

Trade Secrets Directive – implementation for the UK

The IP Federation represents the views of UK Industry in both IP policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed at the end of this paper. It has wide experience of how IP law, including patent litigation, works in practice in the UK, Europe and internationally.

Introduction

The following is the IP Federation's response to the UK Intellectual Property Office's "*Consultation on draft regulations concerning trade secrets*" (the "Consultation"), by which the UK IPO [solicits feedback](#) on proposed measures to implement the EU Trade Secrets Directive ((EU) 2016/943) (the "Directive") in the UK. These implementing measures take the form of a proposed Statutory Instrument, the Trade Secrets (Enforcement, etc) Regulations 2018 (the "draft Regulation"). The closing date for responses is **16 March 2018**.

Overview

The IP Federation is grateful for the opportunity to comment on the draft Regulation and commends the UK Intellectual Property Office for their work to date in relation to the Directive. The IP Federation has however identified a number of points relating to the draft Regulations that have potential to create significant uncertainty for UK industry in an area of law that has been settled for many decades. Our concerns with the Regulation fall into two broad categories, as set out below.

1. Unnecessary and overly complex provisions

The draft Regulation is significantly longer than we had expected and contains certain provisions that we believe are unnecessary and/or overly complex.

We note that existing UK law in relation to confidentiality and trade secrets generally works very well, having been arrived at through many years of delicate judicial decision-making. As such, whilst the existing law is complex, we see significant risks of unintended (adverse) consequences if it is amended any more than is absolutely necessary.

We also believe that UK law is (at least largely) compliant with the Directive. Indeed, as a result of the UK Government's (via the UK IPO) effective participation in, and input to, the EU Commission's work on the Directive, UK law served as a reference point for the drafting of the Directive.

Accordingly, we fully endorse the government's policy (as stated on page 4 of the Consultation document) that "*transposition of an EU Directive should not*

go beyond the minimum requirements of the Directive". Where legislation is needed, it should be kept to a bare minimum.

In certain areas, we note that the draft Regulation also diverges from the language of the Directive, which is generally unhelpful.

We have commented on the individual provisions of the draft Regulation in the Annex hereto.

2. Lack of clarity as to interplay with existing law

We note that the Directive was intended to achieve minimum standards of protection for "*trade secrets*" in Europe. As such, the Directive is stated to be "*... without prejudice to the possibility for Member States of providing for more far-reaching protection against the unlawful acquisition, use or disclosure of trade secrets, as long as the safeguards explicitly provided for in this Directive for protecting the interests of other parties are respected*" (see Recital 10 to the Directive).

Given the above, the main intention of the draft Regulations is to provide clarification and codification in certain discrete (and limited) areas. This is confirmed in the Explanatory Note to the draft Regulations, which states that: "*A number of the provisions of the Directive have been implemented in the United Kingdom by common law or statute and these Regulations address those areas where gaps occur or where the implementation of the provisions of the Directive by the law of the United Kingdom may be made more transparent.*" (Emphasis added.)

Despite this, the draft Regulation contains no explanation as to how its provisions are intended to interact with the existing common law, meaning that they could be (incorrectly) taken to replace the existing law in the relevant areas. To avoid any doubt in this regard, it would be sensible for the draft Regulations to state that they are without prejudice to the existing law, save where the existing law is inconsistent.

We suggest the following amendment:

Proposed additions to Regulation 1(3) and Explanatory Note of draft Regulations

- Insert new Regulation 1(3) that states:
"These Regulations shall be without prejudice to the common law relating to confidential information and actions for breach of confidence, save to the extent that the common law is inconsistent with the provisions of these Regulations."

In addition to this, given that the purpose of the Directive is to achieve minimum standards, the Regulation should be drafted in a way that is inclusive, rather than in a way which could unnecessarily limit the position under the existing law. We have made suggestions in this regard in the Annex hereto.

These matters should all be addressed, in order to avoid creating unnecessary uncertainty as to the protection and enforcement of confidential information and trade secrets in the UK.

We would also be grateful for an opportunity to discuss these points with you in the coming weeks.

