

Question Q215

National Group: Switzerland

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

Contributors: Dr. Bettina Beck, Dr. Stefan Day, Thomas Kretschmer, Dr. Reinhard Oertli, Dr. Roger Staub, Eva-Maria Strobel, Peter Widmer

Representative within Working Committee: Dr. Bettina Beck, Peter Widmer

Date: April 1, 2010

Questions

General

1. 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?

In Switzerland we have long tradition in regard to protection of trade secrets. Therefore, different provisions ruling trade secrets can be found in manifold legal fields and laws as will be shown under question 4, e.g. in contract law, in unfair competition law or in criminal law (see also MEITINGER INGO, *Der Schutz von Geschäftsgeheimnissen im globalen und regionalen Wirtschaftsrecht*, S. 25.). At the same time this means that, in Switzerland, we do not have one main provision containing a general definition of a trade secret valid in all legal fields.

In respect to the influence of the TRIPS agreement it can be mentioned that, usually, the provisions of the TRIPS agreement need to be converted into national law (see art. 1,1 TRIPS: *"Members shall give effect to the provisions of this agreement"*). However, member states have also the possibility to interpret the articles of the agreement as long as this interpretation is consistent with public international law.

Switzerland has indeed not converted the duties concerning the protection of trade secrets into Swiss national law. However, courts are – and have been already before the TRIPS agreement entered into force - deciding their cases in conformity with art. 39,2 of the TRIPS agreement due to the fact that the necessary instruments were already written down in contract law or unfair competition law even before the TRIPS agreement. Thus, there was actually no necessity for Switzerland to convert the TRIPS provisions. Even in respect to the formal requirements of a trade secret, Swiss law completely complies (and complied) with the text and provision of the TRIPS agreement.

Also all legal remedies (e.g. omission, indemnity) provided against a violation of trade secrets mentioned in the TRIPS agreement are also available under Swiss laws. The only context Swiss laws do not concur with the TRIPS agreement is, that in respect to the intention to keep a trade secret, the TRIPS agreement requires a stronger emphasis on its manifestation whilst Swiss legal practice requires such an intention only implicitly (see also MEITINGER INGO, Die globale Rahmenordnung für den Schutz von Geschäftsgeheimnissen im TRIPS-Abkommen der WTO und ihre Auswirkungen auf die Rechtslage in der Schweiz, sic! 2002, 157f).

2. What is the definition of a trade secret in your jurisdiction?

Statutory law in Switzerland does not provide for a general definition of trade secrets. However, courts and legal writers define a trade secret as an information that is neither evident nor commonly available, provided that the owner of the trade secret has a justified interest in keeping it secret (the so-called objective interest to keep specific information or data secret; "*objektives Geheimhaltungsinteresse*") and that he or she really intends to keep such information or data secret (the so-called [subjective] intention to keep such information and data secret; "*subjektiver Geheimhaltungswille*"). Relevant case law can be found in BGE 80 IV 427, 103 IV 284, 109 Ib 56 and 118 Ib 559; see also MEITINGER INGO, Die globale Rahmenordnung für den Schutz von Geschäftsgeheimnissen im TRIPS-Abkommen der WTO und ihre Auswirkungen auf die Rechtslage in der Schweiz, sic! 2002, 145, 154).

Trade secrets may include commercially relevant information or data such as resources, organisation, calculation of prices and customer data as well as fabrication processes.

Swiss law sometimes distinguishes between business secrets (in German: "*Geschäftsgeheimnisse*") and manufacturing secrets ("*Fabrikationsgeheimnisse*"). The applicable definitions are identical in some areas (for details see question 4). In particular, the term is the same in art. 162 of the Criminal Code (in German: "*Fabrikations- und Geschäftsgeheimnisse*") as it is in art. 6 of the Unfair Competition Act (hereinafter "UCA"). The scope of art. 321a par. 4 of the Swiss Code of Obligations (hereinafter "CO") seems to go beyond the scope of the two other provisions, as it also protects "*facts that need to be kept confidential*" ("*geheim zu haltende Tatsachen*") and then mentions "*Fabrikations- und Geschäftsgeheimnisse*" as examples for such facts (see RUDOLPH ROGER, ARV 2009, 93ff., Fn. 65).

3. 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?

a) Relevant provisions in Swiss law

To understand the regime of trade secrets in the employer-employee relationship (hereafter “employment”), it is imperative to know about some key provisions of the Swiss Code of Obligations (“CO”) pertaining to the work contract.

