

Bringing Proceedings under the Trade Secrets Directive in England and Wales



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On 9 June 2018 the Trade Secrets Directive¹ was transposed into the laws of England and Wales, Scotland and Northern Ireland by The Trade Secrets (Enforcement, etc.) Regulations 2018². I discussed the Directive in *The Trade Secrets Directive*³ and the Regulations in *Transposing the Trade Secrets Directive into English Law: The Trade Secrets (Enforcement etc) Regulations*⁴.

Basic Obligation

Art 4 (1) of the Directive requires member states to “ensure that trade secret holders⁵ are entitled to apply for the measures, procedures and remedies provided for in this Directive in order to prevent, or obtain redress for, the unlawful acquisition, use or disclosure of their trade secret.”

Definition of “Trade Secret”

For the first time ever there is a standard definition of “trade secret” and it is wide enough to cover most

types of confidential information as well as sensitive and undisclosed technical and business information. Art 2 (1) of the Directive which is adopted almost *verbatim* by reg. 2 of the Regulations defines a trade secret as

“information which meets all of the following requirements:

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

“Unlawful Acquisition” of a Trade Secret?

Art 4 (2) of the Directive provides:

“The acquisition of a trade secret without the consent of the trade secret holder shall be considered unlawful, whenever carried out by:

- (a) unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced;
- (b) any other conduct which, under the circumstances, is considered contrary to honest commercial practices.”

Reg 3 (1) of the Regulations states that the acquisition of a trade secret is unlawful where the acquisition constitutes a breach of confidence. However, the statutory instrument does not say that a breach of confidence is the only way that a trade secret can be acquired unlawfully.

“Unlawful Use” or “Unlawful Disclosure” of a Trade Secret?

Art 4 (3) requires the use or disclosure of a trade secret to be considered unlawful whenever carried out without the consent of the trade secret holder by a person who is found to meet any one or more of the following conditions:

- (a) He or she has acquired the trade secret unlawfully; or

¹ Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016L0943>

² SI 2018 No. 597

(<http://www.legislation.gov.uk/ukxi/2018/597/contents/made>)

³ 7 July 2016 NIPC Law

(<http://nipclaw.blogspot.com/2016/07/the-trade-secrets-directive.html>)

⁴ 6 June 2018 NIPC Law

(<http://nipclaw.blogspot.com/2018/06/transposing-trade-secrets-directive.html>).

⁵ Defined by art 2 (2) of the Directive as a “natural or legal person lawfully controlling a trade secret”

(b) He or she is in breach of a confidentiality agreement or any other duty not to disclose the trade secret; or

(c) He or she is in breach of any other duty to limit the use of a trade secret.

Again reg 3 (1) provides that the use or disclosure is unlawful where it constitutes a breach of confidence.

“Measures, Procedures and Remedies”

Art 6 (1) requires member states to “provide for the measures, procedures and remedies necessary to ensure the availability of civil redress against the unlawful acquisition, use and disclosure of trade secrets.”

These are of two kinds:

- (1) provisional and precautionary under art 10; and
- (2) measures resulting from a decision on the merits of the case under arts 12 to 15.

Art 10 (1) provides for interim injunctions and orders for delivery up subject to the conditions and safeguards set out in art 11. Art 12 provides for perpetual injunctions subject to the conditions and safeguards in art 13. Art 14 provides for damages and art 15 for the publication of judicial decisions at the infringer’s expense.

Reg. 3 (2) of the Regulations entitles trade secret holders to apply for measures, procedures, and remedies available in an action for breach of confidence where they provide wider protection than those provided under the Directive as applied by the Regulations and comply with the safeguards set out in the Directive.

