



EMPLOYMENT
LAWYERS

P.O. BOX 353
UXBRIDGE UB10 0UN
TELEPHONE/FAX 01895 256972
E-MAIL ela@elaweb.org.uk
WEBSITE www.elaweb.org.uk

IPO Consultation on draft regulations concerning trade secrets

Response from the Employment Lawyers Association

16 March 2018

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Introduction

The Employment Lawyers Association (ELA) is a non-political group of specialists in the field of employment law and includes those who represent claimants and respondents in courts and employment tribunals. It is not ELA's role to comment on the political or policy merits or otherwise of proposed legislation or regulation, rather it is to make observations from a legal standpoint. Accordingly, in this consultation we do not address such issues. ELA's Legislative and Policy Committee consists of experienced solicitors and barristers who meet regularly for a number of purposes including to consider and respond to proposed legislation and regulations.

The Legislative and Policy Committee of ELA set up a sub-committee under the chairmanship of Paul Goulding QC (Blackstone Chambers) and Toni Lorenzo (Lewis Silkin) to consider and comment on the consultation paper from the IPO on the draft regulations concerning trade secrets. The members of the sub-committee are listed at the end of this paper.

Foreword

We are concerned by the limited time allowed for consultation. The relevant directive was adopted almost 2 years ago, in mid-2016. No steps appear to have been taken to consider implementation thereafter – until now a brief consultation closing shortly before Easter. These are important regulations. There are well-established protections in English law both for trade secrets and for the interests of employees alleged to have disclosed trade secrets. Careful consideration is needed as to whether these regulations, as drafted, would replace, disrupt or extend those existing protections. Our specialist professional group has found it difficult properly to consider, discuss and respond to the consultation before the 16 March deadline. In particular, in the time allowed, we have been unable to consult with our Scottish members. We consider it unlikely that most persons with interest or experience in this (highly technical) area will have identified the consultation or had an opportunity to respond in the very limited time permitted.

This submission focuses particularly on the application of the Regulations in the employment context. We note at the outset (as further developed in response to Questions 1 and 11) that the Regulations (and draft explanatory note) are silent as to whether they are intended to supplement and sit alongside the existing English common law in relation to trade secrets and confidential information, or whether they are intended to codify and replace existing common law rights/remedies/defences. We assume the former (not least because of the difficulty in any proposed removal of common law rights by secondary legislation). As we understand the consultation paper, the Regulations are designed to clarify and (where necessary) expand the *procedural* protections and *remedies* available under the English common law, without replacing or diluting existing common law rights of action/defences. We consider it desirable that the position is made clear expressly (eg. In the text of the Regulations or in the explanatory note), to reduce/avoid future confusion.

Question 1. Do you agree that regs 2 and 3 implement effectively the definitions in the Directive?

"infringing good"

The definition of an "infringing good" is imprecise and ambiguous, and appears to us to go beyond the definition used in the directive in at least two respects:

- (a) The directive refers to goods which benefit from trade secrets unlawfully acquired, used or disclosed in respect of their "design, characteristics, functioning, production process or marketing". The proposed reg 2 definition goes beyond this, to include goods which benefit from such trade secrets in *any* respect – including but not limited to the specific matters identified in the directive. This is broader than necessary to implement the directive, and is unhelpfully imprecise, in circumstances in which the condition of "benefitting from" a breach of confidence is not defined. For example, would goods be "infringing goods" if designed or produced (etc) by individuals who had been recruited from a competitor in a team move involving breaches of confidence, but where there had been no such breach of confidence in relation to the specific design (etc) of such goods?
- (b) The directive defines "infringing goods" as goods which "*significantly*" benefit from trade secrets unlawfully acquired, used or disclosed. The Commission's Proposal explained that this qualifier was intended to ensure that the directive was proportionate in scope. The proposed definition in reg 2 is broader than this – on its face, *any* benefit would suffice to bring a good within the definition, whether or not that benefit is significant. It would be preferable, it is suggested, to mirror the language (and limited scope) of the directive itself.

