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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1)	Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?
	<p>no If not please comment.:</p> <p>The current Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act") has its historic origin in the Swedish Act on Unfair Competition of 1919 (1919:446), which in turn was to a great extent inspired by the German Act on Unfair Competition (1909). Thus, the Swedish statute on trade secret protection is not directly or primarily viewed as a form of restraint of trade. Trade secret protection in Sweden, as follows from the Act, rather springs from the notion of unfair competition. However, there is no separate legal regime of unfair competition applied in addition to the Act for the protection of trade secrets.</p> <p>That being said, contractual agreements aiming to protect trade secrets or otherwise limit competition may in individual cases be deemed to constitute restraints of trade. They can be evaluated under Sections 36 or 38 of the Swedish Act on Contracts (1915:218). Said provisions stipulate that contractual restraints, especially restraints on competition, are not valid beyond what is reasonable in the circumstances. One should under Section 36 take into account, <i>inter alia</i>, the circumstances when the contract was agreed, but also later-arising circumstances and e.g. the relative strengths of the parties. Under Section 38 a restraint on the ability to compete or take up employment with a competitor, are</p>

only valid contractual arrangements if the provisions are reasonable under the circumstances. The two statutory provisions can be seen as a Swedish doctrine of restraint of trade, enabling an assessment of whether a contractual agreement aiming to protect trade secrets amounts to an unjustified restraint on trade. In more recent years, competition law has provided another legal regime available in Sweden for limiting contractual restraints of trade or competition.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

The provisions on trade secrets are stated, primarily, in the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act"). The legal definition of the term "trade secrets" is provided in Section 1. Trade secret protection under the Act is limited to information fulfilling three requirements: (i) information concerning the business or industrial relations of a person conducting business or industrial activities (business specific information), (ii) which that person keeps secret, and (iii) the divulgence of which would be likely to cause a damage to that person from the point of view of competition.

The information must be directly linked to the particular business. The relevant consideration for the distinction between, on the one hand, general skills and, on the other hand, knowledge acquired during the course of employment that constitutes trade secrets, is found in the first element above, which excludes certain general skills and knowledge of employees even if acquired during the course of his or her employment. In the preparatory works to the Act, it is provided that information which anybody with the relevant education could put into practice should be classified as information concerning business or industrial activities (business specific information). However, where the information comprises knowledge and experience of an individual which cannot easily be passed on by way of instructions and directions, the information should be deemed to be of a personal nature and, accordingly, not as information concerning business or industrial activities that may be protected as trade secrets under the Act.

The term "confidential information" is not a defined term under Swedish law, but is commonly used in contracts so as to define what information constitutes confidential information protected under said contract (which may be limited to merely some specific information, but may also extend to more information than just trade secrets protected under the Act). For further information about express confidentiality clauses, see below for the answer to Question 3(a).

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes
If yes please answer the following sub-questions:

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

The duty of loyalty, forming an implicit part of an employment contract, imparts a duty of confidence for the employee, even if no such duty is set out explicitly in the applicable contract of employment. Section 7 of the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act") also provides that employees that misappropriates trade secrets belonging to the employer, may be liable for e.g. damages (see below for the answer to Question 10).

In commercial relationships contractual obligations may be broader than the information protected

under the Act. However, in the employer/employee context it is unlikely that express confidentiality clauses could protect classes of information broader than what would be protected by the employee’s duty of confidence (which may cover certain information not protected as trade secrets under the Act, e.g. information of a more personal nature relating to the employer and its representatives) and the Act. The unequal bargaining positions between the parties would speak against the validity of a confidentiality clause relating to e.g. information in the public domain or information not significant for the competitive position of the employer. However, there is no definitive case law in this area.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

In the absence of any express confidentiality clause the employee’s duty of confidence normally only last to the end of the employment relationship. The employee is in most cases free to use all his or her knowledge concerning the employer’s trade secrets after the employment without any liability. However, this is occasionally modified by Section 7, paragraph 2 of the Act (see below for the answer to Question 4).

