Secrecy as a Part of the Intellectual Value Creation Within a Firm

How to use secrecy as a strategic tool in a business

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1. Abstract

Wealth and growth are to a growing extent driven by investment in, and governing of, knowledge. The industrial economy is increasingly replaced by a knowledge-based economy. The driver of the business is focus on knowledge, which requires new strategies for protecting and capturing knowledge within a firm.

The focus of this thesis lies on analysing how the secrecy and the Swedish protection on trade secrets can be used as a value creating strategy in this type of economy. It can be used as a strategy in itself, but also as a complement to employment regulations and intellectual property rights.

For this, I have analysed the regulation on trade secrets and the use of non-disclosure agreements. I have also analysed the use of secrecy in relation to employment and intellectual property rights.

The conclusion is that the regulation on trade secrets and the use of secrecy is necessary for the value creation in a knowledge-based economy. The strength of the protection is to a large extent dependent on a structural creation process driven by the company.

2. Context

2.1 A knowledge-based economy

We are now taking steps from the industrial era and entering into the knowledge-based economy. As an entrepreneur in today’s economy it is increasingly important to understand the paradigm shift from the material value chain to the intellectual value chain; this regardless of which area that a business holder is active in1. However, it is not even fruitful to try to separate the two different concepts. Whether you produce cars or build digital platforms on the Internet, your business is to a large extent dependent on knowledge.

1 Petrusson, p. 3
What drive development further are ideas, creativity and inventions. It all starts with the intellectual outcome from people and these outcomes may be extremely valuable assets for a company. This means that all business is more or less built upon intellectual building blocks. For a firm, it will be crucial to understand how to identify and capture these intellectual phenomena and turn them into property. By claiming these intellectual assets as property, a firm will be able to turn them into a transaction in the economic system. When it’s possible to extract economic value from knowledge, it becomes an economic factor. This is also the starting point of a knowledge-based economy.

2.1.1 A need to control knowledge

As with physical assets, the value of intellectual assets is dependent on the possibilities to control them. If anyone has access to certain knowledge or is free to exploit the outcome from other’s intellectual creations, such creations or inventions would not be as valuable. The value of knowledge lies in the possibility to exclude others from it. Being the only one having a specific knowledge generates a control position that could be used for many different purposes. Either it can be used at an internal or external level.

On an internal level, it can be used as a plain advantage against other competitors. Since the one having the knowledge know something that his competitors do not, this could potentially give him/her an advantage.

It could also be used externally, since the control of knowledge also lets us dispose over it as we wish. It can then be used as something to trade against other knowledge or even sold for a monetary compensation.

In both cases we use the unique position that we have by being the exclusive carrier of certain information, to extract value from this position. It is the control position per se that generates the

![Figure 1: The two sides of control](image-url)
value from it. Not the knowledge itself.

2.1.2 Control is dependent on the possibilities to claim property

By claiming certain intellectual phenomena such as an invention, an artistic creation or a brand name as property, a company will be able to create a control position in relation to these objects. This helps a firm to objectify and define abstract intellectual phenomena as something more tangible and understandable. Such transformation can be said to be the base condition for the possibilities to generate value from intellectual phenomena in general, such as knowledge. The property claim enables a firm to refer to its internal intellectual recourses as intellectual capital.

2.1.3 Intellectual capital

Many of the resources within a company are increasingly based on intellectual capital, meaning that the intellectual creations, knowledge and ideas that employees of a firm posses or creates are seen as the foundation of the company's value. Such value is commonly being referred to as the intellectual capital of the firm.

Intellectual capital can be divided into two subcategories; structural capital and human capital, where the structural capital may consists of computer bases, customer registers or organizational structures whilst the human capital consists of the competences of the employees. The first category can be seen as company assets that the company has a possibility to control physically, which enables such assets to be protected by general ownership principles. The latter category are however seldom possible to capture as physical assets within a company. Since this form of capital represents a growing value to companies, great efforts are today spent on controlling the intellectual capital in both categories.

When trying to protect their human capital, the companies have tried using traditional legal tools such as contracts. Another way to capture the value of knowledge is to try to transform the human capital to structural capital and
thereby convert the knowledge into a form that is easier to handle. If the information or knowledge in question can be separated from the subject, the employee, or at least objectified, this also means that the company can handle the information as their own possessions, which facilitates a transfer of knowledge to property.

2.2 Secrecy as the first way to protect knowledge

Even though the concept of a knowledge-based economy is rather new, the perception of using and controlling knowledge as a way to create a competitive advantage against others is not. In the early societies, craft guilds tried to protect their knowhow through closed communities. Outside such communities knowledge was not shared nor reviled. The absence of Intellectual property rights forced everyone that wished to benefit from their knowledge to keep it secret.² This created a control position that allowed the ones holding the knowledge secret to benefit from it and the knowhow per se became one of the assets that the guild built their business on.

2.2.1 The rise of intellectual property

However, the creation of Intellectual property rights made it possible to reconcile the action of disclosing knowledge, while still keeping the protection of private rights to that knowledge. This facilitated a circulation of knowledge to a large degree. Such circulation was also one of the main intentions of the legislator, or perhaps rather the politicians who proposed the regulations of intellectual property. It was clear that by enabling the knowledge to be disclosed, the total value of that knowledge was increasing by falling into the public domain. This captured one of the most important goods of knowledge: the fact that knowledge is cumulative.

The use of Intellectual property rights facilitated a possibility to produce new knowledge that was based upon previous knowledge. A good example is provided by the patent system, which allows inventors to access previous knowledge as a starting point for their own research. The possibilities to disclose

² Foray, p. 108
knowledge and still keep control of it, manage to balance the interests of creating an incentive for research while keeping the information and knowledge circling.

2.2.2 Are secrecy obsolete as a strategic tool for business?

One could wonder whether secrecy still can be considered as a functioning and desired way to protect intellectual phenomena at all, given the advantages with using other existing legal intellectual property protections.

It is also clear that the trend in the business world today is that companies are heading towards a more open and sharing mentality. Concepts like ‘open source’ and ‘open innovations’ are definitely on the rise. Chesbrough among others argues that companies will increasingly need to share knowledge with each other, as well as with the costumers, in order to maintain generated value and develop more advanced technology. It is clear that his vision of ‘open innovation’ takes the starting point in the same belief as the one of the creation of intellectual property rights: knowledge becomes even more valuable when shared. Foray seems to embrace the same conclusion in his analysis of knowledge as common good. There are even those who argue for an even more open society where knowledge is considered as free common good. Lessig for example, means that not only a more open attitude from the companies’ side is required, but he also argues for less regulation of intellectual property in general, in favor for a richer and more fruitful cultural society.

It is, considered the strive for a more open society and the extensive use of Intellectual property rights, not unwarranted to question whether secrecy and the use of it as protection for intellectual phenomena, is desired. Is this wanted from a societal point of view or even from a protection perspective? Is secrecy at all able to protect intellectual phenomena or has the strategic and social advantages of using Intellectual property rights taken over the role as protection for the intellectual assets of business today?

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3 Chesbrogh, p. 30
4 Foray, p.113
5 See for example Lessig, Free Culture p. 12
To some extent this is true considered the increasing usage of Intellectual property rights in private business. Nevertheless, even considered the wide use of Intellectual property rights of today, it is clear that the institution of trade secrets still serves as an important protection for the knowledge of a company.

There are several reasons for this: Intellectual property rights are only able to cover a vast fraction of all intellectual phenomena that a business comprises of. Most of the knowhow, information and ideas of a firm fall outside the scope of Intellectual property rights protection, which gives at hand that there is a need for an additional protection. Many firms have procedures and knowhow that they build their whole competitive advantage on, but which could never be protected through any Intellectual property rights. In such cases secrecy is the only way to maintain that control position. One of the most famous examples of secret as protection for a key component in businesses is the secret recipe of Coca Cola.

It is not only the leftovers from Intellectual property rights that can be protected by secrecy. All Intellectual property rights can also be seen as trade secrets and the regulation on trade secrets can be used as a complement or a substitute to the Intellectual property rights. Also, in many cases secrecy is not only an additional protection but a condition for the possibilities to gain protection through an Intellectual property right at a later stage. The best example is the patent, where an absolute novelty is set out as a criterion for the legal regulation.

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6 Blaxil and Eckardt, The inviseble edge, p. 137
to be applicable at all. The possibilities to keep the patentable invention secret, until the filing for a patent have been done, is thus crucial to qualify for any protection at all.

As can be seen there is still need for additional protection in relation to Intellectual property rights. However, even given these different areas of use for secrecy as a protection, questions still remain to be answered. In order to not only establish that secrecy is used as a protection, but also quantify the analysis and evaluate the dynamics of secrecy as protection, one has to continue the analysis. Can secrecy be used as protection without crippling a healthy circulation of information? Is secrecy able to facilitate a protection that allows dispositions to the same extent as Intellectual property rights? In a knowledge economy were the knowledge is the actual object for trade the protection cannot only be a static wall against the competitors. Companies must have a protection that also facilitates to disclose and even transact the intellectual object, to fully be able to exploit the whole economic potential of that object.

2.3 Secrecy as a value creating mechanism in a knowledge-based economy

The concept of trade secrecy and secrecy can be said to initially have been based on the societal values and theories of confidence relations, something that becomes evident when for example looking at the relation to employment law. However, nowadays companies also tend to treat the construction of trade secrets as objects and property, which can be transacted or even used as securities. Secrecy today is not only used as means of loyalty but also a full fledge protection for valuable assets within a firm\textsuperscript{7}. How is this possible?

2.3.1 Secrecy as a way to transform intellectual phenomena’s to capital

As discussed previously in section 2.1.1, some sort of control position is needed for intellectual creations in order to make them valuable in a business. This control position will be used to claim the intellectual assets as property and furthermore capital. This can be said to be a three-step process, which are

\textsuperscript{7} Blaxil and Eckardt, The invisible edge, p. 137
outlined in Figure 3 below. This procedure is valid for all kinds of intellectual property and can also be said to be a condition for intellectual value creation.

When applying the procedure on secrecy, it is clear that the first step will be to identify and define intellectual phenomena, such as knowhow, market knowledge etc, which a company use in their business as a value-creating tool. By defining this, a company will be able to identify what kind of intellectual assets their business is dependent on. They can also sort out which one of these that might qualify for protection from any of the intellectual property regulations and which ones that will need to be kept secret in absence of any other possible legal protection.

Next step is to claim these assets as the property of the company. This can be done in many ways. The most common way to do it is through the usage of the legal regulations on private ownership, such as for example Intellectual property rights. By claiming that the intellectual assets in fact fulfil the criteria and therefore qualify as a specific intellectual property right, or that the intellectual assets fall within a certain property regulation that protects the asset, a company
will be able to claim the asset as property. It is however not necessary to gain protection through legal regulations to do this. As long as a company are able to convince its surrounding that its knowledge or whatever intellectual asset the company have is its property, this transformation will work just fine. Nevertheless, it will create a far much greater certainty and legitimacy if there is a legal regulation supporting the property right claims. In the case of secret knowledge, the result of successfully claiming that certain information or knowledge shall be considered as a company’s trade secret is that this action also communicates to the surrounding that this trade secret is the property of the company, to which it has ownership.

Applied on secrecy, this means that a company also has to claim the identified intellectual assets as a trade secret of the company. They have to find support for this either from legal regulations or simply through acceptance from its surrounding environment. By doing this, a company will be able to objectify its intellectual assets into something more tangible and understandable for both themselves and external actors.

The concept of ownership leads us into the third part of the procedure, where the property will have to be claimed not only as property but also as capital. If this is successfully done, the intellectual property will gain equal status as physical assets and can then be transacted, traded or used as security in relation to other external actors. This step is however dependent on the possibilities to dispose the intellectual asset, which is directly linked to the control position in relation to the asset as discussed above.

In relation to secrecy the last step is the trickiest part, since it not only requires regulations that make the property claims valid in the eyes of the surrounding. There will also be a need for a way to successfully transact the defined property without losing the control position considered that it is in the control position where most of the value of intellectual property lies. There are no such possibilities stated in any other legal regulations as in the case with Intellectual property rights regulations; patents and copyrights for instance have well defined rights that follow with the protection. Instead it becomes a balancing
that must be done by the company. It is a question of claiming the value of the property and at the same time managing to maintain the control position even when losing it physically. This will preferably be done contractually and through negotiations with the other part.

2.3.2 A structural creation process driven by the company

As can be seen, the whole process of transforming intellectual assets to intellectual capital is always dependent on the communicative actions done by the asset owner. By claiming that the intellectual assets fulfills certain criteria or qualify to gain a defined status of being certain objects (such as trade secrets) this means that a company may affect the way its assets are treated in an economic system. Thereby it also defines the value of the assets to some extent. This is particularly true in the case of trade secrets where the definition of such secrets is not as defined as with other Intellectual property rights.

Given the fact that the definition of trade secrets is dependent on how a company treats its internal secrets and what information the company think of as it secrets, a company can, through its communicative actions, affect the definition of a trade secret. Indirectly this also affects the impact of the legal regulation. The first step to get access to the protection from the legal regulation is namely to define certain information as secret. When communicating “this information is considered as a trade secret by the company” the company will be able to form the legal definition of what a trade secret is. The more convincing the company is able to communicate this, the more likely it is that a court will legitimize the usage of that definition. This means that companies are given a possibility through the legal regulation to take part in the creation of legal structures.

The creation of such structures can be used as a tactical tool or companies. For a small entity, negotiating with the big dragons, the secrecy protection can protect the object that a negotiation may concern. The protection then takes the form of a full fledge Intellectual property right. For bigger companies a strategy comprising trade secrets may enable them to keep their position for a long time.
3. The aim of this paper

The focus of this paper lies on determining how secrecy can be used as a way to create and capture value in a knowledge economy. This general and wide question will thus have to be broken down in several smaller ones. Based on the discussion above it is clear that the possibility to control knowledge is crucial to extract value from it. Given this it will be necessary to determine how secrecy can be used to gain such control and to what extent such control can be wielded effectively, not only in an internal setting, but also externally given that this sets the limits for the possibilities to extract maximum value from it. It will, in relation to this investigation, also be necessary to stance out the limits for the regulations on secrecy and the possibilities to contractually manoeuvre the procedures linked to the intellectual value creation of a company.

To not only give some theoretical conclusions I will also use the conclusions to produce some hands-on tips for business holders in relation to the different regulations. I will moreover when discussing how certain situations can be solved contractually in addition draft an example of such contracts.

3.1 Research question

Based on this aim the research questions consequently are:

What grounds are there for protecting secrets?

- Through regulations
- Through contracts

What possibilities is there to control disposition of secrets

- Through regulations?
- Through contracts?

What limits are there?

- Regulatory
- Contractually
3.2 Method

I will use a legal method to investigate the different legal areas that needs to be taken in concern when solving the research questions.

3.2.1 The legal method

The legal method is the method that all Swedish legal educations are teaching and is also the same method that are used by all practitioners in Sweden regardless of where they work. Business lawyers as well as judges and prosecutors are using this method even though the working process might differ dependent on where the legal practitioner is active.

The method is an analytic process, where the different legal sources are consulted to facilitate for a broader and comprehensive picture of the legal area in question. It is a judgement done by the lawyer that performs the analysis, which also means that it is possible that two different lawyers may end up in slightly different conclusions\(^8\).

The different legal sources that are consulted by the lawyer are in the Swedish legal discipline;

1. Legal text
2. Proprietary works
3. Case law
4. Doctrine

To perform an accurate analyse of the legal question, all these legal sources must be consulted. There is however, a hieratic order between them where the legal text is always the first source of information when dealing with a legal issue. However, when this source lack information on how a specific issue is solved or it is clear that the legislator hasn’t solved the issue, the other legal sources are there to aid the lawyer by adding additional information and guidance.

\(^8\) See Eld, Christer, Juridik – en domänbeskrivning.
3.2.2 Evaluate legal solutions

To evaluate the impact of the legal tools in practice, I will look into the use of the different legal tools by studying case law on the legal subject in question. In cases where there is very little case law or in any event total absence of such information, I will instead have to rely on doctrine related to the issue.

3.2.3 Solving legal issues

I will work based on the assumption that the legal questions that I have identified will also be able to answer and regulate properly by applying the legal method on the questions.

3.3 Delimitations

3.3.1 General

I will focus on the legal questions associated with secrecy in relation to private business as a way to protect valuable knowledge for a firm as well as managing dispositions of assets protected by secrecy. I will also to some extent look into ownership issues related to knowledge, carried or produced by employees of a firm.

When drafting contracts I will mainly focus on those paragraphs that are directly linked to facilitate the handling of control, ownership and secrecy. This means that I will not put focus on regulations that certainly will be present in the legal area in question but has no direct link to intellectual control issues as such.

3.3.2 Secrecy

Secrecy as a concept is regulated in the act of secrecy (SekrL). This regulation is however only applicable on authorities\(^9\) and given the business focus of this paper this regulation will thus not be of any relevance. This paper is written from the perspective of firms active in a knowledge-based economy. I will therefore

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\(^9\) 1§ Lag (2009: 400) om offentlighet och sekretess
delimit myself to only look on secrecy in relation to private business and as a consequence I won’t look into the secrecy regulation in relation to authorities.

3.3.3 Employment

The focus in this section will be on secrecy in relation to employment. I will also specifically focus on the transfer of rights and the employer’s possibilities to ensure ownership to the employee’s creation since ownership claims are somewhat closely linked to the possibilities for secrecy protection and the potential to actively steer what is protected or not from the view of an employer.

