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TRADE SECRETS – AN INTRODUCTION

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- The law of confidence
- Trade secrets
- Protection in practice
- Responding to breaches
- Common scenarios
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WHY IS IT RELEVANT – SECTION 2 PA 1977

2 Novelty

- (1) An invention shall be taken to be new if it does not form part of the state of the art.
- (2) The state of the art in the case of an invention shall be taken to comprise all matter... which has at any time before the priority date of that invention **been made available to the public** ... by written or oral description, by use or in any other way.
- ...
- (4) For the purposes of this section the disclosure of matter constituting an invention shall be disregarded in the case of a patent or an application for a patent if occurring later than the beginning of the period of six months immediately preceding the date of filing the application for the patent and either—
- (a) the disclosure was due to, or made in consequence of, the matter having been **obtained unlawfully or in breach of confidence** by any person:
 - (i) from the inventor or from any other person to whom the matter was made available in confidence by the inventor...; or
 - (b) the disclosure was made **in breach of confidence** by any person who obtained the matter in confidence from the inventor or from any other person to whom it was made available, or who obtained it, from the inventor

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WHY IS IT RELEVANT – KNOWHOW

- Know-how goes hand in hand with patent licensing
- Historically not defined in UK law but generally used to describe commercial confidential information primarily characterised by its technical nature
- Technology Transfer Block Exemption Regulation (TTBER) definition

“Know-how” means a package of practical information, resulting from experience and testing, which is:

 - (i) **secret**, that is to say, not generally known or easily accessible
 - (ii) **substantial**, that is to say, significant and useful for the production of the contract products
 - (iii) **identified**, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality

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WHY IS IT RELEVANT – KNOWHOW

- May be the only way to protect certain materials, including things excluded from patent protection
 - Business methods and computer programs
 - Discoveries, scientific theories or mathematical methods
- Even if not specifically excluded from patent protection, information may involve no real invention, but still be valuable
 - e.g. Fine details of process parameter settings cannot in general be protected by a patent, because the means of establishing such parameters, by trial and error, is obvious
- Greater commercial value as a secret
 - e.g. Algorithms, secret recipes (Coca Cola, Angostura Bitters, Irn-Bru), AI
- Unlimited duration
 - Rather than being published within 18 months

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THE LAW OF CONFIDENCE

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THE LAW OF CONFIDENCE

"The law on the subject.....depends on the broad principle of equity that he who has received information in confidence shall not take unfair advantage of it. He must not make use of it to the prejudice of him who gave it without obtaining his consent."

Lord Denning in *Seager v Copydex* [1967] R.P.C.349

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COCO V CLARK

Coco v AN Clark (Engineers) Ltd [1968] F.S.R. 415

1. The information must have the necessary quality of confidence
2. It must be communicated in circumstances importing an obligation of confidence
- [3. There must be unauthorised use of the information]

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NECESSARY QUALITY OF CONFIDENCE

- Not something which is public property or public knowledge
- Can sometimes be easily recognised, but not always
 - Are elements of it in the public domain?
 - Can it be pieced together with difficulty?
 - Marking something confidential does not make it confidential
 - Can it be reverse-engineered?
 - Can it be decrypted?
- Need to add thought and effort to public domain materials to arrive at a result deserving protection

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CIRCUMSTANCES IMPORTING AN OBLIGATION

- No hard and fast rule
- Objective assessment of whether the recipient knew or ought to have known that the information was confidential and that they were obliged to keep it as such
 - A "reasonable person standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to them in confidence"
- *Travel Counsellors v Trailfinders [2021] EWCA Civ 38*
 - The reasonable person's response may, depending on the context and the facts, be to make enquiries
 - If the reasonable person would, but the recipient abstains from doing so, then an obligation of confidentiality will arise
 - Where the issue is accessory liability for misuse by another person, actual knowledge or "turning a blind-eye" may be required.