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes
 If yes, is there any distinction between the types of knowledge they can use?:

Employees may use certain general skills and knowledge, even if acquired during the course of employment, in a new employment (see above for the answer to Question 2). A former employee may also use even trade secrets acquired in the course of an earlier employment without any liability, unless otherwise agreed in express confidentiality clauses and/or “extraordinary circumstances” are at hand according to Section 7, paragraph 2 of the Swedish Act (1990:409) on the Protection of Trade Secrets (the “Act”).

Section 7, paragraph 2 of the Act provides that if a former employee uses trade secrets of his former employer he or she is not to be held liable unless in case of “extraordinary circumstances”. According to statements made in the preparatory works to the Act, factors indicating “extraordinary circumstances” are:

- Where the employee has taken the position at the company with the purpose of acquiring trade secrets.
- Where the employee has gathered and compiled trade secrets and transferred documentation containing trade secrets during the employment with the purpose of subsequently setting up a competing business or to start working for a competing company.
- Where the employee holds a fiduciary position within the company.
- The extent to which the former employee’s use and disclosure affect the competitiveness of the former employer.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?
 yes

If so, which employees, and what is the rationale for any distinction between employees?:

No. All employees, irrespective of function and position, is obliged to observe confidentiality during employment under the principle of the general duty of loyalty of employees, preventing them from misappropriation of trade secrets during the employment. However, the employee's function and position during the employment may affect the obligation of confidentiality under the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act") post-employment since the employee's position is one of the factors possibly indicating "extraordinary circumstances" under Section 7, paragraph 2 of the Act (see above for the answer to Question 4). However, there is not by default any obligation of confidentiality post-employment even for persons in management positions. The liability for trade secret violation may, however, differ whether the employee had authorized access to the trade secret or not (see below for the answer to Question 10).

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

Mainly the measures noted in (a) and (d) below are available during Court proceedings in Sweden. Pursuant to the Swedish constitution and Article 6 of the European Convention on Human Rights ("ECHR"), there is a strong support for public access to public documents (which includes documents submitted in Court proceedings) and there should as the main rule be public hearings in Court proceedings. Exemptions from the right to access to public documents are defined in the Swedish Public Access to Information and Secrecy Act (2009:400) (the "Secrecy Act") and exemptions from public hearings are defined in the Swedish Code on Judicial Procedure (1942:740) (the "CJP").

According to Chapter 36, Section 2 of the Secrecy Act, the Court may decide that certain information in submissions to the Court or that entire documents (e.g. written evidence) or parts thereof may be classified as secret to protect information about an individual's (including legal entities') business or industrial relations. The prevailing view is that this constitutes a lower threshold than what constitutes a trade secret protected under the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act"). Consequently, trade secrets protected under the Act should always be classified as secret by the Courts. However, such classification may not be upheld for a longer period than 20 years after the Courts received the information. After this 20 years' period the information will become publically available upon request (and thus, such information may no longer be protected as a trade secret under the Act).

According to Chapter 5, Section 1 of the CJP, Court hearings shall be held behind "closed doors" (i.e. not be public), *inter alia*, to the extent information classified as secret under Chapter 36, Section 2 of the Secrecy Act may be assumed to be disclosed. Such non-public parts of an hearing shall be strictly limited and may be applied to e.g. only certain parts of a witness examination.

The Court's decision on secrecy must also be revisited everytime anyone asks to receive a copy of any of the classified documents. In case the Court refuses to lift the secrecy, the applicant may ask for a written decision which may be appealed to the higher Courts under Chapter 6, Sections 7-10 of the Secrecy Act.

