently, the Swedish Labour Court considered an issue regarding competitive business and protection of trade secrets (Case AD 2009 no. 63). Three former employees of company A started up a new company B, which was in direct competition with A. Both companies developed computer software. A sued B, because A considered that their former employees had developed computer software based on A's trade secrets. The Court however rejected A's claim based on the fact that A failed to prove that the former employees had used its trade secrets to develop the B computer software. Furthermore, the Court declared the non-competition clause in the employment contract being unreasonable under Sec. 38 of the Swedish Contracts Act (1915:218).

This decision could then be compared with the U.S. doctrine of inevitable disclosure, which has been applied in trade secrets disputes (see *PepsiCo, Inc v. Redmond*, 53 F. 3d 1262, 1269; 7th Cir. 1995). According to this doctrine, a former employee who performs the same or similar work for a direct competitor to his/her former employer will inevitably disclose and use the trade secrets of the former employer in his/her new position. The application of the doctrine has been used to obtain an injunction in cases where former employees were leaving their former employers to work at a competitor in similar positions where the use of

trade secrets could not have been avoided. However, many US courts have rejected this broad doctrine to protect trade secrets or applied it in a more restrictive way. Moreover, scholars argue that the Uniform Trade Secrets Act (not adopted by all States in the US) recognizes this doctrine only as a specific example of threatened misappropriation. Courts against the application of this doctrine have said that it cannot substitute a covenant of non-competition and it cannot jeopardize the mobility of employees and the freedom of competition. The courts applying this doctrine in a restrictive way will wisely consider, e.g. whether the former and new employers are direct competitors; whether the employee's new job is identical the old one; whether the trade secret is clearly established; and whether the trade secret is highly valuable to both employers. The court will also consider non-competition agreements and confidentiality agreements between employer and employee. It thus seems as the interpretation of this doctrine also by the US courts varies depending on the court and facts of the case. In our view, a strict application of this doctrine, or as interpreted by the Court in the PepsiCo case, would signify that employees cannot change jobs, and it would jeopardize the free competition and mobility in the labour market. Thus, it can hardly function as a general rule. Still, something equal to a restrictive application of the basic principles of this doctrine may under circumstances be applied by Swedish courts: That is if the employer can prove that the former employee will use the trade secrets in his/her future position at a competitor and that the employee has actually misappropriated trade secrets in breach of an enforceable non-competition clause between the employer and employee.

In conclusion, Swedish courts would not be willing to directly adopt the US doctrine of inevitable disclosure. Instead, the court will primarily analyze the evidence and enforceability of the employment agreement. Moreover, Swedish Law does not give this doctrine any applicable status for the protection of trade secrets and/or in competition law. Instead, in Sweden each case has to be considered on its merits, which a Svea Court of Appeals decision could illustrate (Decision of 14 May 1997, case T 81/96). In this case, two employees had gone to a competing business. The former employer claimed that they, in their new positions, were using their trade secrets. The former employees claimed that they merely used their personal knowledge and experience from their former employment. However, the Court found that they had used so much information that it could not be considered as their personal knowledge and experience. What they had used was considered as trade secrets, and they were held liable according to Sec. 7.

In the present context, still another precedent from the Labour Court is worth mentioning. It concerns considerations in regard of various questions on the balance between the Trade Secrets Act and principles of Labour Law (Case AD 1998 no. 80): Three employees had left their positions to engage in a competing business. In doing so, it was made clear that they had used trade secrets. The court had to establish whether they had liability according to principles of Labour Law, their individual contracts and/or the Act on Protection of Trade Secrets. The Court came to the conclusion that during their employment they all had obligations to their employer, which held them liable. After the employment had ended, they still had a responsibility under the Act in this case, as the Court found that there were extraordinary reasons for their liability in this case due to systematic planning and collecting of information, cf. Sec. 7 para. 2 of the Trade Secrets Act.

