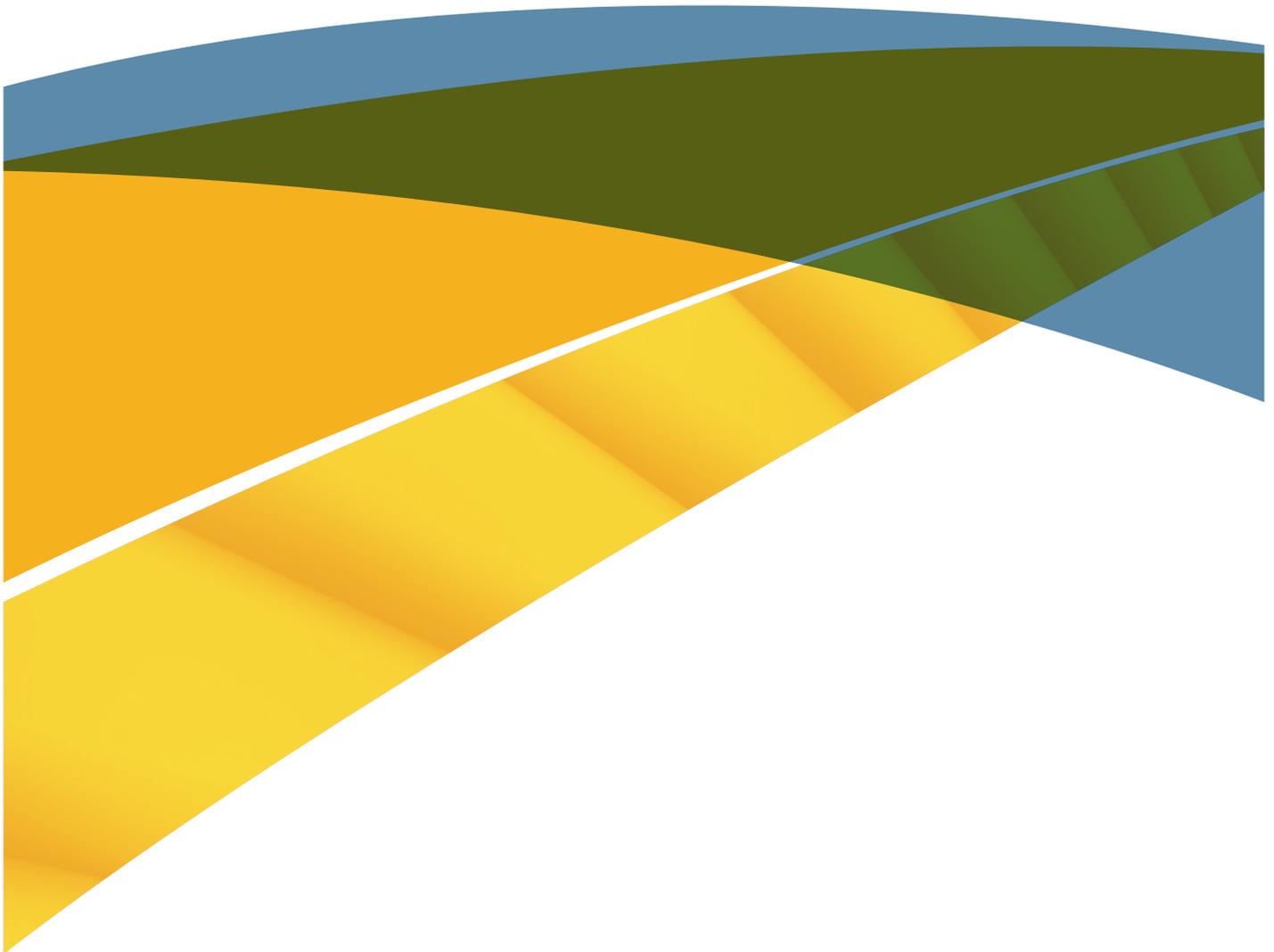




Intellectual
Property
Office

Government response to technical consultation on Trade Secrets Regulations





Contents

Introduction	1
Next steps	2
Summary of consultation responses	3

Introduction

Companies invest in acquiring, developing and applying know-how and information. This investment in intellectual capital has an impact on their competitiveness and innovative performance. It can help ensure companies have a competitive edge in the market and can have positive benefits for their future innovation endeavours. The valuable know-how and business information that a company intends should remain secret is known as a trade secret¹.

