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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?

no

If not please comment.:

Ireland does not have laws specifically protecting trade secrets. Currently the owner of trade secrets that have been misappropriated must rely on either contract law (such as express obligations in an employment contract) or on the common (court-developed) law on confidentiality and breach of confidence.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

In the case of express contractual clauses, the enforceability of such clauses is informed by the doctrine of restraint of trade.

In the absence of a written contract, a legally enforceable obligation of confidentiality may exist because of the type of relationship between the parties including employer/employee, banker/customer, sub-contractors and agents or because of the circumstances of disclosure of the information by the owner to another person.

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

Information acquired by an employee in the course of his/her employment, and not the subject of any relevant express agreement, is covered by the common law of confidentiality and breach of confidence.

The Irish High Court in *AIB PLC & Ors v Diamond & Ors* [2011] IEHC 505 confirmed the Irish position on breach of confidence: If an employee is expressly told that certain information, acquired in the course of his/her employment and part of his/her own skill and knowledge, is confidential or because of its character it is obviously confidential, an employee cannot use or disclose that information. However, information which, is of trivial character or is easy accessible from public sources of information, can be imparted by an employee during his service or afterwards to anyone he or she pleases. This decision effectively approved the principles in the English case *Faccenda Chicken v Fowler* [1985] Ch 117 as part of Irish law.

An employee is also entitled to bring his/ her general skills and knowledge with him/her wherever (s)he may go. The only enduring obligation on the part of an employee after his/her employment has ceased is one which precludes the employee from disclosing information that goes beyond general skill and knowledge and amounts to a trade secret.

While there is no precise definition of a 'trade secret' under Irish law and it will ultimately turn on the facts of the case, there is some guidance to be adduced from case law. Examples of trade secrets that have arisen in the past in UK cases, as persuasive authority in Ireland include secret processes of manufacture such as:

- chemical formulae as per *Amber Size & Chemical Co. v. Menzel* [1913] 2 Ch. 239;
- designs or special methods of construction as per *Reid and Sigrist Ltd. v. Moss and Mechanism Ltd.* [1932] 49 R.P.C. 461; and
- design prototypes as per *Carflow Products v Linwood Securities* [1962] RPC 97.

Commentators suggest that secret recipes such as the Coca Cola formula, invoices and details of commercial arrangements with clients are likely to amount to trade secrets.

Sales information as per *Faccenda Chicken v Fowler* and customer details as per *AIB PLC & Ors v Diamond & Ors* were held not to amount to trade secrets.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

There is an implied duty of confidence which attaches to current employees, as employees have a duty of fidelity to their employers.

All information which would be classed as confidential under Irish law may be protected by express clauses within the employment contract. However, this is merely the confirmation of the implied duty. As to whether express clauses can protect information which is not confidential (i.e. beyond the implied duty of confidence), this is something of an unresolved question in Irish law. There is no

case law on the area, and it has been suggested by commentators (e.g Gurry on Breach of Confidence) that where there is any disclosure of information related to non-confidential information it would be difficult to prove the requisite damage to merit protection by the courts.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

In the absence of an express confidentiality clause, there is no time limit on a duty of non-disclosure in respect of trade secrets at least insofar as the matter remains a trade secret and is not otherwise known to the public.

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes
If yes, is there any distinction between the types of knowledge they can use?:

Other than information amounting to trade secrets, workers can use or disclose any knowledge acquired in previous employment as per *Faccenda Chicken v Fowler* and endorsed in Ireland in *AIB plc v Diamond*.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes
If so, which employees, and what is the rationale for any distinction between employees?:

The duty of confidentiality is not uniform in its application, but is implied from the type and field of work in question and what may be expected in that particular industry or sector.

Directors may be subject to a higher obligation as a result of their fiduciary duties. Directors must not disclose confidential information which they obtain in their capacity as directors of a company, since this will generally not be in the best interests of the company. In addition, the unauthorised disclosure of confidential information can have serious consequences in relation to companies whose shares are dealt in or quoted on a recognised stock exchange under the insider dealing rules of the Companies Acts and, where appropriate, under the continuing obligations rules of the relevant stock exchange.

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

Information obtained during discovery is subject to an implied undertaking to the Court to keep documents discovered confidential.

The court may also order such other measures as it deems appropriate in order to mitigate the loss of confidentiality.

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

The Irish Constitution provides that justice shall be administered in public in all courts; save in such special and limited cases as may be prescribed by law. Court sittings in the vast majority of cases are therefore open to the public, with exceptions including proceedings involving the disclosure of a secret manufacturing process.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

Irish law provides that if a document is deployed by a party in proceedings then it must be disclosed to the other side.

Order 31, rule 14 of the Rules of the Superior Courts provides that a court may, at any time during the course of proceedings, order the production by any party, on oath, of such document in the possession or power of a party relating to any matter in question in the cause or matter as that court shall think right and the court may deal with such documents, when produced, in such manner as appears just.

