

EXPLANATORY MEMORANDUM TO
THE TRADE SECRETS (ENFORCEMENT, ETC.) REGULATIONS 2018
2018 No. 597

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Intellectual Property Office (IPO), an executive agency of the Department for Business, Energy and Industrial Strategy (BEIS), and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 This instrument implements Directive (EU) 2016/943 of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (the Trade Secrets Directive). A number of the provisions of the Directive have already been implemented in the UK by the principles of common law and equity relating to breach of confidence in confidential information, statute and court rules. The instrument addresses those areas where gaps occur or where the implementation of the provisions of the Directive will ensure legal certainty, making the law more transparent and coherent across all of the UK's jurisdictions with respect to proceedings concerning the unlawful acquisition, use or disclosure of a trade secret.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 None.

Other matters of interest to the House of Commons

- 3.2 As this instrument is subject to the negative procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

- 4.1 Directive (EU) 2016/943 was approved by the European Parliament on 14 April 2016 and adopted by the Council on 27 May 2016. It was published in the Official Journal of the European Union on 15 June 2016. The Directive entered into force on 5 July 2016. The Regulations, which need to be implemented by 9 June 2018, are made under the powers contained in section 2(2) of the European Communities Act 1972.
- 4.2 The original proposal was submitted on 17 December 2013 to the House of Commons European Scrutiny Committee and to the House of Lords European Union Committee. The proposal was cleared by the Commons on 26 February 2016 and by the Lords on 8 March 2016.
- 4.3 A transposition note on the implementation of the provisions of the Directive has been prepared and is annexed to this memorandum. In line with Government policy, the intention has been to use copy out wherever possible. However it is not possible to implement the relevant provisions of the Directive by simply copying out the

provisions. There are a number of reasons for this; first, the Directive provides Member States with a discretion on how they may legislate in certain areas, for example, in relation to rules on when a limitation period begins to run, the duration of the period and the circumstances under which it is interrupted or suspended; second, the drafting of certain provisions has been modified where required in order to provide further clarity. Subject to this, copy out has been followed as the method of implementation of the Directive into UK law where appropriate.

5. Extent and Territorial Application

- 5.1 This instrument extends to all of the United Kingdom.
- 5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

- 6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

- 7.1 Trade secrets constitute valuable business assets. They can be used by businesses alongside formal intellectual property rights (patents, designs, trade marks and copyright), or as an alternative to them, to provide competitive advantage in the marketplace. They come in various forms and consist of a wide range of confidential information such as commercial data, technological information and product information. In the UK, trade secrets are protected by contract and/or the common law of confidence.
- 7.2 The main objective of the Trade Secrets Directive is to achieve a smooth-functioning internal market by establishing a sufficient and comparable level of redress for trade secret holders in the event of the unlawful acquisition, use or disclosure of their trade secrets. The Directive seeks to improve the environment for innovation and knowledge transfer within the EU by enhancing the effectiveness of the legal protection available for trade secrets.
- 7.3 Measures and remedies to protect trade secrets vary across EU Member States. To address this, the Directive provides a minimum level of protection available for litigants where there has been misappropriation or misuse of a trade secret. In so doing, the Directive seeks to bring legal clarity and a level playing field for all European businesses. The Directive provides for civil law remedies only. It does not call for criminal prosecutions or sanctions.
- 7.4 The UK has a robust and well-established legal framework that allows for the effective enforcement of trade secrets. As such, implementation of the Trade Secrets Directive does not require substantial changes to be made to UK law. Where changes are introduced by this instrument, they relate to a number of articles that are not currently provided for in UK law. Other changes ensure UK law in this area is more transparent and coherent by providing legal clarity across the UK's various legal jurisdictions.
- 7.5 The Trade Secrets Directive formalises the definition of a trade secret in accordance with existing internationally binding standards and establishes a common definition of

a trade secret across the EU. Although UK case law has developed a definition of a trade secret that is consistent with the standards and aligns with that of the Directive, transposing the definition in this instrument provides legal certainty and clarity for UK businesses. The instrument also clarifies the relationship between the regulations and the measures, procedures and remedies available to a trade secret holder in an action for breach of confidence.