If a hearing takes place or the information is commented on in any judgment or decision, the Court's previous decision on secrecy is only preliminary until final judgment or decision in the matter is rendered. Any secrecy is therefore lifted unless ordered in the final judgment or decision, according to Chapter 43, Section 5 of the Secrecy Act. However, if a case is dismissed without any hearing or without any secret information being addressed in a judgment or decision, any decision on secrecy in relation to information in the parties' submissions will remain secret without any further order confirming this status.

The Court may not decide that the actual judgment or decision as such (or any part thereof) is classified as secret. Only the description of the circumstances and the reasoning in a judgment or decision (in addition to the underlying submissions from the parties) may be classified as secret.

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

Yes, see comment above.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

No, see comment above.

c) non-confidential versions of documents being provided to all except authorised individuals;

No, see comment above.

d) only non-confidential parts of any judgment / decision publicly available?

Yes, see comment above.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

The Courts shall decide on any classification of information as secret under the Swedish Public Access to Information and Secrecy Act (2009:400) (the "Secrecy Act") and closed doors under the Swedish Code on Judicial Procedure (1942:740) by its own motion. However, in practice, it is normally necessary for the parties to request such decision to alert the Courts that the information is confidential. It is not sufficient that the parties agree on a classification of information as secret or to be disclosed only behind closed doors. The Courts must still make its own assessment of whether or not there are valid reasons for secrecy and closed doors. However, it is normally sufficient for the parties to argue why the information shall be treated as confidential (with an emphasis on why its disclosure would be seriously damaging to the party's business) and without needing to invoke any evidence. The level of evidence needed is anyway relatively low, since it is sufficient for secrecy that it may be "assumed" that disclosure would be seriously damaging to the party's business under Chapter 36, Section 2 of the Secrecy Act.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

No. Any secrecy ordered by the Court only applies to the Courts and its employees. Hence, the parties and its counsel will always be given full access to any information presented to the Courts and will not be bound by any confidentiality obligation in relation to such information neither during the Court proceedings nor thereafter. This has been criticized in legal doctrine and proposals have been made to amend the rules to attach some sort of confidentiality obligation or liability for damages in case of

misappropriation of trade secrets obtained in Court proceedings.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Damages are available as a remedy for trade secrets violation under the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act").

According to Section 9 of the Act the Courts can, in the determination of the compensation, consider not only the damage itself, but also e.g. the interest of not having the secret being revealed. The consequence is that the dilution of the value by publication can be taken into consideration.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

There are several different ways to quantify damages. According to Chapter 35, Section 5 of the Swedish Code on Judicial Procedure (1942:740), the Courts may make an estimate of the damages to be paid if it is not possible to present full evidence of the extent of damage incurred. The prevailing view is that the Courts do consider unjust enrichment and loss of profit. However, the Courts are strict on defining what loss of profit that is linked to the actual violation of trade secrets and the loss of profit due to other circumstances. When relevant, the Courts have taken into account potential royalty fee or licence as one parameter.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

yes

Please comment:

Damages can be awarded for moral prejudice suffered by the trade secrets holder, according to Section 9 of the Act: *"In the determination of the compensation under Section 5-8, for a violation of the trade secret of a person conducting business or industrial activities consideration shall also be given to his interest that the secret not be exploited or revealed without authorization and to other circumstances of other than purely economic importance."* Based on this rule moral damages are normally awarded in trade secrets cases, at least provided that the claimant also claims economic (compensatory) damages.

d) If so, how is moral prejudice defined and how are such damages quantified?

See comment above.

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

There is liability for several different kinds of violations of a trade secret, depending on how the trade secret has been obtained. Specific elements that must be proved depends on the type of violation, as further described below. A division can also be made between civil and criminal violations. In this context it should be noted that a prerequisite for the criminal violations under the the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act") is that the access to the information has been obtained without prior authorization. Thus, if an employee who has access to certain trade secrets through his or her employment reveals the trade secrets to a third party, the employee cannot be sentenced for a criminal violation but only be held liable for damages (Svea Court of Appeal's judgment of October 20, 2003, case no B 5221-03). This has been criticized in legal doctrine and proposals have been made to amend the rules to provide for criminal liability also in such cases.

