**Response to the UKIPO's Consultation on Draft Regulations Concerning Trade Secrets**

# Introduction: The IPLA and their members' interests in trade secret law

These comments are made on behalf of the Intellectual Property Lawyers' Association ('IPLA'). The IPLA is a representative body for law firms in England, Scotland, Wales and Northern Ireland with substantial practices in Intellectual Property (IP) litigation, and who wish to lobby for improvements in IP law and practice. Around 65 firms are members of the IPLA. The vast majority of IP litigation in the UK is conducted by these member firms. Member firms' clients range from the largest to the smallest businesses. Members of the IPLA were also commissioned by the European Commission to prepare a Report on the law of trade secrets across the EU which analysed how trade secrets are protected under the national laws of each of the Member States including the UK. This report was one of two preparatory studies used by the Commission as a basis for its proposal for the Trade Secrets Directive.

Our responses to the Consultation questions are set out below.

# Q1. Do you agree that regulations 2 and 3 implement effectively the definitions in the Directive?

Until now, the UK has not had a statutory definition of a trade secret, but the case law has developed to provide protection for a wide range of trade secrets and other forms of confidential information. The definition of trade secret in the Directive follows the TRIPS definition of undisclosed information and so while it is arguably narrower than the current "definition" used by the UK courts (the requirement that the trade secret holder should have taken reasonable steps to keep the information secret is not, as such, currently required under UK law), it implements effectively the definition in the Directive. Given that the Directive requires only minimum harmonisation, we assume that it will still be open to the UK courts to continue to protect information which falls outside the new definition in the Regulations.

While the existing law works well in the UK, a single definition across the EU should lead to greater consistency in cross border enforcement.

# Q2. What are your views on the rules set out in regulations 4-9?

These Regulations deal with the time limits for bringing claims. It is generally accepted under the current law that the limitation period for breach of confidence claims in England and Wales is 6 years. However, the basis for this assumption for a non-contractual breach of confidence is not clear.

Under the existing law, claims for a non-contractual breach of confidence are often treated like a claim for infringement of an IP right, meaning that the court assumes that a claim is an action founded in tort for the purposes of limitation. However, there is room for argument as it is questionable whether rights in confidence are IP rights at all under TRIPS, and a non-contractual claim for breach of confidence would appear to be a claim in equity, and thus fall outside the scope of the Limitation Act 1980 (pursuant to section 36(1)). At the very least, the limitation periods for contract or tort should apply by analogy, so that generally such claims are made subject to a six-year limitation period. We agree with Regulation 5 that subject to specified exceptions, and in line with existing practice, the limitation period in England and Wales for trade secret claims should be six years and in Scotland, the prescriptive period should be five years.

Regulation 6 clarifies when the limitation period begins and this section would benefit from clarification or even deletion. This section is not required by the Directive and in its current form is likely to lead to confusion and potential difficulties for defendants. For example, it is not clear what knowledge of the infringer's "behaviour" in Regulation 6(2)(a) is intended to mean, nor why it should be required to prove that the trade secret holder has suffered loss or damage from the breach in order to determine when the limitation period begins.

Regulation 6(5) provides that the references to "knowledge" are to a person having "sufficient" knowledge to bring a claim. There is no guidance as to the interpretation of "sufficient". In many trade secret cases, the trade secret holder may have a suspicion of wrongdoing but no evidence. Would a suspicion be deemed to be "sufficient" knowledge for the purposes of limitation? In any event, we think that Regulation 6(5) is unnecessary.

Regulations 7 to 9 deal with situations which defer the beginning of the limitation period. We have no comments on these sections which merely clarify the sections of existing legislation that apply to trade secret claims.