"trade secret"

- (a) The definition of a trade secret in reg 2 broadly repeats the definition in the directive, but it would be helpful for the Regulations to make clear that, to qualify for protection, information must meet all three tests in (a) to (c) of the definition (cf. the directive, which makes clear that information will only be a trade secret if it meets "*all of*" the conditions).
- (b) Whilst we recognise that this definition is drawn from the directive, it is unhelpfully imprecise. For example, what is meant by "commercial value"? What would amount to "reasonable steps"? Further clarification in the drafting should be considered.
- (c) Further, the definition in reg 2 extends beyond the established definition of a 'trade secret' in English law (as opposed to confidential information which falls short of a trade secret and which an employee may be free to use after his or her employment terminates): see eg. *Faccenda Chicken Ltd v Fowler* [1987] 1 Ch 117. We consider it important, in those circumstances, that the relationship between the Regulations and the common law is explained: do the Regulations supplement or provide additional procedural/remedial protections in relation to existing common law claims (as we assume), or are they intended to create a new codified/replacement right of action? This could helpfully be clarified either in the text of the draft Regulations, or at the outset of the draft explanatory note.
- (d) In addition, given (c) above, and given the risk of inconsistent approaches under the regulations and at common law, we wonder whether "trade secrets" might be better defined in reg 2 as "protected trade secrets" or "relevant trade secrets" or similar.

"trade secret holder"

- (a) Is it anticipated that there will only be one "*trade secret holder*" with control in relation to a particular trade secret? If so, the definition might more precisely refer to "*the legal or natural person which*

controls the relevant trade secret". Otherwise, the breadth of the reference to "any" such person, and "lawful control" (not defined) may cause uncertainty.

- (b) Is it anticipated that a licensee will be a "trade secret holder" for the purposes of the regulations, even if the licensor retains ultimate control? If so, could this be made clear?

Question 2. What are your views on the rules set out in Regulations 4-9?

- (a) Overall, the rules relating to time periods are sensible although we anticipate that there may be some potential uncertainties in the way the definitions under Regulations 6(1) and 6(2) will be interpreted. We have not had an opportunity to obtain comments from Scottish members in respect of which it appears many of these rules are directed. The final form Directive and draft Regulations address the principal concerns previously expressed by ELA. In particular, in accordance with the Directive, a limitation period of 6 years has been provided for, consistent with existing limitation periods for many national remedies available in this field. We note also that it is the intention of the Directive to run alongside rather than replace domestic law.
- (b) In order to give effect to the Directive, as is envisaged, it seems to us to be necessary to disapply section 36 of the Limitation Act 1980 for the purposes of proceedings under regulation 4(1). Regulations 6-9 give effect to Article 8(1) of the Directive whilst, at the same time, adopting existing domestic law.

Question 3. Do you agree that regulation 10 provides the appropriate level of clarity and transparency with regard to preserving the confidentiality of trade secrets in proceedings?

Regulation 10 seeks to implement article 9 of the Directive. We make the following observations regarding regulation 10.

Regulation 10(1)-10(2)

"a court identifies as confidential any trade secret or alleged trade secret"

- (a) The first difficulty with this wording is that it suggests that the court must identify the trade secret or alleged trade secret "as confidential" before it triggers the obligation on participants, and others with access to documents, not to use or disclose it. The obligation no longer applies where the legal proceedings have concluded and the court finds that there is no trade secret: reg 10(2)(a). The problem is that a court would generally not identify something as confidential until the proceedings have concluded. Rather, a court would, at most, tend to form a provisional view before the conclusion of the proceedings. Thus, a court might identify an alleged trade secret as "arguably confidential" or "prima facie confidential" or words to that effect.
- (b) Whilst we recognize that this wording broadly reflects that of article 9(1) of the Directive, we consider it to lack clarity. Article 9 appears to be concerned with the protection, during proceedings, of what the court has identified as a trade secret or an alleged trade secret. We, therefore, question the necessity of the inclusion of the words "as confidential". We note that the word "confidential" does not qualify "trade secret or alleged trade secret" for the purpose of restricting access to a document in regulation 10(4)(a). Alternatively, if those words are to be retained, consideration should be given to adding "or arguably confidential" or "or allegedly confidential" or similar.