In attempting to balance the rights of the disclosing party and those requesting disclosure the court can seek to fashion an appropriate order designed to meet the facts of the individual case so as to protect both the legitimate interests of the party seeking disclosure to ensure that all relevant materials potentially influential on the result of the case are before the court and, to the extent that it may be proportionate, the legitimate interests of confidence asserted.

Order 31, Rule 18(2) of the Rules of the Superior Courts stipulates that an order for inspection of documents will not be made unless the court is of opinion that it is “*necessary either for disposing fairly of the cause or matter or for saving costs*”. This test may not be satisfied and an order for inspection may be refused or limited on the grounds that the material in question is confidential as per *Gormley v Ireland* [1993] 3 IR 75, 80. The court may also seek to take measures in order to mitigate the loss of confidentiality such as blanking out parts of the documents as per *Cooper Flynn v Radio Telefís Éireann* [2000] 3 IR 344, 353 and *Gormley v Ireland* [1993] 3 IR 75, 80 or permitting disclosure only to the opposing party’s legal advisers and a nominated officer of the opposing party (subject to strict conditions) as per *Koger v O’Donnell* [2009] IEHC 385. Such measures would be in addition to the implied undertaking to the Court to keep documents discovered confidential and are only granted in limited circumstances.

c) non-confidential versions of documents being provided to all except authorised individuals;

See 6(b) above.

d) only non-confidential parts of any judgment / decision publicly available?

Judgments are not redacted for confidentiality. Judgments are often read out in the Court (i.e in public) by the presiding Judge. If a written judgment is handed down it is provided to the Courts Service at the discretion of the presiding judge. Once provided to the Courts service it is available for access by the public.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

The above measures are only available in exceptional circumstances and following application to the Court.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

Documents that have been disclosed on foot of an order for discovery are subject to an implied undertaking that they will not be used for any purpose other than the proper conduct of the action.

However, any information disclosed during the hearing unless explicitly subject to confidentiality regime is deemed to be public knowledge.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Damages are available for breach of confidence under Irish Law as per *House of Spring Gardens v Point Blank* [1984] IR 611. In order to succeed in claiming damages for breach of confidence the information must be confidential. If the information is readily available to the public, there will not be a breach of the obligation of confidence.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

Damages are calculated as the loss to the plaintiff and could take the form of a reasonable royalty if appropriate. An account of profits to take account of unjust enrichment is available as an alternative to actual damages for a common law breach of confidence. The plaintiff must elect between the two.

Damages for breach of a contractual clause of confidentiality are available in the usual manner i.e they seek to put the injured party in the position he would have been in had the contract been performed satisfactorily. Restitutionary damages may be recoverable in exceptional circumstances where the defendant is unjustly enriched by, or has made a profit after, the relevant breach.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

no

If not please comment.:

The concept of moral prejudice has not arisen to date under Irish law.

d) If so, how is moral prejudice defined and how are such damages quantified?

N/A

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

Trade secrets are protected under the doctrine of confidence or under contract law in Irish law as per the Irish Supreme Court decision in *House of Spring Gardens v Point Blank Ltd* [1984] 1 IR 611. In general, in order to take an action for breach of confidence, three conditions must be satisfied:

- a. There must be an obligation of confidence between the parties;
- b. There must be a disclosure of confidential information; and
- c. The disclosure of the information must cause damage.

This adopted the UK test and position in *Coco v. AN Clark (Engineers) Ltd.* [1969] FSR 415.

The obligation of confidence tends to be implied within a particular relationship, or by express agreement. Within the context of certain relationships, a duty of confidence may arise. Often, a duty of confidence will arise due to the terms of a contract governing a relationship. An obligation of confidence will often be expressly included in contracts, for example, joint ventures, consulting contracts. Further, certain categories of relationship may carry with it an implied duty of confidence. For example, an employee may be considered to have an implied duty of confidence to his employer because of the nature of his duties. Additionally, certain agreements are entered into for the express purpose of maintaining confidentiality; non-disclosure agreements.

A claim for breach of a contractual obligation of confidentiality is brought as a standard breach of contract claim.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

Not applicable. Trade secret violations are protected under the common law of breach of confidence or breach of contract in Ireland and so are treated in the same way.

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes
If so, in what circumstances? :

As far as we know, this has not yet been the subject of case law before the Irish Courts. However, in theory we consider that the burden of proof could be discharged on the basis of imputed knowledge.

13) Does your jurisdiction provide for discovery?

yes
If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Yes discovery is available in Ireland, including against third parties, but not generally pre-action with the exception of Norwich Pharmacal type relief seeking the identity of a wrongdoer.

