Bird & Bird & Trade Secrets

Implementation of the Trade Secrets Directive – Some comments from the UK

This is the 4th in a series of articles written by members of our International Trade Secrets Group, highlighting points of note regarding the protection of Trade Secrets in various jurisdictions.

In this article we move to the UK where the Trade Secrets Directive (the "**Directive**") was implemented in June 2018 by the Trade Secrets (Enforcement etc) Regulations 2018 (the "**UK Regulations**"). These implementing Regulations imported the Directive's definition of "Trade Secret" into UK law and in this article we consider how this definition might interact with the existing UK law of confidential information, and also how Brexit might impact the protection of Trade Secrets in the UK going forwards.

Confidential information prior to the Directive

Broadly speaking, the law of confidence under UK law has been developed from fundamental equitable principles without any statutory underpinning. It is almost entirely a creation of the common law. Due to the body of case law in this area, the law is well developed and information can already be protected provided that:

a) it has the necessary quality of confidence; and

b) it is disclosed in a situation importing an obligation of confidence.

If these criteria are met, the recipient owes a duty of confidence in respect of the information received and any unauthorised use may give rise to a claim for "breach of confidence". The idea of a 'duty' of confidence reflects the underlying equitable foundations of this area of the law; the key question being whether the conscience of the recipient is affected.

Prior to the introduction of the Directive, UK law already recognised a concept of 'trade secrets' as a subset of confidential information, but only in the limited context of employment law. In a case called *Faccenda Chicken*, a distinction was drawn between trade secrets and 'mere' confidential information. The case considered the extent to which an employer was entitled to prevent a former employee from using information learned during the course of employment. The Court held that the employee could not be restricted from using any information falling short of a 'trade secret'. However information which is classed as a 'trade secret' may be capable of being kept confidential indefinitely. In practice, it is common for UK employers to use express confidentiality provisions in the employment contract to seek to protect against the use of both 'trade secrets' and 'mere' confidential information once employment has terminated (even though 'trade secrets' will still be protected by common law without such an express contractual obligation).

The Court in *Faccenda Chicken* did not attempt to provide a definition of 'trade secret' in this context. Instead, the Court stated that in order to determine whether a particular item of information was a trade secret it was necessary to take into account all the circumstances of the case including:

a) the nature of the employment;

b) the nature of the information;

c) whether the employer impressed on the employee the confidentiality of the information; and

d) whether the relevant information can easily be isolated from other information which the employee is free to use or disclose.

Clearly this leaves some uncertainty as to whether or not certain information is a 'trade secret' in accordance with this definition. Indeed, due to the requirement to take into account all the circumstances of the case, the same information could conceivably be a 'trade secret' for one employee but not for another.

Definition of a Trade Secret under the Directive and UK Regulations

The UK Regulations adopt the definition of "Trade Secret" used in the Directive thus introducing a definition of "Trade Secret" into the UK statute book for the first time.

The Directive (and UK Regulations) use a definition based on the definition of 'undisclosed information' contained in Article 39 of the TRIPS Agreement, which is as follows:

'"Trade Secret" means information which meets all of the following requirements:

(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'

The UK Regulations make it clear that the existing law of confidential information remains unchanged despite the Directive. Therefore, where certain confidential information satisfies the definition of a "Trade Secret" additional procedural measures or remedies provided for under the UK Regulations may be available in addition to the protection which would otherwise have been available in a breach of confidence action. Formally, this seems to create a two (or perhaps three) tiered system for the protection of confidential information/trade secrets in the UK. It remains to be seen whether a 'trade secret' in the *Faccenda Chicken* sense will always be a Trade Secret under the Directive/UK Regulations and vice versa.

Additionally, there is a prevailing view that, due to the requirement for information to have been subject to reasonable steps to keep it secret, the definition of Trade Secret is narrower than the previous common law definition of 'confidential information'. The question of what steps are 'reasonable' will clearly be of huge importance to businesses seeking to protect confidential information. Reasonableness is likely to depend on a variety of factors (as can already been seen in the Belgian cases identified in our previous update, available here). It is expected that the interpretation of this requirement may be subject to reference to the CJEU in due course.

The impact of Brexit

The purpose of the Directive was to introduce a basic level of harmonisation for the protection of Trade Secrets in the EU. However, at present, the UK's relationship with the EU is one which could hardly be described as harmonious. Having formally left the EU on 31 January 2020, the UK has now entered into a transition period which is currently due to end on 31 December 2020. During this period EU law will continue to apply and the UK will remain under the jurisdiction of the CJEU.

Following the expiry of the transition period, the lower courts in the UK will remain bound by CJEU case law in force at that time. However, the UK Courts will no longer be bound to follow future decisions of the CJEU, such as those which may arise in relation to the Directive.

It therefore remains to be seen whether such decisions may continue to influence UK judges or whether case law from other jurisdictions, such as the USA (which already has a concept similar to 'reasonable steps') may become more relevant.

Conclusion

Ultimately, the Directive (and the UK Regulations) do not significantly change UK law relating to the protection of confidential information – in particular since the package of remedies they contain and the provisions relating to the protection of confidential information during legal proceedings are broadly similar to those already existing under the common law. Nonetheless businesses should be mindful of the new requirement to take reasonable steps to keep information secret as this will stand them in good stead in the event of any potential misuse, not only in the UK but throughout the EU. Additionally, it remains to be seen how the UK courts will deal with (and clarify) the position that now exists with two definitions of a "Trade Secret" – the pre-existing one under *Faccenda Chicken*, and the new one introduced by the Directive in the UK Regulations.

Get in touch

Robert Williams
Partner

Tel: + 44(0)2074156000
robert.williams@twobirds.com

Will Smith
Associate

Tel: +44(0)2074156000
william.smith@twobirds.com