- (c) The second problem with this wording is the lack of clarity regarding what is required when a court "*identifies*" as confidential any trade secret or alleged trade secret. Is it sufficient if a judge comments at a hearing that something is (or arguably is) confidential? Or comments to like effect in an interim judgment? Or should the "*identifies*" mean identifies in a court Order?
- (d) There is much to be said for the necessity for a court Order to reflect the fact that a court has "*identified*" as confidential any trade secret or alleged trade secret before the obligation in regulation 10(1) is triggered. Indeed, it could be argued that it should be clear from the terms of any such Order that it is made for the purpose of regulation 10(1). In that event, participants and others would be clear that the obligation pursuant to regulation 10(1) applies.

"participants in legal proceedings (whether as a party, a lawyer or other representative, a court official, a witness, an expert or otherwise)"

- (e) This description of participants in legal proceedings omits the following words found in article 10, "*or who has access to documents which form part of those legal proceedings*". We think that these words in article 10 should be reflected expressly in regulation 10.
- (f) It does not seem to us that persons having access to documents are caught by the phrase "*or otherwise*" because that phrase qualifies "*participants in legal proceedings*". A person who merely has access to documents which form part of legal proceedings might not be, or might not consider themselves to be, a participant in proceedings. For example, a non-party (such as a commercial rival or member of the press) might gain access to documents by a variety of means: by a party providing a copy of a document; or by obtaining a copy from the court records pursuant to CPR, rule 4.5C. This could happen before the redaction of a trade secret in the document.

"revealed in the course of legal proceedings"

- (g) This wording is to be contrasted with the corresponding wording in article 9, "*and of which they have become aware as a result of such participation or access*".
- (h) It is unclear to us why the wording in article 9 has not been adopted in regulation 10. It is possible that a trade secret or trade secret is revealed in the course of legal proceedings but was already known to a participant or third party from other sources. In such circumstances, the person *would not* be subject to the obligation not to use or disclose during proceedings based on the wording of article 9 (ie they would not have become aware of it as a result of such participation or access) but they *would* be subject to the obligation on the basis of the wording in regulation 10.
- (i) We do not presently see a good reason not to adopt the wording of article 9 (*and of which they have become aware as a result of such participation or access*) and substitute it for the corresponding wording in regulation 10 (*revealed in the course of legal proceedings*).

Regulation 10(3)-10(8)

"revealed in the course of legal proceedings"

- (a) The corresponding wording in article 9(2) is any trade secret or alleged trade secret "*used or referred to in the course of legal proceedings*".

- (b) We question the substitution of "*revealed*" in regulation 10(3). It may be doubtful, depending on the facts, whether a trade secret is "*revealed*" in the course of legal proceedings. We think it is tolerably clear when a trade secret is "*referred to*" in the course of legal proceedings. Whilst we are not persuaded that "*used*" adds much in this context, we consider that there is much to be said for retaining in regulation 10(3) the wording of article 9(2) (*used or referred to*) rather than the word "*revealed*".

"relating to a breach of confidence in relation to a trade secret"

- (c) These words qualify or describe the legal proceedings referred to in regulation 10(3). Yet, the equivalent qualification or description does not appear in regulation 10(1). We do not understand why the approach should be different. Consistency throughout is preferable.

"in whole or in part"

- (d) We note the inclusion of the words "*in whole or in part*" in regulation 10(4)(a). We take this to mean that a court may restrict access the whole or part of a document.
- (e) Those words are omitted from regulation 10(4)(b). This reflects the same difference of wording between article 9(2)(a) and 9(2)(b). However, we question why the wording should be different. It might be taken to mean that the restriction of access to hearings pursuant to regulation 10(4)(b) is all or nothing (ie that the whole hearing should be in secret or not at all) given the omission of the words "*in whole or in part*". We doubt this is the intention either of regulation 10(4)(b) or of article 9(2)(b).