## **Harmonization**

### **9. Common and practical definition of trade secret**

**As discussed above, the TRIPS Agreement deals with “undisclosed information” which is basically the same as what we discussed as a “trade secret,” primarily because the term “trade secret” may have different meanings in different jurisdictions. Groups are asked to consider whether a**

**common and practical definition of trade secret is viable or even desired. Are there any proposals for such a definition, or is the definition provided in the TRIPS Agreement sufficient for our purposes? Should there be a minimum standard for information to qualify as a trade secret? If so, what should the standard be?**

The Swedish Group would appreciate a common definition of 'trade secret' to be valid for all circumstances. Presently also in our own law different Acts include different definitions – and concepts – of trade secret or the equivalent. Without being chauvinistic we would suggest a definition very similar to what is found in the Swedish Trade Secrets Act: "*information concerning the business or industrial relations of a person conducting business or industrial activities which that person wants to keep secret and the divulgence of which would be likely to cause damage to him from the point of view of competition*". One reason for this is that Sweden is one of the few jurisdictions that has a specific Act on trade secret protection, which is used in both labour relations and questions of in criminal and civil liability, where this definition as a basis has showed to function fairly well. We are furthermore of the opinion as already indicated by the question that the definition in the TRIPS Agreement does not give much guidance and thus does not constitute a workable definition for harmonization purposes. In a definition on the one hand the notion '*wants to keep secret*' or '*aims at keeping secret*' seems important in view of the relative secrecy aimed at, and on the other hand, the likeliness of causing damage in competition if divulged.

**10. What is desired in your jurisdiction?**

**What are perceived as current problems in your jurisdiction? What is desired or needed for effective protection of trade secrets? What kind of improvements in your own system for trade secret protection is sought? Also, are there any legal provisions or practices that you may consider to be advantageous in your jurisdiction compared to other countries?**

The perceived problems in Sweden have been well identified by the legislative Committee report (SOU 2008:63) and concern basically two issues. The first issue is that the provisional measures under the TRIPS Agreement are still not implemented in Trade Secrets Acts. Thus, access to such measures requires that the alleged infringement also concerns an IP right, where the provisional measures are available. The second issue, which was originally identified by the above mentioned Ericsson case, is that the employer friendly attitude of this legislation could result in that an employer who transmits information to an intermediary in a espionage situation cannot be held liable under the criminal sanctions, albeit naturally would be dismissed from his job. This situation would thus, as also proposed need an additional Section in the Act.

**11. What is required for an improved global standard for trade secret protection?**

**As discussed above, collaboration among different entities in product development is becoming more important on a global scale. Groups are asked to entertain proposals for enhancement of international standards on remedies against trade secret violations. Groups are also asked to comment on what is necessary in practice for the protection of trade secrets during litigation and to discuss proposals for standard means available in court proceedings.**

It seems crucial that industrial espionage and unauthorized tampering with trade secrets are regarded as criminal theft globally, but also that wilful or negligent unauthorized divulgence of what a person tries to keep secret and which results in damage can be adequately compensated, within and outside workplace relations.

**12. What would be a desirable and realistic way to proceed?**

**For future possibilities, we have a choice among another multilateral convention, bilateral agreements or agreements among certain countries that are regionally close to each other or in similar stages of industrial development. What would be, in your view, a realistic way for us to proceed?**

In the view of the Swedish Group a future possibilities of harmonization of the 'law on trade secrets' seems futile, taking into regard the complex feature of trade secrets that involves many legal disciplines such as Industrial property, Labour Law, Criminal Law, Constitutional Law, etc., where all countries have different legal traditions and balance points. This does not however contradict that it would be a great step forwards on these issues if (1) national groups could strive at finding a definition and (2) identify certain especially grave actions of trade secret appropriation, and (3) agree on that trade secret infringements should not be less severely sanctioned than IP infringements.

**13. Other comments?**

A special 'problem' under Swedish law also mentioned above is the Constitutional freedom of speech, including the Freedom of the Press Act, which is mirrored in a principle of public access to 'official documents' to which e.g. legal summons belong. Even if accompanied by a request of secrecy, there will be total openness before the court has decided on the secrecy. And the same would apply in an appeals situation. This is however a question of balance, where the general principle of openness has and should have priority.

**Summary**

Sweden is one of the few countries that have a specific Act on the Protection of Trade Secrets with an explicit definition of 'trade secret', which has showed to function well by interpretations in precedents of the Supreme Court and of the Labour Court. Sanctions include criminal sanctions for trade espionage and unauthorized tampering with a trade secret, as well as rules on liability to pay damages caused through such offences or through the fact that the trade secret is exploited or revealed without authorization. In addition, anyone who wilfully or through negligence exploits or reveals a trade secret which, according to what he understands, or ought to understand shall compensate the damage caused through his action. In this regard, there is a comparatively vast case law, including a number of precedents, which show that the Act on the whole functions satisfactorily. The Act is from 1990 and was found to be in compliance with the TRIPS Agreement in 1995, although arguably provisional measures are not fully up to TRIPS standards and ought to be added. A delicate problem under Swedish law is maybe the balance between protection of trade secrets and the Constitutional principle of public access to official documents, which *inter alia* calls for a decision by the court to keep secrets in a file secret before, during and after court proceedings; this, at least in theory, could leave files open for inspection during up to some days.