Courts having Jurisdiction in Trade Secrets Cases

Reg. 2 of the Regulations defines “the court” as a County Court hearing centre where there is also a Chancery District Registry or the High Court (as provided for in rule 63.13 of the Civil Procedure Rules 1998⁶). That rule requires claims in respect of technical trade secrets⁷ to be started in the Chancery Division, Intellectual Property Enterprise Court (“IPEC”) or a County Court hearing centre where there is also a Chancery district registry.⁸ No

⁶ The CPR

⁷ Para 16.1 of the Part 63 Practice Direction (https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part63/pd_part63#11)

⁸ Para 16.2 of the Part 63 Practice Direction provides that there are Chancery District Registries at Birmingham, Bristol, Caernarfon, Cardiff, Leeds, Liverpool, Manchester, Mold, Newcastle upon Tyne and Preston

specific provision is made for claims in respect of non-technical trade secrets or actions for breach of confidence generally. There are no restrictions on the value, or duration of trials, of claims that can be brought in the High Court or County Court. Claims in IPEC should not exceed £500,000 and must be capable of being tried in 2 days. Although IPEC has jurisdiction to grant interim injunctions or other provisional or precautionary relief it rarely does so. IPEC has a small claims track for intellectual property claims⁹ under £10,000 that can be tried in one day. The small claims track has no jurisdiction to grant interim injunctions or other provisional or precautionary relief.

Pre-Action Correspondence

Unless there is a well-founded fear that a letter before claim would prompt the recipient to hide or destroy evidence or dispose of or transfer assets or there is some other good reason for not doing so, the trade secret holder¹⁰ should write to the alleged infringer¹¹ setting out concise details of the claim including the basis on which the claim is made, a summary of the facts, what the trade secret holder wants from the infringer and if money, how the amount is calculated¹².

If the trade secret holder alleges a breach of confidence, he or she may find the Code of Practice for Pre-action Conduct in Intellectual Property Disputes and in particular Appendix A¹³ of assistance.

Among other things, the letter before claim should show that the information is a trade secret within the meaning of art 4 (1) of the Directive and that it has been acquired, used or disclosed unlawfully. The alleged infringer then has a reasonable period (usually 14 days) in which to respond. The parties are expected to disclose key documents relating to the dispute¹⁴. The purpose of this exchange of

⁹ Other than those over patents, registered or registered Community designs, plant varieties or semiconductor topographies.

¹⁰ Defined by reg. 2 as “any person lawfully controlling a trade secret.”

¹¹ Defined by reg. 2 as “a person who has unlawfully acquired, used or disclosed a trade secret.”

¹² Para 6 (a) of the Practice Direction - Pre-Action Conduct and Protocols (https://www.justice.gov.uk/courts/procedure-rules/civil/rules/pd_pre-action_conduct#6.1)

¹³

<https://www.reedsmith.com/en/perspectives/2007/04/code-of-practice-for-preaction-conduct-in-intellect>

¹⁴ Para 6 (c) of the Practice Direction - Pre-Action Correspondence

letters is to encourage the parties to settle their dispute through direct negotiation, mediation or some other form of alternative dispute resolution.

Starting Proceedings

If the claim cannot be resolved through negotiation or ADR the claimant must decide whether to take proceedings and choose the court in which to launch them. The advantages of IPEC are that cases are managed tightly by the court and recoverable costs for the determination of liability are limited to £50,000. A case management conference takes place shortly after a defence is served at which the issues in dispute are identified, a date is set for trial and a timetable for the steps leading up to trial are ordered. The advantage of the small claims track is that the procedure is simplified and neither side risks a substantial order for costs. Any case where provisional or precautionary relief is sought, the claim exceeds £500,000 or the trial is likely to exceed 2 days should be brought in the Chancery Division or County Court.

Particulars of Claim

A claimant must identify the information that is alleged to be a trade secret and state that it falls within the requirements of art 4 (1) of the Directive. He or she must allege that the defendant acquired, used or disclosed the information unlawfully and without consent. If he or she relies on a breach of confidence, the claimant should state how an obligation of confidence arose and how it has been breached. If the claimant relies on art 4 (2), he or she should allege unauthorized access to, appropriation or copying of documents, objects, materials, substances or electronic files, lawfully under the control of the trade secret holder, containing the trade secret or from which the trade secret can be deduced. Alternatively, the claimant must allege some other conduct that is considered contrary to honest commercial practices. If unlawful use or disclosure is alleged the claimant must state that such use or disclosure was unlawful because the information was unlawfully acquired or that the use or disclosure breached a confidentiality agreement or some other duty. Also, the claimant must plead that the information was used or disclosed without the trade secret holder's consent.