IP Federation
16 March 2018

ANNEX 1
RESPONSES TO QUESTIONS

Question	Answer	Comments
1. Do you agree that regulations 2 and 3 implement effectively the definitions in the Directive?	No	<p><u>a) Definition of "trade secret"</u></p> <p>We believe the definition of "<i>trade secret</i>" is unnecessary, given that UK law is already compliant with TRIPS (we note that the Consultation document itself acknowledges that "<i>... analysis of UK case law indicates that the common law in the UK gives effect to the definition of 'trade secret as set out in Article 2(1) of the Directive'</i>").</p> <p>The inclusion of this definition in Regulation 2 is however likely to cause significant confusion because, traditionally, UK law has used different legal terminology in this area. In particular:</p> <ul style="list-style-type: none"> Under existing UK law, information of the type set out in Article 2(1) of the Directive is simply referred to as "<i>confidential information</i>". Likewise, an action to protect such information is referred to as an action / claim for "<i>breach of confidence</i>". Existing UK law is however compliant with the Directive because, in substance, the same types of information are protected (which in turn are those set out in Article 39(2) of TRIPS). (We also note that TRIPS itself does not use the term "<i>trade secret</i>" - it instead simply refers to "<i>undisclosed information</i>"); and The term "<i>trade secret</i>" itself has a different meaning under existing UK law. In particular, the term is used to refer to a narrow category (or sub-set) of confidential information that attracts greater protection. Specifically, the term "<i>trade secret</i>" is used to refer to a category of confidential information that can be protected indefinitely against, <i>inter alia</i>, former employees. The term is not used to refer to all information that is within the scope of Article 39(2) of TRIPS. The terms "<i>confidential information</i>" and "<i>trade secret</i>" are therefore not synonymous. <p>We believe the definition of "<i>trade secrets</i>" should therefore be removed.</p> <p>We do however note the explanation in the Consultation document that: "<i>The definition has been included in the Regulations as it sets out the scope of the Regulations.</i>"</p>

Question	Answer	Comments
		<p>We do not understand why the definition would be necessary for this purpose (and would welcome an explanation from the UK IPO on this point). However, if a provision of this nature is felt to be needed, it should be amended as follows:</p> <div data-bbox="582 451 2085 826" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>Proposed Amendment to Regulation 2:</p> <p><i>“For the avoidance of doubt, in any action for breach of confidence, at least the following shall be taken to comprise confidential information (referred to in Directive (EU) 2016/943 as “trade secret”), namely 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; (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;”</i></p> </div> <p>We believe this approach would avoid the significant confusion that will otherwise be caused as a result of the pre-existing terminology.</p> <p>We also note for completeness that the current draft of the definition does not mirror that in the Directive. Instead, the definition in Regulation 2 introduces a requirement that the information in question is “confidential”. This is however an erroneous addition because the point of the definition is to set out the information that is to be regarded as confidential. The addition is therefore duplicative and confusing. Our amendments suggested above also address this issue.</p> <p><u>b) Definition of “infringer”</u></p> <p>The draft Regulation currently defines “infringer” as meaning “a person who has acted in breach of confidence in relation to a trade secret” (emphasis added).</p>

Question	Answer	Comments
		<p>However, consistent with what is said above, it is unhelpful and confusing to mix the UK terminology (i.e. "<i>breach of confidence</i>") and EU terminology ("<i>trade secret</i>") in this way. At the very least, the definition appears to be duplicative.</p> <p>We would suggest amending the definition to simply state that:</p> <div data-bbox="582 507 2089 675" style="border: 1px solid black; background-color: #e0f0ff; padding: 10px; margin: 10px 0;"> <p>Proposed Amendment to definition of "<i>infringer</i>" in Regulation 2 of draft Regulations:</p> <p>““<i>infringer</i>” means a person who has acted in breach of confidencein relation to a trade secret”.</p> </div> <p>Corresponding changes will need to be made throughout the draft Regulation, wherever there is a reference to a "<i>breach of confidence in relation to a trade secret</i>" (i.e. the words "in relation to a trade secret" should be removed).</p> <p><u>c) Definition of "<i>infringing goods</i>"</u></p> <p>The draft Regulation currently defines "<i>infringing goods</i>" as meaning "<i>goods which benefit from a breach of confidence in relation to a trade secret (as regards amongst other matters the design, characteristics, functioning, production process or marketing of the goods) to the detriment of the trade secret holder</i>" (emphasis added).</p> <p>Again, as with the definition of "<i>infringer</i>", this definition mixes the UK terminology (i.e. "<i>breach of confidence</i>") and EU terminology ("<i>trade secret</i>"), which is unhelpful and confusing.</p> <p>We also note that the definition in Regulation 2 has been re-worded such that it does not mirror that in the Directive, which is unhelpful. Most importantly:</p> <ul style="list-style-type: none"> The definition in Regulation 2 removes the requirement that the design, characteristics, functioning, production process or marketing of the infringing goods "<i>significantly benefits</i>" from the trade secret