3.3.4 Intellectual property rights

I will only describe the different Intellectual property rights to give a context on when and where secrecy can be used as a complement or even a condition to achieve protection at a later stage. I will mainly focus on the concept of patents and copyright since these Intellectual property rights constitutes the best example of where secrecy can play an important role, both in regards to patents as a way to ensure patentability and in relation to copyright as a way to extend the area of protection.
### 4. Contractions

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<td>AvtL Lag (1976:218) om avtal</td>
<td>Legal act on agreements</td>
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<td>FHL Lag (1990:409) om skydd för företagshemligheter</td>
<td>Act on trade secrets</td>
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<td>KML Lag (1992:1685) om kretsmönster</td>
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<td>LAS Lag (1982:80) om anställningsskydd</td>
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<td>MSL Mönsterskyddslag (1970:485)</td>
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<td>VML Varumärkeslag (1960:644)</td>
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5. Controlling knowledge

In the previous chapter the conclusion was that a knowledge based economy will be dependent on the possibilities to control of knowledge. To be able to understand how to control knowledge we first need to set down the basic characteristics of knowledge. This is mainly because the characteristics of knowledge are closely linked to the possibilities to extract value from it.

As discussed previously the procedure for extracting value from intellectual assets are based upon the possibilities to identify the intellectual phenomena's, define it as property and then ultimately also control it to such extent that dispositions of the defined intellectual assets are possible.

It is clear that the diverse characters of knowledge constitute varying possibilities to control it given that some knowledge will be hard to even identify whilst other might be easy to define as property or even to transact given its natural character.

One could sum it up as that the character of the knowledge in question will determine how easily it will be captured in a value creating process.

5.1 The characteristic of knowledge

Knowledge differs essentially from conventional tangible assets in many ways. These different properties are ambiguous since knowledge production on one hand generates high social return and therefore are a powerful mechanism in economic growth, but on the other hand also pose problems when it comes to economic management10.

The economist Dominique Foray have identified three different properties of knowledge that serve as the base of the creation of economic good but also

10 Foray, Dominique - The Economics of Knowledge 2006, p. 91
constitutes problems for firms using knowledge as a basic economic resource for a firm\textsuperscript{11}.

*Knowledge is hard to control.* This is mainly because of the fact that knowledge is a non-excludable good, which means that it is hard to control it privately. It is fluid and travels fast between people and the only way to control it is to not let it out at all (e.g. keep it secret). This is mainly so because of the fact that as opposed to tangible property that you can show to others but still be the owner of it, knowledge however, will slip away from the control position as soon as it is reviled or shared.

*Knowledge is nonrival*, which mean that several people can have it and use it at the same time independently of each other’s an regardless of geographic location. This also means that the marginal cost of use is zero. This is a very good property of knowledge. However, consequently, this also implies that the use of existing knowledge should be free\textsuperscript{12}.

*Knowledge is cumulative.* The total knowledge constantly increase and new knowledge are built on previous knowledge. This stands in contrast against consumption goods that are consumed through usage since knowledge can be use infinite amounts of time. Knowledge production is a common procedure and since knowledge is not consumed but expanded, it serves as an intellectual input for others to base new knowledge on.

These characteristics make it somewhat harder to claim knowledge as valuable private property and they pose some big challenges for a business holder to effectively communicate and claim that their knowledge is their sole property. However there are some procedures linked to the production of knowledge that will offer some possibilities to capture knowledge and thus claim it as property.

\textsuperscript{11} Foray, Dominique - The Economics of Knowledge 2006, p. 91

\textsuperscript{12} Foray discusses this from a perspective based on the assumption that the cost for using knowledge is zero which than indicates that the price shall also be zero. This is thus not true of course since the cost of using intellectual property generally is zero which then would make the concept of intellectual property useless.
5.2 The production of knowledge

When looking the production of knowledge there are two essential ways that new knowledge can be created. Either in an isolated process were the production of knowledge is the main aim of the activity as in the case of formal research or development activity or it can be created as a spinoff from an ongoing activity as in the case of learning by doing in any context\(^\text{13}\). The essential differences between the two creations processes are the activity leading to the knowledge production were in the first case, such production is a part of a conscious search for new knowledge and in the second case, and the production of knowledge is an unconscious and ever ongoing procedure.

5.2.1 Intentional knowledge production: Research

Target research can be described as an activity that is performed with a distance from production and consumption\(^\text{14}\). Such places could for example be research centres scientific academies or laboratories. This distance can be said to have two advantages: The knowledge production is not bound to the market approach when it comes to productivity which facilitates better research, and research can be performed in a setting where it is possible to simulate and control the reality to some extent. Given the focus on searching for results it is also easier to detect when and if, new knowledge are produced which also facilitate a better and more focused protection for this kind of knowledge. This kind of knowledge production requires a lot of resources, which makes it rather expensive to produce\(^\text{15}\). It is nevertheless not always so that it is the most valuable knowledge for a firm.

5.2.2 Unconscious knowledge production: Learning by doing

An employee that is performing a work task or a customer using a product will increase the knowledge about this specific action or product. This can be said to be an unconscious way of producing new knowledge were the production as

\(^{13}\) Foray, p. 50
\(^{14}\) A.a,
\(^{15}\) A.a
such is not the aim of the action but rather a side effect of the main purpose which may be to perform the work task or use the product for a given task. This kind of knowledge is nevertheless very important and it is often so that a lot of a firm’s knowhow are found as this kind of unconscious produced knowledge (e.g. a form of knowhow that are carried by the employees or even customers). Firms has increasingly learned to take advantages of this knowhow, both in the sense of to a larger extent bind competent employees with a lot of knowhow to the company, but also by open up the company structure and bring in input from customers.

The two mentioned creation processes of knowledge affect the possibilities to control it and there will to some extent be a need for different strategies dependent on which knowledge that is intended to control. Result oriented research are more likely to generate some sort of result that might be protected by for instance a patent whilst the more unconscious creation of knowledge within a firm might not even be able to detect nor protect. It is clear that the production of knowledge is a factor that affects the possibilities for protection.

5.3 The reproduction of knowledge

Reproduction of knowledge can be done in many various forms. The characteristic of knowledge is however also in the case of reproduction, a condition that makes reproduction somewhat harder or at least more unpredictable that with tangibles. However it is also so that the reproduction cost of knowledge might be rather low compared to physical artefacts. This will nevertheless be dependent on how the reproduction is done.

Foray has detected different form of reproduction of knowledge. However he also starts with pointing out the fact that not all knowledge can be reproduced successfully which has to do with the characteristics of knowledge as such. Foray takes the starting point from that Polanyi introduced the concept of tacit knowledge, which in short can be described as knowledge that we aren’t even aware of but will affect the way we execute certain moments, tasks or procedures. To exemplify this I can think of the example with drumming. Even thou I would be able to describe how a specific beat or drum solo is done and
even write it down theoretically, this will still not enable someone to play drums exactly that way I do. This type of knowledge that Polanyi called tacit knowledge poses a good example of when knowledge is hard to reproduce efficiently. There are nevertheless many other types of knowledge that are more effectively reproducible. Foray describes three different forms of reproduction of knowledge:

**Demonstration**: This is the classic example of learning where a master teaches his/her apprentice to perform a certain task. This is a common used way of reproduction of knowledge and is present in for example schools but also in different work places.

**Codification**: Codification is an effective way to detach knowledge from a human carrier. By allowing knowledge to take this form it will be easier to treat it like a physical artefact. The reproduction cost will also be very small for such codified knowledge one created.

**Audiovisual recording**: This can be said to be a mix of the two codification forms above since it is both a demonstration but it is also codified in a medium which will detect it from the carrier of the knowledge. This type of reproduction can be an instruction DVD or an information movie.

Foray goes into further detail and describes the different reproduction procedures extensively. I will however settle with only conclude that the characteristic of the three forms makes them more or less suited for capturing and controlling knowledge within a firm. While demonstration is a form that might suit well for education it is decreasingly used among firms. This is according to Foray mainly because the unwanted dependency of the person who has the knowledge and the inefficiency with having new employees as apprentices a long time before taking over after the older employees. Today the new replacements might show up a week or so in advance which means that new more efficient ways to transfer knowledge must be used by business actors nowadays. It is also clear from Forays analysis that codification of knowledge

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16 Foray, p. 72-73
allows the knowledge to be described and defined more specifically in terms of intellectual property, which then eases the claiming process of that knowledge as property.

5.4 Conclusion

It is clear that the characteristic of knowledge pose some different problems in the intellectual value creation process. Nevertheless we also learn from studying these different characteristics that there are steps that a company can take in order to turn more of their knowledge into a form that is better suited for objectify and protecting it.

Identifying how knowledge is produced offers a key to effectively recognize and outline new knowledge. This is especially evident in the case of research activity but could as well be a way to detect knowledge within any firm. When being aware of how and when knowledge is produced, the possibilities to capture and utilise this knowledge increases. It will then be possible to create systems that support a conscious management of knowledge (as for example a computer base, or reporting policies for research results).

The possibilities to create such supporting systems is thus to some extent dependent on the other characteristic of knowledge that can be seen as a variable for how successfully the knowledge can be managed. This other characteristic mentioned is the possibility to reproduce knowledge. If knowledge are able to codify or capture in another way so that it will depart from its original carrier the possibilities to manage, protect and transact it will increase dramatically. It will therefore be important to as far as possible codify knowledge and actively find new ways to capture and reproduce knowledge.

It is however not sufficient to just identify and objectify knowledge. In order to protect it there will also be a need to derive such claims for protection from somewhere.
In the early days property claims were based upon beliefs that there existed some sort of god given right to own property\textsuperscript{17}. However, the reformation in the view on what rights are and how property claims are created has lead to that most people today acknowledge that ownership and protection for intellectual phenomena are intellectual creations derived from a shared view on how to structure a society. It is clear that this is done thru legal structures rather than an undefined will from gods or kings.

This means that protection of knowledge can be derived not only from the simply keeping something secret. Protection can also be achieved thru claims based on the legal regulations, either from specific regulations on secrecy or from a private contract.

\textsuperscript{17}Simmonds, N E, Juridsiska principfrågor 1988, p. 17
6. The legal act on trade secrets (FHL)

As have been seen in previous two chapters the value of knowledge lies to a large extent in the possibilities to protect it and thereby also control it.

As discussed in the last chapter claims for protection can be derived from either legal acts or contracts. To clarify what grounds there are to protect knowledge by secrecy we will need to determent what regulation that can be used to facilitate such protection. We also need to evaluate how this protection works and what criteria’s are set out for the regulation to be applicable. The analysis aims to clarify what possibilities the legal regulation offers a business holder to claim secret information or knowledge as property, which is one of the main interests for this thesis.

Given the business focus of this thesis we will take the starting point in the regulation on protection of trade secrets.

6.1 Short legal background/context

The legal regulations regarding secrecy in relation to private business are mainly regulated in the act on the protection of trade secret (FHL). Linked to this act are also the usages of non-disclosure agreements that are a commonly used in the business world (see further chapter 9).

Before the regulation was set out in FHL, trade secrets were protected thru regulations on unfaithful competition set out in the criminal law. Those regulations were however not considered sufficient and it was clear that a more suitable regulation needed to be created in order to handle the growing values of trade secrets. This was also considered a necessity due to international regulation on the subject. The main reason for a new regulation was that the previous regulation made it hard to enforce legal actions against other parties than the one who had carried out the unlawful attack on the trade secret. It was

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18 Ny Juridik 4:02 s. 9 and SOU 1983:52
19 A.a
for these reasons it was deemed necessary to enable for extended possibilities to prevent leaked of trade secrets.

The act on trade secrets aims to create a protection for such information related to a business that is of importance for the commerce as such. The outspoken purpose with the regulation is the societal importance of healthy competition and also the view on knowledge as a one of the key drivers for production and development. The thought was that knowledge, which couldn’t be fitted into any of the existing intellectual property rights, needed a unified protection.

The legal regulation on trade secrets are considered to be part of the competition regulation even thou the fact that trade secret often are considered as a company's property, which would then rather place the regulations under the intellectual property regulations\(^20\). This is mainly because of the overall purpose with the regulation to facilitate a functioning competition. There are also some fundamental differences between Intellectual property rights and the regulation in FHL since protection created by the legal regulation in FHL are not a protection for the information or knowledge as such but a protection against methods to access or spread information that a company consider as their trade secret.

6.2 Related legal areas

The protection on trade secrets can only be understood from the perspective on its function and interaction with the regulations on intellectual property rights, employment and general contractual principals. For a company it will be very important to gain an understanding for how to create a control for their internal knowledge by using the legal regulations and the construction of trade secrets in relation to these regulations as well.

As can be seen in Figure 4 below, FHL are closely linked to other rather different legal areas that need to be related to. Especially the Intellectual property rights

\(^20\) Fahlbeck, Reinhold – Företagshemligheter, konkurrenkslausuler och yttrande frihet 1992, p. 69
and employment are essential legal areas that secrecy must be related to in order to create value from the concept of secrecy and trade secrets.

![Figure 4: Related legal areas](image)

### 6.2.1 Intellectual property rights

The relation to Intellectual property rights are established thru the fact that many of the trade secrets that the legal regulation in FHL are protecting are trade secrets that have been materialised, such as pictures, computer programs and texts. It is also so that the secrecy and the possibility to protect certain ideas as trade secret are a prerequisite for some of the intellectual property protected material to come to existence. In some cases one could also argue that secrecy serves as a complement to the existing IP regulations since it is then possible to protect ideas as such and not only the form that the ideas has been manifested in as in the case with the intellectual property rights.

The relation between trade secrets and Intellectual property rights will be further discussed in the following chapter.
6.2.2 Employment law

One of the most important application area or the regulation on trade secrets is employment. Employees do often have access or may even be carriers of trade secrets, which makes the link between employment law and FHL very important from a protection perspective. It is also clear from case law that issues regarding trade secrets often occur in employment situations. From an employment law perspective it is also so that there are regulations and common law practice in the employment regulation that can be said to complement or serve as a base for the regulations in FHL such as loyalty duty and transfers of rights to the employees work as such.

The relation between trade secrets and employment will be further discussed in chapter 8.

6.2.3 Competition law

It will also be necessary to acknowledge that competition law in general are an important component when discussing the legal framework of trade secret. The concept of trade secrets is established based on a desire to foster a healthy and effective competition.21 This is also clear from the wording in the legal text were a competition conception is found.22 Competition is therefore a main subject and the regulation shall be seen in the light of competition law and the possibility for companies to compete on a market which is also one of the main criteria for the legal act to be applicable.

6.2.4 Criminal law

As mentioned before, the first regulations regarding trade secrets were set out in the criminal law. In FHL there is still regulations linked to criminal law given that unlawful attacks on trade secrets are considered a criminal action that may lead to imprisonment for up to six years. This is a rather hard punishment in Swedish law, which indicates that attacks on trade secrets are considered a serious crime

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21 Fahlbeck, Reinhold – Företagshemlighet, konkurrenssklausuler och yttrande frihet 1992, p. 72
22 FHL 1§
and that there exists an extensive societal interest in preventing such actions. The relation to criminal law is also present when looking at different possibilities to secure evident and enforcing responsibility for breach against the legal regulation on trade secrets.

6.2.5 Freedom of opinion

As an opponent to all secrecy stands the freedom of speech and free opinion. In FHL this is mainly expressed by the exemptions stated in the legal act regarding the right to disclose information in some give situations such as provide authorities with information to aid them in a criminal investigation.

6.3 FHL disposition

FHL is a rather short regulation, comprising only of 14 articles, which are structured in five parts:

1. Applicability and definitions (1-2§§)
2. Unlawful attacks on trade secrets (3-4§§)
3. Base for damages in relation to attacks on trade secrets, and the determent of such damages (5-10§§)
4. Regulation on probation on damages (11-13§§)
5. Regulations on redemption (14§)

The regulation can be said to be a particular consideration between several opposing interests that comes to expression in the different sections and permeate the regulation. These are:

- Freedom of speech
- The market economy and private ownership
- Competition
- The employees (as being main carrier or often also the creators of trade secrets).

As seen the interests reflect the related legal areas mentioned above rather well.
6.4 A analyzes of relevant regulations in FHL

To determent how FHL can be used as a base for property claims to knowledge I will analyse the different articles in the section of law. To fully evaluate the protection given from the act there are three components that needs to be clarified in relation to the regulation:

1. How is protection achieved?
2. What does the protection consist of (e.g. scope of protection)?
3. What means of coercions are there to give the protection any substance?

The analysis aims to fashion an understanding on how the legal act can be used as a tool for defining, protecting and claiming ownership to knowledge.

When a further clarification seems necessary in order to fully clarify how the legal regulation is applied in practice, an analysis of related case law will be presented.

6.4.1 How is protection achieved? Applicability of the act: 1-2§

The grounds for protection are, as with other regulations on intellectual assets, specified in the introductorily articles of the legal act. For the legal act to be applicable there are some basic criteria's that needs to be fulfilled in order to make the information qualify as a trade secret in the eyes of the law and thus make protection thru the regulation possible.

This is a very important provision since this article together with 2§ (see below) defines the area of protection. This in turn sets out the limits for when the legal act can be used as a base for protection which are intimately linked to the possibilities to use the legal act as a base for property claims.

6.4.1.1 The definition of trade secrets: 1§

The first paragraph in FHL holds a definition on trade secrets and describes what type of information that falls under this concept. It is clear that the regulation is applicable on all private business but it might also include public businesses as
well. However the possibilities for keeping things secret in such public business will be determent by the secrecy act\textsuperscript{23}.

Besides the business criteria the article specifies that it shall be information connected to the business that would hurt the business from a competition view if this information were reviled.

The concept of trade secret is defined thru three different criteria’s:

1. It shall be some sort of information that comprise some kind of business or industrial relation
2. The information shall be kept secret by the business owner
3. If the information is reviled this will hurt the business are shall be devoted to harm the business in means of competition.

Information is a rather widespread concept but it seems clear from the proprietary works\textsuperscript{24} that this is the intention of the legislator. Information may consist of almost any data regardless of whether this is complicated or very basic.

The limits for what is considered to be a trade secret shall instead be determent by consulting the other criteria’s in the legal text\textsuperscript{25}.

1. \textit{The information shall exit among a business holder}: The criteria business holder is yet also given a rather wide definition in the proprietary works\textsuperscript{26}. This comprehends all physical or legal person that has some sort of economic business regardless of if this business generates any revenue in practice. The business does not

\textsuperscript{23} This is not something that I will go into further given the private business focus o this thesis. For further reading, see Fahlbeck page 181.