Where there are existing civil proceedings in being, the court may be prepared to grant a discovery order against a party that is not a party to the proceedings (i.e. a third party), where the applicant can demonstrate that the non-party holds or is likely to hold relevant documents and that the documents are not otherwise available. The applicant must agree to indemnify the non-party in respect of the costs of making discovery. A non-party can seek to resist an order where it would create an oppressive burden. Such applications generally require inter-party discovery to have been completed, although the court may be prepared to make an order for non-party discovery at an earlier stage, depending on the circumstances of the case.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

no

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

In exceptional circumstances, where there is very strong evidence that serious damage would otherwise be caused and a strong likelihood that evidence would otherwise be destroyed or removed the court may make an Anton Piller Order (an order that provides the right to search premises and seize evidence without prior warning). When granting an injunction, the court will require the plaintiff to provide an undertaking to the court that he or she will comply with any damages order if it transpires that the interim order was wrongly obtained. Safeguards include the presence of a supervising solicitor to ensure the proper effecting of the Order.

Under the European Communities (Civil and Commercial Judgments) Regulations, 2002, where proceedings have commenced in an EU state and the plaintiff requires a protective order, an application may be made to the High Court for protective measures, including seizure of evidence.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Seizure pursuant to an Anton Piller Order is available to prevent the removal or destruction of evidence before the action comes to trial.

Seizure pursuant to the European Communities (Civil and Commercial Judgments) Regulations, 2002 is available for the purpose of obtaining information or preserving evidence.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

no

If not, why?:

Trade secrets should be protected as inviolable right for companies.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?
 No. Trade secret protection should be absolute regardless of status

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?
 If it is found there is a trade secret and that trade secret became available during the course of the proceedings and is not otherwise public then the successful defendant should be required to refrain from using the trade secret after the proceedings. It is difficult to conceive why a trade secret should lose that status simply due to an unsuccessful enforcement action.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?
 No. Information developed independently should not be fettered or restricted.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?
 yes
 If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?
 no
 If not please comment.:

b) only where injunctive relief is not adequate
 no
 If not please comment.:

c) only where injunctive relief is not necessary?
 no
 If not please comment.:

d) If by default, why?
 Damages should be by default as it facilitates the Court not granting a permanent injunction if damages are an adequate remedy.

Aspect (iv) - Proving infringement

22)	Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?
	yes
	If yes, in what circumstances? :
	Yes, otherwise the burden of proof on rightsholders may be too difficult to discharge. The new employer could demonstrate independent development or conception potentially to an expert only.

23)	Availability of pre-action evidence orders and seizure orders.
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a)	Should pre-action evidence preservation orders be available?
	yes
	If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:
	Yes, such remedies should be available. The ex-parte nature of the relief is important to avoid tipping off. In order to protect the party not heard, a requirement to demonstrate to the court that there is a real risk of destruction or removal of the evidence should be in place.

b)	Should pre-action evidence seizure orders be available?
	yes
	If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:
	Yes, such remedies should be available. The ex-parte nature of the relief is important to avoid tipping off. In order to protect the party not heard, a requirement to demonstrate to the court that there is a real risk of destruction or removal of the evidence should be in place.

24)	What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?
	Discovery should be the subject of a confidentiality obligation. If, as under Irish law, there is a supervising solicitor appointed by the Court to execute the order than there would be some independent oversight of this obligation arising.

III. Proposals for harmonisation

25)	Is harmonisation in this area desirable?
	Yes

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26)	Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.
	Trade secret enforcement actions should fail where they would result in a breach of competition law.

Further, they should fail where they would preclude an employee from use his acquired skills and knowledge to progress his / her career in a role outside the trade secret owner's organisation.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

Damages if appropriate rather than an injunction.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

This depends on the specific confidentiality clause involved and the type of information used or shared. It should be considered on a case by case basis and determined on the basis of equitable considerations.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

The best protection possible to ensure trade secrets are not divulged should be provided by the Courts.

Discovery should be completed subject to a strict confidentiality regime and any reference to the trade secret should be redacted on all Court records. The parties' legal representatives and one person from each party should have full access to the confidential information during the trial subject to a Court Order not to disclose such alleged trade secret without prior court approval.

There should also be provision of in-camera hearings for the Court to hear submissions in respect of the particular trade secret.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

None

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

Damages should be calculated by reference to the loss incurred by the trade secret owner or based on the royalty that the infringer would have paid if he had obtained a licence, with regard to the amount that the claimant charges for other comparable licences.

To negate against unjust enrichment, a trade secret owner upon a finding of a trade mark violation should be entitled to elect for an account of profits instead of damages.

In either case of damages or an account of profits, the owner of the trade secret must show detriment or damage in accordance with the 3 step test for breach of confidence outlined above.

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32)	Should courts award moral damages?
	no

Aspect (iv) - Proving infringement

33)	What measures to secure or preserve evidence should be available?
	We consider Common Law Anton Piller type relief to be appropriate

34)	What restrictions should apply to the use of seized evidence by the claimant?
	Any evidence seized pursuant to such relief should be subject to an undertaking that it can only be used for the purposes of the proceedings and the content (as opposed to the seizure) must remain confidential.

Summary

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.
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