



IP and Competition Law Newsletter Switzerland

Protection of Trade Secrets - what to think about and how to do it

Trade secrets lie at the core of a company's competitiveness. They are an important asset which must be appropriately protected. In light of the imminent European legislation on trade secrets protection, it may be worth to have a look at the situation in Europe and in Switzerland, and to remind ourselves what trade secrets are and how they can be effectively protected.

What is a trade secret?

A trade secret is some technical or commercial information that gives a company an edge over its competitors. Its value lies in the fact that it is not widely known or readily accessible, and making it public would diminish that value. Anything that has a commercial value because of the fact that it is secret can be considered a trade secret. This includes for example:

- Recipes and formulas, like Coca Cola's secret recipe for Coca Cola syrup;
- New solutions to a specific technological problem (inventions) for which the company has not filed a patent application;
- Manufacturing methods and processes;
- Marketing techniques and/or business strategies unique to the company;
- Client lists and customer information.

Imminent European legislation

The protection of trade secrets has not been regulated yet on a European level. The different regimes currently in place in European jurisdictions vary widely. The proposed EU Trade Secrets Directive – likely to come into force in 2016 – will change that situation in Europe. Though trade secret laws will not be harmonized across Europe, the Trade Secrets Directive will set up a minimum standard for trade secret protection across the EU, introducing more certainty than currently exists.

The Directive defines a trade secret as undisclosed know how and/or business information which has an actual or potential commercial value because it is secret, and which has been subject to reasonable steps to keep it secret. Any acquisition of such trade secret by unauthorised access, copying or appropriation constitutes infringement, as does the use or disclosure of trade secrets that were unlawfully acquired. The Directive also covers secondary infringement which means that the acquisition, use or disclosure of a trade secret is unlawful if it was directly or indirectly obtained from a third party who unlawfully obtained it.

The Directive provides for a wide range of remedies to enforce trade secret rights, such as injunction against the further use or disclosure of a trade secret, seizure or recall of infringing goods, and/or damages. With regard to remedies, the Directive treats trade secrets basically like IP rights.

The situation in Switzerland

Switzerland does not have any specific trade secret laws. There are however certain provisions in the Unfair Competition Act, the Criminal Code, and the Code of Obligations (i.e., section on employment law) which deal with certain aspects of trade secrets protection:

- Unfair competition laws prohibit the exploitation or use of trade secrets that were unlawfully obtained (incl. secondary infringement), and they prohibit any conduct inducing employees, agents or other auxiliary persons to betray or spy out any trade secrets of their employer or principal.
- Employment laws provide that the employee must not exploit or reveal confidential information (such as trade secrets) obtained while in the employer's service. The employee remains bound by this duty of confidentiality even after the end of the employment relationship to the extent required to safeguard the employer's legitimate interests. If not constrained by a non-compete obligation, the



employer's duty of confidentiality must be balanced against his right to use his knowledge acquired in the course of his earlier employment.

- The Criminal Code provides that anyone who divulges a trade secret that he is under a statutory or contractual duty not to reveal, or anyone who exploits for himself or another such a betrayal, is liable to criminal sanctions. Depending on the circumstances, there are specific statutory provisions providing for criminal consequences in case of breach (e.g., breach of banking secrecy).

Though Switzerland lacks specific trade secret laws, many aspects of trade secret protection are adequately covered.

Protecting your trade secrets

Protection of trade secrets is only afforded to undisclosed information that has been subject to the taking of reasonable steps to keep it secret. This is true for both the EU and Switzerland. Taking reasonable measures does not only further the goal of keeping the information secret, it also strengthens the case against someone who does illegally reveal or exploit it.

Depending on the form of the secret information, there are a variety of options available for securing it. Each company should in the minimum

- identify, document and classify any trade secrets of its business, and verify the paper trail of ownership of such secrets;
- store the secret information in a restricted area, and use password protection and up-to-date net-

work security measures;

- limit the number of persons with access to the information, and grant access only to those who really need the information;
- when outsourcing, use multiple vendors for different components to avoid letting one vendor know the whole secret;

Finally, it is important to make sure that appropriate contractual arrangements (NDAs, non-compete) are made for all persons with whom the secret information is shared. Revealing the information to select employees, potential investors or others does not terminate the trade secret rights, as long as reasonable measures are taken to prevent widespread disclosure. It is therefore important to include appropriate NDAs in employment contracts and also with potential investors or partners to ensure they are legally bound to keep the secret. Moreover, non-compete agreements can help prevent ex-employees from exploiting the trade secrets or sharing them with competitors.

Taking the right precautions will ensure that your company keeps the edge over its competitors.

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