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		<p>misuse. This means that the definition under the Regulation is broader than that under the Directive and hence the Regulation is going further than it needs to.</p> <ul style="list-style-type: none"> The definition in Regulation 2 also adds the requirement that the goods have benefitted from trade secret misuse <i>"to the detriment of the trade secret holder"</i>. We do not understand the purpose of this change and do not believe it is compliant with the Directive - the Directive does not contain this limitation. <p>To address all of these points, we suggest the following:</p> <div data-bbox="582 611 2087 863" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>Proposed Amendment to definition of "infringing goods" in Regulation 2 of draft Regulations:</p> <p><i>" "infringing goods" means goods which <u>significantly</u> benefit from a breach of confidence in relation to a trade secret (as regards, amongst other matters, the design, characteristics, functioning, production process or marketing of the goods) to the detriment of the trade secret holder"</i></p> </div> <p><u>d) Definition of "trade secret holder"</u></p> <p>The draft Regulation currently defines <i>"trade secret holder"</i> as meaning <i>"any natural or legal person lawfully controlling a trade secret"</i>.</p> <p>However, as discussed above, the use of the term "trade secret" is problematic under UK law. To avoid this, we suggest the following amendments:</p> <div data-bbox="582 1155 2087 1422" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>Proposed Amendment to definition of "<i>trade secret holder</i>" in Regulation 2 of draft Regulations:</p> <p><i>""Lawful holder of the confidential information trade secret holder" means any natural or legal person lawfully controlling <u>the relevant confidential information</u> a trade secret"</i>.</p> <p>References to a <i>"trade secret holder"</i> should then be replaced with references to a <i>"lawful holder of the confidential information"</i>.</p> </div>

Question	Answer	Comments
2. What are your views on the rules set out in regulations 4 – 9?	See next column	<p>We note that Article 8 of the Directive contains only very limited provisions in relation to limitation periods. Indeed, the only meaningful requirement in Article 8 of the Directive is that: <i>"The duration of the limitation period shall not exceed 6 years."</i></p> <p>In stark contrast, however, the draft Regulation contains six lengthy provisions (Regulations 4-9) relating to limitations and prescriptive periods. We find it difficult to believe that such lengthy provisions are strictly necessary.</p> <p>We would suggest that the Directive could be more easily implemented by clarifying that actions for breach of confidence should be treated in accordance with one of the pre-existing categories of limitation / prescriptive periods.</p> <p>For example, in England and Wales, it could be clarified that actions for breach of confidence should be treated as a tort for the purposes of the Limitation Act 1980, in which case Section 2 of the Limitation Act would apply (Section 2 provides that: <i>"An action founded on tort shall not be brought after the expiration of six years from the date on which the cause of action accrued"</i>).</p>
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?	No.	<p>Article 9 of the Directive requires that <i>"in legal proceedings relating to the unlawful acquisition, use or disclosure of a trade secret"</i>, at least <i>"... one natural person from each party and the respective lawyers or other representatives ..."</i> shall have <i>"... access to any document containing trade secrets or alleged trade secrets submitted by the parties or third parties ..."</i> (emphasis added).</p> <p>Article 9 of the Directive is presumably intended to strike a balance between ensuring a fair trial for any defendant (which will often be an individual) and preserving the confidentiality of the material that is the subject of the proceedings. Along with Articles 9(1) and 9(3), the above provisions therefore provide for the possibility of a minimum number of individuals from and representing the parties to obtain access to relevant Court documents that include the alleged trade secrets.</p> <p>This requires a change to UK law which is reflected in Regulation 10. However, the drafting of Article 10 creates uncertainty in two respects:</p>