\textsuperscript{24} Prop 1987/88:155

\textsuperscript{25} NJA1998 sid 633

\textsuperscript{26} Prop 1987/88:155
have to reach a certain range but it will have to be professional\textsuperscript{27}. A non-profit organisation falls outside this definition\textsuperscript{28}.

2. \textit{The information shall be related to the business}: This is intentionally the same wording as in the secrecy act. The impression comprises all information that is related to the business regardless how this information is stored or what form it exists in. Nevertheless it will not include an employee’s personal experience or personal skills. A rule of thumb is that if such skills are not able to transfer to someone else the skills shall be considered as personal in the meaning of the law\textsuperscript{29}.

3. \textit{The information shall be kept secret}: In this criterion lies two different sub-criteria’s. The circle of people that knows the trade secret must be somewhat limited and controlled, there is however no numeral limits here and the secrecy criterion in this aspect can be said to be relative. The other sub criterion is that it requires some sort of action from a business holder to keep the information secret. There is both a subjective and an objective aspect of this criterion. First a business holder needs to have the intention of holding the information secret (subjective). Second, the business holder needs to realise this intention by taken some sort of action. There are though no formal requirements for such actions\textsuperscript{30}.

4. \textit{It shall be information that, if reviled, will hurt the business from a competition perspective}: This criterion can be said to extensively limit the wide criteria’s above. The criterion gets the effect that only relevant trade secrets are protected since it is only such trade secrets that are able to constitute an injury from a competition perspective.

\textsuperscript{27} Fahlbeck, Reinhold – Företagshemligheter, konkurrensklausuler och yttrande frihet 1992, p. 184
\textsuperscript{28} Prop 1987/88:155
\textsuperscript{29} Fahlbeck, Reinhold – Företagshemligheter, konkurrensklausuler och yttrande frihet 1992, p. 189
6.4.1.2 A further clearance on the criteria’s in 1§:

The criteria’s in 1§ have also been clarified in several cases. The case NJA 1998 s. 63 could be said to be the most clarifying case and also the one most commonly referred to.

In the case NJA 1998 s. 633 the question whether certain information should be considered a trade secret in the meaning of the law was attended. A limited company with one owner (JAHAB) had developed a business plan and other information to implement computer in schools. The plan was supposed to be executed together with a teacher organisation (Lärarförbundet) and Apple. The question was whether this business plan and all other related material describing the plan was to be considered as trade secrets. The court confirms the broad definition of information mentioned in the proprietary works by stating that almost any information can be considered as a trade secret. Conversely it also went on by discussing the different criteria’s that needs to be taken in account for the law to be applicable:

1. **A link to the business:** Regards shall be taken on the relation between the information and the business and the court emphasizes that there shall be a link between the two. This was considered to be the situation in this case and the information in question was found to qualify as a trade secret in a legal sense. The main reason for this was that the court certainly not found that the information was tied to the business of JAHAB in the sense of the legal criteria’s but that the business plan has been created by JAHAB as an intended part of the business and thus qualified as a trade secret. The supreme court also expressed the view that: *A business plan that has been created of a business holder are considered to be a trade secret even if the execution of such plan are dependent on collaboration with other actors or is a proposal on how someone are to act.*

2. **Keeping the information secret:** Another criteria besides the link to the business are that the business holder shall keep the
information secret and that it would had been obvious to the ones handling the information that it is considered as a trade secret. If the information is market by for example confidential information, it is clear that this criterion is fulfilled. However it is also notable that it is not possible to give certain information the status of trade secret by just marking them as confidential information. The other criteria’s on trade secrets must still be fulfilled. When it comes to the criteria on holding the information secret, the court voiced that: The information may be known by several different entities as long as it is not available for everyone that could have an interest in access the information.

3. If the information is reviled it will hurt the company’s business: In relation to this criteria it is clear from the case that regards are taken on the possibilities to compete for the business owner with the information reviled. If such possibilities are limited or destroyed, the disclosing of the information is considered to have hurt the business.

The conclusion that can be drawn from the case is that some sort of link between a company’s business and the information is needed but it can be dependent on other external actors to become a part of the business. It is also clear that the information could be disclosed to such external actors without losing its status as secret. If the business owner’s possibilities to compete on the market are delimited by the leakage of information it is clear that the criteria that the leakage of information has hurt the business are fulfilled.

The take way from this case is also that it summarized the previous case law in regards of what the courts consider to be a trade secret\(^\text{31}\) and it also set down some examples of what a trade secret may consist of. From the case it is clear that the following information is considered to have business or industrial relations:

- A business plan

\(^{31}\)Ny Juridik 4:02
• Painting/drawings
• Customer register
• Distribution record
• Sale cycle/follow-up
• Customer basic data like customer contact information, offers, price and calculation basics.
• Customer contact information, including information about customer wishes and intentions.
• Customer files comprising of customer profile and basic data for reservations.
• Customer computer/data base
• Inventory of the employees including information of for example employment task and special knowledge or competences.
• Agreement with third parties

This list is however not exhaustible and as the court mentioned in the beginning of the case, that the concept of information that could be considered as trade secrets are consciously left open to facilitate a wide possibilities for interpretations for the courts.

6.4.1.3 Exemptions 2§

2§ are drafted to safeguard the freedom of speech, employees right to criticize the employer and establish a bad faith criterion. It also enables a party who wants to safeguard his right against the employer.

The article handles the attacks on trade secret that are not to be considered as unauthorised and thus not falls within the sphere of the legal regulation. These exemptions serve mainly two purposes:

1. The purpose of giving authorities necessary access to secrets information in relations to crime investigations and the idea behind the regulation is that FHL shall not be a way to escape from and hide, criminal activities.
2. Confirm that some sort of bad faith is required to constitute responsibility thru the legal act.
In the proprietary works\textsuperscript{32} it was considered necessary to include a regulation similar to the one in the secrecy act (SekrL.), which excludes certain behaviour from the legal applicability of the law. The main reason for this is to facilitate the balance of secrecy and freedom of opinion, especially to safeguard that the concept of trade secret shall not be able to use to prevent anyone to inform authorities about illegal actions and alike. It is also clear from the proprietary works that this article shall be read together with the article 1§ and that these two articles mutually define the scope of the trade secret concept by also setting its limits. The legal regulation on trade secret is only intended to give protection from unauthorized attack on trade secrets, which as a consequence, a trade secret may be reviled if necessary to prevent criminal activities or disproportions.

\textit{6.4.1.4 Case law in relation to 2§}

In practice this regulation has been sparely used and according to \textit{Ny Juridik 3:05}, this article has only been tried in court once and this happened in the case B 5480-03 from Svea Hovrätt.

The circumstances in the case was that an employee at \textit{Company A} suspected that a former employee at \textit{Company A} were using information that \textit{Company A} considered to be their trade secrets, in his new \textit{Company B}. The employee at \textit{Company A} had then tried to convince an employee at \textit{Company B} to hand over some material used by \textit{Company B} but which the employee at \textit{Company A} thought of as being stolen from \textit{Company A}. The question was then whether this was to be considered as an attack on \textit{Company B}’s trade secrets or if the behaviour could be seen as such exception as stated in 2§2p. The conclusion in the case was that by proving that the employee at \textit{Company A}’s intention was to give the material to the police, the freedom of responsibility stated in 2§ was applicable.

There are several conclusions that can be drawn from this case. It is clear that 2§ FHL serves the purpose of creating a freedom of responsibility not only in police investigations but also private investigations done by the company that suspects

\textsuperscript{32} Prop 1987/88:155
that someone are using their trade secrets. The case also illustrates the link between the criminal law (Brb) and FHL since 2§ only are applicable on such investigation if the crime that the investigation is intended to prove normally leads to imprisonment.

**6.4.1.5 Conclusion applicability**

To answer the question what is protected based on the analysis one can draw the conclusion that the diversification on what can be protected is rather wide. This is likely because of the fact that that the ability to protect is not determent by what it is that is going to be protected but rather what relation it has to the business and its possibilities to compete on the market. This means that all knowledge regardless off form can qualify for being a trade secret. However in practice some types of knowledge will be hard to objectify and protect thru the act given its complexity. From the analyses of the characteristics of knowledge in previous chapter one, it is clear that some knowledge are unconscious or may be intimately linked to its carrier. In both cases protection will be hard to achieve given the impossibility to define and objectify that knowledge. This fact have also been identified in the proprietary works were it is stated that *knowledge bound to a specified person that cannot be reproduced or transferred* cannot be considered as a trade secret. This will consequently exclude tacit knowledge to the extent that it will be dependent on the possibilities of reproduction of that knowledge.

Despite the wide applicability of the act it can thus be argued that this wide area of protection are limited by the fact that there are several situations that are not affected by the protection as stated in the 2§. Particularly the criteria of intention established in this article make that act somewhat harder to apply given the problems for a complainant to prove intentionality. These problems will be more discussed in detail in relation to the possibilities to claim responsibility based on the act in the following section.
6.4.2 The scope of protection (What does the protection consist of?) Responsibility
3-8§§

Besides the applicability of the legal act it will also be necessary to investigate how the protection given from the act is formulated. This is of particular interest from a protection and control perspective since it defines the right to the secret material that can be derived from legal act as well as how this protection can be carried out to maintain control over it. It will also determent the framework for disposition possibilities.

Articles 3-8§§ deal with how and when responsibility shall be carried out by the legal regulation. The articles covers both unauthorized attacks on trade secrets as well as such cases were accessing the trade secret is not unlawful per se, but were the disclosing of the material further instead serves as a base for responsibility. Such situation may for instance occur with employees or a collaborator that gets access to certain secret information and then misuse it in a way that hurts the business.

6.4.2.1 Criminalization of attacks on trade secret

The first 3-4§§ regulates the criminalisation of attacks on trade secrets. Such attacks are considered unlawful and can, if the offence is grave, lead o imprisonment up to six year. There are four criteria’s, three objective ones and one subjective criterions set out in the legal text to constitute responsibility through 3§:

1. That someone achieves access to protected information
2. The access of the trade secret must be unauthorized, which means that the information shall have been accessed without permission.
3. That this information is a trade secret
4. The attack on the trade secret must be wilfully, which means that some sort of intention is required. This is the subjective criterion.

These criteria’s shall be compared to the 2§, which establish a freedom of responsibility if any of these criteria’s are not fulfilled.
To fulfil the first criteria the way the information is accessed are irrelevant. However some sort of aware action to break through the protection set out by the business holder is required which also helps separate illegal attacks on trade secrets from such cases were someone accesses a trade secret by sole coincidence, which not constitutes trade espionage\textsuperscript{33}.

The second criterion is considered fulfilled as soon as someone without permission accesses the trade secret. This criterion is always considered to be fulfilled if someone, by an illegal act such as theft, accesses the secret. However it is clear that most unauthorized accesses, no matter how those are done, are likely to qualify for this criterion to be fulfilled\textsuperscript{34}.

The third criteria means that it is only trade secrets in the legal sense that are comprised by this article. The criteria's for the knowledge to qualify as a trade secret has been discussed previously under 1§.

The last criterion is that some sort of intention can be proven. This article can be read together with 2§ also clarifies that industrial espionage requires some sort of intention. From this follows that if no intention can be proven, the responsibility will fall away according to 2§.

The 4§ regulates the event were someone provides a trade secret and thus qualifies or unauthorized handling of a trade secret. For this crime there are the following criteria's are set up:

1. That someone provides a trade secret
2. Knowledge of that the trade secret has been accessed unlawfully.

For responsibility according to this article intention is also needed which means that if the trade secret has been provided in god faith the criteria's are not fulfilled. This are also considered being the case in the situation were someone provides a trade secret to publish the information. This is of particular important to not cripple the right to provide information for publishing, which is an important right in relation to freedom of speech.

\textsuperscript{33} Prop. 1987/88:155
\textsuperscript{34} Fahlbeck, p. 210
6.4.2.2 Unauthorized disclosure or use of a trade secret

Bedsides the criminalized attacks on trade secrets there is also a possibility to claim responsibility in such cases were the access to the secret has been authorized but the usage of that information are considered to have harmed the business.

Some basic criteria’s are set out in the legal text when it comes to the establishment of responsibility for this kind of situations:

1. Either the information shall have been disclosed without permission
2. The information shall have been reviled wilfully or through negligence.
3. In the case of employment there is also a criterion that the employee has or at least ought to have understood, that this information was of such sensitive art as mentioned in the legal text35.

It is clear negligence or awareness is required in order to constitute responsibilities. However the criteria unauthorized access is not present in these cases, which gives the effect that the criminal regulations in FHL will not be applicable in employee or collaborative relations. This is mainly since there has been no unauthorized access of the information in these cases. It is on the contrary often so that a collaborator or employee has had access to the information. What this regulation takes aim on are instead the case were someone that initially have had access to certain information but at a later stage misuses this information in such way that it hurts the business.

The important thing to sort out when determining whether a certain action will fall under the criminal regulations in FHL or if it will only constitute damages is, accordingly the distinction whether a certain access has been unauthorized or not. This may seem easy in theory but can be a lot trickier in practice. For example the question may arise whether an employee are to be considered to have access to secret information only because he/she may have access to the storage facilities of this information or is it so that an employee need a certain

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35 See 1§, 6§, 7§, Swedish Act on the protection of trade secret
approval for this criterion to be fulfilled? To answer this kind of unclear demarcations some conclusion can be drawn from case law.

6.4.2.3 Case law regarding 6-8§§

There are some different cases from first and second court of instance that could serve as a more colourful clarification regarding some of the questions that rises when looking at the regulations 6-8§§.

The first case is regarding the question on whether the access has been unauthorized or not. This is a particular important question given that a far harder punishment is linked to the unauthorized accesses. In the “Andreas case” the question was brought up whether a former employee that takes information about the company with him/her when finishing the employment can be considered as industrial spying. The conclusion was that employees can’t qualify for the criminal regulations in FHL (3-4§§) and can thus only qualify for damages. This may seem a little odd but the main reason for such judgement is that the information has not being accessed unlawfully at the time of the access.

Another interesting case in relation to former employees is the “Hagbard case”. This case discusses secrecy in relation to former employees. It is clear from the case that employees, if not something else has been agreed upon, are not bound to secrecy after the end of the employment which gives the hint on the importance for an employer to regulate such issues in the employment agreement. However it is also possible to draw the conclusion that employees could still be held to ought to understand the importance of keeping certain information secret regardless of any secrecy agreements. The criteria here is nevertheless stricter and it then necessary that the employee has been acting deceitful and against the loyalty duty that comes with an employment (see further section 6.4.2.4 in this chapter).

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36See further Ny Juridik 4:02, were an analysis is done on not only Supreme Court decisions but also court of first court of instance.
37A.a
38A.a
39A.a p. 37
There is also a case clarifying on the criteria that someone has been using information wilfully even thou it was clear that this could hurt the business holder in question stated in 6§. In case NJA 1998 s. 633, the court found that the teacher organisation (Lärarförbundet) had used a business plan wilfully and in a way that they knew would hurt JAHAB. This could be compared to that the court at the same ground held that Apple had not used the information in such way and therefore not fell under the provision in 6§. It seems clear that the way the information is used is crucial for the judgement related to this criterion.

6.4.2.4 A general analyse of the subjective criteria’s on intentionality present in all cases of responsibility

The subjective art of the criteria’s regarding the unlawful acts described in 3-8§§ can all be said to set out some obstacles when it comes to proving that these criteria’s are fulfilled. The basic rule is namely that the one who claims that he’s/her trade secrets has been attacked or reviled in an unlawful way will have to prove that this is the case. This then includes proving bad faith or intention among the attacker, which might be rather difficult. What makes this even more complex is the fact that there are several steps that needs to be proven.

1. The defendant have accessed information that are considered a trade secret
2. There has either been an unauthorized access or unauthorized disclosure of this information
3. For this unauthorized action intention or at least negligence is required

The most common objection from the defendant side is that the information is not covered by secrecy, which then will require the complainant to prove that the information in question is covered by secrecy. Another objection is then that the defendant didn’t know or understood that this information was secret. This means that bad faith will be necessary to prove for the complainant, which is something that might be very hard. The fact that such subjective criteria are

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40 SvJT 2009 s1051
required makes to some extent secrecy a rather independent and insecure protection in practice.

### 6.4.2.5 Conclusions on protection

The scope of protection set out in the legal act can be said to be defined by the different possibilities given in the act to call for protection against attacks or misuse of knowledge that qualified as trade secrets. It is rather so that the act offers a protection against certain behaviours more than protects the object for these behaviours. Expressed in another way: the protection does not constitute a right for the property owner of a trade secret to act. It constitutes a right for the property owner to escape actions.

The protection does not produce an absolute right to the knowledge. Others may use it as they wish as long as it cannot be proven that they have accessed the knowledge in one of those prohibited ways stated in the legal text of FHL. This also points out another important thing with the protection gained from the act. Even if the information qualifies for being a trade secret, protection is not granted. It will still be largely dependent on many different external factors and in the end be determent by if a business holder can prove not only that the information in question is a trade secret and that the other party are using it, but also that the other party have accessed or uses the knowledge unauthorized.

### 6.4.3 What means of coercions are there to give the protection any substance?

**Sanctions 3-8§§ 9-14§§**

FHL also includes some provisions on means of coercions. From a protection perspective this is important to given that this puts some weight behind the regulation and strengthened the protection by filling it with substance.

In relation to the criminal attacks stated in 3§ the punishment is imprisonment for a maximum of six years. The penalty on unlawful providing of trade secrets stated in 4§ is set to a maximum of two years. On top of this the responsible for the crime will also be sentenced to pay damages for the injury that the action has caused the owner of the trade secret according to 5§.
The sanction in relation to the unlawful usage of trade secrets stated in 6-8§§ is damages. Such damages shall repair the injury that the usage has cost the owner of the trade secret.

The provisions on damages can be said to be summed up by the 9§, which states a general ground rule for how damages shall be estimated. This makes internal demarcations unnecessary. This rule is however disposable and it is possible to regulate other rules for damages contractually. Such regulations will then be subject to general contractual rules\(^{41}\).