# Q3. 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 sets out the restrictions which the court may apply in order to preserve the confidentiality of the trade secret in dispute. The options open to the court are narrower than those currently applied in the UK. Under proposed Regulation 10(5) where a confidentiality club is in place, it shall include, at least, one individual from each party. It will not always be appropriate for an individual from each party to be given access to the trade secret in dispute. For example, where the only individuals from a party involved in the case are also involved in product development it may not be possible for them to put their competitor's trade secret out of their minds and not use it in their business. In those cases, under the existing court rules, the court would only give access to a party's advisors or experts. Such arrangements would still ensure a fair trial but would avert the very real possibility that the party would use the other side's trade secret (whether consciously or inadvertently).

The existing powers at the disposal of the court work well. The UK courts give great weight to the principle of open justice and the inherent desirability of including at least one duly appointed representative of each party within a confidentiality club (see for example, *Warner Lambert v Glaxo Laboratories* [1975] RPC 354, at paragraphs 359 to 361). It would be exceptional to prevent a party from access to information which would play a substantial part in the case, but the court does currently have the power to grant such an order in an exceptional case. We think that that power should be preserved.

[*IPCom GmbH & Co KG v HTC Europe Co Ltd* [2013] EWHC 52 (Pat)](http://www.bailii.org/ew/cases/EWHC/Patents/2013/52.html)was such an exceptional case. The judgment indicates the factors that the English court will consider when deciding if it should exclude a party from a confidentiality club. The proceedings were to determine the terms on which Nokia should be licensed under IPCom's patent. As part of its case, Nokia relied on the terms of the licences of its own technology. Floyd J held that those licences should not be made available to IPCom's internal management team and they should be excluded from the confidentiality club. The following factors were relevant to his decision:

* + 1. IPCom would be able to understand the documents.
    2. IPCom was a very small company. Any person who saw the documents would subsequently be involved in commercial negotiations on behalf of IPCom and would not be able to put the confidential information out of their minds in those negotiations.
    3. The order might affect third parties who wanted to avoid their confidential agreements being seen by IPCom.
    4. It was not necessary in order to do justice for the parties to have access to the documents at that stage in the proceedings. The case was at an interim stage and there was no guarantee that the matter would go to full trial.

# Q4. Do you agree that regulation 11 is necessary to ensure that the UK complies with Article 10 of the Directive?

Regulation 11 only partly implements Article 10 of the Directive, dealing solely with interim orders for delivery up. It is not clear why the other aspects of Article 10 have not been included. It may be that the UK Government considers that interim injunctions and seizure orders are already provided for under English law. However, it is also already possible to obtain an interim order for delivery up in confidential information cases and so the reason for the distinction is unclear. In *Arthur J Gallagher Services UK Ltd v Skriptchenkov* [2016] EWHC 603 (QB), the claimants were granted an interim order requiring the defendants to give access to their computer systems, which would be searched by an independent expert. Any confidential information belonging to the claimants, or documents derived from that information, found on their systems would then be deleted, with a copy kept for the purposes of the proceedings.

It may be that an interim order for delivery up is singled out in the Regulations in order to provide for the alternative remedy set out in Regulation 11(2). This ability for the court to make an order permitting the continued use of the trade secret subject to the lodging of guarantees to ensure compensation to the trade secret holder is not expressly provided for under English law. There may be a good reason for this. In some cases, it may not be possible to compensate the trade secret holder in damages for continued use of its trade secret by the infringer. For example, if an infringer were to discover and use the secret Coca Cola recipe, the actual and potential damage suffered by Coca Cola may not be easily quantifiable and thus it would be very difficult to assess an appropriate level of guarantee.

Finally, Article 10(2) of the Directive makes the continued use of the trade secret subject to the lodging of guarantees an alternative remedy for all the precautionary measures set out in Article 10(1) and so it is not clear why the Regulations only contemplate its use as an alternative to delivery up.

# Q5. Do you agree that regulation 12 is necessary to ensure certainty and compliance with the Directive?

Again, under Article 10 of the Directive, the matters to be considered under Regulation 12, apply to all forms of provisional measures. It is not clear why under the proposed Regulations they only apply to an interim order for delivery up.