Trade secrets take the form of a wide range of information. They may include, for example, commercial data such as customer information, business plans and market strategies; technological information such as process know-how; and product information such as formulas for recipes, ingredients and manufacturing techniques and methods.

The EU Directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure ('the Directive'), was published on 15 June 2016. The Directive entered into force on 5 July 2016 and must be transposed into UK national law by 9 June 2018. While the UK remains a member of the EU, it is under an obligation to ensure it complies with European legislation. Implementation of the Directive is part of this legal obligation.

The Directive's main objective is to achieve a smooth-functioning of the Internal Market by giving innovators confidence that their trade secrets will have the same level of protection in each EU Member State and that they will have the same access to remedies in the event of misappropriation of their trade secrets. It provides minimum standards for measures, procedures and remedies that trade secret holders should be able to rely on in the event of unlawful acquisition, use or disclosure of their trade secrets. It also harmonises the definition of trade secrets in accordance with existing international standards.

In the UK, trade secrets are protected by the law of confidence. The unlawful acquisition, use or disclosure of a trade secret would give rise to an action in the civil courts for breach of confidence.

In July 2017, the Intellectual Property Office held an open meeting with interested parties to discuss the implementation of the Directive and to gather views on the transposition. Many stakeholder representatives were of the view that no transposition was necessary as they felt that the UK system for protecting trade secrets worked well. The Government considered stakeholder views, but believed that it was necessary to implement a number of provisions in the Directive in order to ensure transparency and consistency across the UK's legal jurisdictions.

Following this, the Intellectual Property Office conducted a technical consultation on draft secondary legislation which would transpose the Directive into UK law. The technical consultation ran for four weeks from 19 February 2018 to 16 March 2018. The consultation sought views on whether the draft Regulations were effective in implementing the Directive.

¹ See Recital 1 of the Trade Secrets Directive

There were 19 responses to the consultation from civil society organisations, individuals, professional bodies representing the news media, legal profession, industry and licensing sectors, and organisations with an interest in intellectual property matters. Submissions covered general concerns as well as detailed points of legal drafting. Since the consultation closed, officials have held various meetings with stakeholders.

The Government has reviewed and considered the responses. This document provides a summary of the main comments received and the Government's response.

The Government would like to thank all those who responded to this technical consultation.

Next steps

In response to the submissions received, the Government has made a number of changes to the draft regulations which accompanied the consultation. The final version of the regulations will be made public when they are laid before Parliament.

Summary of consultation responses

Question 1: Do you agree that regulations 2 and 3 implement effectively the definitions in the Directive?

Draft regulations 2 and 3 set out how the Regulations are to be interpreted. Regulation 2 includes definitions of the terms ‘court’, ‘infringer’, ‘infringing goods’, ‘trade secret’ and ‘trade secret holder’.

Some respondents agreed that the regulations were effective in implementing the definitions. However, others raised concerns about the definitions and some offered drafting suggestions. Comments are summarised below.

‘court’

One respondent considered that the definition should also refer to the Patents Court as proceedings may be initiated there that are connected to patents.

‘infringer’

A number of respondents considered that the definition should include a reference to a natural or legal person. Without this, it was felt that the definition would be misinterpreted as targeting only natural persons. Of these, one also suggested that the definition should underscore that conspiracy to infringe may give rise to criminal proceedings. Some considered the definition to be narrower than that of the Directive and that it was unhelpful and confusing to mix UK terminology (*‘breach of confidence’*) and EU terminology (*‘trade secret’*). One respondent commented that by referring to ‘breach of confidence’, the rights which the Directive is intended to confer on the trade secret holder may be constrained.

‘infringing goods’

Some respondents commented that not using the Directive’s language in the regulations meant that the definition was limited and did not comply with the Directive. One respondent considered the use of the word ‘goods’ restricted the definition as it meant that services were excluded. Some considered that the definition was imprecise, ambiguous and broader than that of the Directive. It was again considered unhelpful and confusing to mix terminology.

‘trade secret’

One respondent commented that a single definition of the term ‘trade secret’ should lead to greater consistency in cross-border enforcement. However, others considered that there was no need to define what a trade secret was. In general, respondents referred to the provisions in Article 39.2 of the World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) and argued that as the UK complied with TRIPS, there was no need to provide a specific definition of a trade secret in UK law. Some considered that if the definition of a trade secret was necessary, it should take account of UK terminology, otherwise it could cause

confusion and uncertainty. Reference was made to ‘trade secrets’ being a sub-set of ‘*confidential information*’. Others commented that the definition was arguably narrower than the current ‘definition’ used by the courts. It was also felt that there was a need to explain the relationship between the common law concerning protections of trade secrets and the Regulations. A comment was also made on the use of the word ‘*confidential*’ in the definition as being duplicative and confusing. A further comment suggested it should be made clear that all three tests in (a) to (c) needed to be met.