The purpose of the damages linked to FHL has two different purposes. The first is to repair the damage that the attack on the trade secret has given rise for. This means that all injuries that the attack has caused shall be paid. This does not only cover economic reimbursement but also all other damages such as goodwill damages, etc\(^{42}\).

The second is a preventive ambition. As a preventive effect the damages shall not only comprise the actual cost for the injuries. The damages shall instead be set to a level were an attacker of a trade secret shall not be able to calculate that it will be favourable to take the damages to get access to the trade secret in question\(^{43}\).

In the end it is however the actual circumstances that will determent to what level the damages will be set to. This is clear from the last paragraph in 9§ that states that if it is reasonable the damages can be set down or even totally fall away.

When estimating the damages the complainant is the one that has to prove the actual casualties\(^{44}\). If this is doable this will lay the ground for the estimation. However it is often so that this is rather hard to prove given the problems related to evaluate how certain knowledge would affect the income for a business holder within a certain time. It most of the cases such estimation will

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\(^{41}\) Fahlbeck, Reinhold – Företagshemligheter, konkurrensklausuler och yttrande frihet 1992, p.254

\(^{42}\) Prop. 1987/88:155

\(^{43}\) A.a

\(^{44}\) Fahlbeck, Reinhold – Företagshemligheter, konkurrensklausuler och yttrande frihet 1992, p.255
therefore be impossible and the court will have to use a general estimation template\textsuperscript{45}. Such general estimation rules are also included in both the patent act and the regulation on semiconductors as well as in employment law. These regulations can be said to have served as a rogue model for the implementation of the similar estimation principals linked to FHL. The proprietary works mentions several help rules to estimate damages. From the point of the complainant, factors such as default revenues or development cost for the trade secrets can be used as grounds for estimations. However the actions done by the complainant to protect the secret will also be considered as a variable\textsuperscript{46}. An aspect that also may be taken into consideration is the value of the trade secret when looking at it from a competition perspective which is also an object linked to the thoroughgoing aim with the regulation as such.

It is also possible to look upon it the other way around and take in considerations such as the attacker on the trade secrets revenues from getting access to that secret. This could also potentially be an easier way to do the estimation. It is however important to at this stage state that the damages shall have a preventive effect which consequently cannot be achieved by just paying a market price for the trade secret. The damages must thus be set higher.

\textsection{10} establishes a general time limit for when it is possible to suit for responsibility according to the legal act. This limit is set to five years.

\textsection{11} state a possibility to, not only suit for punishment and damages, but also ensure a seizure of the usage of the unlawfully accessed trade secret by prohibition of usage. This article can be said to be a way to fulfil the aim on a healthy competition. The thought is that it shall not be possible to attack a trade secret, paying the price for it through damages or imprisonment but then also be able to henceforth use it. To avoid such situation the complainant can also bring forth claims of such seizure and if considered necessary a court may link this seizure of use with penalties if the defendant not seizes the usage of the trade secret. There is also a possibility to prohibit the defendant from using the trade

\footnote{\textsuperscript{45} A.a}

\footnote{\textsuperscript{46} Fahlbeck, Reinhold – Företagshemligheter, konkurrenkslausuler och yttrande frihet 1992, p.256}
secret until then that the case has been resolved. This is clear from the 13§ and requires that the complainant is able to prove that a use of the trade secret in question will decrease its value during the time until the case has been settled.

A prohibition can be abolished if the one that has been inflicted it can prove that it is no longer necessary and fills no purposes. This might be the case when a technology has been commonly used.

The last article of the act, 14§, offers a right for a complainant to retrieve such material that has been stolen or otherwise is in the hand of the defendant for some reason. This might be important, especially if an employee has brought some valuable information with him, like for example customer registers.

6.4.3.1 Conclusions: means of coercions

For attacks on trade secrets there is both imprisonment and damages linked to the regulation. Imprisonment is rather hard punishment, which hopefully serves as an effective preventive mechanism.

When it comes to the damages linked to the act, the regulation is clearly formed so that it shall be possible to observe some flexibility for court when estimating the damages and it can be done in many different ways. This is likely due to the problems correlated to such estimations, which is common with most intellectual property.

The estimation problems could yet potentially give the effect that it will be hard to get satisfying compensation thru the regulation. This can be one of the reasons for why the legislator made the decision to open up for the possibility to regulate this matter contractually in cases where this is possible such as with employees or collaborators. This will to some extent allow a business holder to participate in the legal protection creating process and affect the strength of the protection.

By linking high damages to certain information a business holder will also be able to communicate that this information is considered particularly important and that it will be devastating if reviled. This could then potentially be
considered as obstructive circumstances for a defendant if the information is reviled.

6.5 Conclusion/Discussion FHL

The protection on trade secrets covers a wide area of information and it is clear that almost any knowledge can be protected thru this act event thou in practice the possibility will be determent by what type of information it is and in what form. As a value creating tool it is clear that the legal act is able to define and capture knowledge as an objective thru the protection, which enables for property claims towards that defined knowledge.

The fact that there is means of coercions linked to the regulation on trade secrets makes the regulation more powerful as a way to claim trade secrets as property given the fact that the punishment linked to the regulation confirms a societal point of view that this kind of possibilities to keep knowledge secret is considered as important and worth to preserve.

The seize possibility are to some extent similar to a right to exclude others from using the knowledge but this claim is intimately linked to the possibilities to prove all other criteria’s set out in the legal text, which as we’ve seen might be rather hard in some situations.

Trade secrets are only protected from unauthorized access or use. This makes disposition harder given that if disclosed, the information will lose it secrecy character that are the criterion for applicability of the act. There is consequently no support for disposition in the legal act and this must be done contractually.

If applying this conclusion on the theory on intellectual value creation described in previous section 2.4.1 it will be clear that FHL will enable for fulfilling the two first steps. The legal regulation is both able to objectify information as an asset and through the protection given also provide a ground for property claims to that asset which will then transform it into property. This last step will also enable a business holder to claim the information as a valuable object that he/she controls towards an external environment, which then as well potentially
may facilitate transactions. However this step is not possible to totally perform only with the act as a base for the control position needed for transactions.

FHL are not a protection for the information or knowledge as such but a protection against methods to access or spread information that a company consider as their trade secret. When transacting the information the possibilities to claim that the information has been accessed unauthorized it gone. Left is the possibility to claim unauthorized use of the knowledge but it will then be necessary to prove that the information in fact has been transferred to the other party and that the parties have agreed upon not using the information in certain ways. This might in practice be rather hard and this makes secrecy and the act of trade secret could therefore be argued to constitute a weaker protection when it comes to facilitate transactions of information.

6.6 Tip for business holders:

6.6.1 Defining the trade secret

The criteria’s on what qualify as a trade secret seems rather clear from both proprietary works and case law47. For a business holder the criteria’s are not likely to cause any bigger problem in theory since most of the things performed in a business are likely to qualify as trade secrets as long as they also are considered to be kept secret and will hurt the business if reviled.

In practise however, a business holder that wants to suit for attacks on his/her trade secret must be prepared to prove that the information in question actually are a trade secret.

The conclusion that can be drawn from this is that it would be preferable to communicate to internal actors as well as external actors if any information is considered secret. This will facilitate an easier way to prove that the information was actually kept secret and was not access able for everyone.

47 For example NJA 1998 s. 633
6.6.2 Proving bad faith

Things become a little trickier when it comes to proving the bad faith of the one disclosing the information. Since these are subjective criteria’s it will be a need to prove that the person in question knew that the information was to be kept secret. In the case of trade espionage this will of course not be a problem since the whole idea for such activity is to gain access to secret information. In cases of employment or collaborations this is however not so certain and especially after the employment there is rather strict criteria’s that needs to be fulfilled.

The conclusions that can be drawn from the analyse of the different criteria's set out in the legal text I FHL is that business owners that wants to ensure that their secrets are kept or at least get damages if they are not, will need to take at least two different steps to ensure winning a process regarding this legal questions:

- Document all trade secrets
- Inform employees and collaborators what is considered to be secret by signing non disclosure agreements or by marking documents that are secret with a secrecy stamp or mark (note that the last suggestion may cause undesired effects since this highlights what is secret and may draw unwanted attention to it)

These steps will make it a lot easier to prove two things:

1. That the information is considered secret at the company which helps fulfilling the criteria set out in 1§ FHL
2. Bad faith of employees or collaborators which fulfils the criteria’s regarding right to damages

6.6.3 A possibility to affect the interpretation of the legal regulation

The steps above are all actions that a business owner can use to facilitate for a more certain and stronger protection for their trade secrets. For a company, it will be crucial to understand that it is possible to effect the surrounding environment, both the legal arena as well as the business arena through communicative actions done by the company. By keeping the criteria's of what
constitutes a trade secret open, the legal regulation as well as the court opens up for companies to define their trade secrets. This also means that companies, by handling their knowledge or information in a certain way, they will be able to create a protection for intellectual phenomena’s and creations that usually falls outside the scope of the intellectual property rights, such as ideas or knowhow. One could argue that there is no protection for those intellectual objects as such but only a protection against that someone stealing them or otherwise are making them available. Nevertheless, by looking at it this way it is also clear that secrecy share many similarities with other rights to exclude others from usage such as patents. This gives at hand that a company, by its actions are able to create additional protection for their intellectual assets and that this offers a formless and cheap protection that could be very valuable for a company. For small upstart company secrecy, for this reason, can offer a valid and fruitful IP strategy.

There are several other different steps besides the one discussed in this chapter that a company can take to ensure and facilitate for such protection to occur. This is something that we shall look closer into in the coming chapters.
7. Secrecy and the relation to intellectual property rights

When looking at the concept of trade secrets it is clear that secrecy alone can be used as protection for different types of information, knowledge or other intellectual phenomena. Nevertheless it is also so that secrecy can serve other purposes than a stand-alone protection for these intellectual objects and plays in fact an important role in relation to the traditional intellectual property rights. Furthermore it was also clear in the previous analysis that it sometimes would be preferable to gain additional protection for certain information, especially if desired to engage in transactions with an external environment. This fact makes the value creation process in relation to secrecy dependent on other Intellectual property rights as well.

It is therefore so that in order to understand the concept of trade secrets and the importance of secrecy it will be necessary to look upon the concept of controlling knowledge from a wider perspective. As mentioned earlier, the regulation and practice of secrecy are closely linked to the use of intellectual property rights.

7.1 A short introduction on intellectual property rights

Through legal regulations society has been able to create conditions for enabling a transformation of intellectual creations into property. By establishing norms that lay down a system where intellectual creations are considered as property and applying the property concepts on these phenomena’s, a protection for intellectual property are established.

There can be said to be four different legal regulations that have the shared subject on capturing and protecting intellectual phenomena’s as property. Those are the regulations on patents, trademarks, design and copyright. Common for these regulations is that they all take the starting point in a right to exclude others from using and benefit from the intellectual work that falls under the protection. What differs between them is the character of the protection and the
way protection is achieved. To these Intellectual property rights may also be added trade secrets that has been discussed in the previous chapter.

7.1.1 Soft and hard rights

To distinguish the form of different rights it may be fruitful to recognize how rights differ in character since the protection that they will generate is different and the procedures to gain protection is also varying. One could separate the rights by labelling them as “soft” rights and “hard” rights.

<table>
<thead>
<tr>
<th>Hard rights</th>
<th>Soft rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents</td>
<td>Copyright</td>
</tr>
<tr>
<td>Registered design</td>
<td>Unregistered design right</td>
</tr>
<tr>
<td>Registered trademark</td>
<td>Unregistered trademark</td>
</tr>
<tr>
<td></td>
<td>Trade secrets, confidentiality</td>
</tr>
</tbody>
</table>

Figure 5: Soft and hard rights

7.1.1.1 Hard rights

Hard rights need some sort of registration. The basic criteria for all three hard rights are that there needs to be some sort of novel criteria, which means that the design, trademark or invention (which will be the case for a patent) cannot exist already. This means that there are certain limits of what is possible to register, but on the other hand it will be easier to prove if someone are infringement your right and there will be a greater certainty of the actual protection. This fact has also historically leaden to that the hard rights are easier to claim as property than the soft ones 48.

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48 Jolly, Adam and Philpott, Jeremy - A handbook of intellectual property management 2004
7.1.1.2 Soft rights

The soft right does not need to be registered. They will be subject to protection as soon as they have been created. This may sound very favourable. However, there is a problem with such absence of registration procedure since there is no certainty if the protection really has been achieved until it actually has been tried in court. The court will namely need to first determine whether the creation in question reaches the criteria’s set out in the legal text for the specific right. It will therefore be necessary for the one who wishes to get protection to recognize what is required for the legal regulation to apply so that sufficient fortification are ensured at a later stage.

7.2 The role of secrecy in relation to the criteria’s for intellectual property right protection

Below there is a matrix that describes the basic criteria for protection. It is clear from the criteria’s that in order to gain protection thru the legal regulation on intellectual property, there is, in all cases, a criterion for some sort of individual character and in all regulations except copyright and trademark there is also a novelty criteria. The criteria’s for protection set out in the legal regulation on intellectual property are all more or less linked to a possibility to keep information or idea secret in one way or another. This might not be entirely true in the case of a trademark, based on the actuality that novelty is not necessarily an issue given that the fundamental criteria for trademark protection is...

<table>
<thead>
<tr>
<th>Copyright</th>
<th>Design</th>
<th>Trademark</th>
<th>Patent</th>
</tr>
</thead>
<tbody>
<tr>
<td>§ 1 URL</td>
<td>§ 2</td>
<td>§ 1</td>
<td>§ 1 &amp; 2 PL</td>
</tr>
<tr>
<td>The work needs to fulfill some sort of quality worthyness. This criteria are rather low but implied there is of course a criteria that the work are not a copy which means some sort of individual character.</td>
<td>The design needs to be new and have individual character. It must differ from previous designs and it may not only serve a practical purpose.</td>
<td>Must be able to be represented graphically and must be distinctive. This means meaning that it can consist of elements indicating quality, quantity, price or geographic origin. It cannot consist of a flag or state emblem or be confusingly similar to other trademarks or otherwise deceive or be offensive to the public.</td>
<td>A patent can be filed for an invention that is industrial applicable, novel and non obvious.</td>
</tr>
<tr>
<td>All artistic or literary works. This includes music or dramatic works, computer programs, photographs, architecture, movies and other work expressed in some other manner. It also includes maps and design material for computer programs.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![Figure 6: Criteria’s for protection](image)
distinctiveness, which not automatically means something new or original. Copyright on the other hand is rather dependent on protecting an initial idea or concept before these ideas manifest itself in a protectable form. In the case of design and patents secrecy is even more crucial since the explicit novelty criteria makes it highly dependent on keeping information, ideas and materials, secret in order to enabling protection at all.

7.2.1 Secrecy as a complement to IP

Secrecy can be seen as not only a condition for the possibility to at later stage achieve protection for the intellectual property that is being kept secret. Secrecy may also serve as an additional or fully replaceable protection possibility for knowledge that is certainly possible to protect by IPR’s but which will not allow for a desirable result for one reason or another. Considered that the technology development phase is constantly increasing, a patent in which case the filing procedure may take up to two years may not always be the best protection for inventions. If the life of a new invention that has a lifespan that is considered to be rather short, it would be preferable to use secrecy a protection instead. This might also be the case with copyright. Even considered that copyright have a non-registration requirement, the scope of the protection is very narrow and the protection time very long. This might not always be a preferable combination. In the case of computer programs for example, the need for protection is rather the opposite since the objective is to deliver a new idea or solution, which will be easy to copy without infringing on the narrow right constituted by copyright. At the same time, the time of protection seems unnecessarily long since the average life of a computer program is one year\(^49\). In these cases, what’s needed is a strong protection but in a short period of time.

It is clear that in many sectors, property rights over knowledge and information are weak as they are embodied in employees or it will be possible for competitors to copy or customers to pirate without any possibilities to enforce property claims on the knowledge or information. Again this might for example be the case in the computer game business were the game concepts and ideas

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\(^{49}\) Interview Magnus Alm
might be the essential part of a new product but still are unprotect able or at least poorly protected. In such cases there may be other strategies that could work were the property rights fail. One such strategy would be to beat the customer to the market, a strategy that is commonly adapted in for example the computer game industry\textsuperscript{50}. Another can be a strategic use of secrecy\textsuperscript{51}.

\begin{figure}
\centering
\includegraphics[width=0.8\textwidth]{figure7.png}
\caption{The wider scope of protection gained by secrecy}
\end{figure}

7.3 Secrecy as a value creating strategy in relation to Intellectual property rights. Example: copyright and patents

Traditionally there has been a far distance between copyright and patents. Copyright has been the protection for the creative and artistic and beautiful whilst patents have been the protection industrial and practical creations. However today, when entering into a knowledge-based economy, information

\textsuperscript{50} Interview Magnus Alm

\textsuperscript{51} Bharat Anand and Alexander Galetovic has developed a matrix on additional strategy were they identify secrecy and first mover advantages as two possible market strategies to prevent holdups, See further Intellectual property and entrepreneurship. P 273
technology has moved the position of copyright towards the same area as patents and these two Intellectual property rights are today the predominant ways of protection for scientific and technology knowledge. It is therefore especially interesting to investigate the role of secrecy in relation to these two regulations.

### 7.3.1 Patents

The patent ensures an innovator a temporary exclusive right to exploit an invention. This right is created as a right to exclude other from use the invention for a certain period and in a certain geographical area.

To achieve a patent the one who wish to protect the invention needs to file a patent application. This application can be said to be a set of claims concretization or applying an idea. In exchange for the patent the inventor needs to disclose the idea, which then enables for the development and cumulating of knowledge since other can use the information comprising the patent to develop the technology in question further. This can be said to be the trade of between societal good and incentive structures for inventing in research and development.

#### 7.3.1.1 What is protected?

The scope of the protection gained by a patent is defined by the claims in the patent application. It is the technical solution or method described in these claims that defines what is protected. This also means that everything that is not described in the patent lack any protection from the patent.