Common for all violations is that the information must constitute a trade secret as defined in Section 1 of the Act. For the requirements on such information, see above for the answer to Question 2. Another shared requirement is that the misappropriation of the trade secret is unwarranted, according to Section 2 of the Act. Thus, there is no liability for someone that exploits or divulges a trade secret acquired in good faith or, in certain cases, for the purpose of making available to the public or before a relevant public authority something that may be a criminal offence or another serious incongruity (whistle blowing).

Civil violations

Trade secrets obtained in connection with a business relation

Pursuant to Section 6 of the Act, anyone who willfully or through negligence exploits or reveals a trade secret of a business entity obtained in confidence in connection with a business relation with the business entity in question shall be liable to compensate for damages arising from the practice. Thus, the specific elements that must be proved are that

- the trade secret is obtained in connection with a business relation;
- the trade secret is obtained in confidence;
- the trade secret is exploited or revealed; and
- the exploitation or revelation is made with intent or negligence.

Trade secrets obtained through employment

Pursuant to Section 7 of the Act, an employee who willfully or through negligence exploits or reveals a trade secret belonging to his or her employer obtained in connection with his or her employment under such circumstances that the employee realized or ought to have realized that he or she was not entitled to reveal it, shall be liable to compensate for damages arising from the practice. Thus, the specific elements that must be proved are that

- the trade secret is obtained by an employee in connection with his or her employment;

- the trade secret belongs to the employer of the employee;
- the trade secret is exploited or revealed;
- the employee realized or ought to have realized that he or she was not entitled to reveal the information constituting the trade secret;
- the exploitation or revelation is made with intent or negligence.

After the end of the employment, there is only liability in case there are “extraordinary circumstances (see above for the answers to Questions 4-5).

Trade secrets obtained in other ways

Section 8 of the Act regulates the situation where the trade secret in question has not been obtained in connection with a business relation or through employment. Pursuant to this provision anyone who willfully 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 the Act or revealed contrary to the provisions in the Swedish Public Access to Information and Secrecy Act (2009:400) (the “Secrecy Act”), shall compensate the damage caused through his action. Thus, the specific elements that must be proved are that

- the trade secret is exploited or revealed;
- the exploitation or revelation is made with intent or negligence;
- the information previously has been violated in breach of the Act or the Secrecy Act; and
- knowledge of the fact that the information previously has been violated in breach of the Act or the Secrecy Act.

Civil liability in connection to a criminal violation

Pursuant to Section 5 of the Act, anyone who is found guilty of trade espionage or unauthorized tampering with a trade secret shall pay compensation for the damage caused through the offence or through the fact that the trade secret is exploited or revealed without authorization.

Criminal violations

Trade espionage

Pursuant to Section 3 of the Act, anyone who willfully and without authorization accesses a trade secret shall be sentenced for trade espionage if the one obtaining the trade secret is aware that the information obtained constitutes a trade secret. 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 incur damage as soon as the trade secret is accessed without authorization.

Unauthorized tampering with a trade secret

Pursuant to Section 4 of the Act, 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.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

There is no separate doctrine of breach of confidence under Swedish law. However, a duty of confidentiality may follow from a contractual relationship. Furthermore, this also applies for employees through the employment agreement and its inherent principle of loyalty (see above for the answer to Question 3).

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes

If so, in what circumstances? :

No, information that constitutes a trade secret may not be imputed to an ex-employee or a new employer. Actual access to the invoked trade secret must be established. A new employer may, however, be held liable if the new employer obtains a trade secret from a new employee regarding his or her ex-employer and the new employer exploits or reveals the trade secret in question. Pursuant to Section 8 of the Swedish Act (1990:409) on the Protection of Trade Secrets (the "Act"), a prerequisite for such liability is that the employee, when revealing the trade secret to the new employer, acted in violation of the Act and that the new employer was aware of the violation (constructive knowledge is enough). However, pursuant to Section 7, paragraph 2 of the Act an employee's liability after termination of employment is limited (see above for the answers to Questions 4-5).

