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Trade secrets - no magic formula

Introduction

It is not uncommon to see trade secrets referred to as intellectual property (IP) and included as part of some generic IP definition within the course of pre-clinical R&D. Such references are more out of convenience than any real understanding of the legal status of trade secrets. Frequently referred to as the property of a person, a trade secret is not a property right under UK law and cannot be assigned as such.[1] Ownership is a non sequitur, when the proper context is that of control. The scope of a trade secret is not defined by registration, there is no limitation to the duration of its protection, it does not confer a monopoly right, and since its content is not publicly disclosed, it cannot be used to further innovation by third parties without the consent of the controller.

Within much pre-clinical R&D, the term trade secrets is almost never defined, whether generically or at all. Such lack of definition creates uncertainty as to any contextual meaning. Further, mentioning of trade secrets within generic IP ensures they are not ring-fenced and risks their becoming trapped as part of foreground IP. Were it not for there being little or no likelihood of trade secrets being used in pre-clinical R&D, collaborative R&D may be different, the risk of some unintended permission or licence of trade secrets is real: a permission is an informal, bare, and unconditional consent to use with little actual control compared with a licence. Any purported assignment of foreground IP that seeks to include trade secrets will be void to the extent of their inclusion.

Common law trade secrets

A trade secret is information that exists within a legal context. Declaring information a trade secret will not make it so, and a legal context within one jurisdiction that confers the status of trade secret may not do so within another jurisdiction. In other words, there is no universal rule for determining what information constitutes a trade secret. A one size fits all attitude is ill-advised. The UK common law and equity have developed several tests when assessing information for the purpose of determining its legal status within the UK. Typically, the tests are easier to state than they are to apply in practice.

Within an employment context, the characteristics likely to confer upon information the legal status of trade secret are internal facing. Such characteristics include:[2]

- the nature of the employment. Where an employee regularly and knowingly handles highly confidential information that information may more readily be classed a trade secret than where an employee only rarely handles such information. Seniority may be relevant, as the nearer an employee is to the inner counsels of the employer, the more likely the employee is to gain access to truly confidential information;[3]
- the nature of the information. Some information will clearly amount to a trade secret, such as a secret formula for a product or the results of a product in development, but other information, such as a manufacturing process or a customer list may be sufficiently confidential to amount to a trade secret, with each case being fact sensitive;
- how the employer treats the information. An employer who limits the number of employees that have access to information and impresses upon them, in writing

and verbally, that it is highly confidential, may give cause to determine the information as a trade secret. A smaller, less sophisticated employer may not have to show the same business discipline in this regard as that of a larger, more bureaucratic concern;[4] and
- the separability of the information. If the information is not readily separable from other information that is not highly confidential, this may indicate the information is not a trade secret. Further consideration must be given to whether the information can be separated from the employee's own general skill and knowledge. This is important from a practical perspective, as injunctive relief restraining the use of confidential information generally will not be granted.

Within an employment context, not all information given to an employee in confidence, which would amount to a breach of the employee's duty of fidelity for him to disclose to a third party during his employment, is a trade secret against which he may be prevented from using after his employment has ended, even though the employee had entered into no express restriction with regard to the matter in hand.[5] In other words, an express restriction may not be used by an employer to deem information confidential, which information either forms part of the employee's own general skill and knowledge or is not otherwise confidential.

Conversely, within a commercial context, express restrictions for consideration regarding the treatment of information, at any stage and regardless of whether such information would amount to a trade secret, may provide protection from a contractual or equitable perspective, provided the restrictions cannot be attacked for obscurity, illegality, or on public policy grounds.

Within a commercial context, the characteristics likely to confer upon information the legal status of trade secret are more external facing. Such characteristics include:[6]

- the level of control over the information at hand and the extent of measures taken to protect the information against misuse by third parties. The most obvious example will include obtaining NDAs, limiting the dissemination and use of information;
- the extent to which the information is known outside of the business;
- the commercial value of the information to the business and its competitors, including the cost of security measures taken to protect the information internally;
- the effort and cost expended by the business to develop the information;
- the ease or difficulty with which the information could be properly acquired or duplicated by third parties;
- the level of detail of the information. The more detailed the information, the more likely it is to be a trade secret; and
- the usage and practices of industry to support the confidentiality of the type of information at hand.