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CIRCUMSTANCES IMPORTING AN OBLIGATION

- Confidentiality imposed by contract
 - NDAs
 - Commercial agreements
 - Employment contract
- Implied due to the circumstances of the disclosure
- Implied due to the relationship between the parties
 - Employer/Employee
 - Professional adviser/Client

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UNAUTHORISED USE

- Orthodox view has been that there must be use or disclosure of the information, either actual or threatened
- *Tchenguiz v Imerman [2010] EWCA Civ 908*
 - A breach of confidence may also arise where a defendant merely looks at information that they know (or ought to know) is confidential, although unlikely to give rise to damages
- What is the damage?
 - Financial: Diversion of custom, loss of revenue, account of profits
 - Injunction: Permanent or springboard (see later)

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FACCENDA CHICKEN V FOWLER

Faccenda Chicken Ltd v Fowler [1986] 1 All ER 617

- Information available to employees falls into 3 classes

1 Trivia of the Business	2 "Mere" Confidential information	3 Trade Secrets
Not confidential and cannot be made so. Employees cannot be required to keep secret even while they remain employed	Can be required to be kept secret while the employee remains employed. However, confidentiality may either not be maintained afterwards, or may be maintained only for a limited period.	Remains confidential both while the employee remains in employment and after the employee has left, and may be capable of being kept confidential indefinitely

- Cannot prevent employees' using their general skill and knowledge or "mental toolkit"

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TRADE SECRETS

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TRADE SECRETS

- Specific form of confidential information, which is
 - Commercially valuable
 - Treated as a secret
 - Gives the owner a competitive or commercial advantage
- Historically no statutory definition in the UK
- Trade Secrets Directive (EU) 2016/943
 - Intended to address widely differing approaches to protection and enforcement across the EU
 - UK did not consider it required changes to the position established under common law
- Trade Secrets (Enforcement, etc) Regulations 2018 (SI 2018/597)

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TRADE SECRETS

- Regulation 2
 - “**trade secret**” means 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;”
- Reflects definition in Article 39(2) of TRIPs

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TRADE SECRETS

- Regulation 3
 - “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”
- Regulations 14 and 15
 - Deal with measures that may be imposed on an infringer and infringing goods
- Some uncertainty whether the remedies go further than the existing remedies for breach of confidence
- Good practice to bring action for statutory infringement and common law breach of confidence

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TRADE SECRETS

Travel Counsellors v Trailfinders

- Definition in the regulations is now the "best guide" to the distinction between information that is confidential and that which is not
- Covers both Faccenda class 2 and class 3 information
- Unlawfully acquired class 2 information is treated as a trade secret
- Honestly acquired class 2 information is not and cannot be protected post-employment

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PROTECTION IN PRACTICE

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PROTECTION IN PRACTICE

- Use contractual obligations where possible
- Beware defining confidential information too widely
- NDAs
 - Scope
 - Purpose
 - Duration?
 - Confusion with exclusivity, IP and restrictive covenants
 - Provisions for return and delivery up

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PROTECTION IN PRACTICE

- Restrict access
 - Audit and identify confidential information and trade secrets (nb: Trade Secrets Directive definition)
 - Who *needs* to have access?
 - Use technical measures
 - Seed your data
- Other commercial agreements
 - Employment contracts, licences, collaboration agreements, joint ventures, service contracts
 - Again, be careful of definitions and scope
 - Who is going to be creating and disclosing what?
 - What do you *have* to disclose and when?

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RESPONDING TO BREACHES

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RESPONDING TO BREACHES

- Act quickly to identify source and extent of breach
- Consider interim injunction (with or without notice)
 - Court will look at the usual factors, but nature of claim means they are suitable, and common
 - Regulation 11 gives statutory basis for trade secrets
 - Imaging Order – complete image of all data regardless of commercial sensitivity and privilege
- Does the information include personal data?

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RESPONDING TO BREACHES

- Which other IP rights are being infringed?
 - Copyright
 - Database Right
- Offences under the Computer Misuse Act
- Any other statutory/regulatory obligations?

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RESPONDING TO BREACHES

- Prompt delivery up and undertakings may be sufficient
- Don't get drawn in to protracted debate about the detail
- Expedited "speedy" trial (less than 6 months)
- Is the obligation of confidence time limited?
- What final relief is likely?