CO art. 321a (3) provides that an employee may not compete with his employer during the employment as one of the employee’s core duties of good faith. CO art. 321a (4) states, that an employee may not divulge or use trade secrets learned from his employer during his employment. Even after employment is terminated the employee may not disseminate such trade secrets as far as the employer’s interests so require.

Furthermore CO art. 321 b (2) states that the employee must immediately release to the employer everything he brings forth in the course of his work. Even though this provision was drafted with tangible objects in mind (such as manufactured furniture or harvested crop), it is also understood to include know-how, especially in a tangible form like plans or handbooks. The employee may not even keep a copy of the work product he brought forth.

CO art. 332 states that inventions and designs made by the employee in the course and in the scope of the employee’s employment belong to the employer regardless if they meet the requirements to be protected as patents or designs or not. Even though this is criticized by some authors, the wording is clear to include inventions and designs, whether protected by registered IP-rights or not (hereafter “technical” trade secrets”). If such inventions are made in the course but not in the scope of the employment, they belong to the employee and can be attracted by the employer only if so stipulated in writing and if a special compensation is paid.

For software made in the course of employment the Copyright Act art. 17 provides for the transfer of all the rights necessary to commercialize the software to the employer. The Act on Chip Topographies provides in art. 3 that the owner of a topography is the natural or legal entity who develops the topography on its own account and risk. This is normally the employer.

However, since these provisions (CO art. 332 and Copyright Act art. 17) are exceptions to the general rule that IPRs belong to the person who created them, and because exceptions need to be interpreted narrowly, it can not be extended to trade secrets that are not inventions and/or designs in the meaning of this provision. Non-technical trade secrets therefore are not automatically transferred to the employer.

CO art. 340 seq. contains mandatory provisions for post termination non-compete obligations. Such contractual restrictions on former employees are permissible as such, however, they must be in writing to

be valid and (along with other mandatory limitations), they are only enforceable, if the employee had access to the customer list or trade secrets (Fabrikations- oder Geschäftsgeheimnisse). Because such non-compete obligations limit the employee in his future economic life, they are difficult to enforce in general and are interpreted narrowly.

b) Freedom of Contract

Freedom of contract is held high in Switzerland and the parties are free to agree to whatever they want unless mandatory law, public order, bona mores or the unalienable content of personal rights limits this freedom. As will be shown below, the solution provided by the law is quite favourable for the employer. However, it can be further improved for the employer by making the necessary provisions in the employment agreement. This possibility should be used by the employer and accordingly the employer should reflect upon his needs concerning trade secrets prior to entering an employment contract.

c) Control over Trade Secrets Lacking any Specific Contractual Agreement

In the work relationship it is necessary to differentiate between technical and non-technical trade secrets (as described above) because the CO art. 332 provides an employer-friendly solution for inventions and designs, even if not registrable, which can not be automatically transferred to other trade secrets.

Furthermore, the obligations for the employee must be differentiated for trade secrets

- which the employee brought into the work relationship, e.g. because he was hired to bring in his expertise in a special field
- which the employee developed in the course of his employment, i.e. he was hired to develop a solution for one of employer's problems
- which the employee learns in the course of his employment, but does not (materially) contribute to
- which the employee builds on his pre-existing know-how in cooperation with the employer (other employees) in a joint effort

These distinctions are made in CO art. 332 for technical trade secrets. They must however also be made for non technical trade secrets because the employee could otherwise be dispossessed of his non-technical trade secrets brought into the employment by the employee.

A third distinction must be made between the situation during employment and after termination of employment. This is necessary because the CO explicitly states this in CO art. 321a (4) and also in view of the rules concerning the non-compete obligation and the rationale behind them. CO art. 321a (4) also distinguishes between the secrecy obligation and the obligation not to use trade secrets.

d) Co-ownership of Trade Secrets between Employer and Employee?

Co-ownership of trade secrets is possible if contractually agreed upon between employer and employee. If no such agreement exists, co-ownership of technical trade secrets is not possible because CO art. 332 provides that such trade secrets belong to the employer. The same is true for chip topographies. For software, Copyright Act art. 17 provides that the author remains the owner, but the commercial aspects of the copyrights are transferred to the employer. For all other trade secrets (copyrights, know-how and plant breeds) the explicit or implied contractual rules must be consulted to find an answer to where ownership lies. Theoretically joint ownership is possible when several individuals work on the creation of the trade secret and their individual contributions can not be separated from the whole. The various individuals then will be owners in common. The employer will only obtain such ownership share if he has with one or several of the individuals agreed that the employer shall be the owner of their share.

e) International Constellations

The Swiss Act on Conflict of Laws (IPRG) provides that a work relationship is subject to the law where the employee normally is working. It allows that parties in a work contract make a choice of law to either the place where the employee is domiciled or to the place where the employer has its domicile or usual place of abode or its branch office (art. 121).