True harmonisation seems to be difficult in this field, but harmonisation of the definition of 'trade secret' would be appreciated. Furthermore, sanctions should not be less than those provided for infringements of intellectual property rights.

## Résumé

La Suède est l'un des rares pays qui ont une loi spécifique sur la protection des secrets commerciaux avec une définition explicite de «secret industriel», qui a montré de bien fonctionner par des interprétations des précédents de la Cour suprême et du Tribunal du travail. Les sanctions comprennent des sanctions pénales pour l'espionnage de commerce et la manipulation non autorisée d'un secret commercial, ainsi que les règles sur la responsabilité de payer les dommages causés par ces infractions ou par le fait que le secret commercial est exploitée ou divulgués sans autorisation. En outre, toute personne qui, intentionnellement ou par négligence, exploite ou révèle un secret commercial qui, d'après ce qu'il comprend, ou devrait comprendre est de compenser le préjudice causé par son action. Il existe un relativement vaste corps de jugements qui comprennent un certain nombre de précédents, qui montrent que la loi fonction de l'ensemble satisfaisante. La loi est de 1990 et a été trouvé d'être en conformité avec l'Accord sur les ADPIC en 1995, mais sans doute des mesures provisoires ne sont pas pleinement conformes aux normes sur les ADPIC et doit être ajoutée. Comme un problème délicat au regard du droit suédois est peut-être l'équilibre entre la liberté constitutionnelle d'expression, y compris la liberté de la loi sur la presse, dont notamment il faut un décision par le tribunal de garder des secrets dans un dossier, avant, pendant et après la procédure judiciaire, et ce qui, au moins en théorie, pourraient laisser des fichiers ouverts pour inspection pendant jusqu'à quelques jours.

## Zusammenfassung

Schweden ist eines der wenigen Länder mit einem spezifischen Gesetz über den Schutz von Geschäftsgeheimnissen. Die Explizite Definition des Begriffs „Geschäftsgeheimnis“ hat gut funktioniert in Interpretationen in Präzedenzfälle des Obersten Gerichtshofs und des Arbeitsgerichts. Sanktionen umfassen strafrechtliche Sanktionen für den Handel Spionage und unerlaubter Manipulation ein Geschäftsgeheimnis sowie Vorschriften über die Haftung für Schäden durch Straftaten oder durch die Tatsache, dass die Geschäftsgeheimnisse genutzt wird oder ohne Genehmigung ergeben, verursacht bezahlen. Darüber hinaus wer vorsätzlich oder fahrlässig ausnutzt oder zeigt ein Geschäftsgeheimnis, das nach dem, was er versteht, oder sollte es verstehen, hat den Schaden durch sein Handeln zu kompensieren. Es gibt eine relativ große Rechtsprechung, darunter eine Reihe von Präzedenzfällen, die zeigen, dass das Gesetz über die ganzen zufriedenstellend funktioniert. Das Gesetz stammt von 1990 und es ist wie festgestellt im Jahr 1995 in Übereinstimmung mit dem TRIPS-Abkommen, wenn auch wohl vorläufigen Maßnahmen nicht in vollem Umfang von bis zu TRIPS-Standards sind und sollte zu hinzugefügt werden. Wie ein heikles Problem nach schwedischem Recht ist vielleicht das Gleichgewicht zwischen der verfassungsrechtliche Informationsfreiheit, einschließlich der Freiheit des Presse-Gesetz, anzusehen. Unter anderem fordert die eine Gerichtsentscheidung um eingereichte Dokumente geheim zu halten vor, während und nach Gerichtsverfahren; dieses könnte, zumindest in der Theorie, Daten offen lassen für Inspektion während bis zu einigen Tagen.

Echte Harmonisierung scheint in diesem Bereich schwierig, aber eine Harmonisierung der Definition von Geschäftsgeheimnis wird gebeten. Darüber hinaus sollten die Sanktionen nicht weniger streng sein als die im geistigen Eigentum.