- 7.6 The Directive requires Member States to provide rules concerning time periods applicable to claims for the unlawful acquisition, use or disclosure of a trade secret. To avoid uncertainty, the instrument reflects the limitation and prescriptive periods provided by the Limitation Act 1980, the Prescription and Limitation (Scotland) Act 1973 and the Limitation (Northern Ireland) Order 1989. The instrument also makes provision for determining when the periods begin to run. Certain other measures in the Limitation Act 1980 and the Limitation (Northern Ireland) Order 1989 are reflected in the instrument. These extend the limitation period for trade secrets holders who are under a disability and provide for new claims in pending actions to be brought within the limitation period. In addition, the instrument provides for the suspension of the prescriptive period in Scotland if the trade secret holder, in relation to a claim for the unlawful acquisition, use or disclosure of a trade secret, is under a disability for a period of time.
- 7.7 The remaining measures outlined below relate primarily to procedural matters for the courts in an action for breach of confidence in relation to a trade secret. These measures ensure clarity and transparency of procedures across the various UK legal jurisdictions, and will help ensure that businesses that launch proceedings in relation to the unlawful acquisition, use or disclosure of a trade secret in one jurisdiction in the UK are not at a disadvantage compared to those in another jurisdiction. The measure relating to damages is similar to that provided in the Intellectual Property (Enforcement etc.) Regulations 2006.
- 7.8 In relation to the preservation of confidentiality of trade secrets in the course of legal proceedings, the instrument sets out measures that the court may take to preserve this. The measures relate to a trade secret or an alleged trade secret, and provide for preservation during and after legal proceedings. The instrument also sets out the circumstances under which the obligation will no longer apply.
- 7.9 The instrument also provides for provisional measures (interim measures) to be ordered by the court against an alleged infringer. Where these relate to an order for the handing over to the trade secret holder of suspected infringing goods (delivery up), the trade secret holder needs to retain these until an order is made that the goods be forfeited or destroyed. As an alternative to interim measures, the instrument provides that the court may require guarantees to be lodged by the alleged infringer to compensate the trade secret holder. The instrument imposes time limits for claims to be brought, sets out the matters to be considered by the court before making an interim order, and the circumstances where such orders may be revoked.
- 7.10 With regard to injunctions and corrective measures, the instrument provides that the court may order an infringer, at his own expense, to recall the infringing goods from the market, deprive them of their infringing quality, destroy them or withdraw them from the market. The instrument sets out the matters to be considered by the court when making orders for injunctions or corrective measures.

- 7.11 With regard to financial compensation, the instrument provides that a person who is subject to a final injunction or a corrective measure, may apply to the court for an order to pay compensation instead. The instrument sets out the conditions that need to be met and sets limits on the amount to be paid. The instrument also provides that in certain circumstances financial compensation (damages) may be awarded to the trade secret holder. The instrument sets out how these are to be assessed and the factors that need to be taken into account.
- 7.12 In addition provision is made for the publication of judicial decisions. The instrument provides that the court may order an infringer, at his own expense, to publish a court judgment either in whole or in part, and sets out the factors to be considered by the court before making such an order.
- 7.13 Provision is made to clarify that the regulations apply only to those proceedings commenced before a court after the coming into force of the regulations in respect of a claim for the unlawful acquisition, use and disclosure of a trade secret and for the application of measures, procedures and remedies provided under the regulations.

Consolidation

- 7.14 This instrument does not amend another.

