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INTELLECTUAL PROPERTY - SWEDEN

Calculation of damages in cases of misappropriation of trade secrets and copyright infringement

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Introduction

In Swedish IP litigation, claims for damages in cases of misappropriation of trade secrets are commonly coupled with claims for damages based on copyright infringement. Thus, litigation which combines trade secrets and copyright has become something of a trend in Sweden, and the question of how to apply the different provisions in the new Trade Secrets Act and the Copyright Act continues to vex the courts.

In its first judgment of 2021,(1) the Labour Court used a textbook case of misappropriation of trade secrets – where a previous employee had absconded with trade secrets and copyright-protected works that were subsequently used by his new competing venture – to clarify the method for calculating total damages under both legal regimes.

Facts

The claimant, a company in the construction industry, sued a previous employee, his new company and an additional employee before the Halmstad District Court for misappropriation of trade secrets and copyright infringement.

The first-instance court found that an advanced custom Excel spreadsheet used for calculating costs in construction projects, a handbook and some additional documents that had been found in the defendants' possession constituted the claimant's trade secrets and copyright-protected works. The court awarded minor damages and issued a limited prohibition against some of the defendants.

The claimant appealed several issues concerning the calculation of damages, formulation of prohibition and personal responsibility for the former employee before the second-instance Labour Court. This article focuses on the Labour Court's findings concerning the calculation of damages.

Decision

The court began by clarifying the different legal grounds for damages based on misappropriation of trade secrets and copyright infringement.

Trade secrets misappropriation

The court found that the provisions for damages in the Trade Secrets Act 1990 – which was in force before the implementation of the EU Trade Secrets Directive (2016/943/EU) – in combination with settled case law, corresponded to the new Trade Secrets Law 2018, which implemented the directive. Therefore, existing trade secret case law remained relevant and applicable. This is of particular importance since Sweden is one of the few countries to have had a formal trade secrets law for decades, and the Swedish courts have assembled a significant amount of case law during that time.

According to Sections 5 to 10 of the Trade Secrets Act, a person that misappropriates a trade secret in various ways will be liable to pay damages to the trade secret holder. According to Section 11 of the act, while damages will cover the trade secret holder's strict economic losses, consideration will also be given to the trade secret holder's "interest in preventing unauthorised misappropriation of the trade secret, and to other circumstances

other than those of purely financial significance". This has been interpreted as meaning that claims for damages under the Trade Secrets Act will be divided into separate claims for economic damages and claims for general damages. However, it has also been accepted that a claimant may claim a total amount of damages encompassing both economic and general damages, as it is often hard to differentiate the different types of damage.

The court found that such general damages may be awarded, even when the claimant has not suffered any damages and the defendant has not made any gains. Perhaps inevitably, Swedish litigants have used this provision for nebulous general damages as an all-purpose tool. Claimants often make ambiguous claims for general damages and leave it to the courts to assess the award's size, with the understanding that the claimant should always be awarded something for its interest in preventing unauthorised misappropriation of trade secrets.

Copyright infringement

The court found that Section 54 of the Copyright Act has implemented Article 13 of the EU Enforcement Directive (2004/48/EC). Rights holders are entitled to reasonable compensation for infringement, which will be paid irrespective of whether any harm has been caused to the rights holder. If the infringement was intentional or negligent, the rights holder is additionally entitled to compensation for the additional harm caused by the infringement. The damages will cover the actual harm caused, including, where applicable:

- loss of profits;
- unjust enrichment;
- harm to the work's reputation;
- non-financial damages; and
- the rights holder's interest in preventing infringement.

In the appealed decision, the first-instance court had made two awards for damages:

- one for economic damages (under both the Trade Secrets Act and the Copyright Act); and
- one for general damages (also under the above two acts).

This case gave the Labour Court reason to look more closely at the practical question of whether such claims should more appropriately be handled as one claim and one award (for both economic and general damages) under the new Trade Secrets Act.

The court found that since claims for damages for misappropriation of trade secrets and copyright infringement are based on the same circumstances, and often concern the same harm caused to the trade secret holder or copyright holder, such dual claims should be based on the same findings of fact. However, as discussed above, the method of determining the amount of damages used has traditionally been different between trade secrets and copyright. While damages for copyright infringement have normally been determined as a total amount based on the five factors outlined above, damages for misappropriation of trade secrets have been determined by a division between economic and general damages and separate awards.

The court found that there is no reason to believe that the different methods traditionally used would lead to different total awards for damages. For this reason, the court found that there are strong reasons for ignoring the division between economic and general damages when calculating damages for misappropriation of trade secrets and instead making one total award of damages.

Court's assessment

The court showed why claims for loss of profits and unjust enrichment are notoriously hard to prove; they require assessments of how the infringement has affected the infringer's and the rights holder's financial position, as well as how these financial positions would have been affected in a hypothetical situation where there had been no infringement. A successful claim for such compensation requires the claimant to invoke circumstances and evidence that clearly substantiates the losses or enrichment – otherwise, the court cannot grant compensation for such claimed losses.

In the discussed case, if the defendants had misappropriated trade secrets and committed copyright infringement, this would not mean that certain construction contracts which the defendants had won, and which the claimant had invoked as evidence of loss of profits, would have necessarily otherwise been won by the claimant. Thus, the court found that the claimant had not substantiated its claim for loss of profits.

However, the claimant was successful in its claim for damages based on unjust enrichment on the grounds that the defendants had profited from using the trade secret materials in their business. The award for unfair enrichment corresponded to what the costs would have been for the defendants to create the materials themselves.

Even though the claimant was successful at second instance, only about one-third of the damages sought were awarded. This also led to a litigation cost penalty whereby the claimant did not receive full compensation for litigation costs (which is common in Swedish IP litigation).

Comment

This case marks a development in Swedish trade secrets jurisprudence and an important clarification of how claims for damages will be made before the courts.

On the one hand, the Labour Court's finding that claims for damages based on trade secret misappropriation and claims for damages based on copyright infringement should be assessed on the same findings of fact and according to the same method is logical and will make it easier for claimants to structure claims for damages and invoke evidence to substantiate the claims.

On the other hand, even though the court expressed the opinion that this change should not affect the overall amount of damages awarded, this new practice may make it more difficult to get the courts to award nebulous general damages claims. While general damages may have previously been viewed as the 'easy part' of a trade secret damages claim, this case may signal the start of a more restrictive view. It will be interesting to see how the courts interpret and apply this principle in future cases.

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Endnotes

(1) Labour Court, 2021 nr 1.