The Swiss law provides an employer friendly solution in the allocation and protection of trade secrets between the employee and the employer. A Swiss judge certainly would honour a choice of law clause selecting Swiss law. Art. 122 (3) of the same Act provides that the law of the employment contract will be applicable to any agreement between employer and employee as to IP-rights created within the work relationship if no separate choice of law clause is agreed upon. Again, this may allow having a case adjudicated under Swiss law if the right choice of law clause is part of the IP- or work contract between employee and employer.

Sentences of Swiss judges will be enforced in many countries and in particular in the EC under the Lugano Convention which provides for recognition of sentences made in any of the Treaty countries. Reserved is the order public of each country.

4. 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? 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?

There are various different statutory provisions available for the protection of trade secrets. According to the prevailing opinion in Switzerland, the provisions of TRIPS are not directly applicable (CARL BAUDENBACHER, Lauterkeitsrecht, Kommentar zum Gesetz gegen den unlauteren Wettbewerb [UWG/UCA], Basel 2001, UWG 6 N 4).

Trade secrets do not belong to the category of property rights but are rather derived from unfair competition law, contract law and other sources of law. In particular:

a) Unfair Competition Legislation (Unfair Competition Act "UCA")

The UCA deals with the protection of trade secrets in various provisions. These provisions do not protect the trade secrets as such but they offer a remedy in cases of an unfair way of obtaining or exploiting trade secrets (BAUDENBACHER, UWG 2 N 297). Accordingly, they only provide for an indirect protection of trade secrets.

According to art. 4 let. c UCA, whoever induces employees, agents or other auxiliary personal to disclose or explore manufacturing or business secrets of their employer or principal acts unfairly. Further, acting unfairly is whoever exploits or discloses to third parties manufacturing or business secrets which he or she explored or learned about in any unlawful manner (art. 6 UCA). This provision also covers the case where the recipient of the trade secrets knew, or should have known, that the information provided to him were made available to him by the provider in breach of a confidentiality undertaking (MEITINGER, sic! 2002, 145, 156). The provision does not cover the exploitation of confidential information that was obtained lawfully, e.g. in the course of an employment or work contract (BAUDENBACHER, UWG 6 N 3).

Arts. 4 let. c and 6 UCA are the two main pillars of trade secret protection under the UCA. However, art. 5 let. a UCA may also be relevant. According to this provision whoever exploits, without authorisation, work products entrusted to him (such as bids, calculations and blueprints) acts unfairly. It is fair to say that this provision also requires a certain level of confidentiality of the work products entrusted to the person who is in breach of this provision.

Even if the requirements of these provisions are not fulfilled, the specific way of using a trade secret may fall under the catch-all clause of art. 2 UCA. This, however, requires specific circumstances of the exploitation of the trade secrets. This may be the case if *former* employees are induced to breach their confidentiality undertakings or if the exploitation at the same time constitutes a breach of a post-termination non-compete clause (BAUDENBACHER, UWG 2 N 298).

A violation of the UCA may lead to both civil and criminal sanctions. The civil sanctions include injunctions, damage claims and claims for accounts of profits (art. 9 UCA). To the extent the unfair behaviour falls

under arts. 4, 5 or 6 UCA, criminal sanctions are available. They are not available, if the behaviour is only covered by the catch-all clause of art. 2 UCA.

b) Right of Personality (art. 28 of the Civil Code, "CC")

Art. 28 CC protects the personality of a person. Legal entities also benefit from this provision, which also protects the confidential sphere of a person. This may lead to an erga omnes protection of trade secrets falling in this confidential sphere (BAUDENBACHER, UWG 6 N 92 ff.).

c) Intellectual Property Legislation

- Patents Act

In its patent application, the patent owner has to disclose the invention (art. 50 par. 1 of the Patents Act). For a limited period of a maximum of 18 months from the filing date, or, as the case may be, the priority date, the patent application shall not be published (art. 58a of the Patents Act). If the applicant withdraws the application within less than 17 months after the filing or priority date, or if the application is rejected within that time frame, the invention shall not be published (art. 60 c Patent Ordinance).

If manufacturing or business secrets are concerned, the Federal Council may restrict the right of third parties to see the files of a patent application (art. 65 of the Patents Act). Such a restriction is contained in art. 89 par. 2 of the Patent Ordinance. According to this provision, whoever submits a piece of evidence to the files containing manufacturing or business secrets can request a separation of such documents from the files. In such case, the files just contain a note of the existence of the corresponding documents. If inspection of such documents is requested by a third party, the Institute must hear the patent owner or, as the case may be, the applicant, prior to granting access to the documents (art. 90 part. 5 of the Patents Ordinance).

