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Switzerland: Trends & Developments

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SWITZERLAND

Trends and Developments

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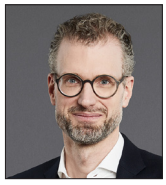

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How to Protect Trade Secrets in Employee Relationships and Court Proceedings in Switzerland

Introduction

The protection of trade secrets plays an important role in the success of individual business enterprises, and in a functioning economy as a whole. Swiss law recognises the importance of protecting confidential business information and provides robust legal remedies for the misappropriation of trade secrets.

In Switzerland, there is no legal act or framework that specifically governs the protection of trade secrets and the duties and liabilities of the parties involved. Pertinent provisions are found in:

- the Code of Obligations (CO);
- the Criminal Code (SCC);
- the Unfair Competition Act (UCA); and
- the Civil Procedure Code (CPC).

The SCC and the UCA stipulate certain misconduct regarding trade secrets as criminal offences and as unfair competition, respectively; the CO protects trade secrets in the context of employment relationships in particular; and the CPC grants the owner of trade secrets access to interim measures while giving civil courts the authority to take appropriate measures to ensure that evidentiary proceedings do not violate the legitimate confidentiality interests of the parties or third persons. As Switzerland is not a member of the European Union, the EU Trade Secrets Directive (Directive (EU) 2016/943) does not apply directly, nor has Switzerland implemented its contents into national law.

The following overview of the current legal context and developments regarding trade secrets protection in Switzerland first looks at the options for protecting trade secrets of companies against unlawful disclosure and exploitation by current or former employees. The second part highlights recent legal trends in connection with the protection of trade secrets in court proceedings. The final section provides an update on the recent introduction of a new in-house counsel privilege in the CPC, and on its potential use for the protection of trade secrets.

Protecting trade secrets in employee relationships

When it comes to companies' trade secrets, employees play a major role as they often have insight into the confidential information and practices of their employer. From the perspective of companies and employers, the question thus arises of how to deal with the unlawful disclosure and exploitation of trade secrets by current or former employees.

Measures under civil law

The main possibility an employer has under civil law in Switzerland is to file an employment action against an employee. Under Swiss employment law, as part of their duty of loyalty and care, employees are prohibited from disclosing to third parties facts that are meant to be kept secret and were obtained whilst in the employer's service, such as manufacturing and business secrets (Article 321a of the CO). A secret may be violated not only by communicating it to unauthorised third parties, but also by exploiting it – ie, by using it for one's own advantage. To the extent necessary to safeguard the employer's interests, this protection may extend beyond the end of an employment relationship.

In the case of an existing employment relationship, the employer can terminate the employment relationship and may do so with immediate effect if a serious violation occurs (Article 337 of the CO). The employer may also claim damages incurred as a result of the violation of the trade secret (Article 321e para. 1 of the CO). It should be noted, however, that such claims must be made without delay in order to minimise the risk of the court considering the damages to have been waived by the employer: the Swiss Federal Supreme Court (FSC) assumes that any known, unclaimed damages at the end of an employment relationship are waived. Unknown damages can be claimed at a later point in time if and when they come to light.

The FSC holds that information constitutes a trade secret if it is neither generally known nor generally accessible, if it is intended by the owner of the information to be known only to a limited group of people, and if there is a legitimate interest in keeping it secret. The FSC furthermore considers that employees act intentionally if they are able to foresee the risk for the employer and are nevertheless willing to consciously take such risk, irrespective of whether they intend to harm their employer and whether they act in a refined, planned or calculated manner.

Measures under criminal law

In addition to triggering civil actions, the violation of a trade secret may also be criminally prosecuted (Article 162 of the SCC). It must be determined in each individual case whether a piece of information constitutes a trade secret. Generally, a fact or piece of information is qualified as a trade secret if it is neither generally known nor generally accessible. The owner of the fact or information must further have an objective, legitimate secrecy interest, as well as the subjective will to maintain secrecy. It is noteworthy that Article 162 of the CC does not require any specific result of the secrecy violation, such as damages, to establish a criminal liability.

The exploitation of an entrusted work product, as well as the exploitation or disclosure of an unlawfully obtained manufacturing or trade secret, may also violate unfair competition law (Articles 5 and 6 of the UCA). Thereby, the term "work product" encompasses products of an intellectual and material effort and expenditure and, contrary to trade secrets, does not require a legitimate interest in maintaining secrecy. It therefore potentially has a broader scope of application than the term "trade secret".

The violation of a trade secret may also amount to the punishable offence of disloyal management of a business (Article 158 of the SCC). This provision generally provides for sanctions against any person who by law, an official order, a legal transaction or authorisation granted to them has been entrusted with the management of the property of another person or with the supervision of such management, and who,

in the course of and in breach of their duties, causes or permits that other person to sustain financial loss.