If a perpetual injunction is sought, the claimant will have to plead the facts and matters that justify such

(https://www.justice.gov.uk/courts/procedure-rules/civil/rules/pd_pre-action_conduct#6.1)

relief. These will include:

- (a) the value or other specific features of the trade secret;
- (b) the measures taken to protect the trade secret;
- (c) the conduct of the infringer in acquiring, using or disclosing the trade secret;
- (d) the impact of the unlawful use or disclosure of the trade secret;
- (e) the legitimate interests of the parties and the impact which the granting or rejection of the measures could have on the parties;
- (f) the legitimate interests of third parties;
- (g) the public interest; and
- (h) the safeguard of human rights.¹⁵

Defences

Defendants are likely to deny or require claimants to prove that:

- the information is secret in the sense that it is not generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- it has commercial value because it was secret;
- reasonable steps have been taken by the trade secret holder to keep it secret; or
- it was acquired, used or disclosed without the trade secret holder's consent.

If they have acquired the information through reverse engineering or independent research and development, defendants may allege:

- “(a) independent discovery or creation;
- (b) observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret;
- (c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices;
- (d) any other practice which, under the circumstances, is in conformity with honest commercial practices.”¹⁶

Any of those grounds (if proved) can afford a complete defence.

Defendants may also plead that the alleged acquisition, use or disclosure of a trade secret was carried out in one or more of the following circumstances:

¹⁵ Art 13 (1) of the Directive

¹⁶ Art 3 (1) *ibid*

- (a) exercising the right to freedom of expression and information as set out in the Charter of Fundamental Rights of the European Union¹⁷, including respect for the freedom and pluralism of the media;
 - (b) revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;
 - (c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with EU or national law, provided that such disclosure was necessary for that exercise; or
 - (d) for the purpose of protecting a legitimate interest recognised by Union or national law,
- Again, any of those circumstances can afford a complete defence to a claim for unlawful acquisition, use or disclosure of a trade secret.¹⁸

Claims for Provisional and Precautionary Remedies

Art 10 (1) of the Directive requires member states to ensure that the competent judicial authorities may, at the request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer:

- (a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis;
- (b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;
- (c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.

Art 11 (1) obliges member states to require applicants for any of the above remedies to provide evidence that:

- (a) a trade secret exists;
- (b) the applicant is the trade secret holder; and
- (c) the trade secret has been acquired unlawfully, is being unlawfully used or disclosed, or unlawful acquisition, use or disclosure of the trade secret is imminent.

¹⁷ OJ 18.12.2000 C346/1
(http://www.europarl.europa.eu/charter/pdf/text_en.pdf)

¹⁸ Art 5 of the Directive

An application for any of the above remedies should be made in accordance with Parts 23¹⁹ and 25²⁰ of the Civil Procedure Rules, the Part 25A Practice Direction²¹ and Chapters 7 and 16 of the Chancery Guide.²² It should be launched by an application notice in form N244 supported by a draft minute of order and witness statements. Those statements will address the facts and matters required by art 11 (1) of the Directive and the circumstances that a court must consider when deciding whether to grant or refuse an injunction.

If a respondent wishes to contest such an application, he or she will file witness statements in answer to the applicant's evidence. A respondent seeking to take advantage of art 10 (2) of the Directive which enables a court to make the continuation of the alleged unlawful use of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder as an alternative to an interim injunction may file evidence of potential disruption to his or her business or the inadequacy of the applicant's cross-undertaking as to damages.

Further Information

Anyone who wishes to discuss this paper, trade secrets or the law of confidence generally should call me on +44 (0)20 7404 5252 during normal office hours or contact me through my website at www.nipclaw.com.

¹⁹

<https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part23>

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<https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part25>

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https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part25/pd_part25a

²²

<https://www.gov.uk/government/publications/chancery-guide>