‘trade secret holder’

Some commented that the use of the term ‘trade secret’ is problematic under UK law as the terms are not interchangeable, ‘*trade secrets*’ being a sub-set of ‘*confidential information*’. Others considered that the definition would benefit from further clarification particularly as regards legal entities and circumstances involving licensees and licensors.

Response

The Government has considered the submissions received and as a result intends to revise the definitions so that they are more aligned to the wording of the Directive. Where the term ‘*person*’ is used, this includes a body of persons corporate or unincorporated by virtue of the Interpretation Act 1978. As the Patents Court is part of the High Court, the Government does not intend to amend the definition of ‘*court*’.

The Government believes that it would be helpful to clarify the relationship between the measures, procedures and remedies provided for in the Regulations and those available to a trade secret holder in an action for breach of confidence. Appropriate provision will be made to this effect in the Regulations.

The Government notes that the Directive concerns civil measures only. Consequently there is no need for the regulations to refer to criminal proceedings.

Question 2: What are your views on the rules set out in regulations 4 – 9?

Regulations 4 – 9 set out rules concerning time periods for bringing proceedings. The rules specify when the periods will begin to run, how long they will last, and the circumstances under which they may be interrupted or suspended.

Some respondents considered the rules to be helpful. Others believed that they were overly complex and detailed, needed further clarification to avoid confusion (particularly regulation 6²), or were unnecessary, going beyond what is required to implement the Directive. Some suggested 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, for example, as a tort for the purposes of the Limitation Act 1980. In this case, section 2 of that Act would apply.

² Regulation 6 sets out rules relating to when the limitation or prescriptive periods begin.

One respondent from the legal sector queried why section 36 of the Limitation Act 1980 and section 6 of the Prescription and Limitation (Scotland) Act 1973 did not apply. However, another agreed that it was necessary in particular to disapply section 36 of the Limitation Act. One respondent considered that the regulations should include an extension to the time limit as an exception where it can be shown that a discovery of a breach has been hindered by secrecy, suppression or trickery.

Civil society organisations raised concerns about the length of the limitation and prescriptive periods. The periods were considered too long and unfair compared to the three month period whistle-blowers had under the Public Interest Disclosure Act 1998 (PIDA) to bring a claim. They suggested a shorter period of one year. They also considered that discretionary extensions of the limitation period should be available for individual infringers similar to the rights provided by the PIDA where that individual claimed whistleblowing protection.

Response

The Government believes that the rules provided by regulations 4 - 9 are necessary to implement Article 8 of the Directive. Under Article 8, Member States are required to set out rules concerning time periods for bringing proceedings. These rules need to specify when the periods begin to run, how long they will last and the circumstances in which they are interrupted or suspended. The rules in regulations 4 - 9 meet this requirement, are self-contained, and are intended to aid transparency. In this respect, the Government notes that some respondents considered that the rules would be helpful and sensible.

The Government notes the query concerning section 36 of the Limitation Act 1980 and section 6 of the Prescription and Limitation (Scotland) Act 1973. Section 36 of the Limitation Act 1980 prevents limitation periods applying to injunctions and other claims for equitable relief in certain circumstances. To avoid any implication that section 36 might apply to proceedings in respect of an unlawful acquisition, use or disclosure of a trade secret, the Government's view is that section 36 should be disapplied. The Government is also of the view that section 6 of the Prescription and Limitation (Scotland) Act 1973 should be disapplied in order to ensure the limitation period is treated in a coherent manner in relation to proceedings in Scotland in respect of an unlawful acquisition, use or disclosure of a trade secret.

An extension of the time periods in the manner suggested is not required under the Directive. Where it can be shown that a discovery of a breach has been hindered by secrecy, suppression or trickery, the Government is of the view that the provisions of regulation 6(1) would come into play. The Government understands the concerns raised by civil society organisations relating to the length of the limitation periods, but considers these to be beyond the scope of the Directive.

Question 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?

Regulation 10 provides for trade secrets to remain confidential during and after legal proceedings.

Some respondents agreed that the draft regulation provided the appropriate level of clarity and transparency. However others considered the regulation was not necessary, or where necessary, that it lacked clarity and did not fully transpose Article 9 of the Directive. Some offered drafting suggestions.