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

No, discovery as such is not a measure available under Swedish law. However, under Swedish procedural law anyone, a party as well as a third party, who is in possession of a document of importance as evidence in litigation may under certain circumstances be required by a court order to produce the document in question. Such request can only be made by a party to legal proceedings and not at the pre-action stage. An exception to this rule of producing documents is made for documents containing trade secrets. Pursuant to Chapter 38 Section 2 and Chapter 36 Section 6 of the Swedish Code on Judicial Procedure (1942:740), documents containing trade secrets may only be ordered to be produced if the Court finds extraordinary reasons to examine the document in question.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes

If yes, what is this threshold?:

The burden of proof is not established in the Swedish Act (1990:409) on the Protection of Trade Secrets. However, under ordinary rules on evidence under Swedish law, the prevailing view is that the applicant has the burden of proof regarding all the prerequisites for a violation of a trade secret. There are examples of judgments where the Court has found that the burden of proof regarding a violation of an intellectual property right have switched to the defendant, but there are yet no such higher Court cases regarding a violation of a trade secrets.

15) Does your law provide for any other methods for securing evidence, such as seizures or *ex parte* measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

The Swedish Act (1990:409) on the Protection of Trade Secrets does not contain any particular provisions on securing evidence. This means that the one must rely on the general provisions regarding securing evidence in the Swedish Code on Judicial Procedure (1942:740) (the "CJP").

Pursuant to Chapter 15, Section 3 of the CJP, a Court may make an order for measures suitable to secure the applicant's right if the applicant shows probable cause to believe that he has a claim against another that is or can be made 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 measures include an order to seizure certain information (civil seizure) and may only be granted if the applicant deposits with the Court security for the loss that the opposing party may suffer. 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*. If the court order has been issued *ex parte*, the decision shall not be sent to the defendant until it can be done without jeopardizing the execution of the decision.

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 Court may pursuant to Chapter 41, Section 1 of the CJP take and preserve evidence for the future in the form of witness examination, expert opinion, view, or written evidence. The usefulness of such measure can, however, be questioned. The evidence for a violation of a trade secret is often digital information and as such relatively easy to tamper with. As there is no possibility for the Court to order the measure *ex parte*, the described rules give a rather weak protection against the risk that the evidence is destroyed before it is presented to the Court.

Based on special provisions in the legislation on intellectual property rights, holders of patents, trademarks, designs 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 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. A court order for an infringement investigation can only be issued if there is probable cause that there has been an infringement, when a decision to grant the application of an infringement investigation is proportionate and the applicant has deposited security for the loss that the opposing party may suffer through such measure. In urgent cases, an infringement investigation may be obtained *ex parte*. The infringement investigation is executed by the Swedish Enforcement Agency.

The investigation may result in disclosure of trade secrets of the party being investigated. It is not explicitly 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, also meant safeguard the protection of trade secrets of the party being investigated. However, in line with the principle of free evaluation of evidence, which is fundamental to Swedish procedural law, an infringement investigation which discloses evidence of a violation of trade secrets may still be used in Court, despite the fact that the evidence was obtained in search of an infringement of intellectual property rights. In practice, infringement investigations in relation to alleged copyright infringements are therefore used to secure evidence of misappropriation of trade secrets.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Theoretically, seizure in civil cases can only be used to secure the execution of a future judgement. Consequently, the applicant would not be given the opportunity to examine the seized information since this has the purpose of securing evidence and not the execution of a future judgment. However, there are decisions where the Courts have ordered that the seized information shall be handed over directly to the applicant. Following this case law, seizure in civil cases could also be used for the purpose of securing evidence.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

no

If not, why?:

In general, the current system in Sweden provides well balanced limits on protection of trade secrets to avoid unlawful restraints on trade.