The general time limit to file a criminal complaint is three months, beginning on the day the complainant discovers the identity of the suspect (Article 31 of the SCC). The prosecution of a criminal complaint by the authorities requires that the complaint be well-founded and that the alleged events took place with a certain degree of probability. In particular, all coercive measures, such as a house search, require sufficient suspicion of a crime and a level of urgency. Any supplementary civil measures (see below) will have to be co-ordinated with the criminal measures.

Interim measures

When it comes to trade secrets, interim measures such as a court injunction may be suitable – eg, to prevent further dissemination or even the initial disclosure of a trade secret at an early stage.

Swiss civil procedure law provides for the possibility of interim measures in situations in which applicants credibly show that a right to which they are entitled has been violated or that a violation is anticipated, and that the violation threatens to cause harm to the applicant that would not be easily reparable (Article 261 of the CPC).

Finally, applicants must credibly demonstrate the urgency of the requested measure. In particularly urgent cases, the court may even order ex parte interim measures immediately and without hearing the opposing party (Article 265 of the CPC). The civil courts enjoy broad discretion as to the type of interim measure they consider appropriate in an individual case. Interim measures are also available under unfair competition law (Article 9 of the UCA).

Protecting trade secrets in court proceedings

Handling trade secret protection in court proceedings involves treading a fine line between protecting the trade secret owner against unauthorised use or misappropriation and safeguarding the right to a fair trial. As a general rule, all evidence must be disclosed to the opposing party without restriction and in the same manner as it is presented to the court. If, however, the interest of the trade secret owner so requires, civil courts must take appropriate measures to safeguard trade secrets (Article 156 of the CPC).

In a recent decision, the FSC had the opportunity to revisit the practice of anonymising published court judgments (BGer 1C_642/2020). The case concerned a ruling of the Federal Administrative Court on the inclusion of medicinal products on the Federal Office of Public Health's specialties list. While the FSC recognised that the general interest in public justice and the individual interest in confidentiality must be weighed against each other, it held that the Federal Administrative Court's anonymisation of its judgment limits the comprehensibility of, and may restrict access to, justice. In particular where the anonymised information was publicly available elsewhere, the FSC held that its republication could not represent a competitive disadvantage.

In its decision O2020_014, the Federal Patent Court laid out the general definition of a trade secret as knowledge that is not readily available, has commercial value and is intended to be kept secret by its owner. While it is not required that the information cannot be obtained legally, it should at least require significant effort to do so.

The prevailing view is that the relative obscurity of information and a subjective desire for confidentiality alone are not enough to establish a secret; a legitimate interest in confidentiality is also required. Thereby, financial harm alone does not establish a worthy interest in confidentiality; the protection of confidentiality must be necessary for the proper functioning of the competition in the market. The Federal Patent Court then went on to state that whether an interest is worthy of protection ultimately depends on the result of a balance of interest test between individual confidentiality interests and the constitutional right to a fair hearing and the procedural interest in discovering the truth.

New in-house counsel privilege

Under current Swiss law, only lawyers, not in-house counsels, are subject to professional secrecy and therefore have a special right to refuse to co-operate in legal proceedings by invoking an attorney-client privilege. This situation has been criticised in Switzerland for years because Swiss companies may suffer procedural disadvantages in foreign court proceedings due to the lack of in-house counsel privilege. In particular, Swiss companies may be required to disclose correspondence with their Swiss in-house counsel in US proceedings, but at the same time the correspondence of US companies and their in-house counsel is protected by the US attorney-client privilege.

Against this backdrop, a parliamentary initiative was submitted in 2015 to introduce a right of non-co-operation for in-house counsel, at least in civil proceedings. On 17 March 2023, the Swiss Parliament passed a new Article 167a of the CPC, providing for a right of non-co-operation in civil proceedings as regards activities in an in-house legal department. The new law is subject to an optional referendum. Provided that no referendum is lodged, it will enter into force on a date to be determined by the Federal Council, which is currently expected to be 1 January 2025.

Accordingly, to the extent that trade secrets can be qualified as information that is profession-specific for attorneys, and in particular does not relate to accessory activities of attorneys such as asset management, board of directors' activities or business consulting, there will be a right to refuse the disclosure of such information in civil proceedings. Note, however, that Article 167a of the CPC limits such right to refuse disclosure to civil proceedings.

Conclusion

Trade secret owners, such as employers and litigants, can rely on strong protection of their trade secrets under Swiss law. In practice, however, the effective protection of trade secrets is complex, demanding speed and practical expertise in navigating the complex legal landscape, and strategic experience in choosing the appropriate tools to achieve the goal. In particular, it may be difficult in the individual instance to clearly distinguish between the trade secrets of a company on the one hand and the professional experience and knowledge of its employees on the other hand. Also, in order to prove that the disclosure or use of a trade secret is a criminal offence, it must be shown that an individual acted intentionally. Furthermore, the protection of trade secrets during litigation is within the broad discretion of the courts, thereby adding a degree of uncertainty to the fate of trade secrets in court proceedings.

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