In the case of retention of infringing goods by customs, the customs authorities may give the applicant the right to inspect the retained good. In such case, the customs declarant, possessor or owner is entitled to be present at the inspection in order to protect its manufacturing and business secrets (art. 86e par. 2 of the Patents Act).

- Designs Act

According to art. 26 of the Designs Act, the applicant may request in writing that publication shall be deferred for a period of up to 30 months from the date of filing or the priority date. The purpose of this provision is to protect applicants in those industries, where designs can be easily copied and which have a relatively short period of exploitation.

In the case of retention of infringing goods by customs, the customs declarant, possessor or owner is entitled to be present at the inspection in order to protect its manufacturing and business secrets (art. 48 of the Designs Act).

- Trademarks Act

Also under the Trademarks Act the customs declarant, possessor or owner is entitled to be present at the inspection in order to protect its manufacturing and business secrets (art. 72b of the Trademarks Act).

- Copyright Act

In the case of retention of infringing goods by customs, the customs declarant, possessor or owner is entitled to be present at the inspection in order to protect its manufacturing and business secrets (art. 77b of the Copyright Act).

The users of copyright protected works are to a certain extent obliged to provide to the collecting societies necessary information for drawing up and applying the tariffs. The collecting societies are obliged to preserve business secrets (art. 51 of the Copyright Act).

d) Contractual and Quasi-contractual Obligations

- General Rule: art. 2 par. 1 CC

The general rule of art. 2 par. 1 CC requires everybody to act in good faith. A breach of this duty, however, does not necessarily lead to a claim based on tort law, as art. 41 CO requires the breach of a specific protective norm. The breach of trade secrets, however, can trigger liabilities, if trade secrets were made available in the course of contract negotiations (*culpa in contrahendo*), or if there exists a post contractual duty of good faith (MEITINGER, sic! 2002, 145, 155).

- Employment Law (see also question 3 above)

According to art. 321a par. 1 CO, the employee must loyally safeguard the employer's legitimate interests. This includes an obligation not to make use of or inform others of confidential information and data (including manufacturing or business secrets) that come to his or her knowledge while he or she is in the employer's service. After termination of the employment relationship, the employee shall continue to be bound to the secrecy obligation to the extent required to safeguard the employer's legitimate interests (art. 321a par. 4 CO).

- Mandate and Agency Law

The agent's general liability for faithful performance (art. 398 par. 1 and 2 CO) includes the same obligations as lying upon the employee under an employment contract (art. 321a CO; see above). Further, in case of an agency contract, the agent may not explore, or inform others of, business secrets with which he or she has been trusted, or of which he or she has obtained knowledge in the course of his agency relationship; this shall apply even after termination of the contract (art. 418d CO).

- Officers of Legal Entities

Similar duties as those of the employees are lying upon the board members, directors, auditors and the special auditors of a company (arts. 717 par. 1, 730b par. 2 and 697d par. 4 CO).

e) Data Protection

To the extent trade secrets are related to a specific, or identifiable, person, they qualify as personal data and fall under the scope of the Data Protection Act (art. 3 let. a Data Protection Act; hereinafter "DPA"). In Switzerland, and this is different from the situation in many other countries, even legal entities can be data subjects (art. 3 let. b DPA). The use of, the getting and making available of personal data qualify as data processing under the DPA (art. 3 lets. e and f DPA).

To the extent trade secrets qualify as personal data, the DPA provides for a certain level of protection. In particular, the data processing principles apply (art. 4 DPA): the data may only be processed in a lawful manner; its processing has to be done in good faith and must be proportional. The data may only be processed for the purposes that have been indicated when obtaining the data or which were evident from the circumstances or foreseen by law. A transfer out of Switzerland is only allowed, if such transfer does not substantially endanger the personality of the data subject (art. 6 DPA). The data processor must protect the personal data by means of adequate technical and organisational measures (art. 7 DPA).

On the other hand, the owner of data collections, under specific circumstances, has a right to refuse requested information, if this is foreseen by a statutory law or if prevailing third party interests require a refusal (art. 9 par. 1 DPA). Such third party interests may include interests in trade secrets.

Art. 10a DPA allows the outsourcing of data processing, but only to the extent such outsourcing is not prohibited by a legal or contractual secrecy obligation.

