



## The Trade Secrets (Enforcement, etc) Regulations 2018

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*On 9 June, the Trade Secrets (Enforcement, etc) Regulations 2018 came into force, implementing the EU Trade Secrets Directive. This is the first time that the UK Parliament has legislated for the protection of trade secrets.*

### **Existing law on trade secrets**

The protection of trade secrets has developed through case law. It originated in the court's equitable jurisdiction to protect confidential information; was developed through a series of 19th century cases (such as *Prince Albert*); its elements were identified with admirable simplicity by Megarry J in the 1969 case, *Coco*; and it continues to be refined in recent case law (*Vestergaard*).

The great advantage of this evolutionary approach is that the courts can mould the law to meet the needs of a modern society. As Lord Neuberger put it in *Vestergaard*: 'Particularly in a modern economy, the law has to maintain a realistic and fair balance between (i) effectively protecting trade secrets (and other intellectual property rights) and (ii) not unreasonably inhibiting competition in the market place. The importance to the economic prosperity of the country of research and development in the commercial world is self-evident, and the protection of intellectual property, including trade secrets, is one of the vital contributions of the law to that end. On the other hand, the law should not discourage former employees from benefiting society and advancing themselves by imposing unfair potential difficulties on their honest attempts to compete with their former employers.'

The EU has now thrown a large legislative pebble into these calm waters of the existing law.

### **The Trade Secrets Directive**

Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, to give it its full title, was approved by the European Parliament on 14 April 2016 and adopted by the Council on 27 May 2016. It was published in the *Official Journal of the European Union* on 15 June 2016, and entered into force on 5 July 2016.

The Directive's main objective, according to the explanatory memorandum published with the regulations, is to achieve a

smooth-functioning internal market by establishing a sufficient and comparable level of redress for trade secret holders in the event of the unlawful acquisition, use or disclosure of their trade secrets. Measures and remedies to protect trade secrets vary across EU member states. To address this, the Directive provides a minimum level of protection available for litigants where there has been misappropriation or misuse of a trade secret. In so doing, the Directive seeks to bring legal clarity and a minimum level playing field for all European businesses.

### **Consultation on the draft regulations**

The Government ran what it described as a public technical consultation for four weeks from 19 February to 16 March 2018 on its approach to implementation of the Directive. It published a consultation paper. A total of 19 responses were received, including one from ELA. On 15 May 2018, the Government published its response to the consultation, followed by the regulations, which were laid before Parliament on 18 May 2018.

Together with the regulations and the explanatory memorandum, the Government has published a transposition table, setting out whether and, if so, how the articles of the Directive have been transposed by the regulations. These documents provide a helpful background and might, in due course, serve as an aid to construction of the regulations.

### **The Trade Secrets Regulations 2018**

In line with Government policy, the intention has been to use 'copy out' wherever possible. However, it was not considered possible to implement the relevant provisions of the Directive by simply copying out the provisions. A number of reasons are given for this. First, the Directive provides member states with a discretion on how they may legislate in certain areas (for example, in relation to the rules on limitation periods). Secondly, the drafting of certain provisions has been modified where

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required, the Government says, in order to provide further clarity. Subject to this, copy out has been followed as the method of implementation of the Directive into UK law where appropriate.

#### *Commencement, extent and territorial application (reg 1)*

The regulations came into force on 9 June 2018. They extend to all the UK and their territorial application is the UK.

#### *Definition of a trade secret (reg 2)*

Trade secret ‘means information which:

- is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among, or readily accessible to, persons within the circles that normally deal with the kind of information in question;
- has commercial value because it is secret; and
- has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.’

The definition of trade secret transposes verbatim Article 2(1) of the Directive. This, in turn, reflects Article 39(2) of the World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).

The Government’s view is that although UK case law has developed a definition of a trade secret that is ‘consistent with the standards and aligns with that of the Directive, transposing the definition in this instrument provides legal certainty and clarity for UK businesses’. The definition of a trade secret is imprecise and leaves much scope for argument as to whether its three elements are made out.

Reg 2 defines related terms:

- ‘infringer’ means a person who has unlawfully acquired, used or disclosed a trade secret;
- ‘infringing goods’ means goods, the design, functioning, production process, marketing or a characteristic of which significantly benefits from a trade secret unlawfully acquired, used or disclosed; and
- ‘trade secret holder’ means any person lawfully controlling a trade secret.

#### *Wider protection (reg 3)*

One of the concerns consistently voiced by practitioners, including ELA, has been the nature of the relationship between these legislative provisions and existing UK law. Were

the Directive and regulations intended to replace existing law? Or would they co-exist alongside it and, if so, how?