Respondents from the legal profession supported the objective of preserving confidentiality of trade secrets in legal proceedings. However, for some, it was considered important that the ability of the court to restrict access to documents to lawyers and other representatives only, subject to the court's discretion, was retained. Some considered that broadening the scope so that at least one individual from each party would be given access would not always be appropriate in trade secret cases. It was also considered that the regulation had the potential to be interpreted as limiting the court's discretion. If regulation 10(1) is retained, it was felt that the regulation should make clear that it applies to confidentiality/trade secret cases only and does not limit the power of the court.

One respondent argued that it was important to ensure the courts have express powers to expedite media challenges to the making of orders restricting access to documents and hearings and to vary such orders where appropriate.

Civil society organisations considered that the regulation needed to refer to the safeguarding of fundamental rights and the public interest. Some argued that if an infringer or any third party assert their rights or claim that there has been a disclosure of information which falls to be protected under the PIDA, the courts should also take those rights into account as part of its deliberations.

Response

Having considered the comments and suggestions made on the drafting of regulation 10, the Government proposes to revise the draft to bring it closer to the wording of the Directive. With regard to preserving confidentiality of trade secrets in legal proceedings, the court may retain some discretion in this matter, but will need to take the provisions of the Regulations into account.

Question 4: Do you agree that regulation 11 is necessary to ensure that the UK complies with Article 10?

Regulation 11 relates to interim measures.

Some respondents agreed that regulation 11 was necessary given the uncertainty as to whether current court rules in different UK jurisdictions provide for the delivery up of infringing goods. Others considered that the remedies available in Article 10 are already available via the inherent discretion of the courts and that consequently regulation 11 is not necessary. With regard to the Scottish courts, one respondent considered that this matter should be addressed separately rather than applying to the various UK legal jurisdictions. Others queried why it was proposed to transpose only Article 10(1)(c). If there was a need for regulation 11, some considered that the wording of Article 10 offered greater clarity.

Response

The Government notes that a number of respondents consider that the remedies set out in Article 10 of the Directive are already available via the inherent discretion of the court. However, the Government considers that there is some uncertainty with respect to the remedies set out in Article 10. In order to ensure compliance with the Directive, the Government intends to implement this Article fully, noting that some respondents agree with this approach. In doing so, the Government intends to legislate for the various UK legal jurisdictions as a whole as we believe that this will aid transparency and consistency.

Question 5: Do you agree that regulation 12 is necessary to ensure certainty and compliance with the Directive?

Regulation 12 sets out the matters a court needs to consider before making an interim order for delivery up under regulation 11(1).

While some respondents agreed the regulation was necessary, others considered that the factors listed in regulation 12 were those that the courts, in effect, already took into account when deciding whether to exercise discretion on applications for interim remedies. Some respondents stated that if it was considered necessary to transpose Articles 11(1) and (2), it should be made clear that the factors apply to *all* interim remedies so as not to confuse matters, and that any legislation in this area should not limit the discretion of the court. It was also felt that regulation 12(1) should mirror the wording of Article 11(1) of the Directive to ensure that the same test is applied by UK courts. Two respondents suggested that regulation 12(2) and regulation 15 could be combined as the provisions are the same.

Response

The Government notes the different views expressed and considers that it is appropriate to implement Article 11 fully. This will help guarantee certainty in this area across UK jurisdictions and will ensure that the UK complies with the Directive. The Government has considered the drafting suggestions in relation to regulation 11 and proposes to revise the draft to bring it closer to the Directive wording.

Question 6: Do you agree that regulation 13 is necessary to ensure that the UK complies with Article 11(3) of the Directive? compliance with the Directive?

Regulation 13 sets out a time limit within which a claim needs to be brought where an interim order under regulation 11(1) has been made,

Of those who responded to this question, some agreed that it was necessary to implement Article 11(3) and did not anticipate any issues with this. Others considered that the regulation was unnecessary in view of current court practice. One respondent queried why the time limit in regulation 13 only applied to interim orders for delivery up. They also sought clarification on why it was not proposed to transpose other parts of Article 11.

Response

The Government acknowledges that current practice is for the courts to give directions for the commencement of claims. However, court rules do not specify that where an interim order has been made claims need to be made within the time periods set out in Article 11(3) of the Directive. In order to ensure strict compliance with the Directive, the Government believes that it is necessary to implement this measure fully, noting that some respondents agree with this approach.