The violation of the DPA may trigger civil sanctions (art. 15 DPA). Art. 35 DPA provides for criminal sanctions, if someone unlawfully makes available particularly protected personal data or personality profiles, of which he or she obtained knowledge while performing his or her profession.

f) Banking Secrecy

Art. 47 Banking Act stipulates criminal sanctions in case of an unlawful disclosure of secrets by banks and their organs, employees, agents or liquidators.

g) Criminal Sanctions under the Criminal Code

According to art. 162 Criminal Code, whoever betrays a manufacturing or business secret which he or she according to a legal or contractual obligation should safeguard, or whoever exploits such betrayal, will be punished. Very similar to the situation under the UCA (see above 2.1), this provision does not provide for any protection for trade secrets that were made available in a lawful manner.

According to art. 273 Criminal Code, whoever explores a manufacturing or business secret, in order to make it available to a foreign authority or a foreign organisation or private entity, or to their benefit, will be sanctioned.

Arts. 320 and 321 Criminal Code sanction the breach of a secrecy obligation by the member of an official authority or by private practitioners who were entrusted with a secret in their function as priests, attorneys-at-law, defence attorneys, notaries, auditors, medicines, dentists or pharmacists, and by their auxiliary persons.

h) Protection of Trade Secrets by Procedural Rules

- Civil Procedure Rules

To date, the civil proceedings are governed by Cantonal laws and differ therefore substantially from Canton to Canton. However, as from 1 January 2011, the Federal Civil Procedure Rules (hereinafter "CPR") will harmonise the rules on civil proceedings for Switzerland. The following is based on these provisions only.

According to art. 156 CPR, the court has to take the necessary measures if the taking of evidence may harm interests of a party or a third party that deserve protection, in particular interests in trade secrets. Such measures may include the limitation of the right to access the records or a partial covering of documents. However, art. 156 CPR does not give right to the affected party to refuse its collaboration entirely (ADRIAN STAEHELIN/DANIEL STAEHELIN/PASCAL GROLIMUND, *Zivilprozessrecht, nach dem Entwurf für eine Schweizerische Zivilprozessordnung und weiteren Erlassen – unter Einbezug des internationalen Rechts*, Zürich 2008, 261 f.).

- Criminal Procedure Rules

Again, this is to date Cantonal law, which will be harmonised as from 1 January 2011 by the Federal Criminal Procedure Rules.

According to art. 108 par. 1 let. b Criminal Procedure Rules, the criminal authorities can restrict the right to be heard, if this is required to safeguard trade secrets. However, the restriction towards a defendant attorney is only allowed where the defendant attorney himself is the reason for the restriction.

Further according to art. 102 par. 1 Criminal Procedure Rules, when deciding on a request to inspect documents, justified interests to keep certain things secret must be protected.

- Swiss Rules of International Arbitration

According to art. 43 Swiss Rules, arbitration proceedings are generally confidential. This also includes materials submitted by a party in the framework of the arbitral proceedings not otherwise in the public domain.

- Administrative proceedings

In administrative proceedings before Federal authorities, the right to inspect documents can be restricted in case of prevailing private interests (art. 27 of the Federal Act on Administrative Proceedings). Such relevant private interests may include trade secrets of third parties (WALDMANN / OESCHGER, VwVG-Praxiskommentar, 587).

5. 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. 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 105 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?

The Swiss laws do not protect trade secrets as such, but provide legal assistance against illicit actions infringing trade secrets.

First, third persons commit an illegal act if, without good faith, they use or disclose information obtained from an employee of the proprietor, provided the employee has been induced to disclose this information. Furthermore, third persons commit an illegal act if, without good faith, they use or disclose information which they have illicitly explored, or obtained by applying other improper means. Finally, third persons commit an illegal act if, without good faith, they betray a manufacturing or commercial secret that they are bound, by legal or contractual duty, to keep, or makes use of this secret of themselves or others. While the law basically does 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, the same remedies are available for both cases.

The Swiss laws contain a number of civil sanctions in case of trade secret infringement. There is the right to file for injunctive relief and permanent injunctions, as well as the entitlement to compensation of damages and/or account of profits. Preliminary injunctions are available. While there is no case law so far, there is reason to believe that the above remedies are not available against someone who obtains trade secrets in good faith.