Question	Answer	Comments
		<ul style="list-style-type: none"> First, Article 10 is not currently limited to confidentiality/trade secrets cases. Many causes of action involve the disclosure of confidential information and trade secrets, including actions concerning patents, partnership and employment disputes, privacy and general commercial disputes. Like confidential information and trade secrets cases, many of these cases limit access to some extremely confidential information, including trade secrets, to “<i>attorneys’ eyes only</i>”, as well as “<i>attorneys’ and experts eyes only</i>”. Article 10 could have a far-reaching and unnecessarily undesirable impact on other forms of litigation in the UK not contemplated by the Directive. If it is to be enacted, Regulation 10 should therefore be expressly limited to confidentiality / trade secrets cases. Secondly, as noted above, it is currently possible, albeit rare, for certain Court documents in a confidentiality/trade secrets cases to be limited to “<i>lawyers’ eyes only</i>” or “<i>lawyers’ and experts’ eyes only</i>” (i.e., circulation and access is limited only to the legal team and the parties’ respective experts working on the case). It is therefore important that any changes to UK law go no further than is necessary and that such changes are made expressly subject to a Court’s discretion on the particular facts as set out at Article 9(6) of the Directive and power of the Court to “<i>act on their own initiative</i>” as set out in Article 9(1) (to which Article 9(2) is subject).
4. Do you agree that regulation 11 is necessary to ensure that the UK complies with Article 10 of the Directive?	No.	We believe that such remedies are already available via the inherent discretion of the Courts throughout the UK. It may be that such remedies are rarely (if ever) deployed in breach of confidence cases. However, that does not mean that the provisions need to be expressly legislated for. If parties believe such remedies are appropriate, they will be able to apply for them under the existing law (and, if necessary, will in future be able to point to the Directive itself as supporting their arguments).
5. Do you agree that regulation 12 is necessary to ensure certainty and	No.	<p>The provisions of Regulation 12(2) and Regulation 15 are identical and, if they are to be enacted, could usefully be consolidated.</p> <p>Further, the factors set out in Regulation 12(2) and Regulation 15 are ones that the Court should have regard to in relation to all interim remedies granted in relation to confidential information / trade secrets. We do not</p>

Question	Answer	Comments
compliance with the Directive?		<p>therefore believe it makes sense to only list these factors in relation to the specific remedies that are mentioned in the draft Regulation.</p> <p>The Courts should also continue to be able to have regard to existing case law and requirements (e.g. the <i>American Cyanamid</i> requirements). We suggest a change in approach whereby the Regulation would simply state that:</p> <div data-bbox="582 518 2087 1289" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>Alternative Regulation, replacing Regulations 12(2) and 15:</p> <p><u>“When considering whether to grant any interim or provisional relief in an action for breach of confidence, the Court shall have regard to at least the following factors:</u></p> <p><u>(a) the value and other specific features of the confidential information;</u></p> <p><u>(b) the measures taken to protect the confidential information;</u></p> <p><u>(c) the conduct of the alleged infringer in acquiring, using or disclosing the confidential information;</u></p> <p><u>(d) the impact of the unlawful use or disclosure of the confidential information;</u></p> <p><u>(e) the legitimate interests of the parties and the impact which a decision to grant or not to grant the measures could have on the parties;</u></p> <p><u>(f) the legitimate interests of third parties;</u></p> <p><u>(g) the public interest; and</u></p> <p><u>(h) the safeguard of fundamental rights.”</u></p> </div>
6. Do you agree that regulation	No.	Under the existing law, the Courts would, as a procedural matter, typically require a party to have issued proceedings at the same time as seeking interim relief, or, alternatively, would require the party to do so

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13 is necessary to ensure that the UK complies with Article 11(3) of the Directive?		promptly thereafter. Regulation 13 is therefore unnecessary. That being said, we do not believe the implementation of this provision is significant one way or another.
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?	No.	<p>We believe that such remedies are already available via the inherent discretion of the Courts throughout the UK. It may be that such remedies are rarely (if ever) deployed in breach of confidence cases. However, that does not mean that the provisions need to be expressly legislated for. If parties believe such remedies are appropriate, they will be able to apply for them under the existing law (and, if necessary, will in future be able to point to the Directive itself as supporting their arguments).</p> <p>See also above in relation to Regulation 12.</p>
8. Do you agree that regulation 16 is necessary in order to implement Article 13(3) of the Directive?	Yes.	
9. Do you agree that regulation 17 is necessary in order to	Yes.	

Question	Answer	Comments
implement Article 14 of the Directive?		
10. Do you agree that regulation 18 is necessary in order to implement Article 15 of the Directive?	No.	We believe that such remedies are already available via the inherent discretion of the Courts throughout the UK. It may be that such remedies are rarely (if ever) deployed in breach of confidence cases. However, that does not mean that the provisions need to be expressly legislated for. If parties believe such remedies are appropriate, they will be able to apply for them under the existing law (and, if necessary, will in future be able to point to the Directive itself as supporting their arguments).
11. Do you agree with the overall approach taken to implement the Directive?	No.	See above and also our comments in the body of our response.
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.	See above and also our comments in the body of our response.



IP Federation members 2018

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. The CBI, although not a member, is represented on the Federation Council, and the Council is supported by a number of leading law firms which attend its meetings as observers. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

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