Question 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?

Regulation 14 provides for corrective measures that may be imposed on an infringer. The matters to be considered when making an order under regulation 14 are set out in regulation 15.

Some respondents agreed that regulations 14 and 15 are necessary. Others argued that the courts already have the necessary powers to grant the remedies set out in regulation 14 and therefore it is not necessary to implement Article 12. However, some acknowledged that where there may be discrepancies and uncertainty, particularly in relation to the Scottish courts, it would be sensible to make changes to ensure transparency and consistency. One respondent stated that such changes should be legislated for separately rather than apply to the whole of the UK.

Some respondents considered that the draft regulations did not fully implement Articles 12 and 13(1) of the Directive. For example, it was considered that only those trade secret holders who were in a contractual relationship with an infringer would be able to seek corrective measures. As such, regulation 14 was narrower than the Directive. It was also considered that all the corrective measures in Article 12 should be transposed. Where the regulations did not use the same language as the Directive, further clarification was sought.

Response

Having considered the submissions carefully, the Government considers that it is necessary to implement Articles 12 and 13(1) of the Directive more fully. To aid transparency and consistency and ensure compliance with the Directive, the Government believes that the regulations should apply across all UK legal jurisdictions.

The Government considers that the current wording of regulation 14(3) should be retained. This is because in certain cases withdrawal from the market of infringing goods may not be sufficient to avoid further disclosure of the trade secret. In such cases, the trade secret holder may wish to opt for the infringing goods to be destroyed.

Question 8: Do you agree that regulation 16 is necessary in order to implement Article 13(3) of the Directive?

Regulation 16 provides for compensation to be paid by a person subject to a final injunction or a corrective measure under regulation 14.

The majority of those who answered this question agreed that it was necessary to implement Article 13(3). However, some considered that regulation 16 contained the same flaw as regulation 14 in that it applied only to those in a contractual relationship. Some felt that it was only necessary to implement Article 13(3)(a). One respondent argued that being able to apply for an order to pay compensation should be in addition to and not a substitution for corrective measures or a final injunction. Another stated that Article 13(3) of the Directive and regulation 16 did not cover situations where an infringer innocently acquires a trade secret without acquiring it from a wrongdoer.

Response

The Government notes that the majority of respondents agree with the approach taken in the draft regulations. Although the court has the power to order compensation to be paid under its inherent jurisdiction, the specific factors in Article 13(3) have not been implemented in court rules. To comply with the Directive, it is necessary for the payment of compensation to remain an option for a person subject to a final injunction or one of the corrective measures in regulation 14. The Government considers the wording of the Directive needs to be followed more closely.

Question 9: Do you agree that regulation 17 is necessary in order to implement Article 14 of the Directive?

Regulation 17 relates to the awarding of damages.

The majority of those who responded to this question agreed, subject to drafting suggestions. Respondents from the civil society sector referred to the need to ensure there are strict restrictions on damages which can be sought, especially from individuals such as employees. Two respondents from the legal sector queried the approach taken to implementing Article 14. One of these referred to the copy out approach that had been taken when implementing Article 13 of the Enforcement Directive 2004/48/EC. It was considered that for consistency, the same approach should be taken with regard to the implementation of Article 14.

Response

The Government notes there is general agreement to the implementation of Article 14 and considers the wording of the Directive needs to be followed more closely. The Government believes that the technical changes made to the regulation will have the same effect and aid clarity.

Article 14 contains an optional provision to limit the liability for damages for employees who act without intent. The Government notes that the courts are able to exercise discretion to ensure damages are fair and proportionate. In view of this, there is no need to implement this provision.

Question 10: Do you agree that regulation 18 is necessary in order to implement Article 15 of the Directive?

Regulation 18 provides for the publication of judicial decisions.

The majority of respondents agreed though some offered drafting suggestions to ensure clarity and felt that the regulation should mirror the language of the Directive. Others considered that it was not necessary to implement Article 15 as such remedies are already available via the inherent discretion of the court.

Response

The Government acknowledges that the courts, for example, in England and Wales have ordered the publication of judgments in an action for breach of confidence in relation to a trade secret. However to ensure consistency across the various legal jurisdictions, the Government is of the view that it is necessary to implement Article 15 of the Directive. The Government also notes that the specific factors in Article 15(3) have not been implemented and considers that the wording of the Directive needs to be followed more closely.

Question 11: Do you agree with the overall approach taken to implement the Directive?