The only limits on the protection of trade secrets should be in relation to what kind of information that qualify as protected trade secrets, with an emphasize on information that is particularly valuable, and there should be no liability for use of another's trade secrets that is warranted or in good faith, as under the current system in Sweden. A balance also needs to be struck with regard to any continued use of trade secrets that initially was made in good faith, so as to avoid unreasonable redesigns of otherwisie legitimate products and services (for example by way of continued use against payment of a reasonable license fee), which is not provided under the current system in Sweden (but proposed in the draft EU trade secrets directive). Moreover, legitimate free movement of employees must be secured by liability for use of trade secrets post-employment only in case of certain "extraordinary circumstances", as under the current system in Sweden (see also the below answer to Question 18).

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

No. Except for the current lack of criminal liability for divulging information which an employee had authorized access to, the current system in Sweden that a former employee is only liable for use of trade secrets of his former employer in case of "extraordinary circumstances" works well (see above for the answers to Questions 4-5 and 10). Thus, all employees, irrespective of function and position, should be obliged to observe confidentiality during employment and the employee's function and position during the employment should only affect the obligation of confidentiality under the Act post-employment as one of several factors possibly indicating "extraordinary circumstances". Without as

such differentiating between different employees, this system achieves the result of applying the rules more strictly to more serious breaches of trust according to what constitutes “extraordinary circumstances”.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

To begin with, any requirement of non-use may only be ordered in case the unsuccessful action is not due to lack of evidence that the invoked information actually constitutes trade secrets protected under law. If it is determined that information disclosed to the defendant constitutes trade secrets protected under law, it is reasonable as the main rule that the defendant shall be prevented from using the disclosed trade secret after the proceedings (to the extent and for as long as the information is protected as trade secrets under law). However, such main rule must come with certain exceptions, primarily so as to not prevent the use of information which the defendant already had or receives lawful access to and to avoid abuse of proceedings. The latter exception is admittedly the most difficult one to determine and must be subject to case-by-case assessments by the relevant Courts.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

As stated above in the answer to Question 19, such obligations of confidentiality should not attach to information that the defendant developed independently prior to the trade secret proceedings or develops independently after the trade secret proceedings. Without such exceptions, the protection of trade secrets could amount to unreasonable restraints of trade and be subject to abuse of proceedings.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

yes
If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?

no
If not please comment.:
See comment below.

b) only where injunctive relief is not adequate

no
If not please comment.:
See comment below.

c) only where injunctive relief is not necessary?

no

If not please comment.:

See comment below.

d) If by default, why?

Yes, damages should be available as a remedy by default so as to not make misappropriation of trade secrets financially beneficial compared to or equivalent to creating own information of the same kind.

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

yes

If yes, in what circumstances? :

In case of actual (unwarranted) use of ex-employer's trade secrets in the business of the the new employer, there should be liability for the new employer (with constructive knowledge of a trade secret imputed to the new employer) and, thus, leading to there being a requirement on the new employer of actively preventing such misappropriation of trade secrets in its business.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes, including *ex parte*, so as to prevent the defendant from removing evidence.

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes. However, the material seized should not be automatically transferred to the applicant but instead be assessed by a Court appointed expert.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

The material seized should not be automatically transferred to the claimant but instead be assessed by a Court appointed expert. This should prevent that the claimant learns of new trade secrets (of the defendant) during the course of a seizure. However, if it is determined that information disclosed to the claimant constitutes trade secrets protected under law, it is reasonable as the main rule that the claimant shall be prevented from using the disclosed trade secrets after the proceedings (to the extent and for as long as the information is protected as trade secrets under law).