Regulation 10(6) and 10(7)

- (f) We note that article 9(3) has been separated into regulation 10(6) and 10(7). We are unclear why this has been done. Regulation 10(6) appears to be concerned with "*which of the measures*" in paragraph (4) are to be ordered, whereas regulation 10(7) is concerned with "*whether or not to grant the measures*" in paragraph (4). We cannot see any justification for this distinction in article 9(3), which is potentially confusing.
- (g) We consider it preferable to implement article 9(3) in one paragraph of the Regulations. This would be concerned with deciding whether or not to grant the measures in paragraph (4) and, if so, which and in assessing their proportionality. The paragraph would then list the factors to be taken into account, namely
- i. the need to ensure the right to an effective remedy and to a fair trial;
 - ii. the legitimate interests of the parties and, where appropriate, of third parties; and
 - iii. any potential harm for the parties and, where appropriate, for third parties
- resulting from the grant or rejection of such measures.

Third parties

- (h) We note that regulation 10(8) provides that in paragraph (7), "*parties*" includes third parties.

- (i) This omits the words found in article 9(3) "*where appropriate*". We think these qualifying words are important and should be retained. They make clear that it will not always be appropriate to take account of the legitimate interests or potential harm of third parties.

Question 4. Do you agree that Regulation 11 is necessary to ensure that the UK complies with Article 10 of the Directive?

Given (a) the patchwork of causes of action and remedies available under domestic law and (b) the uncertainty as to whether current court rules in different UK jurisdictions provide for them to make interim orders in relation to seizure and delivery up of suspected infringing goods as identified in the commentary to the draft Regulations, we agree that, in order to guarantee certainty across all UK jurisdictions and ensure compliance with the Directive, Regulation 11 is necessary. We note that an order that goods be delivered up to the trade secret holder is in addition to any other remedies the trade secret holder may have under national law, including springboard relief.

Question 5. Do you agree that Regulation 12 is necessary to ensure certainty and compliance with the Directive?

Yes. However, for the avoidance of doubt, the factors listed directly from the Directive are some of the factors that we would expect the courts of England and Wales to take into account in any event when deciding whether to exercise its discretion on an application for interim relief.

Question 6. Do you agree that Regulation 13 is necessary to ensure that the UK complies with Article 11(3)(a) of the Directive?

Yes. Currently, time limits for a claim of this nature are entirely discretionary and Regulation 13 is necessary in order to comply with the Directive. In practice, the courts in England and Wales currently require a claim to be issued at the same time as interim relief is sought or, at the very least, for an undertaking to be given that a claim will be issued as soon as reasonably practicable. Given this practice, we do not anticipate any issues arising with the 20 working days/31 calendar days deadline.

Question 7. Do you agree that regulations 14 and 15 are necessary in order to ensure that the UK complies with Articles 12 and 13(1) of the Directive?

- (a) In the main, the courts in England and Wales already have the powers granted by Article 12 of the Directive, and we believe that the corrective measures listed have been granted in various breach of confidence cases in the courts of England and Wales.
- (b) Strictly therefore, at least as far as England and Wales go, we do not believe that regulation 14 is necessary to ensure that the UK complies with the Directive. However, as the consultation paper acknowledges, there may be uncertainty in relation to other UK jurisdictions as to whether all the remedies may be granted under the existing law.
- (c) Assuming there are discrepancies in other jurisdictions within the UK, we agree that it would then be necessary to make these changes which may also bring benefits of transparency and consistency to UK law as a whole.
- (d) We note that Article 12(4) provides that the corrective measures referred to in Articles 12(1)(c) and (d) should be carried out at the expense of the infringer, 'unless there are particular reasons for not doing so'. We assume that the wording 'unless there are particular reasons for not doing so' has not been specifically implemented because this would be in the Court's discretion. The same point, we assume,

applies in relation to any time-limited injunction granted by a court, and the wording in Article 13(1) which requires the duration of the injunction to be sufficient to eliminate any commercial or economic advantage that the infringer could have derived from the unlawful acquisition, use or disclosure of the trade secret.

Question 8. Do you agree that regulation 16 is necessary in order to implement Article 13 of the Directive?