#### 7.3.1.2 The value of secrecy in relation to patents

The criteria’s for filing for a patent are, as can be seen in the matrix above is industrial applicability, novelty and non-obviousness. The novelty criteria can be said to be similar to the secrecy criteria’s set out in FHL in the sense that the criteria’s does not mean an absolute novelty (or secrecy in the case of trade...

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52 See further Foray p. 131
53 Jolly, Adam and Philipott, Jeremy - A handbook of intellectual property management 2004 p. 35
secrets). It is, as in the case of trade secrets, possible to disclose the patentable invention to a limited group of people. The criteria’s set out in relation to novelty in the patent act is that the invention shall not have been disclosed to the public (2§ PL). This means for example that a research group or even a company’s employees may know about the invention. The criterion’s “known to the public” are considered to be fulfilled if the invention is disclosed to a bigger or undefined group of people⁵⁴.

Considered this novelty criterion, secrecy plays a very important role when it comes to patents. One would dare to say that the possibilities to get any protection from the legal regulation are dependent on keeping the information secret. By being able to protect secrets the a legal regulation as in the case with FHL it will be possible to secure that the secret remains secret until a patent can be filed for.

7.3.1.3 Secrecy as protection in comparison to patent

Patents as protection require registration and are a rather slow way of protecting ideas. Secrecy has the advantage against patents for the following reasons:

1. Secrecy is formless and can be said to be a fast way of protecting ideas and it doesn’t cost anything.

2. For a startup firm secrecy is a affordable way to gain protection for the intellectual assets of the company in an early stage and in cases of a fast moving market secrecy may be the only protection that are at hand considered that a patent procedure takes approximately two years.

3. The strength of the patent re dependent on the quality of the legal environment which mean that the possibility to enforce a patent may differ essentially

However, when a firm is to take the step outside the internal relation with collaborators, employees and investors, the need for protection will increase dramatically. If the firm’s intellectual assets that they are going to base their

⁵⁴ Levin p. 261
business on are an invention, secrecy will simply not be sufficient as protection. The advantages that a patent has against secrecy are:

1. The secrecy will be reviled as soon as the product (or the method) based on the idea are released on the market and thus put an end to the protection position gained from secrecy.
2. You cannot exclude anyone from using your invention, which gives the effect that sale, licenses or other forms of transaction possibilities that you get from a patent will be unusable.
3. Patent allows for social benefits in relation to develop knowledge and drive innovation further since the patent system allows for disclosing the technical data of the invention (which is not the case with secrecy)
4. A patent are easier to use as a proof of expected value in the future and for a startup firm this might be important since this might be the only asset that they have.

The conclusion is that secrecy play an important role in the procedure in getting a patent but is not able to replace a patent as protection for intellectual property when it comes to interact with an external environment.

7.3.2 Copyright

Unlike patents, copyright does not require any registration or other formal operation. A prerequisite to gain protection thru copyright is however to reach a certain standard, which mainly consists of that the work is the result of individual creation. This criterion is not further specified in the legal text. In the EG directive regarding copyright protection this criteria shall be considered as fulfilled if the work is the creators own intellectual creation. No other criteria’s shall be considered according to this directive.

7.3.2.1 What is protected?

According to 1§ URL, all literary and artistic works are protected. This comprises music films photos architecture or other types of creations.
It is also clear that computer programs are protected as literature works. There is however no definition of what a computer program is but usually it is the code as series of instructions to the computer that is intended\textsuperscript{55}. The reason for the absence of a definition is likely that such definition would tend to be inaccurate rather fast taken in consideration that fast development of computing so far\textsuperscript{56}. Copyright protection covers all forms of code and it is not of any relevance whether the code is stored in a certain way or if they have been built into a microprocessor\textsuperscript{57}. The protection is also considered to include interfaces, “a program that controls a display for the user (usually on a computer monitor) and that allows the user to interact with the system”\textsuperscript{58}.

During the development of computer programs, different forms of preparatory design material will come to existence. Such material has now been incorporated in the legal text 1§ URL and will also gain copyright protection. There is no definition of preparatory design material is in the legal text either but according to the EG directive that serve as a base for the regulation states that: such material is works that leads to the development of a computer program, considered that this material at a later stage can serve as a base for creating a computer program. This definition is assumed to include everything from graphically drawings, mathematic formulae’s and counting’s to technical descriptions on how a machine works. This type of design material shall be separated from such material that contains instructions, manuals etc. Such material is also copyright protected but not as computer program or related material.

It is not unusual that new creation is a revision or development of an already existing creation covered by copyright. The question is then whether the copyright from such material is dependent on the previous right. It is clear from URL 4-§5§§ that such related works are also protected however with a need to have an allowance from the original copyright holder to dispose the new work.

\textsuperscript{55}Prop. 1988/89:85, Upphovsrätt och datorer p 7.
\textsuperscript{56}SOU 1985:51
\textsuperscript{57}Lindberg, Agne, Westman Daniel, Praktisk IT rätt, p. 159
\textsuperscript{58}http://www.google.se/search?q=define%3A+interface&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:sv:SE:official&client=firefox-a
The area of protection when it comes to copyright may seem rather generous. However it is also clear that even if most creative intellectual material can be comprised the protection for those creations is rather narrow. Copyright is a form protection. This means that it protects the form that an idea has been expressed in. It does not protect the idea as such. It is thus possible to use the idea that the copyright protected work is built on without infringement on that copyright.

7.3.2.2 Secrecy protection in comparison to copyright

In the case of copyright, secrecy and copyright are equal when it comes to cost and absence of register procedure. Both copyright and secrecy are also non-exclusive protections in the sense that someone else can do similar things without infringing on the protection as such. In both cases the idea as such are not protected at all since in the case of copyright, the form that an idea has taken are protected whilst in the case of secrecy, the same idea can exist parallel and independently from each other.

The differences between the two are instead mainly found in the scope of protection and the differences of possibilities to dispose the intellectual property linked to the protection.

In the case of secrecy and trade secrets, the scope of what is protected is much wider than copyright and can comprise almost anything. Copyright on the other hand, has a narrow scope defined by the legal text, which means that only artistic or literary works are covered. This can be said to be an advantage for secrecy against copyright. This wide scope of protection also facilitates a protection of ideas and related concept etc. that may be a part of the process in the creation of a copyright protected creation but not falls within the sphere of protection.

Another problem with the protection gained from copyright is also that the protection as such is so narrow. To constitute an infringement on another creation the other creation needs to be almost identical or a plain copy. This means that in cases where the idea as such is the leading element, it will be hard
to protect this efficient through copyright given that there will exist a possibility to do exactly the same thing but in a slightly different form.

The problem with using secrecy instead of copyright is the same as with patents. Secrecy are dependent on being kept secret, which means that it will be hard to disclose or commercialize the idea without also loosing the protection gained from secrecy. One must bear in mind that secrecy is not a right to exclude other from usage. Only a right to protect internal information’s from unauthorized access. This gives at hand that no offensive strategies can be done based on sole secrecy protection.

7.4 Conclusion: Secrecy as a complement to IPR’s

Secrecy can be used to create a protection position for a company in regards to their knowledge and intellectual property. As long as the secret is kept, the company can profit from their knowledge. However one shall remember that secrecy do not constitute an intellectual property right, by definition a secret cannot be reviled, which makes it hard to transact (as opposing to other IPR’s) and the protection does not prevent others from doing the same invention or idea and then use it, which is also the case with IPR’s.

These inherit characteristic of secrecy get the effect that secrecy cannot serve as protection alone as soon as we wish to engage in a transaction comprising the knowledge or information. In such case there will be a need to not only have a protection from attacks on the knowledge of a company, as in the case with trade secrets, but also a right to exclude or prevent others from doing the same thing (as in the case of IPR’s). It is in the exclusivity that the value lies in relation to intellectual property and without such right the value will decrease. If one can’t transact or even disclose the secret it will not be as valuable as if one were able to also share it.
An easy example of this is actually brought up by Tove Janson, the author of Moomin, in the book "Who Will Comfort Toffle" were the author points out that the big white shell that the main character Toffle has found will not be worth anything if he don’t have anyone to show it to. Lucky for Toffle he later finds someone to share the beautiful shell with, as can be seen in the picture.

What I want to illustrate with this example is basically that ideas, knowledge knowhow etc is also, as with the white shell, more valuable when shared. Both for the business holder that can make a transaction of it but also for the society in general that will receive new knowledge to build new ideas from or use in another beneficial setting than the business holder does.

This gives at hand that a strategic combination of secrecy and property right will facilitate an even stronger protection for a firm’s intellectual property. A strategic use of secrecy might also allow for additional protection in the lifespan of a creation or inventions were the no other protection is at hand.

In an early development phase, secrecy is the only protection and in the case of patent, a necessary to at a later stage gain protection through a patent. Secrecy may also in the later stage when protection for the specific intention or creations has been achieved, serve as an additional protection for all related material not comprised by the IPR protection.

![Figure 8: Different phases of the need for protection in the life of an intellectual asset](image-url)
8. How to protect trade secrets as an employer?

In the previous chapter I discussed the use of a legal regulation in FHL as a base for protection and property claims in relation to secrecy. In relation to employment such claims can also be based upon the legal regulations on employment. It will also to some extent be possible to create a further protection and the one stated in both FHL and employment law by regulate these issues in a private contract. This will also be discussed in this chapter.

8.1 The importance of protection. Human resources – Human capital

Contiguously to the regulation on trade secrets is, as mentioned in chapter 5, is the regulation on employment. Employees are without doubt one of the most important groups when it comes to trade secrets and secrecy in general given the fact that they both handles trade secrets as well as might be carriers or even creators of such material considered as trade secrets. The knowhow carried by the human resources within a company are not unlikely to represent the business most valuable asset. Knowledge-based firms that sell knowledge or favours as consultants increasingly dominate the economy. In such firms that human resources is the base of the firm and it becomes relevant to describe those recourses as human capital. This capital can be said to consist of the gathered competences, knowhow, and experience, education levels etc that are present within a firm. Some of the creations and outcomes from this gathered resources can be protected by intellectual property, however, a lot of these resources will not be able to protect with any IP law. Secrecy can then be the only way to keep the resources within the firm and thus keep and capture the value of such resources.
8.2 Employment law as a ground for protection of trade secrets

Grounds for protection thru secrecy can be derived from general employment regulations that can be traced long way back in time. The fact that the human resources represents a big value within a firm is not something new, and long before people talked about a knowledge based economy or human capital, the regulations on employment ensured that an employer were able to capture the value of human resources as well as their creations and work in the business.

Employment regulations take start in the interest of the employer and state a loyalty duty for the employee regardless of any employment agreement\textsuperscript{59}. This loyalty means that the employer shall put the employer's interest before their own when performing duties within the employment\textsuperscript{60}. The most important effect that comes with this loyalty duty is that the employee is subject to some secrecy duty and also a duty to not engage in competing business in relation the employer. From this principle it also follows that the employee do not have a right to use such things that are solely a product that derives as a result of the employment, on the behalf on anyone else than the employer.

These regulations can be said to have be the base for the legal regulations set out in FHL. This legal act does not comprise any directive on secrecy or competition which rather establishes the fact that it is the employment law that has given the regulations in FHL a substantially content\textsuperscript{61}.

The loyalty principle is however, through establishment in case law, dependent on the employees position, were higher positions demands a higher degree of loyalty. It is also important to bear in mind that there are nevertheless no legal rules stating this general ground rule. Rather it can be said to be some sort of custom. Unions also tend to regulate this through collective bargaining as well, which gives at hand that to achieve a proof protection when it comes to ownership it will not be sufficient nor solid to depend only on this custom rules.

\textsuperscript{59} Glavå, M, Arbetsrätt, p. 382-388
\textsuperscript{60} A.a
\textsuperscript{61} Fahlbeck p. 93
8.2.1 Loyalty duty

I the employment relation a company's trade secrets are to some extent protected by the general loyalty duty that are held to exist in an employment relation\(^{62}\). This loyalty duty states that the employee is prohibited to do any actions that are intended to harm or obstruct the employers business\(^{63}\). On a more specific level, the loyalty duty comprises of both secrecy duties a competition restriction that prevents the employee to compete with the employers during the employment. There is also a possibility for employees that are bound thru a collective agreement that this agreement also set out some limitations on what the employee may do within the employment\(^{64}\).

If the employee do not observes the duties set out by the loyalty duty it will be possible for an employer to prosecute violation of secrecy or noncompetition duty under FHL and with employment law sanctions\(^{65}\).

The loyalty duty seizes to exist when an employee leaves his or her duty\(^{66}\). This means that the former employees no longer are bound to not disclose or use trade secrets that the employees have taken part of. The former employee is also free to enter into a new employment relation with competing businesses or even start a competing business. However, information that are falls within the definition of FHL’s criteria for trade secrets or are protected by Intellectual property rights are thus still protected\(^{67}\).

The loyalty duty can hence be said to offer a uncertain protection in many cases and employers that want to ensure that their trade secrets stays secrets even after an employment ends have god reasons to regulate the possibilities for the employee to disclose certain information and possibilities to compete with the employer even after the end of the employment. When taking in consideration that rather hard criteria’s that the legal regulation set out for responsibility in

\(^{62}\) Glavå M, Arbetsrätt 382
\(^{63}\) AD 1989 nr 90
\(^{64}\) Ny Juridik 2:09 s 500
\(^{65}\) Fahlbeck p. 101
\(^{66}\) A.a p. 104
\(^{67}\) Fahlbeck p. 101
relation to employment (the subjective criteria's mentioned in section 3.3.2), an extended regulation of the loyalty duty are to prefer for an employer. This might be achieved through regulating both competition and secrecy in the employment agreement, as well as ensuring a right to the employees work.

8.3 Strengthening the protection contractually: An extension of the loyalty duty

The fact that there exists a freedom to regulate employment thru private agreements offers a possibility for a business holder to contractually shape and strengthening the protection given from the legal regulations on employment and trade secrets (FHL). This is commonly done by implementing clauses into the employment agreement that states a more far reaching protection that given by the legal regulations.

In the private sector there are no limitations on what the parties to an employment agreement can and may agree upon in regards of competition. However general contract rules will of course be applicable on such agreement68.

8.3.1 Competition clause

A competition clause aims to regulate the employee’s possibilities to work for, or start an own business, that competes with the former employers within a certain time span. The legal validity of these kinds of clauses is much disputed and is depending on how the clause is drafted and the scope of the limitations set out in the clause69. Nevertheless, the starting point is that such clauses are valid and that a violation of such clauses will constitute a breach of agreement, which then will bring forth a right to damages for the other party70.

8.3.1.1 Legal limits of a competition clause

A competition clause that is to extensive will thus be considered as non-valid for the employee in accordance with 38§ in the Swedish act on agreements (AvtL)

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68 Fahlbeck, p. 102
69 See further Elsa Arbrandt and Fredrika Skoog Eriksson, Ny Juridik 2:09 s 499
70 A.a
were a reasonable criteria can be said to limit the contractual freedom to some extent.

8.3.1.2 Tip for a business holder when drafting a competition clause

Based on case law related to competition clauses there are some basic criteria’s that needs to be considered in order to draft a valid clause and thus lower the risk for such clause to be found invalid.71

1. What is considered to be competing business needs to be specified
2. The geographical area needs to be limited
3. The employer needs to have a significant interest in having such clause (which might be the case if the employee have access to trade secrets)
4. The validity time of such clause shall be limited in time (at most 2 years after the end of the employment)

The employee shall be entitled to get a monetary compensation for the inconvenience that the clause may cause (as an example of this the sum can be set to be the difference between the last paid salary and the salary that the employee could get in a new employment with a maximum of 60% of this salary72)

8.3.2 Secrecy clause

In regards to secrecy there is more or less a freedom to regulate this matter contractually. This is conversely only the case in the private sector. When it comes to the public sector there are no such possibilities and secrecy is instead regulated legally through the Secrecy Act (SekrL).73

To extend the secrecy duty to be applicable even after the employment this matter must be stated in a separate agreement (see previous chapter on NDA’s) or directly in the employment agreement. A secrecy clause is intended to regulate the employee’s possibilities to further any information that he or she

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71 See further Elsa Arbrandt and Fredrika Skoog Eriksson, Ny Juridik 2:09 s 499
72 A.a
73 This is however outside the scope of this thesis. For further reading see Fahlbeck p. 96
accesses as a part of the employment. Such clause prescribes the employee to undertake to disclose any secret information and constitutes damages if violated.

### 8.3.2.1 Legal limits of a secrecy clause

A secrecy clause can, as with the competition clause, be found invalid if it is to extensively drafted by referring to 36§ agreement act (AvtL) and it is therefore important to only limit the employee as long as necessary.\(^{74}\)

### 8.3.2.2 Tip for a business holder when drafting a secrecy clause

A secrecy clause can be included in the employment agreement and in such cases it will be crucial to at least include the following information for the clause to be considered valid:

1. What is the scope of the agreement? E.g. what information is considered as secret?
2. What is the effect of the regulation? (Ex. not disclose or use information etc)
3. Time frames

### 8.4 Ownership as a way to take control of information and ideas

In the previous chapter we learned that intellectual property can be seen as a legal complement for the protection of trade secrets as the same way as secrecy can work as a complement for intellectual property.

The possibilities to claim ownership to employee’s creations, ideas knowhow etc are intimately linked to the possibilities to gain control over such assets. If an employer is able to claim ownership to the employee’s intellectual property, the employee can’t use the result or information that the work is based on. This is also the case in relation to knowhow or ideas that traditionally don’t fall within the scope of intellectual property rights. By claiming ownership to all creations and even knowledge to some extent, an employer will to a larger extent be able.

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\(^{74}\) Fahlbeck, Reinhold – Företagshemligheter, konkurrensklausuler och yttrande frihet 1992, p. 123
to prevent the risk that such information, creations or knowhow ends up with any of the employer's competitors.