Basically three causes of action for monetary compensation are available: compensation for damages, account of profits and unjustified enrichment. Compensation for damages is available if the trademark owner can prove damages, unlawfulness, a causal connection between the illegal activities and the damages, and fault on the part of the infringer. Generally, the damage needs to be estimated (figures). If this is not possible, the judge has to appraise the existence and the extent of the damage taking into account the usual course of events but the requirements of substantiation and proof are considered extensive. In relation to the calculation of damages, the proof of the actual damage, the analogy of royalties and the inference from the infringer's profits are discussed under Swiss law. In relation to account of profits, the impairment of a third party right (trade secret infringement), the infringer's profits (under certain circumstances a reduction of loss may suffice), the causal connection and bad faith on the side of the infringer need to be established. Further, the owner of the trade secret has an action for unjustified enrichment. The probably prevailing doctrine presumes that at least usual or adequate royalties for the (illegal) use of the trade secret can be obtained. However, it is unclear whether any further profits of the infringer can be claimed and whether the counterplea that there is no enrichment left is applicable.

For the reasons outlined above, the claimant may consider difficulties in prosecuting claims for monetary compensation. Also, it has to be pointed out that Swiss law does not recognize punitive damages. Punitive damages are not a concept of Switzerland's legislation, although some tariffs of copyright collecting societies foresee infringer surcharges. Lower instance courts have occasionally accepted surcharges. However, in 1996 the Swiss Federal Court refused to grant infringer surcharges because they lack but need a legal basis. Furthermore, the Swiss Federal Court stated in a decision of 2004 that punitive damages are contrary to the Swiss *ordre public*.

The civil rules and actions are completed by a number of criminal sanctions provided for in both the Swiss Unfair Competition Act and the Swiss Criminal Code. Parallel to the imprisonment and/or the fine, the sanctions comprise the seizure and the publication of the judgment.

Penal prosecution is generally opened by a complaint from the injured party. Criminal conviction, however, requires evidence of all elements of the crime as well as the offender's intent. In practice, it may prove particularly difficult to demonstrate this last element; eventually, criminal proceedings are often ceased. Even though criminal law provides a good basis for combating violations of trade secrets, in particular because the prerequisites for a breach of a trade secret are broader than under unfair competition law, in practice it is difficult to obtain results.

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 statutory law incorporate the rule contained in the last sentence of Article 42, TRIPS? What specific measures or means are available for the effective protection of trade secrets before (in discovery and seizure proceedings) and during litigation?

Even before specific enactments were made in Switzerland, case law was to the effect that secrecy should be preserved by all proper means, for example by the disclosure of very confidential information to the court only, to the exclusion of the other party. A corresponding provision is to be found in the Federal Rules of Civil Procedure (which is of little relevance in practice, though).

Art. 156 CPR guarantees the protection of trade secrets during litigation by allowing the court to take all required measures if legitimate interests, in particular trade secrets, of a party or of a third person are at risk when taking evidence. This provision is aimed at reaching a balance between the parties' due process and the protection of trade secrets. As a consequence, the civil procedure becomes partially secret. Similar provisions already exist in the Cantonal laws; the partially secret procedure of taking evidence has been accepted by the major courts in Switzerland, but at the same time it has been harshly criticized in legal literature.

In parallel, Swiss Criminal Procedural Code provides for a restriction of the right to inspect files if trade secrets are endangered.

7. Licensing trade secrets: What are issues relevant or important for contractual aspects regarding trade secrets? How important are anti-trust considerations?

Under Swiss law, trade secrets are non-protectable properties. Trade secrets are understood as part of an individual's or company's undisclosed know-how. Such know-how can be the object of a license agreement (often referred to in practice as know-how agreements). Thus, licensing of secret or confidential know-how is permissible and quite common under Swiss law.

Although there is no legal definition for neither license nor know-how agreements under Swiss statutory law, the concept of such agreements is accepted in the sense of so called innominate contracts. The latter is supported by the freedom of contract principle according to which the parties are free to agree to whatever they want unless this freedom is limited by other laws or regulations.

Since trade secrets are properties with no specific legal basis it is quite common in practice that an issue arises between the licensor and the licensee of a know-how agreement as to the duration of the agreement. This is particularly the case as soon as the licensee claims that the licensed know-how has become public domain in the meantime and challenges the duty to pay license fees for trade secrets which are not secret any more. However, this is a standard contractual dispute with the full range of defences and claims offered under Swiss contract law.

An important criterion for anti-trust considerations and its relevance is the market share of the licensing object. This is of course for trade secrets difficult to determine as, by its nature, trade secrets are not generally known in the market. The fact that trade secrets exist is not necessarily an indication that in the relevant market a monopoly or a dominating position is given. A market relevant position based on trade secrets is probably the exception, but may be relevant in an individual case.