Regulation 12(1) does not mirror exactly the equivalent provisions in the Directive and it is not clear why. For example:

* + 1. The test to be applied under the Directive is that the authority is satisfied with a "sufficient degree of certainty" (c.f. a court must be "reasonably satisfied" under the Regulations. It is not clear what "reasonably satisfied" equates to as a standard of proof. The normal principle under English law to be applied when deciding whether to grant such an interim order would be whether there is a serious question to be tried and we would suggest that this test be applied here for consistency);
    2. Under Article 11.1 of the Directive the authority must be satisfied:
       1. A trade secret exists;
       2. The applicant is the trade secret holder; and
       3. The trade secret has been acquired unlawfully, is being unlawfully used or disclosed, or unlawful acquisition, use or disclosure is imminent.

While (i) and (ii) are reproduced in the Regulations, the test under the Regulations is that there has been or is about to be a breach of confidence. It is not clear why different wording has been chosen for the Regulations and whether that wording is intended to have a different meaning. A "breach of confidence" is arguably wider than the Directive's unlawful acquisition, use or disclosure of a trade secret.

The factors a court must take into account under Regulation 12(2) do mirror the factors in Article 11 of the Directive and we have no comments where the language is the same in both documents.

# Q6. Do you agree that regulation 13 is necessary to ensure that the UK complies with Article 11(3) of the Directive?

Regulation 13 introduces a time limit for a claimant to bring a claim where a court has made an interim order for delivery up. Under the Directive, the time limits apply for all provisional measures. Under the proposed Regulation, the time limit only applies to delivery up. Again, it is not clear why this distinction is being made in the Regulation.

We note that your question only deals with Article 11(3) of the Directive. However, other parts of Article 11 do not appear to be dealt with in the Regulations. Under the Directive an interim order will also cease to have effect if the information in question no longer meets the definition of a trade secret. This provision is not expressly included in the Regulation and it is not clear why it has been omitted.

Furthermore, the Directive expressly provides that the court may make the order subject to the lodging by the applicant of adequate security or equivalent assurance to ensure the respondent (and any other person affected by the measures) is compensated (see Article 11(4)). Under current English procedure a court would usually ask an applicant for a cross undertaking in damages to compensate a respondent in the event that an interim injunction is wrongly granted and the respondent consequently suffers loss. The Directive goes further requiring the possibility of lodging adequate security if there is no equivalent assurance, and providing that the security cover third parties' loss as well as the respondents'. Again these aspects of the Directive do not appear to be covered in the Regulations and it is not clear why.

# Q7. 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?

Articles 12 and 13(1) of the Directive deal with orders to be made after a hearing on the merits of the case.

While the corrective measures specified in the Regulation generally follow some (but not all) of the measures specified in those Articles of the Directive, there are still differences and so it is not clear that the UK complies. For example:

* + 1. The Directive uses two distinct concepts: (i) withdrawal of goods from the market and (ii) recall of goods from the market. The Regulations only use the concept of withdrawal. It is not clear what, if any, distinction is intended between the two terms but it is arguable that recall could include actions by the infringer and third parties to remove the goods from the market while withdrawal may only signify action by the infringer.
    2. The Regulations provide that the trade secret holder may apply for an order that the infringing goods be modified while the Directive does not mention modification, only an order to deprive the goods of their infringing quality.
    3. Article 12(1) of the Directive expressly sets out other corrective measures that the court may order. It may be these are not set out in the Regulations because the Government believes that these fall within the wording "in addition to any other remedy trade secret holder may have" (in Regulation 14(1)) but for clarity, we think that this provision should also include all final remedies identified in the Directive. Because the Directive is a minimal harmonising measure, this amended wording would permissibly allow the UK courts to develop new final remedies appropriate to the cases before them.
    4. The Directive introduces the concept of time limited final injunctions (see Article 13(1)). This is not reproduced in the Regulations and it is not clear why. Although some UK judges have questioned the merit of springboard injunctions they are a useful remedy in trade secret cases in order to deprive the infringer of any head start acquired from misuse of the trade secret. By omitting this language it is not clear whether the UK complies with the Directive in this respect.