- (a) Regulation 16 implements Article 13(3) in full. The courts in England and Wales already have discretion to order compensation instead of injunctive relief when appropriate, and section 50 of the Senior Courts Act 1981 expressly grants the power to award damages in substitution for an injunction.
- (b) The factors in regulation 16 are broadly in line with the factors that the English courts take into account under the current law. There is however, under Article 13(3), a specific limit on the compensation that can be awarded in lieu of an injunction (limited to the amount of royalties/fees which would have been due had the respondent obtained a licence), which no doubt a court in England & Wales could apply under the existing law in the exercise of its discretion.
- (c) We note that the Government chose not to implement the equivalent provision in Article 12 of the Enforcement Directive 2004/48/EC, which provides for damages to be awarded in lieu of an injunction where a person acted unintentionally and without negligence, if execution of an injunction would cause them disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory. We understand that that provision was not implemented at the time as the Government considered that it was covered by the existing law.
- (d) That said, the same issue as to consistency across all the UK jurisdictions is raised in this context also and as such we would agree that it would be necessary to make these changes to ensure consistency and certainty, as well as to address any gaps, such as the limit on relief.

Question 9. Do you agree that regulation 17 is necessary in order to implement Article 14 of the Directive?

- (a) Current law on the measure of damages to compensate for the loss suffered as a result of a breach of confidence largely corresponds to the wording in the draft regulation, and the factors listed are factors that generally the courts already take into account to determine the amount of damages.
- (b) However, Article 14 does introduce concepts such as 'actual prejudice' and 'moral prejudice'. These are concepts that were previously introduced in the context of enforcement of intellectual property rights by Article 13 of the Enforcement Directive 2004/48/EC. When considering implementation of that provision, the Government noted that these were potentially unclear terms. Accordingly, when implementing this provision in The Intellectual Property (Enforcement etc) Regulations, it took the approach of copying out the wording in Regulation 3.
- (c) We agree that, for consistency with the existing approach in relation to IP enforcement, and to ensure a certain and consistent approach across all UK jurisdictions, a similar argument for the necessity of regulation 17 as put forward in the answers above applies. However, we do note that Regulation 3(3) of the Intellectual Property (Enforcement etc) Regulations makes it clear that the existing rules of national law were to be preserved, unless there was an actual inconsistency with Article 13(1) of the Enforcement Directive.

Question 10. Do you agree that regulation 18 is necessary in order to implement Article 15 of the Directive?

We agree that regulation 18 is necessary in order to implement article 15, subject to the following comments.

Regulation 18(2)

- (a) We note that article 15(2) concludes with the words "*as provided for in Article 9*". We consider that, for the purpose of consistency, clarity and full implementation of the Directive's provisions, consideration be given to inserting the words "*as provided for in regulation 10*" at the end of regulation 18(2).

Regulation 18(3)

- (b) We note that the words "*where appropriate*", which appear in article 15(3), have been omitted before the list of items at (a)-(e). We think they should be included.
- (c) As to (b), "*the conduct of the infringer*", in article 15(3) is limited to his conduct "*in acquiring, using or disclosing the trade secret*". Consideration should be given to an appropriate form of words to make clear that it is the infringer's conduct in breaching confidence (as opposed to *any* aspect of his conduct) that must be taken into account.

Question 11. Do you agree with the overall approach taken to implement the Directive?

Yes, subject to:

- (a) the drafting issues raised in this response;
- (b) clarification of the overlap between the draft regulations and the English common law, as noted at the outset of this response (and, relatedly, clarification of the extent to which parties are free to 'contract out' of the Regulations – eg. to provide for protection of trade secrets which is wider, or narrower, or otherwise different from that in the Regulations).

Question 12. Do you agree that we have correctly identified all the relevant articles in the Directive that need implementing in UK law to ensure the UK complies with the Directive?

No.

- (a) We consider it desirable for Article 1(2)-(3), and esp. Article 1(2)(b) and Article 1(3)(b), and Article 5 to be replicated (*mutatis mutandis*) either in the body of the Regulations or, at least, in the explanatory note. These are important limiting principles and it is undesirable for there to be uncertainty as to the extent to which they limit rights under the Regulations.
- (b) Similarly, we consider it desirable for Article 3 to be replicated (*mutatis mutandis*) either in the body of the Regulations or, at least, in the explanatory note. Again, without such provision there is likely to be undesirable uncertainty as to the scope of the defences available in claims under the Regulations.