Statutory protection and enforcement

Historically, the UK had no statutory regime to address the protection of a trade secret or an item of equivalent confidentiality, such protection deriving over time through the common law and equity. There was an inconsistent level of protection of trade secrets across EU member states. As well as the UK, around one third of EU member states had no specific legislation regarding the misappropriation of trade secrets, instead relying upon their own common law and judicial interpretation of equitable obligations.

European Union directive (EU) 2016/943 (OJ L 157/1) (Directive) on the protection of undisclosed know-how and business information (trade secrets) was approved by the European Parliament on 14 April 2016 and adopted by the Council of the European Union on the 27 May 2016. The Directive was published in the Official Journal of the European Union on 15 June 2016 and came into force on the 5 July 2016. The primary objective of the Directive was to achieve a harmonised internal market by establishing a sufficient and comparable level of redress for trade secret holders within EU member states.

The Trade Secrets (Enforcement, etc) Regulations 2018 (Regulations) were made under powers contained within section 2(2) of the European Communities Act 1972. The Regulations came into force on the 9 June 2018, giving effect to the Directive within the UK. The UK law governing the protection of confidential information was unaffected. Following Brexit, the Regulations have continued to apply as retained EU law. For the most part, EU case law upon the Directive made after 31 December 2020 is not binding

upon the UK, although the UK courts and tribunals may have regard to EU judgments, where relevant.

Interpretation

Under UK law, there exists three classes of information. The first class is information that is not confidential. The second class is confidential information acquired during the normal course of employment that remains in the employee's head and becomes part of his own general skill and knowledge. The third class is confidential information in the form of trade secrets and subject to those characteristics mentioned above. The common law and equity interpret the term trade secrets narrowly to include information having a high degree of confidentiality, namely confidential information within the third class only.

The Regulations[7] define a trade secret to mean information, which:

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

The Regulations interpret the term trade secrets broadly to include information having any degree of confidentiality, namely confidential information within the second class and the third class.[8]

Conclusion

The precise relationship between the common law, equity, and the Regulations remains to be fully determined. In a number of respects, the Regulations codify principles of existing UK law,[9] and the acquisition, use, or disclosure of a trade secret will be unlawful, where such acquisition, use, or disclosure would constitute a breach of confidence in information.[10] In effect, the Regulations give rise to a separate statutory cause of action for the misuse of trade secrets, which lies concurrent with a cause of action derived from principles established under the common law and equity.[11] Future claims in the field are likely to feature both causes of action.[12]

The Regulations create a clear three aspect interpretation of the term trade secret, and those characteristics mentioned above will apply to one or more aspects of that interpretation. In time, the term trade secret will be interpreted under the Regulations, more or less, in line with the common law and equity. It is unlikely the reverse will instead be true. Meanwhile, references to trade secrets within pre-clinical R&D must be ring-fenced and kept generic having regard to applicable laws and the Regulations. Any specific references to trade secrets within collaborative R&D must be necessary, ring-fenced, and treated with appropriate safeguards as to their disclosure and use.

[1] The TRIPS Agreement does not require undisclosed information to be treated as property.
[2] Faccenda Chicken v. Fowler [1986] IRLR 69.
[3] Vestergaard Frandsen v. Bestnet Europe [2009] EWHC 657 (Ch), para 653.
[4] Lancashire Fires v. SA Lyons [1997] IRLR 113.
[5] Printers & Finishers Ltd. v. Holloway [1965] 1 W.L.R. 1; [1965] R.P.C. 239.
[6] Del Casale v. Arteomus (Aust) Pty Ltd [2007] NSWCA 172 at 40.
[7] Regulation 2 of the Regulations.
[8] Trailfinders Limited v. Travel Counsellors Limited & Ors. [2020] EWHC 591 (IPEC) at 14.
[9] The explanatory note to the Regulations states a number of provisions of the Directive have been implemented in the UK by the principles of common law and equity relating to breach of confidence in confidential information.
[10] Regulation 3 of the Regulations.
[11] Cf. trade mark infringement under the Trade Marks Act 1994 and the common law cause of action regarding passing off.
[12] Celgard LLC v. Shenzhen Senior Technology Materials Limited [2020] EWHC 2072 (Ch).