Art. 3 (2) of the Swiss anti-trust law exempts registered IPRS from the anti-trust restrictions (at least under certain conditions). However, trade secrets are not covered by the provisions on intellectual property. Hence, Swiss anti-trust law is applicable to exclusive trade secret or know-how licenses. Accordingly, the general principles of anti-trust issues are applicable whether or not an anti-trust violation is given as indicated in art. 5. Swiss anti-trust law (for details see question 4).

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

First of all, the conclusion of non-disclosure and non-use agreements as regarding trade secrets as well accepted under Swiss law. To our knowledge, however, there is no jurisprudence on the consequences of a breach of such agreements.

Contract law is the general basis in case of breach of non-disclosure and non-use agreements – it can be coupled, however, with claims under the UCA, in particular, as the UCA offers criminal sanctions (which is not the case with mere contractual claims).

Under Swiss law, the unilateral imposition of nondisclosure duties after leaving the company or retirement is not enforceable. In fact, it is not necessary against the background of CO 321a (4), which provides for a (limited) post termination nondisclosure obligation.

The US doctrine of inevitable disclosure does not exist under Swiss law as no legal basis for trade secrets exists. However, a preliminary injunction might be possible if an imminent danger occurs that a former employee working in a new job would inevitably result in the use of trade secrets from the former employer. A will redacted non-competition clause made in writing in the employment contract may avoid such situations.

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. Is a common and practical definition of trade secret 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?

As we have seen before, a common and coherent terminology is clearly missing in Switzerland, even as far as concerning the term of “trade secret” as such. Though, a uniform ruling of this term but also a ruling of its implications in one legal text is actually not what the Swiss Group favours. However, minimal standards in the Swiss legislation would be very welcome (for details see question 10), as legal certainty could be increased by eliminating today’s lack of clarity and transparency.

Thanks to art. 39 (2) TRIPS Agreement granting a minimal standard of trade secret protection, on international level, such a common basic standard is already reality. However, as this provision does so far

not constitute a general legal principle, one still has to rely on written law in the different countries. Thus, we face problems due to the different levels of the legal standard in the various WTO member states.

Finally, the Swiss group feels that Swiss law provides adequate protection of trade secrets in the sense of a balance between the interests of all stakeholders, in particular of employers to protect valuable trade secrets and of employees to exploit their own personal know-how and knowledge without too strict limitations.

Thus, the deficit under Swiss law is not so much an issue of legislation than rather one of the enforcement of the existing provisions that protect trade secrets: Often, it is impossible to meet the required (high) standard of proof that a certain person is/was in breach of contractual obligations aiming at the protection of trade secrets. Further, under criminal law aspects, it is often difficult if not impossible to prove the necessary intention of a breach of an obligation to keep a trade secret. This is problematic in particular in view of the fast development in the field of new technologies (e.g. internet and others) and the simplicity to transfer vast amounts of data from one digital source to another.

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

The provisions of Swiss law protecting trade secrets are scattered in various statutes, and are aimed at prohibiting forms of disapproved behaviour (cf. fn 10 to Art. 39 TRIPS), rather than exclusively allocating and protecting trade secrets in an object-oriented way.

- The legal provisions protecting trade secrets use different definitions of trade secret depending on the scope of prohibition/protection (UCA art. 5 lit. a: "work product entrusted to him"; lit. b: "work product", lit. c: the "market-ready work product", art. 6, art. 162 Criminal Code: "fabrication or business secret"),.
- They do not protect all sorts of information that is commercially valuable. In particular procedures and methods (as opposed to their embodiment in a work product), and preliminary stages of a work product are not protected. Information that is held by several unrelated persons, who all keep it secret and do not disclose it outside their group, is not protected. As a consequence, information is the subject of contracts and transferred or made available for consideration that is not protected by law.
- Trade secret protection does not distinguish between valuable and trivial information.
- Trade secret protection does not provide for a time limitation for protection, so that secret know-how is potentially protected forever. It should be discussed whether different forms of trade

secrets (used internally and kept totally secret, or licensed out or otherwise disclosed under limiting covenants) should be treated differently.