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RESPONDING TO BREACHES

- Permanent or springboard injunction?
- *Vestergaard Frandsen A/S v Bestnet [2009] EWHC 1456 (Ch)*
 - Considerable caution required both as to whether to grant such an injunction at all and, if so, as to its form and duration
- Springboard
 - Unlawful behaviour on the part of the infringer
 - Infringer has gained an unfair competitive advantage over the applicant as a result
 - Competitive advantage is more than "ephemeral" or "short-term"
 - The advantage still exists at the date the springboard injunction is sought and will continue to have effect unless the relief is granted
- Claimant should not be better off than if the misuse had not occurred

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RESPONDING TO BREACHES

- Trade Secrets Regulation 15
- Non-exhaustive list of matters the court should consider for injunctions
 - Value or other specific features of the trade secret
 - Measures taken to protect the trade secret
 - Conduct of the infringer in acquiring, using or disclosing the trade secret
 - Impact of the unlawful use or disclosure
 - Legitimate interests of the parties and the impact the relevant measures could have on them
 - Legitimate interests of any third-parties

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RESPONDING TO BREACHES

- Damages – generally hard to quantify and less pressing than injunction
- *Universal Thermosensors Ltd v Hibben [1992] 1 WLR 840*
 - If claimant would have used the information themselves the correct measure of damages is a fair compensation for what the claimant lost
- *Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 1 WLR 798*
 - In some circumstances, damages can be calculated by reference to a hypothetical fee the parties would have agreed was payable by the defendant for the use of the confidential information
- Account of profits – equitable remedy, but profit can be easy to minimise

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RESPONDING TO BREACHES

- Trade Secrets Regulation 17
- Damages must be appropriate to the actual prejudice suffered
- Damages can be awarded under one of two heads
 - Under the first head, the court must consider all appropriate factors, including
 - Any negative economic consequences, including lost profits that the rights holder has suffered, as well as any unfair profits generated by the infringer
 - Non-economic elements (e.g. any moral prejudice caused to the rights holder)
 - Under the second head, the court may award damages, on the basis of royalties or fees which would have been due had the infringer obtained a licence to use the trade secret

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RESPONDING TO BREACHES

- Trade Secrets Regulation 16
- Rights holders can apply for compensation (typically in situations of accidental misuse)
 - Any award must not exceed the amount of royalties/fees which would have been due had the infringer obtained a licence to use the trade secret for the period of time its use would have been prohibited for
- The conditions for awarding compensation
 - At the time of the use the person liable neither knew, nor ought to have known that the information had been obtained from a person using or disclosing it unlawfully
 - That a Regulation 14 measure (injunction) would cause disproportionate harm to the person liable
 - In the court's view it is reasonably satisfactory to pay compensation instead of granting a Regulation 14 order

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COMMON SCENARIOS

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COMMON SCENARIOS

- Exiting employees
 - Do they understand their obligations (contractual and equitable)?
 - What information do they have access to?
 - What evidence do you have?
 - Garden leave or keep them in the office?
 - How good are their restrictive covenants?
 - Are they malicious or just naïve?
 - Liability of new employer, other employees and recruiter
 - Data protection issues
 - Criminal offences

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COMMON SCENARIOS

- Customer / supplier
 - What has been disclosed?
 - Under which agreement?
 - How much of the information is genuinely confidential?
 - How can you prove loss?

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COMMON SCENARIOS

- Licensor / Licensee
 - Is the know how secret, substantial and identified?
 - What rights does the licensee have to disclose to third parties?
 - Holding information for one purpose but using it for another (*Kerry Ingredients (UK) Ltd v Bakkavor Group Ltd* [2016] EWHC 2448 (Ch))

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KEY POINTS FOR CLIENTS

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KEY POINTS FOR CLIENTS

- Treat confidential information like a “proper” IP right
- Think carefully about: what you have; why it matters; who has access; to whom it *has* to be disclosed; and whether it is properly protected by contractual obligations
- Review and regularly update employment contracts and restrictive covenants
- Make sure you have clear policies in place and can track employees’ use of data
- Have a plan to respond to breaches and make sure everyone knows what it is

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ANY QUESTIONS?

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