Consider this fact that ownership per se will constitute a stronger control position for an employer it is therefore important to ensure that the ownership of all employees' work and related knowhow will end up with the employer or at least the right to control the usage of such work. The advantages that an employer will get by doing so are many.

For instance, a right to the employees work will make it a lot easier to prove that the information and knowhow related to such work is also considered the companies property and thus trade secrets.

It might also be so that the claiming of ownership for a business holder is also linked to the business strategy. For example in a start-up firm, secrecy might be the only way to protect the ideas that the business is supposed to be created on. As soon as the work starts with turning an idea into reality it is necessary to ensure that the idea won't leak out or that the ownership ends up with an employee. If employees are free to use or own their creations this advantage might be lost since there is a chance that they will work for another company and make use of the idea that they have accessed in their previous employment.

Another reason why this is important to regulate is that it is necessary to ensure ownership to the intellectual assets whether they can be protected thru any Intellectual property rights or not, that will be created or exist within the company. Otherwise a business holder will not be able to claim this as the property of the company which then makes it impossible to use these intellectual creations as building blocks for the business.

The starting point when looking at an employment is that there exist two different legal regulations on the subject with fundamental different aims and viewpoints. On one hand there is the legal regulation on employment and on the other there are different intellectual property regulations.
8.4.1 Employment law

Employment regulations take start in the loyalty duty described under that section (see above), and applied on transfer of rights this regulation also stipulates a right for the employer to all the employees work.

8.4.2 Intellectual property regulations

The starting point in intellectual property regulation is that it is the creator or inventor of something that also has the right to such creations. This mater is however also further outlined either in a separate legal act (as in the case of patentable inventions) or directly in the applicable legal act on the specific Intellectual property rights (as in the case of copyright and designs)\textsuperscript{75}.

\textbf{Figure 9: The opposing interests of employment and intellectual property law}

8.4.3 Regulations on right to the employees work

The Swedish regulations on right to the employee’s work when it comes to intellectual property are found in the regulations on employee's inventions (LAU), the copyright act (URL), the act on protection for semiconductors (KML) and the act on design protection (MSL).

The common starting point for these regulations is that the employer has the right to the employee’s intellectual work that has been \textit{created during the employment} and is \textit{linked to the work task of the employee}. This applies

\textsuperscript{75} S Wolk, Arbetstagares immaterialrätter p 33
regardless of where and when the work has been created which means that ultimately, work created during an employee’s spare time might qualify for transfer to the employer, if the above-mentioned criteria’s are fulfilled.

The establishment of protection thru the intellectual property regulations for employees intellectual creations requires no active actions from the employers side in the case of copyright, and design right, however in the case of patentable invention, the employer needs to inform the employee that he/she wishes to acquire the invention and it is also up to the employer to file for a patent. This follows from the regulation in LAU. There is also a general requirement on appropriate reasonable compensation stated in LAU. Such requirement are also assumed to be existent in relation to transfers of copyright and design right even though this is not specifically expressed in the legal text.

Even considered this regulation there is however a need for an employer to identify in which cases a transfer of right will take place and what such transfer consists of. There might be several intellectual creations that the employer may wish to control but that falls outside the scope of the regulations on transfer of rights. In such cases there is also a chance that such intellectual creations or information may fall outside the scope of FHL and thus not qualify for be considered as a trade secrets given that such creations might be deemed to be too far away from the business. An example would be that the employee have created or invented something that falls outside the intellectual protection regulation but still might be valuable for the company. If the employer does not know of this creation or information it is not likely to qualify as a trade secret either since it will not fulfil the criteria’s set out in 1§ FHL. In such cases there is a possibility for an undesired leakage of information from the company.

To avoid such leakage it will be important for an employer not only to know what is comprised within the protection of intellectual property but also to actively take control over the intellectual creations of employees to also avoid leakage or loss of other important intellectual phenomena that may rise within the scope of employment. By implementing policies for how to handle and report
intellectual assets a business holder will to a larger extent be able to identify and claim all intellectual assets.

8.4.4 What is transferred automatically and what needs to be transferred contractually?

In the legal regulations on transfer of rights there are some example were a transfer will take place, if not automatically, at least with support from the legal regulations. I will shortly describe how the different regulations in this matter works. This is mainly since the legal regulation on the subject is rather narrow which conversely will leave a lot of intellectual material outside the regulation. This in turn might lead to that a business holder will miss out the possibility to direct property claims towards such unregulated creations if not regulated contractually.

8.4.5 Copyright

The interesting thing when looking at copyright from an ownership perspective is who the legal regulation points out as the initial owner to copyright protected material and how and if this right may be transferred.

The head rule stated in this law is that the creator (or creators) of the copyright protected material is the lawful owner of that creation\(^{76}\). In an employment relation this means that the employee initially has the right to his or her own copyright protected material. There are however limitations in this right as we will see below.

The possibilities to transfer copyright are specifically regulated in URL 27\(^{\$}\) and since copyright is a partly economic right the starting point is that a copyright can be transferred fully or partly. A full transfer of copyright is unusual and copyright transfer is often regulated in agreement where the transfer only comprises what is specifically stated in the agreement\(^{77}\).

\(^{76}\) URL 1\(^{\$}\)
\(^{77}\) In the proprietary works to the copyright act there is also a discussion of transfer of copyrights where a total transfer is considered to be unusual.
According to the proprietary works a total transfer of right must be considered to take place in certain employment relations\textsuperscript{78}. There are no specific criteria’s for what kind of employment that will constitutes such right but as an example the proprietary works mentions artist that are hired to perform certain works. This vague statement creates some uncertainty on which employment relations such transfer will apply.

\subsection*{8.4.5.1 The exemption in copyright: computer code and programs}

There are however, as mentioned above, some exceptions from the head rule in the copyright act when it comes to ownership. One of these exemptions is specifically aiming to solve the issue of ownership when it comes to computer code and programs. 40a§ CA states that:

\textit{"The copyright created by an employee as a part of his tasks or following instructions by the employer is transferred to the employer unless otherwise agreed in contract"}

This gives at hand that every computer program that is created by the employee as a result of the employment are doubtless the property of the employer. How extensive the criteria \textit{"as result of the employment"} is in practice haven't been regulated further in case law\textsuperscript{79}. From the wording in the legal text it is however also clear that outcomes from tasks that are outside the scope of the usual employment but inside the frames of the general work duty is included in the transfer stated in 40a§ URL. This is clear from the text:

\ldots or as a result of instructions given by the employer,

\textit{(Swe: ...eller efter instruktioner av arbetsgivaren...)}

These instructions don’t need to be specified, it will likely be enough that the employer has specified that a certain problem or task shall be solved, not how it shall be solved\textsuperscript{80}.

\textsuperscript{78} SOU 1956:25, s. 277
\textsuperscript{79} Wolk. S Arbetstagares immateriella rättigheter p.76-77
\textsuperscript{80} A.a p. 78-79
8.4.5.2 Conclusion: copyright

The regulations on transfer of rights related to copyright clarifies that the scope of the regulation only comprises all computer programs and related creations within, not only the main tasks of the employees work tasks, but also creations stemming from work performed within the work duty of the employee.

This leaves the rest of copyright protected creations as well as related material un-transferred which means that if an employer wishes to acquire a right to such creations and don’t want to rely on general employment rules, this needs to be regulated contractually.

8.4.6 Patents and patentable inventions

For patents and patentable inventions the regulation on transfer of rights are found in a separate regulation, LAU. The head rule in this regulation is that all inventions of an employee that falls within the sphere of the employers business and has come to existence in during the work are transferred to the employer. This is clear from the 3§ in the regulation. From this article it is also stated that even if an invention has not come to existence during the work but falls within the mentioned business sphere, the employer shall have a right to acquire and use the invention. When the invention as such is not necessarily within the sphere of business but the applicability of such invention is, the employer shall also have a first right to acquire such inventions.

There is no definition on the employers business but it seems clear from the proprietary works that an invention that falls within the scope of the production sphere or within the area of research performed by the company81.

The regulation also states a duty for the employee to inform the employer about a new invention. This duty can be said to be directly linked to the possibilities for an employer to keep a patentable innovation secret to be able to file for a patent at a later stage.

81 Wolk. S Arbetstagares immateriella rättigheter p 65
From the regulation it is clear that some sort of monetary compensation shall be paid to the employee in such cases were the employer wish to direct property claims towards an invention or to acquire a right to it.

8.4.6.1 Exceptions

The legal regulation is explicitly not applicable on teachers and states a teacher exemption in the 1§. This means that teachers at universities or other institutions that belongs to the educational area are exempted from the regulation.

Another exemption from the transfer of right according to this regulation is consequently an invention that doesn’t fall within the sphere of the employers business or have any applicability in that area.

8.4.6.2 Conclusions: Patents and patentable inventions

It is clear that LAU covers a much large area than the transfer stated in the copyright act. This will make private regulations less necessary in the case of inventions. The information duty stated in the act also facilitates for secrecy strategies for a business holder.

Nevertheless it will be important to investigate whether a teacher’s exemption applies on any employees when engaging in collaborations or other joint ventures since this might jeopardise ownership claims if applied.

8.4.7 Semiconductors and community designs

There are also some regulations on transfer of rights when it comes to topographies for semiconductors and community design protections. In both these two regulations the general rule is that if the topography or the design has come to existence during the work it will instantly become the property of the employer\textsuperscript{82}.

\textsuperscript{82} Art: 14.3EG-FGF and KLM 3§
It is however possible to regulate this in a private agreement between the parties.

### 8.4.8 General rules on employees works created on spare time

The common view on this kind of creation is that the employer can’t direct any claims towards such creations. However, today, employees are increasingly able to work at home and the limit between work and free time tends to blur. It seems that a better way to determent whether a creation falls within or without the employment is to take the starting point in the employment as such regardless of whether the employee has created something at home or at work, as long as the work is done as an outcome of his/her work tasks or are within the sphere of the employers activity. This seems also as a logic conclusion from the legal text.

### 8.4.9 General rules on contractual relation to third party

Another question that is related to the employer’s possibilities to gain ownership over the employee’s intellectual property is the employee's possibilities to work for others employers. Since the first employee might have interest in the employee's creations, inventions or designs as well as an interest in that the knowhow of the employee stays within the business. Based on the analyses of employment above it is clear that there could rise some conflict of interest given the fact that there might be several employees that claims ownership to the creations based on the legal regulation of ownership transfer. It will therefore be necessary to regulate the employee’s possibility to engage in multiple employments to ensure that there will be no conflicts in regards of the employee's creations in relation to any third parties.

### 8.5 General conclusions regarding ownership transfer

As can be seen in the analysis the legal regulation when it comes to employees protected works are somewhat limited to the creations, inventions designs etc, stated in the regulations. This gives the consequence that if the employer wishes

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83 Wolk. S Arbetstagares immateriella rättigheter p 130
to also require a right to for example knowhow, other material that might be used in the creative process but are not included in these regulations, he/she needs to regulate this specifically in an agreement with the employee.

When looking at the Intellectual property rights regulations it is generally so that only the creation itself are comprised by intellectual property protection and thus can be subject for transfer in accordance with the different legal regulation on such transfers. This leaves out a lot of other related knowledge or intellectual creations. To ensure that all these creations will be considered as a part of the employers business it will therefore be wise to regulate a more extensive transfer contractually to not only facilitate a transfer of the intellectual property but also to gain control over knowhow and other related intellectual phenomena.

Such control position will namely also help the business holder to prove that this is the property of the firm and that it is considered as the firms trade secrets, which will enable for protection for such things through FHL. It will also be a way for a business holder to define and objectify the trade secrets of the company. By treating it as property this will also communicate that the trade secret is considered as an asset for the firm.

**Figure 10: What constitutes a transfer of rights to an employer?**
8.5.1 Tip for a business holder when regulating a transfer of rights

The presumption in Swedish law is that there is a freedom to regulate ownership to Intellectual property rights contractually between two parties. This creates an opportunity to regulate ownership issues both ways. Both in favour for the employer and make the transfer more extensive as well as in favours for the employee and make the transfer less. Problems may then occur if the parties only have regulated this in an oral agreement. The starting point is then that the creator or inventor will have to prove that something else (than the legal regulation) has been agreed upon\textsuperscript{84}.

When the right to the employee's creations has been regulated in an agreement, the content of this agreement set out the limits for the employers right in relation to the employee and his/hers creations.

8.5.1.1 Legal acceptance and impact of an agreement

Even if the presumption rule is that the parties have a freedom to regulate their doings in a contract, there is still some delimitation when it comes to the possibilities to set apart general law principals. Besides any specific limitations in the different legal intellectual property acts (for example 3§ and 27§ URL), all agreements can be invalidated thru the appliance of 36§ AvtL if it is clear that the agreement are unfair or otherwise unbalanced in relation to the positions of the parties\textsuperscript{85}. This balance is however affected of the fact that an employer is assumed to have some right to the employees work due to the work duty described under that section.

Since there is an unlucky absence of clarifying case law when it comes to what is generally included as a consequence of the work duty, it has been developed a ground rule in doctrine to clarify the issue in cases where there are no agreements at all\textsuperscript{86}. This rule states that the employer based on the employment
agreement normally are entitled to use the employee's creations in his/her business as long it is within the sphere of the business of the employer.

This rule seems to have been adopted by the courts and is applied in the case AD 2002 nr 87 were the question if musicians in an orchestra thru their employment agreements had agreed to transfer their neighbouring right to the employer\textsuperscript{87}. This case clarifies that the right transfer must be rather linked to the employers business to constitute a transfer. It also confirms that to ensure a transfer of right to such works that are not directly linked to the employment as such it will therefore be required to specifically state such transfer in the employment agreement.

\textit{8.5.1.2 A right to compensation}

The rules on the transfer of employee's works may seem to have been created in favour for the employer. However there are also regulations concerning the rights of the employee and there is a limit for how extensive a agreement can be in favour for the employer without ending up in a situation where a far drawn provision will be considered to be invalid.

In LAU the question regarding fair compensation has been specifically regulated. However, this type of regulation is missing when it comes to the other regulations regarding transfer of rights to employers (40a URL and 3 KML). Nevertheless it can be said to be a common principal in the legal area of intellectual property right that the original creator have a right to compensation when a transfer of this right are performed\textsuperscript{88}. Since there seems to be no specific regulation on how this compensation are to be paid one can draw the conclusion that it is a matter of negotiation and regulation in the agreement between the employer and the employee. This is a big difference when comparing to 6§ LAU that indirectly gives at hand that this is not something that can be regulated when it comes to inventions.

\textsuperscript{87} Wolk. \textit{S Arbetstagares immateriella rättigheter}, p. 125
\textsuperscript{88} Wolk. \textit{S Arbetstagares immateriella rättigheter} p 168
Regardless of the freedom to regulate this for the parties themselves, it is still important that the compensation is somewhat corresponding with the intended transfer. Otherwise this may affect the judgement when interpreting an agreement at a later stage. That this is taken in consideration by the judges is clear from AD 202 nr 87 where this criteria was brought up as an indicator for the judgement whether a transfer to the employer had taken place or not.

Since there is no specific regulation on what the compensation shall consist of or in what for I draw the conclusion that it is up to the negotiating parties to decide in what for this compensation may take. This gives at hand that there are several different incentive models that can be used. I won’t go into detail on different incentive models but some examples of different economic tools that can be used are:

- Monetary bonus
- Percentages of sales (royalties)
- Shares in the company
- Up front lump sum
- Higher salary
- etc

8.6 Conclusion on how to protect trade secrets as an employer

In an employment relation the starting point is that there exists a general loyalty duty for an employee, which includes secrecy and a non-competition duty. This loyalty duty is however only applicable during the employment which means that the control position in regards of the employers trade secrets are limited to the employment.

This is highly uncertain from an employer’s perspective since this somewhat conveys the possibilities to affect the duration of such protection to the employee. It will also be very hard to maintain control of knowhow or other intellectual assets carried by employees given that as soon as the employment ends such information and knowhow will be possible to access for a competitor by hiring former employees of other firms. One can easily think of scenarios
where someone works for an employer only to get access to that employer's trade secrets and then quit the employment to engage in a competing business. This might be a fruitful tactic even considered the regulations on trade secret given the difficulties to prove attacks or unauthorized use of such information or knowledge related to this regulation. The difficulties of bringing forth sufficient evidence might even lead to that such prosecution are dismissed.

To avoid the uncertainty of the existing legal regulation and facilitate for an easier applicability of FHL an employer will be wise to regulate both secrecy and competition in advance. Since there exists a freedom to regulate this contractually for the parties, this can be achieved by drafting NDA and a competition agreement or simply just include clauses that regulates these two matters directly in the employment agreement (or in a consultancy agreement for that matter). Such regulations shall however not be to extensively drafted since it then will be possible to reprove such regulations.

For an employer to create a control position in relation to all intellectual assets within a firm it will be crucial to ensure that the ownership to all creations of the employee or consultant ends up with the company. To achieve this it will be important to regulate this in agreement with all employees or consultants as well as other collaborators. This is preferably done when entering into the employment or collaboration and it is often so that provisions regarding ownership issues are included directly in these types of agreements.

To ensure that these kinds of regulations are considered valid in the eyes of a court it will also be necessary to state, not only what’s included in the transfer of right but also what compensation will be paid for this transfer.

8.7 Drafting the employment agreement: Important provisions

Based on the analysis, the following provisions are required to be drafted into an employment agreement to ensure that the trade secrets and intellectual property of the company will stay within the company.

1. Right to results
To ensure that all rights that the employer think he/she will exploit or otherwise make use of, it will be necessary to regulate as well as specify what creations, copyright protected material etc that will become the property of the employer as a result of the agreement.

2. Relation to third party and competition

To ensure that engagement that the employee may have on the side of the employment is not jeopardizing the possibilities for the employer to claim ownership to the creations and works of the employee, it will be necessary that to some extent regulate such relations as well. Such regulations can be done by stating that: the employee is free to take on additional employments, given that ownership issues are solved in an agreement with this new employee first. This will avoid ending up in messy relations with multiple stakeholders to the same creation.