- Trade secret obligations do not contain limitations for legitimate use. E.g. they prohibit use of information in, e.g., due diligence reviews of the know-how licensees, self-defence against state or private third party claims.
- The issue of reverse engineering is not addressed. It should be discussed whether a third party is permitted to commit acts otherwise prohibited by UCA art. 5/6 if he does so with the sole purpose of establishing interconnectivity, unless the holder of the trade-secret rights discloses that information voluntarily (in analogy to art. 21 Copyright Act).
- The protection of market-ready work-products against copying by technical means should be broader and less tightly connected to specific behaviour.
- The impact of modern copying and reverse-engineering technology on trade secret protection should be discussed.
- Protection should distinguish between copying/imitation (which should continue not to be permitted), and use as inspiration for a parallel but independent development (which should be a permitted use). It should be discussed whether use in an unrelated, non-competing field or for non-commercial (scientific) purposes should be permitted.
- Protection should distinguish between use with and without disclosure (cf. TRIPS Art. 39 (3) is too narrow insofar as it prohibits unfair commercial use only in connection with an application for new chemical entities).
- Data bases, i.e. compilations of know-how whose parts are publicly known, but which in their totality are difficult to compile, are presently protected as a form of market-ready work product.

It can be stated that in Switzerland, trade secret protection is well established and guaranteed by a series of reliable precedents. Still, one part of the Swiss group would desire that a body of law focused on trade secrets could be put in place to protect trade secrets while another part of the group favours the current 'system' of disapproved behaviour. Further, one part of the group criticises the high hurdles of enforcement of the existing provisions for the protection of trade secrets. Another part of the group refers to the relatively few decisions in the area of trade secret enforcement and concludes that the existing system seems to be efficient enough. Finally, it is accepted that the protection of data bases should be dealt with separately from know-how protection.

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.

A predictable and reliable international standard on trade secret protection would certainly facilitate technology transfer (as opposed to transfer of finished goods protected against reverse engineering). There should be a uniform definition of protected trade secrets and prohibited acts, meant as minimum and maximum of protection.

There should be a possibility to subject know-how to a review by a neutral expert, whereby only the report of the review by the expert, not the know-how embodiments (documentation, films etc.) are disclosed to the other party.

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?

To conclude a series of bilateral treaties establishing a uniform standard of know-how protection (see answer above) could be a viable way. In these bilateral free-trade agreements, a uniform standard of know-how protection (see above) could be settled.

Schlussfolgerungen:

Die Arbeiten zu diesem Länderbericht haben ein „offenes Geheimnis“ aufgedeckt. Da der Schutz von Geschäfts- und Fabrikationsgeheimnissen in der Schweiz über Jahrzehnte hinweg entstanden und gebietsweise gewachsen ist, sind Normen, die den Schutz dieser Geheimnisse bewahren in verschiedenen Erlassen (namentlich im Vertrags-, Lauterkeits- und Strafrecht) zu finden. Eine einheitliche Regelung und damit auch eine kohärente Terminologie fehlt hingegen (vgl. auch MEITINGER, Der Schutz von Geschäftsgeheimnissen im globalen und regionalen Wirtschaftsrecht, S. 25).

Ob die angesprochenen Disparitäten auf allen Ebenen der Rechtsordnungen mit der heutigen Wirtschaftsstruktur vereinbar und dieser auch förderlich sind, ist fraglich. Daneben bedingt auch der heutige Stand der Technologie (Datenverarbeitung, Zugänglichkeit und Nutzungsmöglichkeiten des Internets) ein Überdenken und damit zusammenhängend auch eine Anpassung respektive Ergänzung der Normen im

Bereiche des Schutzes von Geschäftsgeheimnissen um diesen veränderten technologischen Gegebenheiten und damit verbundenen Gefahren für Geheimnisse Rechnung zu tragen.

Ob allerdings eine einheitliche terminologische Regelung in einem einzigen (bestehenden oder neuen) Gesetz sinnvoll ist, wird bezweifelt. Gerade ein zeitlich unbefristeter Schutz ist nicht gewollt. Bereits innerhalb der Gruppe, die diesen Länderbericht erarbeitet hat, herrscht Uneinigkeit, ob die Schaffung einer neuen Kategorie von Immaterialgüterrechten – Geschäfts- und Fabrikationsgeheimnisse - wünschenswert sei. Die Definierung einheitlicher, grundlegender Hürden im schweizerischen Recht – im Gegensatz zu einer genauen und griffigen Definition - wären hingegen zwecks besserer Schutzdurchsetzung begrüssenswert.

Auf internationaler Ebene hingegen kann festgehalten werden, dass aufgrund von Art. 39 (2) TRIPS Abkommen die Schaffung eines Mindeststandards (in Anbetracht der wirtschaftlich und rechtlich doch sehr unterschiedlich entwickelten WTO-Mitglieder auf verhältnismässig hohem Niveau) erreicht werden konnte. Hier sind Massnahmen zu einer noch weiter führenden Harmonisierung durchaus erwünscht, soweit dadurch der internationale Technologietransfer besser abgesichert wird.

Q:\MADABAW\KORR\312133\6.DOC