

# The Trade Secrets Directive—United Kingdom

By Jennifer Pierce

## 1. Trade Secrets Protection: Legal Framework

UK laws have provided remedies against breach of confidence in some form since the 13th century, although the more modern forms of protection date from the mid-19th century and further evolved after the second world war with the development of a *sui generis* form of action. Protection has historically been effected through a combination of common law and equity. This body of law is known as the law of “confidence”, which provides remedies for “breach of confidence”. There are also separate criminal laws protecting confidential information, notably those in the Official Secrets Act and the Prevention of Corruption Act.

In response to the Trade Secrets Directive (Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016), The Trade Secrets (Enforcement, etc.) Regulations 2018 (the “Enforcement Regulations”) were made and came into force on 9th June 2018. The Directive also contained references to other areas of law, such as trade union law, and those facets are dealt with under separate legislation.

The explanatory notes to the Enforcement Regulations, which are not part of the legislation but explain the intention of the draughters, state that:

*“these Regulations address those areas where gaps occur or where the implementation of the provisions of the Directive in the United Kingdom, across its jurisdictions, may be more transparent and coherent”.*

However, they then state, correctly, that:

*“Regulation 3(1) makes clear that the issue of whether the acquisition, use or disclosure of a trade secret is unlawful is determined by reference to the principles of the law of confidence. Where the measures, procedures and remedies available in an action for breach of confidence offer wider protection to a trade secret holder than that offered under the Regulations, the trade secret holder may apply for, and a court may grant, them provided they comply with the safeguards referred to in Article 1 of the Directive.”*

The law of confidence is therefore preserved in respect of trade secrets, which are defined in the same way as in the Directive to the extent that this complies with the safeguards in Article 1 of the Directive. Article 1 permits the grant of wider protection to trade

secrets, but also prohibits injunctions if the subject matter to be protected no longer fulfills the definition of a trade secret (see Article 13(2)).

In particular, there are good reasons to claim that the scope of the law of confidence was wider than the definition of a trade secret in the Enforcement Regulations. The law of confidence did not contain an absolute requirement that reasonable steps be taken to protect confidential information in order to preserve its status; this was simply one of a number of factors to be taken into account.

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In contrast, under the Enforcement Regulations a trade secret is not protectable unless reasonable steps have been taken to keep it secret and the associated safeguards by reference to Article 1 prevent injunctions if the subject matter to be protected no longer fulfills the definition of a trade secret (see above).

The Directive appears to be a harmonizing measure. Recital 10 refers to the fact that it contains rules “to approximate the laws of the Member States so as to ensure that there is a sufficient and consistent level of civil redress ...” However, that recital also refers to “the possibility for Member States of providing for more far-reaching protection...of trade secrets”, which acknowledges that there will not be complete harmonization.

If the Directive is intended to harmonize trade secret laws, by providing a uniform definition, and the wording to safeguard far-reaching protection only covers information that is within that definition then the scope of protection of confidential information in the UK is now narrower. In view of the perceived importance of the definition this could well be the case. It is, however, possible that if there were parallel proceedings for breach of confidence there could be a different interpretation in an English court after Brexit, if Brexit takes place.

The extent to which the future case law of the EU courts will have an impact on the position will depend on whether there is a Brexit and, if there is one, the terms of the Brexit. Those decisions will be binding if there is no Brexit and if there is a Brexit then the principles in s.6 of the European Union (Withdrawal) Act 2018 will apply. Under s.6, when dealing with any

EU decision from the period before Brexit, an English court must apply the same principles as it would apply when overturning its own decisions. There will be no such constraints after Brexit, although courts may be reluctant to reach different decisions from the EU courts in respect of the UK's retained EU law.

## 2. Definitions

A “trade secret” means confidential information which:

- (a) 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,
- (b) has commercial value because it is secret, and
- (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

However, as explained above and below, the combination of the Enforcement Regulations and the pre-existing UK laws of confidence may provide protection for confidential information that is outside the scope of the above definition.

## 3. Lawful Acts

All acts are lawful unless they are unlawful (for which see below).

## 4. Unlawful Acts

The basic position is that 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” (see regulation 3(1)).

As explained above, courts may provide wider protection, covering confidential information in addition to Trade Secrets, as long as they comply with the safeguards in Article 1 of the Trade Secrets Directive.

## 5. Exceptions

The Enforcement Regulations contain a reference to Article 1 of the Trade Secrets Directive (see above). Otherwise, material is protected if it meets the requirements for protection.