3. Secrecy

If there has been no signing of an NDA (see previous section) it will be firm to include a regulation on secrecy as well into the employment agreement. Certainly, secrecy follows by the above mentioned work duty but to ensure that the employee understands the importance of keeping things secret as well as create a proof that the employee understood what kind of information that the employer considered as secret it will be good to have this provision By stating secrecy and defining what this comprises of, this will ensure appliance of the trade secret act (see that section for more details).

4. Compensation

From case law as well as common legal principals in the field of Intellectual property rights law, it will be necessary to include some compensation for right transfers that may take place. This will be required to avoid unbalance and thus evade the risk that a contract will be considered as invalid in the case that the agreement will end up in the court. There is no regulation on the form of compensation. The aim is rather to ensure that there is compensation and that it
somewhat correlates with the transferred right. This opens up for several different opportunities that a employer can elaborate with (see example list above).

A way is to use the inherit possibilities provided by the limited company and offer shares it the company. This is not only solving the issues with compensation but also incentivize the employee to create more end better solutions which in the end will be beneficial for all involved.

8.7.1 Draft of a Employment agreement

A draft of an employment agreement based on the analysis and conclusions drawn from this paper can be found in the appendix nr 2.
9. Regulating secrecy contractually

From the analysis in the previous chapters it is apparent that exiting legal regulations constitutes a possible ground for protection claims in relation to secrecy. It will subsequently be possible to also claim a defined knowledge object as property based on these regulations. This is however not the only alternative for such actions. It is evident from the previous chapter that property claims towards knowledge objects can take be derived from a private contract as well. It is also apparent that the protection given by the existing regulations can be extended by regulating these issues contractually.

I will therefore in this chapter elaborate the possibility to use a private contract as a base for claiming secrecy protection in relation to knowledge and by that create a control position for knowledge. I will also discuss the possibilities to use contracts as a base for dispositions, which will then facilitate transactions. This means that a private contract can be used, not only to fulfil the first two steps in the intellectual value creation process described previously, but also as a way to complete that process by allowing for transactions of intellectual assets.

9.1 Non disclosure agreements

Regulations on secret information’s are commonly done thru either a separate agreement, which will then take the form of a non-disclosure agreement, or it can be done by implementing a secrecy clause into other agreements as we saw in the previous chapter. A non disclosure agreement (NDA) or secrecy agreement as it is also known as, is a legal agreement between at least two parties that outlines confidential material, knowledge, or information that the parties wish to share with each other for certain purposes, but wish to restrict access to by third parties. It is a contract through which the parties agree not to disclose information covered by the agreement\textsuperscript{89}. The contract creates a confidential

\textsuperscript{89} Bainbridge, David I- Intellectual property, p.324
relationship between the parties to protect any type of confidential and proprietary information or trade secrets\textsuperscript{90}.

NDAs are commonly signed by two or more parties (such as company’s or persons) or other entities (such as business partners, etc.) when the parties has a shared desire to do business or need to understand the processes used in each other’s business for the purpose of evaluating a potential business relationship or similar. NDAs can be reciprocal, meaning both parties are restricted in their use of the materials provided, or they can restrict the use of material by a single party\textsuperscript{91}.

\textbf{9.1.1 The scope of an agreement, what can be protected?}

Since a non-disclosure agreement is civil contract (signed by parties with legal capacity to engage in contracts), there are no legal requirements on how such agreement shall be drafted\textsuperscript{92}. However it is necessary to identify that a protection on trade secrets are already regulated in FHL, which is a regulation that are not fully disposable given its criminal law character. This gives at hand that an author of a NDA agreement must considerate this regulation when drafting an NDA\textsuperscript{93}.

The type of information that can be included in the definition confidential information is virtually unlimited. Any information that flows between the parties to the agreement can be considered confidential—data, know-how, prototypes, engineering drawings, computer software, test results, tools, systems, and specifications\textsuperscript{94}. This means that almost any information or knowledge can be protected thru a secrecy agreement. However, to ensure that desired information is comprised by the NDA it will be important to define exactly what information the contract comprises and what can and cannot be disclosed. This is usually accomplished by explicitly define and classify the non-disclosible information in the agreement. The definition of what is secret can

\textsuperscript{90} A.a Bainbridge, David I- Intellectual property, p.324
\textsuperscript{91} Bainbridge, David I- Intellectual property, p.324
\textsuperscript{92} Ramberg, p. 289
\textsuperscript{93} SvJT s1051
\textsuperscript{94} Blaxil, Mark and Ralph Eckardt – The invisible edge, p. 137
comprise anything given that this term is subject to negotiation between the contracting parties\textsuperscript{95}.

Another important point that usually is covered in a confidentiality agreement is the standard by which the parties will deal with the confidential information\textsuperscript{96}. Usually, each party will treat the other's confidential information in the same way that it treats its own. However, this treatment is acceptable only if the recipient has set standards for handling confidential information, such as limiting access to the information or other methods of preserving secrecy. Therefore, before signing a confidentiality agreement, it would be a good idea to investigate the recipient's practices regarding maintaining secrecy of its own information.

A confidentiality agreement could also contain specific provisions concerning limiting access to the confidential information (e.g., clearly marking the information "confidential").

\textbf{9.2 The legal impact of NDA}

There are no specific legal regulations on NDA's. Nevertheless, an NDA is a legal contract and thus able to regulate the private legal relation between two parties\textsuperscript{97}. As with all legal agreement the court will have to interpret the agreement and it will also serve as a base to base the judgement on\textsuperscript{98}.

As indicated, the parties will to a large extent be able to define what the contract regulates and comprises. General contractual rules will still apply on such agreement which also sets out the limits for what an agreement can regulate to some extent\textsuperscript{99}.

Another thing to consider when discussing the limits for the legal impact of NDA is that it is often times difficulties and expensive related to enforce a

\textsuperscript{95} Bainbridge, David I- Intellectual property, p.325
\textsuperscript{96} http://www.iprhelpdesk.org/documents/ConfidentialityAgreements_0000000200_00.xml.html
\textsuperscript{97} Ramberg, p. 289
\textsuperscript{98} A.a
\textsuperscript{99} Ramberg, p. 289
confidentiality agreement in court even though the agreement is detailed as to what is confidential information and what constitutes a breach of the obligation of confidentiality\textsuperscript{100}. This is mainly because of the proof necessary to demonstrate a breach of agreement by the other party, which is also the case with proofs when it comes to trade secrets\textsuperscript{101}. It is the one indicting for breach of agreement that have to prove that a breach of a secrecy agreement has taken place\textsuperscript{102}.

NDA's can however be used as a way to prove the criteria's in FHL which then will give the effect that a NDA can be seen as an additional protection in relation to FHL.

9.2.1 NDA as a way to prove that the criteria’s are fulfilled in FHL

It is clear from case law related to FHL that in order to make this legal regulation applicable, the suitor needs to prove both that the information in question was kept secret and that this information was accessed unauthorized or that the information has been reviled wilfully or by negligence\textsuperscript{103}. Given the difficulties that a suitor may face to prove all this, some sort of substantial proof are likely to ease the judgement essentially.

One of the most common reasons for trials regarding trade secrets to be demised is the lack of proof regarding if the information was kept secret or not. An NDA will though facilitate to prove what have been considered as secret in the business in question and thus make the proof of such legal facts easier.

9.2.2 NDA as a way to regulate the burden of proof

An NDA can also be used to prove the bad faith with the opponent. Fahlbeck, Reinhold – Företagshemligheter, konkurensklausuler och yttrande frihet 1992 mentions that a NDA may be used to easy such evidence but do not explicate this

\textsuperscript{100} Ny Juridik 4:02 s37
\textsuperscript{101} A.a
\textsuperscript{102} Ramberg, p. 290
\textsuperscript{103} SvJT 2009
reasoning further\textsuperscript{104}. Jur Stud. Daniel Waerme has been looking into the possibility to not only use an NDA as a way to qualify for applicability of FHL\textsuperscript{105}. He takes it one-step further and discuses whether an NDA can be used as a way to regulate the burden of proof in advance when it comes to the question whether a certain information has been secret or not. He’s conclusion is that this will be possible by including a regulation that puts the this burden on the receiving party instead of the disclosing as is the presumption if nothing else has been regulated\textsuperscript{106}. An example of what such regulation could include may be:

\begin{quote}
The receiving party of confidential information will have to investigate whether this information is known by the receiving party or commonly known. If that is the case, the receiving party shall inform the disclosing party. Otherwise the receiving party shall be the one, proving that the information shall not be considered as secret in case of any disputes.
\end{quote}

A regulation like this will enable a disclosing party to avoid issues with proving that certain information shall be considered secret.

\section*{9.2.3 NDA as a way to define, objectify and protect knowledge}

It is however not only in relation to FHL that a NDA can be a valuable tool for a business holder. By regulating that certain information shall be considered to be secret an NDA will be able to give the information the status of secret information between the parties to the agreement. Regulations on how the parties may use the information will hence be able to regulate and restrict the party’s behaviour. By also linking damages if the information is misused the parties will be able to regulate the legal consequences if the agreement is not fulfilled by any party.

The freedom to regulate all these things in an agreement offers the parties a possibility to objectify certain knowledge as well as define how this object shall be handled and what securities there shall be to ensure that it will be handled accordance with the agreement. By these communicative claims the parties can

\begin{flushleft}\text{104 Fahlbeck 1992}\text{105 SvJT 2009}\text{106 A.a}\end{flushleft}
create a control position in relation to their knowledge which then may facilitate for not only a possibility to keep others away but rather to let others in.

9.2.4 NDA as a way to facilitate dispositions of secret knowledge

The possibility to agree upon that certain information shall be considered the property of one of the party’s to the agreement creates conditions for a more open attitude for firms towards their environment. By acknowledge that information can be owned it will also be able to transact it. This will ultimately enable for sharing secret knowledge without losing control over it.

9.3 Conclusion/Discussion NDA

Thru private regulations it will be possible to define certain information as secret in the same way as this is possible thru legal regulations. However this definition may only exist within the contractual relation. The difference between the two ways can be said to be that in the case of contract the regulation will be the sole creation of the parties driven by their communicative action whilst in the case of legal regulations the concepts and definition already exists and needs to be qualified for in order to use the regulation.

It is however usual that both possibilities are used simultaneously to create a synergy effect by the combination were a NDA can be used to facilitate the applicability of the regulation of trade secrets (FHL). An NDA will then work as a way prove that certain information has been disclosed and that both parties has agreed not to disclose certain information which then constitutes a ground for damages.

Another reason for using a NDA as a complement to FHL is that there is no support for disposition stated in FHL. It is however possible to contractually dispose a trade secret and this will in turn make it possible to generate more value from such knowledge thru transactions.

NDA can be said to be one of the most important tools to protect trade secrets for a firm when engaging with an external environment. For most firms, the intention for using an NDA agreement is not to create an advantage in an
anticipated legal conflict. Many firms instead use the contractual tool to avoid conflicts and in advance state how their knowledge shall be handled.

9.3.1 NDA as a carrier of information

An NDA are not only a protection in its contractual form. It is also a carrier of information that gives everyone signing the agreement a hint on what is considered secret and it can be said to be a communicative tool for the a firm to inform its surroundings that certain information is of sensitive character. By communicating this, it is also more likely that problem related to proving that certain information is considered secret by the company will be eliminated. This in turn will make the applicability of FHL easier. In the previous chapter I discussed the possibilities for a company to use communicative actions in order to steer the adjudication process. One such communicative action is constituted by the usage of NDA for a company. This is a way to tell surrounding entities that certain information is secret and by this communicative action create a control position that will, in worst case enable the company to suit for breach of an agreement. It will also serve as a proof of bad faith in interpretations in relation to FHL.

9.3.2 Secrecy protection as a way to facilitate openness

Opposed to the inherit character of secrecy as being a way to avoid knowledge to be shared, many company's today use the concept of secrecy and NDA's as a way to facilitate a more open and sharing attitude in relation to their environment. Such behaviour is stimulated by the fact that an NDA allows a company to share secret information for a certain purpose (collaborating efforts, joint ventures etc) but still maintain control over it.

When using the contractual concept of NDA it is also comprehensible that not only the disclosing party gains value by the possibilities for maintenance of control. By feeling comfortable with sharing knowledge the receiving party are likely to get more and better information in view of the fact that the disclosing party now is confident that the information will be kept secret and not used by the other party. This, in turn will be valuable for a consultant, a collaborator or a
business partner since the better information they can get the better job they will be able to deliver. If looking at it from this perspective a NDA serves both contractual parties to some extent.

Used in the right way it is evident that it will facilitate for a more open flow of knowledge, which creates a high social value, stimulates development and increases the cumulative knowledge of society\(^{107}\).

### 9.4 Drafting a NDA

NDA’s are used in many different settings and in different situations and the diversity on how an NDA are drafted are therefore rather extensive\(^{108}\). This is also clear from the studies that has been done on several NDA’s from different business and usage areas\(^{109}\). There are also several other sources were you could find some gathered information and tips on what to include in an NDA and there are several free forms that could be brought from the Internet as well\(^{110}\). Despite this huge number of examples it is still possible to draw some conclusions on important provisions and the general form of the NDA agreement.

The first thing that is clear from the analyses is that an NDA agreement does not need to be several pages long or written in unreadable legal English. There are many examples of very short and uninformative agreements\(^{111}\). When comparing different agreements and trying to identify lowest common denominator, it is thus possible to trace some commonly used provisions. One can also draw the conclusion that these provisions, which also to some extent confirms by the different sites discussing the topic\(^{112}\), are the most important ones and that it

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107 Foray discusses the advantages of a more open knowledge flow and presents the same conclusion. See further Foray, chapter 5, Knowledge spillovers
108 See for example notes on this on: http://www.ipr-helpdesk.org/documents/ConfidentialityAgreements_0000000200_00.xml.html
109 This statement is based on a quantitative comparisons by several NDA’s for different purposes that I have performed
110 http://smallbusiness.yahoo.com/r-article-a-57763-m-4-sc-25-intellectual_property_using_confidentiality_agreements-i
111 See for example: http://www.extension.iastate.edu/agdm/wholefarm/html/c5-80.html
will be wise to include them when drafting an agreement regardless of what the purpose or in what setting the agreement are intended to be used for.

9.4.1 Outline draft

1. Parties

Party to the agreement are seldom any problem. The most important thing is to ensure that there is no insecurity with the possibilities to identify the parties to the agreement and this will require personal number or organisation number if the parties are a firm. In the case of a firm, it is also important to ensure that the one signing the firm has authority to do so.

It is important to understand that the party's to the agreement also determent the scope of the agreement. No third parties will be bound by the agreement, which means that the regulation is an internal agreement between the parties only. When signing an NDA with a firm it could therefore be a good idea to ensure in the agreement that it will constitute a liability for the contracting party to ensure that their employees are bound to the same terms as in the agreement and that any leakage of information from any employees will be considered a breach of contract.

2. Scope of the agreement

What are the parties agreeing upon? For the interpretation of the agreement at a later stage it will be helpful to state some sort of intention why the agreement are signed in the first place. In order to make any sense, the agreement must include definition of the terms, which will be used in the remainder of the contract. This will also facilitate a more precise interpretation of both the contract and the parties' intentions. It is of great importance to state not only confident material but also describe what kind of material that may be. The description may include:

- A description of the invention, software or technical mechanism
- Technical drawings and design
- Algorithms, mathematical or chemical formulae
• Know-how, trade secrets
• Etc.

Most confidentiality agreements exclude certain types of information from the definition of confidential information. It is very important that the recipient include these exceptions in the confidentiality agreement. And it will therefore, for both parties, be good to state what is NOT considered confidential information in order to maintain as much freedom for each party as possible when it comes to information flow. For example, the following are frequently excluded from confidentiality agreements:

*Information which forms part of the public domain at the time of the conclusion of the agreement, or which then comes into the public domain through no fault that could be attributed to the recipient*

**3. Obligation of confidentiality**

Every confidentiality agreement must detail how the recipient will handle the confidential information. The recipient’s failure to treat the confidential information in compliance with these requirements will result in a breach. Typical requirements include not disclosing the object and scope of the discussions between the parties, not using the confidential information other than for the specified purpose agreed to by the parties, and not disclosing the confidential information to persons or entities other than the employees or agents of the recipient without the prior written consent of the disclosing party.

**4. Time frames**

The term of the confidentiality agreement has to be mentioned either in the form of a date (e.g. on 1 January 2010), a period of time (e.g. 5 years from the conclusion of the confidentiality agreement) or a time limit (e.g. 2 years after whenever the project concerned ends).

**5. Breach of agreement**
In order to give the agreement any dignity besides the moral fact of breaking an agreement (which may not feel that bad for some individuals), it will be necessary to link some sort of damage or at least state what will happen in any event of breach. It is very common that a breach of contract will be connected to compensation fine that the owner will be able to demand in the event of the recipient not carrying out a particular obligation. However it is important to state that this amount must be somewhat reasonable since a judge can re-evaluate a clearly excessive or ridiculous amount.

For new start-up firms this is one of the tricky things with NDA’s. Since the business is at such an early stage, it is hard to evaluate the impact on the business by an actual breach, which also means that it is hard to predict a sufficient damage fee. Moreover, it is often so that the damages seldom are intended to be realized and their purposes for being in the agreement are more of a preventive nature. If the information leaks out or are used by any other party, the damages are seldom able repair the damages anyway and one can ask how strong protection an NDA constitutes in such cases.


The parties should always pay careful attention to what law will govern the agreement, how disputes will be resolved, and the assign ability of the rights and obligations under the agreement.

7. Penalties

This is probably one of the most important provisions. This will to some extent set the tone on the whole agreement since a high fine will underline the importance to undertake not to breach the agreement. It is also so given the rather low damages that follow from FHL (see previous chapter 6) that a business holder that really wants compensation for his/her damage better be sure to regulate this contractually rather than hope for the existing regulations to take care of this matter in a satisfying way.
9.4.2 Draft of a NDA agreement

For an example on a draft of a NDA based on the analysis and conclusions drawn from this paper, see appendix nr 1.
10. Chapter VI. Conclusion

This chapter is intended to give a short recap of the previous conclusions linked to each chapter and sum up the different parts of the thesis. It will also shortly present what has been concluded in relation to the research questions stated in the beginning.