# Q8. Do you agree that regulation 16 is necessary in order to implement Article 13(3) of the Directive?

Article 13(3) of the Directive provides for the infringer to be ordered to pay damages in lieu of an injunction or other corrective measures if certain conditions are met.

The language used in the Regulation while similar to that used in the Directive is different. Again the Regulations use the concept of "breach of confidence" while the Directive uses its concept of unlawful use or disclosure of the trade secret. These two concepts may not be entirely equivalent as the Regulations do not define what is meant by breach of confidence. The option to award pecuniary compensation in lieu of an injunction or other corrective measures appears to only apply to situations where the respondent has acquired the trade secret from an intermediary. There may be situations where the infringer innocently acquires a trade secret without acquiring it from a wrongdoer (by finding a copy of an unmarked document on the street for example), but this situation is not covered in Article 13(3) of the Directive or Regulation 16.

The cap for the compensation to be awarded instead of an injunction is the same in both documents save that the Regulations provide for the royalties or fees which would have been due had the infringer "obtained a licence" while the Directive states "had that person requested authorisation to use the trade secret in question". While the intention may be the same, *requesting* authorisation is not equivalent to *obtaining* a licence.

# Q9. Do you agree that regulation 17 is necessary in order to implement Article 14 of the Directive?

Regulation 17 generally reflects the current practice of the English courts when assessing damages for breach of confidence. As far as implementing Article 14 of the Directive, the Regulations use the concept of breach of confidence which is not, as such, used in the Directive. (The Directive's concept being unlawful acquisition, use or disclosure of the trade secret which may or may not be equivalent to breach of confidence.)

When considering the factors to take into account when assessing damages, the Directive refers to lost profits which "the injured party has suffered". The Regulations change this to the trade secret holder. "Injured party" could be broader than "trade secret holder". For example, a parent company could suffer loss as a result of misuse of its subsidiary's trade secret. Such loss could be recoverable under the Directive but not the Regulations.

There is no provision in the Regulation to limit the liability for damages for employees who act without intent so this part of the Directive is clearly not implemented by the Regulations. However, this appears to be an option in the Directive as it provides that Member States "may" adopt this measure.

The alternative for damages to be set as a lump sum on a royalty or fee basis is the same in both documents save that Regulation 17(2)(b) provides for the royalties or fees which would have been due had the infringer "obtained a licence" while Article 14.2, second paragraph Directive states had the infringer "requested authorisation to use the trade secret in question". While the intention may be the same, *requesting* authorisation is not equivalent to *obtaining* a licence.

# Q10. Do you agree that regulation 18 is necessary in order to implement Article 15 of the Directive?

The English courts already have the power to disseminate information concerning judgments including their publication and so, as such, Regulation 18 is not necessary. However, it is helpful that the Regulations specify the factors the court should take into account before making such an order.

Again, by using the slightly different concept of a breach of confidence rather than the Directive's unlawful use or disclosure, Article 15 of the Directive is not clearly implemented in its entirety.

# Q11. Do you agree with the overall approach taken to implement the Directive?

Not entirely. The Regulations seem to adopt a piecemeal approach to implementation of the Directive and it is not entirely clear why certain aspects have been implemented and others not. The use of different language from that used in the Directive to describe the fundamental concept of what constitutes misuse (breach of confidence v unlawful acquisition, use or disclosure) may also lead to confusion. The need for interpretation of some aspects of the Regulations identified above may lead to uncertainty, confusion and greater expense for parties in trade secret litigation in the UK courts. Given that the law of trade secrets is already working well in the UK (compared to most other countries in the EU), it seems that implementation of the Directive in this form may lead to greater doubt as to how the law of trade secrets should be applied in the UK.

# Q12. 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?

Not entirely, see responses above for the additional provisions that in our opinion may still need to be implemented into UK law to comply with the Directive.

The Intellectual Property Lawyers' Association

16 March 2018