8. Consultation outcome

- 8.1 The IPO ran a public technical consultation for four weeks from 19 February 2018 to 16 March 2018 on the Government's proposed approach to implementation of the Trade Secrets Directive. The consultation document containing draft regulations and a draft transposition table, was published on the GOV.UK website at: <https://www.gov.uk/government/consultations/draft-regulations-concerning-trade-secrets>
- 8.2 The technical consultation set out how the Trade Secrets Directive could be transposed and sought views from interested parties on draft regulations and the approach taken to implement the Directive. Respondents were also invited to provide views on whether all the relevant articles in the Directive that need implementing had been correctly identified.
- 8.3 A total of 19 responses were received. These were 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.
- 8.4 Some respondents supported the implementation of the Directive. However, others considered the draft regulations were too detailed and complex, went beyond what is required by the Directive or were unnecessary. A number of drafting suggestions were made.
- 8.5 Some organisations raised concerns about the impact the draft regulations could have on whistle-blowers, public authorities, journalists, trade unionists and employees. Concerns covered a range of issues including, for example, the risk of the regulations creating legal and practical ambiguities particularly with regard to the protections provided for whistle-blowers, a lack of a public interest defence, provisions penalising abusive litigation concerning trade secrets and protections for trade union representatives when legitimately disclosing information concerning trade secrets.

- 8.6 In taking forward the implementing regulations, the Government considered the responses to the consultation including the issues raised and the various drafting suggestions made. The Government amended the regulations where appropriate so they better align with the provisions of the Directive. Examples include revising the definitions in regulation 2 to reflect the wording of the Directive, amending regulation 3 to clarify the relationship between the measures, procedures and remedies provided in the regulations and those currently available to a trade secret holder in an action for breach of confidence, and amending regulation 10 concerning the preservation of confidentiality of trade secrets in the course of proceedings to bring it closer to the wording of the Directive. The amendments ensure the regulations are consistent with the Directive and provide clarity, coherence and transparency.
- 8.7 The Directive provides for measures and remedies for whistle-blowers and others. These provisions have not been implemented in the regulations as they are already available under UK law. The transposition note annexed to this memorandum has been amended to include further detail.
- 8.8 The summary of responses and the Government's response to the consultation is available on the GOV.UK website at:
<https://www.gov.uk/government/consultations/draft-regulations-concerning-trade-secrets>

9. Guidance

- 9.1 Guidance is not considered appropriate as this instrument does not substantially modify existing law.

10. Impact

- 10.1 There is no impact on business, charities or voluntary bodies.
- 10.2 There is no impact on the public sector.
- 10.3 An Impact Assessment has not been prepared for this instrument. This is because there is no impact on business. The measures included in the regulations relate primarily to procedural matters for the courts. A Justice Impact Test form has been completed. This did not anticipate any increase or decrease in cases before the courts relating to the unlawful acquisition, use or disclosure of a trade secret.

11. Regulating small business

- 11.1 The legislation applies to activities that are undertaken by small businesses.
- 11.2 No specific action is proposed to minimise regulatory burdens on small businesses because it is expected that the legislation will have minimal impact on businesses. The regulations do not impact on the day-to-day operations of businesses. Instead they provide a benefit to businesses by clarifying how to protect their trade secrets where they are misappropriated.

12. Monitoring & review

- 12.1 The instrument does not impact on business. This is because the measures relate primarily to procedural matters for the courts. As such, monitoring and review is not considered necessary. The Directive does not require Member States to conduct a review.

- 12.2 However, the Directive requires the European Union Intellectual Property Office, in the context of the activities of the European Observatory on Infringements of Intellectual Property Rights, to prepare an initial report on litigation trends regarding the unlawful acquisition, use or disclosure of trade secrets by 9 June 2021.
- 12.3 By 9 June 2022, the Directive also requires the Commission to produce an intermediate report on the application of the Directive taking into account the initial report produced by the European Union Intellectual Property Office.
- 12.4 By 9 June 2026, the Commission is required to carry out an evaluation of the impact of the Directive and submit a report to the European Parliament and the Council.

13. Contact

- 13.1 Sue Williams at the Intellectual Property Office (Telephone: 01633 814736 or email: sue.williams@ipo.gov.uk) can answer any queries regarding the instrument.