The Government has attempted to clarify the relationship between the regulations and an action for breach of confidence, by reg 3, which provides as follows:

1. The acquisition, use or disclosure of a trade secret is unlawful where the acquisition, use or disclosure constitutes a breach of confidence in confidential information.
2. A trade secret holder may apply for and a court may grant measures, procedures, and remedies available in an action for breach of confidence where the measures, procedures and remedies –
  - a. provide wider protection to the trade secret holder than that provided under these regulations in respect of the unlawful acquisition, use or disclosure of a trade secret, and
  - b. comply with the safeguards referred to in Article 1 of [the Trade Secrets Directive].
3. A trade secret holder may apply for and a court may grant the measures, procedures and remedies referred to in paragraph (2) in addition, or as an alternative, to the measures procedures and remedies provided for in these regulations in respect of the unlawful acquisition, use or disclosure of a trade secret.’

The safeguards referred to in Article 1 of the Directive (see reg 3(2)(b) above) include that the Directive shall not affect the right to freedom of expression set out in the Charter nor offer any ground for restricting the mobility of employees. As to the latter, Article 1(3)(b) provides that, the Directive shall not offer any ground for limiting employees’ use of experience and skills honestly acquired in the normal course of their employment.

#### *Limitation period (regs 4-9)*

The limitation period for bringing a claim under the regulations is six years in England and Wales. The prescriptive period in Scotland is five years. These periods begin with the later of (a) the date on which the unlawful acquisition, use or disclosure that is the subject of the claim ceases, and (b) the day of knowledge of the trade secret holder.

#### *Preservation of confidentiality of trade secrets in the course of proceedings (reg 10)*

Reg 10(4) provides that a court may order any of the measures set out in paragraph (5) as may be necessary to preserve the confidentiality of any trade secret or alleged trade secret used or referred to in the course of proceedings.

Those measures are that a court may:

- (a) restrict access to any document containing a trade secret or alleged trade secret submitted by the parties or third parties, in whole or in part, to a limited number of persons;
- (b) restrict access to hearings, when trade secrets or alleged trade secrets may be disclosed, and to the record or transcript of those hearings to a limited number of persons; and
- (c) make available to a person, who is not one of the limited number of persons referred to in sub-paragraph (a) or (b), a non-confidential version of any judicial decision, in which the passages containing trade secrets have been removed or redacted.

By reg 10(7), in deciding whether or not to grant these measures, and in assessing their proportionality, a court must take into account:

- the need to ensure the right to an effective remedy and to a fair trial;
- the legitimate interests of the parties; and
- any potential harm for the parties.

'Parties' in paragraph (7) includes, where appropriate, third parties.

#### *Measures (regs 11-15)*

Regs 11-15 provide for the court to make various interim and final measures, including the prohibition of the unlawful activity and seizure or delivery up of infringing goods (regs 11 and 14).

#### *Damages (regs 16-17)*

Reg 16 provides that a court may order compensation in lieu of an injunction or corrective measures under reg 14.

By reg 17(1), on the application of an injured party, a court must order an infringer, who knew or ought to have known that unlawful acquisition, use or disclosure of a trade secret was being engaged in, to pay the trade secret holder damages appropriate to the actual prejudice suffered as a result of the unlawful acquisition, use or disclosure of the trade secret.

A court may award damages under paragraph (1) on the basis of either paragraph (3) or (4).

Under paragraph (3), when awarding damages, a court must take into account all appropriate factors, including in particular:

- the negative economic consequences, including any lost profits, which the trade secret holder has suffered, and any unfair profits made by the infringer; and
- elements other than economic factors, including the moral prejudice caused to the trade secret holder by the unlawful acquisition, use or disclosure of the trade secret.

Under paragraph (4), a court may, where appropriate, award damages on the basis of the royalties or fees that would have been due had the infringer obtained a licence to use the trade secret in question.

#### *Publication of judicial decisions (reg 18)*

Reg 18 provides that a court may order, on the application of the trade secret holder and at the expense of the infringer, appropriate measures for the dissemination of information concerning the judgment, including its publication in whole or in part.

#### *Proceedings to which these regulations apply (reg 19)*

The regulations apply to proceedings:

- brought before a court after the coming into force of the regulations;
- in respect of a claim for the unlawful acquisition, use or disclosure of a trade secret; and
- for the application of measures, procedures and remedies provided for under the regulations.

#### **Conclusion**

These regulations undoubtedly mark an important development in UK law on trade secrets and confidential information. While the precise relationship between the regulations and existing law remains to be worked out, the former appears to provide a new statutory cause of action for misuse of trade secrets. Future claims in this field are likely to feature claims for breach of confidence under existing law alongside claims for the unlawful acquisition, use and disclosure of a trade secret contrary to the regulations. Trade secrets law just got a lot more complicated – and a lot more interesting.

#### **KEY:**

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| <i>Prince Albert</i> | <i>Prince Albert v Strange</i> [1849] 1 H & T 1                                     |
| <i>Coco</i>          | <i>Coco v Clark</i> [1969] RPC 41   |
| <i>Vestergaard</i>   | <i>Vestergaard Frandsen S/A v Bestnet Europe Ltd</i> [2013] UKSC 31; [2013] ICR 981 |