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes. In a globalized and increasingly digitalized economy, in which trade secrets and confidential information carries great value but can relatively easily be misappropriated, harmonization is highly desirable.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

Actions in relation to commercially less important information, which prevents the establishment or growth of new innovative businesses by way of restrictions to employ competent persons or otherwise, should fail.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

If injunctive relief against misappropriation of trade secrets is barred as a restraint of trade, at least damages corresponding to a reasonable royalty fee may still be awarded.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

As a principle, all employees should be under the same obligation of confidentiality which should not be unreasonably extended post-employment. However, certain exemptions should be provided for whistle blowing for all employees.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

All trade secrets should be protected against disclosure to anyone other than the relevant Court officers, the parties and the parties' representatives. Such protection should be available without any specific time limit and be limited only by the extent which the information continues to be protected as trade secrets under law. For such protection, it should be sufficient for the party to specify on what grounds the information is protected as trade secrets under law. It should thereafter be for the other party or a third party objecting against such confidentiality to make it likely or show that the information is not (or no longer) protected as trade secrets under law. The parties and their representatives should be granted full access to all information presented to the Court, subject to any confidentiality or non-use obligation after the Court proceedings as discussed below in the answer to Question 30.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

A distinction needs to be made depending on why an enforcement action fails. A balance needs to be struck between enforcement actions not being abused to “contaminate” the defendant or to provide greater protection to information invoked in such action than it would otherwise have under law. Hence, no obligation of confidentiality should attach to information that is not considered protected as trade secrets under law or which the defendant already had or receives lawful access to (e.g. by having independently developed the information). However, if the enforcement action fails because the defendant did not misappropriate it (or that it could not be shown that the defendant was guilty of such misappropriation), the main rule should be that the defendant should be prevented from disclosing or using the secret information. This should be achieved by an order from the Court, enforceable as similar orders normally are enforced in the jurisdiction of the Court (e.g. by criminal liability, fines or contempt of court).

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

Similar principles should be applied as for quantifying damages for infringements of intellectual property rights. The investments made by the party for producing the trade secrets and the value of licensing the trade secrets should be considered as factors.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Rules preventing profiteering from trade secrets violations should be provided, either by moral damages or by principles for quantifying economic damages (for example always corresponding to at least any savings made by the violator).

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

Same as for infringements of intellectual property rights.

34) What restrictions should apply to the use of seized evidence by the claimant?

Confidentiality obligations for other persons’ trade secrets.

Summary

Trade secrets are protected in Sweden under the Swedish Act (1990:409) on the Protection of Trade Secrets (the “Act”). This Swedish statute on trade secret protection is not directly or primarily viewed as a form of restraint of trade. Trade secret protection in Sweden, as follows from the Act, rather springs

from the notion of unfair competition.

The Act is generally considered to strike a good balance between the protection of trade secrets and the fair movement of employees and related competition between undertakings. Hence, in general, the current system in Sweden provides well balanced limits on protection of trade secrets to avoid unlawful restraints on trade. Enforcement under the Act is also generally considered to work sufficiently well. However, room for improvement has been identified with regard to, inter alia, relatively weak methods for securing evidence, need of some sort of confidentiality obligation or liability for damages in case of misappropriation of trade secrets obtained in Court proceedings and a current lack of criminal liability for divulging information which an employee had authorized access to. Similar to enforcement of intellectual property rights, increased clarity would also be beneficial with regard to issues of burden of proof and calculation of damages.

In a globalized and increasingly digitalized economy, in which trade secrets and confidential information carries great value but can relatively easily be misappropriated, harmonisation is highly desirable.

For harmonisation, the starting point should be to try to have similar rules for enforcement of misappropriations of trade secrets as for infringements of intellectual property rights. However, to avoid de facto restraints of trade, actions in relation to commercially less important information, which prevents the establishment or growth of new innovative businesses by way of restrictions to employ competent persons or otherwise, should fail. Also, while very strong confidentiality obligations should apply to information disclosed in and for Court proceedings, no such obligation should attach to information that is not considered protected as trade secrets under law or which the defendant already had or receives lawful access to (e.g. by having independently developed the information).

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.

N/A.