## 6. Enforcement: Measures, Procedures and Remedies

### *Injunctions, interdicts and corrective measures*

See regulation 14 of the Enforcement Regulations, which is very similar to Article 12 of the Trade Secrets Directive. The wording is intended to be equivalent, but does not replicate it exactly and failure to follow the exact wording of directives in the past has led to unintended and unforeseen variance in literal meaning. Whilst the UK has been in the EU, any differences have been corrected by bringing UK laws into line

with directives or by interpreting them as such, but we have yet to see how any variants will be dealt with after Brexit. This point should be noted in respect of all paragraphs below where the wording is referred to as similar or equivalent but is not identical.

### *Matters to be considered when making an order under Regulation 14*

See regulation 15 of the Enforcement Regulations, which is very similar to Articles 13 (1) and (2) of the Trade Secrets Directive.

### *Compensation instead of order under regulation 14*

See regulation 16 of the Enforcement Regulations, which is very similar to Article 13(3) of the Trade Secrets Directive. This changes UK law as compensation in lieu of a final injunction is now limited to innocent infringers who “neither knew nor ought to have known in the circumstances” about the infringement.

### *Assessment of damages*

See regulation 17 of the Enforcement Regulations, which is similar to Article 14 of the Trade Secrets Directive, although the wording of Article 14(1) that deals with the liability of employers is found in more general laws relating to employer liability, which the legislators consider is equivalent. (Note that one of the issues initially identified with this legislation is the extent to which there is crossover with several different areas of law. This aspect is covered by employment law in the UK and is outside the scope of this article.)

## 7. Preliminary injunctions

See regulation 11(1), 11(6) and 11(7) of the Enforcement Regulations, which are very similar to Article 10 of the Trade Secrets Directive. Regulations 11(3) and (4) are equivalent to the provisions for timing in Articles 11(3)(a) of the Trade Secrets Directive, with some detail added in 11(5). Regulation 11(8) is similar to Article 11(4).

Note also the following additional provisions of regulation 11, which the transcription table attributes to Article 10 and which are intended to fill a legislative gap.

*“(2) A person to whom the suspected infringing goods are delivered up under paragraph 11(1)(c) must retain the infringing goods pending a decision to make or not to make an order under regulation 14(2).”*

### *Matters to be considered before making an order under regulation 11(1)*

See regulation 12 of the Enforcement Regulations, which is very similar to Articles 11(1) and (2) of the Trade Secrets Directive.

### *Revocation of order under regulation 11(1)*

See regulation 13(1) of the Enforcement Regulations, which deals with the revocation required by Article 11(3) of the Trade Secrets Directive, and reg-

ulation 13(2) of the Enforcement Regulations, which refers to the matters covered by Article 11(5) of the Trade Secrets Directive. Again, these provisions are intended to be equivalent to the Directive, but the wording is not identical.

## 8. Alternative Measures

In addition to the remedies provided by the Enforcement Regulations, there are also:

- a) potential criminal sanctions, most notably under the Official Secrets Act and the Prevention of Corruption Act;
- b) data protection measures under the General Data Protection Regulation (EU) 2016/679;
- c) remedies for misuse of private information, for which there may be an overlap with trade secrets; and
- d) the pre-existing law of confidence, as explained above.

We have yet to see the way in which the courts will handle any overlap between the above and the Enforcement Regulations, more especially with respect to Article 1 of the Trade Secrets Directive. The courts have already had to deal with the potential conflicts between the Human Rights Act 1998 and the law of confidence.<sup>1</sup>

## 9. Limitation Period

Whilst the legislation is generally applicable to the UK, there are different provisions for: (a) England, Wales and Northern Ireland; and (b) Scotland.

As regards England, Wales and Northern Ireland, the limitation period is six years from the later of the day on which the unlawful act ceases and the day of knowledge of the Trade Secret Holder (defined as the person lawfully controlling the trade secret—see regulation 2). See regulations 4, 5 and 6.

In Scotland there is a “prescriptive period” of five years, “except where the subsistence of the obligation in relation to which the claim is made was relevantly acknowledged before the end of that period”. The detail of this provision is governed by the Prescription and Limitation (Scotland) Act 1973. See regulations 4, 5 and 6.