Some respondents agreed, subject to drafting suggestions and further clarifications. Others considered that:

- Legislation is not necessary.
- The use of different language to describe the fundamental concept of what constitutes misuse (breach of confidence versus unlawful acquisition, use of disclosure), is unhelpful, possibly leading to confusion and could serve to narrow the scope of protection envisaged by the Directive.
- Some of the regulations go beyond what is necessary to ensure implementation of and compliance with the Directive, for example, regulations 4 – 8.
- Using different language in some of the regulations compared to that of the Directive is unhelpful.
- Where changes are needed to address aspects of Scottish law, these should be addressed separately rather than applying to the whole of the UK.
- Judicial discretion to provide protection and remedies above the minimum standards needs to be preserved.
- Further clarity on emergency injunctive relief and seizures required.
- Further clarification of the relationship between the Regulations and the Directive is required.

Response

The Government has addressed these points in this response document.

Question 12: Do you agree that we have correctly implemented all the relevant Articles in the Directive that need implementing in UK law to ensure the UK complies with the Directive?

Responses from civil society organisations focussed on the impact the regulations could have on whistle-blowers, public authorities, journalists, trade unionists and employees. It was considered that the exceptions in Article 5 of the Directive and Article 7 should be transposed as well as the rights conferred by the PIDA. It was also felt that the regulations should require UK courts to consider those rights in order to protect the public interest in appropriate cases. It was stated that similar protections were required for trade union representatives, and that the regulations should include a public interest defence and provisions penalising abusive litigation on trade secrets. Respondents also commented that the transposition table should reference the PIDA. One respondent stated that it is vital to safeguard investigative journalism. With regard to freedom of information and public authorities, it was considered that the regulations should not undermine freedom of information laws by creating legal

ambiguity about the situations in which commercial information can be legitimately released.

Where it was considered necessary to implement further articles, other respondents referred to Articles 1, 3, 4 and 5. One respondent questioned in particular whether it was necessary to implement Article 4(5).

Response

The Government's approach has been that where it is clear that measures are already provided for under current legislation, case law or courts rules, there is no need for us to implement these. Where there is uncertainty as to whether the provisions of the Directive apply across all legal jurisdictions, in order to put matters beyond doubt and ensure transparency, coherence and consistency, the Government has taken the view that certain provisions should be implemented fully.

As regards the matters raised, the Government has considered these and is of the view that in certain aspects the Regulations may be brought closer to the wording of the Directive. Where appropriate, the transposition table will be revised to include further detail and this will be published alongside the regulations.

List of respondents:

International Association for the Protection of Intellectual Property UK

Mr Justice Arnold

Chartered Institute of Patent Attorneys

Corporate Europe Observatory with:

ARTICLE 19

Campaign Against the Arms Trade

Courage Foundation

David Lewis, Professor of Employment Law and Head of the Whistleblowing
Research Unit, Middlesex University

DeSmog UK

Ethical Consumer

Friends of the Earth (England, Wales and Northern Ireland)

GeneWatch UK

Global Witness

Greenpeace UK

Jubilee Debt Campaign

National Union of Journalists

Public Concern at Work

Real Media

Spinwatch

Tax Justice Network

The Media Fund

Transparency International UK

Trade Justice Movement

We Own it

Whistleblowers UK

Corporate Europe Observatory

Employment Lawyers Association

Ethical Consumer Research Association

Intellectual Property Awareness Network

Intellectual Property Lawyers' Association

IP Federation

Institute of International Licensing Practitioners Limited

Law Society of Scotland

David Lewis, Professor of Employment Law and Head of the Whistleblowing Research
Unit, Middlesex University

Licensing Executives Society (Britain and Ireland)

.....
Christopher Morcom

.....
News Media Association

.....
Public Concern at Work

.....
Bernhardt von Spreckelsen

.....
Whistleblowers UK

Concept House
Cardiff Road
Newport
NP10 8QQ

Tel: 0300 300 2000
Fax: 01633 817 777
Email: information@ipo.gov.uk
Web: www.gov.uk/ipo

Facebook: TheIPO.UK
Twitter: @The_IPO
YouTube: ipogovuk
LinkedIn: uk-ipo

For copies in alternative formats please
contact our Information Centre.

**When you no longer need this booklet,
please recycle it.**

© Crown copyright, 2018

This document is free for re-use under the terms of the
Open Government Licence.

Images within this document are licensed by Ingram Image.

Published: May 2018
DPS-007296



INVESTORS
IN PEOPLE

CUSTOMER
SERVICE
EXCELLENCE