10.1 The character of knowledge affects the value creation process

It is clear that the diverse characters of knowledge constitute varying possibilities to control it, given that some knowledge will be hard to even identify whilst other might be easy to define as property or even to transact given its inherent character. It seems apparent that the character of the knowledge in question will determine how easily it will be captured in a value creating process.

Nevertheless we also learn from studying these different characteristics that there are steps that a company can take in order to turn more of their knowledge into a form that is better suited for objectify and protecting it.

Understanding the production of knowledge holds one possibility to more effectively capture it. If knowledge is able to be codified or capture in another way so that it will depart from its original carrier, the possibilities to manage, protect and transact it will increase dramatically.

10.2 Secrecy as a value creating tool in relation to knowledge

As with physical assets, the value of intellectual assets is dependent on the possibilities to control them. The value of knowledge lies in the possibility to exclude others from having or using it. Being the only one having a specific knowledge generates a control position that could be used for many different purposes.
On an internal level, it can be used as a plain advantage against other competitors. Since the one having the knowledge know something that his competitors do not, this could potentially give him/her an advantage.

It could also be used externally, since the control of knowledge also lets us dispose over it as we wish. It can then be used as something to trade against other knowledge or even sold for a monetary compensation.

In both cases we use the unique position that we have by being the exclusive carrier of certain information, to extract value from this position. It is the control position per se that generates the value from it. Not the knowledge itself.

10.2.1 Secrecy as a way to create a control position

What is comprehensible from the previous discussion is that the possibilities to achieve an control position can be seen as a base for making intellectual creations valuable in a business given that such position will be used as a base for claiming the intellectual assets as property and therefore also as capital.

To attain a control position the first steps will be to identify and define intellectual phenomena, such as knowhow, market knowledge etc.

By labeling these intellectual phenomena’s as the trade secret of the company, it will be possible to gain protection with the legal regulation on trade secrets as a base. This is somewhat similar procedures that is used when meeting the criteria’s for an Intellectual property rights regulation and thus gain protection from that legal act.

Next step is to claim these assets as the property of the company. This can be done in many ways. Once again, legal regulations can serve as a foundation for claiming the control position which then indicates a property right. It is however not necessary to gain protection through legal regulations to do this. As long as companies are able to convince its surrounding that its knowledge or whatever intellectual asset the company has is its property, the property claim will gain acceptance.
The concept of ownership leads us into the third part of the procedure, where the property is to be claimed not only as property but also as capital. If this is successfully done, the intellectual property will gain equal status as physical assets and can then be transacted, traded or used as security in relation to other external actors. This step is however dependent on the possibilities to dispose the intellectual asset, which is directly linked to the control position in relation to the asset.

10.3 What grounds are there for protecting secrets?

The concepts of protections for intellectual phenomena are in itself an intellectual creation derived from an idea on how to structure a society based on a shared view of values. Such structures are created thru a legal system that sets down rules which regulates the concept of intellectual ownership. This means that protection of knowledge can achieved thru claims based on these legal regulations, either from specific regulations on secrecy or from a private contract that have gained a legal status.

10.3.1 Regulatory grounds

FHL

The protection on trade secrets (FHL) covers a wide area of information and it is clear that almost any knowledge can be protected thru this act event thou in practice the possibility will be determent by the character of the knowledge.

Protection is given for all knowledge or information that fulfills the criteria’s set out on trade secrets in FHL. A business holder that wants to suit for attacks on his/her trade secret must however be prepared to prove that these criteria’s are fulfilled.

FHL cannot be said to be a protection for intellectual property even thou there are some similarities. The protection given from the act does not cover the information or knowledge as such but rather establishes a protection against methods to access or spread information that qualifies as trade secrets. This means that even if the legal regulation is able to define and objectify trade
secrets as the property of a company it does not offer a excluding protection for this property. Other will still be able to use the same knowledge or information as long as no unauthorized access or disclosure can be linked to such usage which is the grounds for protection stated in FHL.

**Employment law**

Linked to FHL are also the legal regulations on employment which also can be said to offer protections for trade secrets within a firm to the same extent as FHL. Such protection can be derived straight out of the general loyalty duty stated for employees. It is also clear that FHL and the regulation on secrecy in employment law are closely linked together and a breach of the loyalty duty related to secrecy may also constitute responsibility according to FHL given the circumstances. The loyalty duty in employment law also regulates a transfer of ownership which offers a possibility to derive property claims towards all trade secrets stemming from employees.

**10.3.2 Contractual grounds**

**NDA**

The freedom to contractually regulate almost any issue between private parties constitutes a possibility to instead derive property claims towards certain knowledge based on a private contract. This also enables protection for such intellectual phenomena’s that might not be possible to fit under the criteria’s in any legal act. Such contract will however have a limited range and are not likely to be able to gain such common acceptance, legal power and applicability as if the claims were based upon a legal act. Nevertheless it will still be possible to in addition also refer to the legal regulation on trade secrets as long as the object for regulation is able to fulfill the criteria’s set out in that act.

**Employment agreement**

A protection for secrecy can also be created in relation to employees. Since they are often carriers or even creators of trade secrets such protection is of high relevance. By regulating secrecy issues directly in the employment agreement it will be possible for an employer, not only to create a protection for secrecy, but also to extend the loyalty duty that are existing in an employment relation.
### 10.4 What possibilities is there to control disposition of secrets

Linked to the value of knowledge is also the possibility to dispose over that knowledge. From a value creating perspective it will also be interesting to evaluate what possibilities there are for dispositions of secret knowledge or information.

#### 10.4.1 Regulatory grounds

**FHL**

The legal act is able to define and capture knowledge as an objective thru the protection given from it, which enables for property claims towards that defined knowledge. The legal ground constituted by the regulation will also enable a business holder to claim the information as a valuable object that he/she controls towards an external environment, which then as well potentially may facilitate transactions. Such transactions will nevertheless require a way to successfully transact the defined property without losing the control position.

There are no such possibilities stated in any legal regulation when it comes to trade secrets given the nature of the protection as such. When transacting the information the possibilities to claim that the information has been accessed unauthorized it gone. Left is the possibility to claim unauthorized use of the knowledge which will then make it necessary to prove that the information in fact has been transferred to the other party and that the parties have agreed upon not using the information in certain ways. This might in practice be rather hard. Especially if no formerly contracts exists to prove this fact. Secrecy and the act of trade secret can for this reason be argued to constitute a weaker protection when it comes to facilitate transactions of information than for example intellectual property rights were such disposition possibilities can be derived directly from the very regulations.

**Intellectual property rights**

Some trade secrets may also qualify for additional protection thru intellectual property rights. The protection given from these types of regulations also facilitates disposition of the intellectual object. As opposed to the protection for
trade secrets in FHL that only states a defending protection against others actions, intellectual property rights offers a offensive protection that will allow the right holder to actively exclude other from using the intellectual property in question.

10.4.2 Contractual grounds

NDA

By regulate the secrecy protection for a defined objects it will also be possible to draft the protection so that dispositions of that secret will be possible without losing control over it. The contract will be enforceable in a court and to give the protection substance, damages can be linked to this type of agreement. This is by far the best suited legal tool for dispositions of trade secrets since it allows the parties to the agreement to shape the protection as they wish.

10.5 What limits are there?

10.5.1 Regulatory

FHL

As said before FHL only provides a protection against methods to access or spread information. The protection is thus dependent on external actor's behaviour to be applicable. The actions that constitute responsibility according to the act must be performed with some sort of intention to fall within the sphere of protection. There is consequently no protection in cases where someone gets access to a trade secret but does not fulfil these criteria's.

An exemption from the act are also specifically stated when it comes to leaving information to authorities when suspecting a crime or to leave information to reveal disproportions. This is to safeguard the freedom to speech and the right to free expression as well as ensure that the regulation provides a safe harbour for criminal activities.
Employment law

The protection given by this regulation is derived from the previously mentioned loyalty duty. This duty seizes when the employment end which also sets the limits for the protection given from this regulation.

10.5.2 Contractually

NDA

An NDA is a private contract and all general contractual regulations and limitations are applicable on these kinds of contracts. This means that the contract can be invalidated or adjusted if it is for example to extensively drafted. All general rules on how to entering a contract will also be applicable which means that for example both parties must sign the agreement in order to make it valid.

The scope of the agreement are also limited to the contracting parties which means that it will have a limited impact on the surrounding even thou it will be considered as a legal act and treated thereby in for example courts.

Employment agreement

There are limitations when it comes to extend the loyalty duty for an employee. Such extension cannot be to widely drafted in time or scope and it will be necessary to compensate the employee if the contract limits his/her possibilities to enter a new employment.

10.6 The possibilities to extract value from knowledge are dependent on communicative actions

As can be seen the whole progression of transforming intellectual assets to intellectual capital is dependent on communicative actions performed by the intellectual asset owner in different arena’s such as the legal arena as well as the business arena. This is regardless of whether these actions are to claim applicability from a regulation or direct claims based on a legal contract.

By claiming that the intellectual assets fulfills certain criteria or qualify to gain a defined status of being certain objects (such as trade secrets) a company may
affect the way its assets are treated in an economic system. Thereby they will also be able to participate in defining the value of the assets to some extent. This claiming process is particularly true in the case of trade secrets where the definition of such secrets is not as defined as with other Intellectual property rights, which leaves the possibilities for such claims rather open.

Considered that the definition of trade secrets is dependent on how a company treats its internal secrets and what information the company think of as it secrets, a company can, through its communicative actions, affect the definition of a trade secrets. Indirectly this also affects the impact of the legal regulation. The first step to get access to the protection from the legal regulation is namely to define certain information as secret. The more convincing the company is able to communicate this; the more likely it is that a court will legitimize the usage of that definition. This means that companies are given a possibility through the legal regulation to take part in the creation of legal structures. This also offers a unique possibility to create structures that facilitate extraction of value from knowledge.
11. Sources

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11.2 Cases

AD 2002 nr 87

NJA1998 sid 633

NJA II 1915 nr 5 s 284

NJA 2000 s. 580

AD 1989 nr 90

11.3 Proprietary works

SOU 1983:52

Prop 1987/88:155 om skydd för företagshemligheter

SOU 1956:25

Prop. 1988/89:85, Upphovsrätt och datorer

SOU 1985:51

Prop. 1992/93:48 EES-avtalet och Immateriella rätten

11.4 Papers/articles

Ny Juridik 3:05 s7

Ny Juridik 4:02 s7

Ny Juridik 2:09 s23

SvJT 2009 s1051

11.5 Links


http://www.ipr-helpdesk.org/documents/ConfidentialityAgreements_0000000200_00.xml.html

http://www.extension.iastate.edu/agdm/wholefarm/html/c5-80.html


http://smallbusiness.yahoo.com/r-article-a-57763-m-4-sc-25-

11.6 Interviews

Magnus Alm, CEO Muskedunder Interactive

Carl Blom, CEO Flagstone Management AB
12. Appendices

I. Secrecy agreement

Parties:

Party 1

<table>
<thead>
<tr>
<th>Name/Firm:</th>
<th>SocSec/Org Nr:</th>
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Party 2

<table>
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<th>Name/Firm:</th>
<th>SocSec/Org Nr:</th>
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§ 1 This agreement regulates the Confidential information regarding any of the parties' business relations or otherwise information concerning either party's business in any way, that the other party gain access to in relation to collaborations or shared projects.

§ 2 Confidential information shall mean any information – technical or of other character and regardless of this information has been documented or not. This definition includes software, plans, drawings, designs, algorithms, program algorithms, mathematic formulas, know-how and other trade secrets.

§ 3 Regardless of what is said in paragraph 2, Confidential information shall not be considered such information which forms part of the public domain at the time of the conclusion of the agreement, or which then comes into the public domain through no fault that could be attributed to the recipient. This shall also be the case in regards of such information that can be proven to has been known by either party before receiving the information from the counterpart or information which he/she have received from a third party without being bound to secrecy in relation to this party.

§ 4 The receiving party of confidential information will have to investigate whether this information is known by the receiving party or commonly known. If that is the case, the
receiving party shall inform the disclosing party. Otherwise the receiving party shall be
the one, proving that the information shall not be considered as secret in case of any
disputes.

§ 5 Each party undertakes to not disclose any Confidential information that are received
from the other party. Each party may, however, after have received a written approval to
do so, disclose such approved confidential information. Confidential information may
also be disclosed if deemed necessary due to forcing legal regulations or upon authority’s
decision.

§ 6 Confidential information shall be handled in accordance with their character as
Confidential information, meaning that such information shall not be spread within the
internal organisation to more people than necessary and shall also be documented and be
stored in a satisfactorily way.

§ 7 Confidential information that has been received in any form or has been documented
shall, regardless of form, be returned to the party that has emitted the information, upon
request from this party.

§ 8 If any of the parties to this agreement breach against any of the provision in this
agreement that party shall be obligated to pay damages to the other party. The damages
shall be set to an amount of_____________SEK.

§ 9 This agreement is valid from signing date and until the date of: ______________

§ 10 Swedish laws shall be applicable on this agreement. Any dispute, controversy or
claim arising out of or in connection with this contract, or the breach, termination or
invalidity thereof, that cannot be solved on friendly terms shall be finally settled by
arbitration in accordance with the Arbitration Rules of the Arbitration Institute of the
Stockholm Chamber of Commerce.
II. Employment agreement

1. Parties

Part 1 Employer

Name/Firm

Sec Sec/Org Nr:

Part 2 Employee

Name/Firm

Sec Sec/Org Nr:

2. Position

§ Employer employs the Employee to perform work in the following position: ___________________________. A more thorough description of what work tasks this position comprises, see further the work description of the position in question (see that separate document).

3. Type of employment

☐ § Probationary employment/Permanent post The employment comprises _____%. Ordinary work hours are forty (40) h a week. The employment starts from / and starts with a six (6) mounts of probationary employment which thereafter may be renegotiated to a permanent post. The period of notice during the probationary employment is one (1) month.

☐ § Time limited employment The employment runs over a specific time. The reason for this is: (mark which form that are intended to be used)

☐ General time limited employment
☐ Temporary position (please note for whom) ______________________

☐ Season employment

☐ Other time limited employment in accordance with existing collective agreement

☐ Demand based employment

The period of the employment are between / until /. Both parties are entitled to revoke the agreement. Such revoke shall be proceeding of a period of notice of ______ mouth.

4. Employment

§ LAS (1982:80) shall be applicable on this agreement.

§ The works place shall be the Employer ®’s office at __________. The employment district is _____________. Normal work time is Monday – Friday, between ________ – ________

§ A monthly salary of _____________ SEK will be paid every 25:th each month. If this date falls on a weekend day the salary will be paid the closest preceding date. In case of a business trip, the Employee will be entitled to a compensation in accordance with the company’s travelling and subsistence provisions. In cases of such business trip the Employee shall follow the Employers provisions on business trips.

§ The Employee has a right to ________ days of paid vacation each year. If the case that the employee for some reason leaves the employment before this vacation, the Employee shall be entitled to a vacation payment that corresponds with the time that the Employee has been working so far.

§ Both parties have a right to revoke this agreement. Period of notice for such revoke is ________ months.

5. Certain delimitations of the employees rights
§ The employee are not allowed to have any employments, consultancy agreements or other engagements in relation to any third party that are not compatible with this agreement.

§ The Employee shall not have a right to lawfully bind the employer through an agreement or other legal acts of without written permission or a authority from the Employer.

§ The Employee are not allowed to work for a competing business to the Employer unless the Employer have agreed upon this in a written approval.

§ If the Employer wish to enter into another employment with a third party that are operating in a related or closely linked business area as the Employer, the Employee must, before entering into such agreement, establish an agreement with this third party regarding the right to the results of the employees work (see below in section 7). The Employer must approve such agreement before the Employee entering into the new employment.

6. Secrecy

§ Confidential information shall mean any information – technical or of other character and regardless of this information has been documented or not. This definition includes software, plans, drawings, designs, algorithms, program algorithms, mathematic formulas, know-how and other trade secrets.

§ The Employee undertakes to not disclose or in other ways make available any Confidential information regarding the Employers business relation during the employment and during a ____________ long period of time after the employment have ended if not otherwise has been agreed upon in a written agreement. All Confidential information that the Employee is controlling in physical as well as digital form shall be returned to the Employer at the end of the employment.

7. Right to the Employees work results

§ All rights to inventions, amendments, technical solutions or other as well as all ideas, development material and created works that has come to place as a result from the employment regardless of form, shall be the property of the Employer. This will also be
the case with all literary works, art, software, drawings designs, forms, themes, algorithms, programming algorithms, mathematic formulae’s, computer programs, game concepts game ideas, characters, narratives and descriptions of any form. The Employee are expected to be helpful and active to ensure that a transfer of right to such work results mentioned above can be transferred to the Employer, by signing all necessary documents or similar procedures that are required for the Employer to achieve the position of the legal right owner.

§ All digital material that have come to existent as a result from the Employees work shall be stored on a server that the Employer owns and controls. Non-digital material shall be stored on a place advised by the Employer. The Employee is responsible for creating necessary backup on the work that he/She is performing.

8. Specific right to compensation for the Employees

In case of such transfer of rights stated in the previous section (7) the Employee will have a right to receive certain compensation. Such compensation will be conducted accordable with the following models for compensation: (mark which model/models that are intended to be used)

☐ The compensation are comprised in the monthly salary that the Employee receives. (see section 4)

☐ The Employee will have a right to buy shares in the company with a share size of ______% 

☐ The Employee will receive a yearly bonus of ______% based on the return of the company’s income of business.

9. Signatures

This agreement has been written in two original copies where the parties to this agreement have one each. This agreement was signed in the: _______ of _______ year_________
Employer

___________________________________

Clarification of name

Employee

___________________________________

Clarification of name