The day of knowledge of the Trade Secret Holder, for the purpose of the limitation period and the prescriptive period, is the day when the Trade Secret Holder knows or could reasonably be expected to know of the infringer’s activity, that the activity constitutes an unlawful act and the identity of the infringer. The knowledge must be sufficient for the Trade Secret Holder to

bring a claim. In the context of somebody who acquires liability from another person, the relevant details are those of the acts and identity of the original infringer. See regulation 6.

The period is varied when the Trade Secret Holder is an infant or lacks capacity to conduct legal proceedings for a part of the limitation period and the provisions vary between: (i) England, Wales and Northern Ireland; and (ii) Scotland. See regulation 7.

There are also specific provisions for new claims in the course of proceedings in England, Wales and Northern Ireland. See regulation 9 and the legislation referred to in that regulation. In short, a new claim is deemed to have commenced on the same date as the original action, with the exception of third party proceedings where the claim is deemed to have commenced on the date when the third party proceedings commenced. A new claim would include the addition or substitution of a new party. Third party proceedings are proceedings brought to join a person who was not previously a party to the action, except where a person is joined as a defendant in pre-existing claims in the original action.

With the exception of third party proceedings, original claims of set-off and counterclaim, and as provided by court rules, no new claim may be made after the expiry of the limitation period. This includes set-off and counterclaims against new parties to the action. As to the very limited circumstances in which the exception prescribed by court rules may apply, see section 35 Limitation Act 1980, which limits this application to actions that are very closely related. As regards third party proceedings, the same rules will apply as they would to the original action.

## 10. Trade Secrets as an Object of Property

There is no well-established law to the effect that trade secrets constitute property, but it is recognized that they may be transferred and “licensed” like property.

In order to effect a transfer, the transferor makes a disclosure, combined with an undertaking not to use or disclose the information in future. That undertaking will be subject to laws on the restraint of trade. Confidentiality undertakings given to the assignor prior to assignment may be assignable if the obligations are not personal to the assignor.

Whilst “licences” of trade secrets are not licences in the strict sense, they work in a similar way. Information is disclosed in return for payment and/or other conditions. Licences can be exclusive. Case law shows that it is crucial to stipulate the extent to which any rights may or may not be used after termination.

This is an evolving field of law, and there is a great deal of case law in this field, which cannot be covered

1. See, for example *Campbell v Mirror Group Newspapers Ltd.* [2002] EMLR 30 QB; [2003] QB 633 (CA); [2004] 2AC 457 (HL).

in an article of this nature. For further information see *Gurry on Breach of Confidence*, second edition, which was published in 2012 but contains a very useful explanation of the law in this field.

## 11. Protection of Trade Secrets in Court Proceedings

Regulation 10 of the Enforcement Regulations is very similar to Article 8 of the Trade Secrets Directive. This changes UK law. Under the UK's old law of confidence, on occasion, the courts excluded a party if they would not be able to forget the other party's trade secrets.

## 12. Recommendations for Corporate Trade Secrets Policies

For the purpose of formulating trade secrets policies, it is safest to assume that since 9th June 2018, when the Enforcement Regulations came into force, there has been no protection for trade secrets unless "reasonable steps under the circumstances" have been taken to keep them secret. See Section 1 above for the underlying legal analysis.

The challenge for those formulating trade secrets policies is to work out what is reasonable "under the circumstances". In doing so it is necessary to take account of the nature of the trade secrets, the nature of the organization (and possibly the optimal way of organizing it), the way that trade secrets are used within it and the relevant management structure.

At the most basic level, it should be clear to those handling trade secrets that the information is confidential, and it is best to distinguish confidential material from information that is clearly not confidential. It would be unwise to designate all information as con-

fidential, without making any exceptions for non-confidential information. Blanket measures could well involve unenforceable or commercially unacceptable restrictions at some stage and could devalue the real trade secrets.

It may be advisable to limit the distribution of certain types of information to designated parts of the organization, selected physical areas and possibly specified employees. Physical and technological security protection measures will vary, depending on the organization and the secrets.

There will be further documentation involved, including confidentiality undertakings, policies on signing them, confidentiality provisions of employment and consultancy contracts, collaboration and other agreements. It is likely that all those handling trade secrets will need to sign some sort of contract.

When dealing with employees, it will be necessary to check whether the measures might have an adverse impact on them. For example, if an employee no longer has access to classified information so their job is essentially downgraded, the employee may have a claim against their employer.

Policies and related measures should be documented and records retained, most probably with the organization's other intellectual property records. Policies should also be reviewed at appropriate intervals.

It will be necessary to ensure that the policy is consistent with the organization's policies on data protection and cyber security. ■

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