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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)?

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

We begin by clarifying a point of terminology/usage, which is to say that the most common usage in English law is to refer to “confidential information” – a basic distinction is made between “confidential information” (which, subject to certain limitations, can be protected) and public information (which cannot be protected).

English cases also speak of “rights” in confidential information, as well as of “duties” and/or “obligations” in relation to confidential information. This is because confidential information is not a property right under English law, but rather is a source of rights and obligations between parties.

Confidential information can be protected through express contractual provisions (e.g. express confidentiality clauses set out in an employment contract). However, in addition, such rights can arise either as implied contractual terms or in equity whenever information:

1. has the necessary “quality of confidence”; and
2. is “imparted in circumstances importing an obligation of confidence”.

The first of these requirements depends on both the inherent quality of the information and also its general accessibility - the information must not be public and must not be trivial.

The second requirement meanwhile can be satisfied whenever the circumstances are such that a reasonable person would consider themselves bound by confidentiality. This second limb is very readily satisfied in the context of employees, since the court will imply into the employment contract a general obligation for the employee not to use or disclose confidential information acquired from the employment, other than for the purposes of the employment.

The term “trade secret” is less widely used in English law. It is mainly used to refer to a specific sub-set of confidential information that can be protected in the context of companies taking action against their former employees or, less commonly, in relation to material taken from an act of industrial espionage. This usage is explained further below.

The term “trade secret” is also sometimes used in a way which suggests it is synonymous with the term “confidential information” rather than a sub-set of the latter. This usage may not be strictly correct as a matter of English law, but it is likely to become more common as a result of the proposed EU trade secrets directive, which also uses the term “trade secret” as an umbrella term (i.e. covering any type of confidential information which has commercial value).

In relation to the first usage, the idea that “trade secrets” constitute a specific sub-set of confidential information arises from the case of *Faccenda Chicken v Fowler*, where the Court drew a distinction between three categories of information that might be made available to an employee in the context of his or her employment. These were as follows:

- Category 1: “...information which, because of its trivial character or its easy accessibility from public sources of information, cannot be regarded by reasonable persons or by the law as confidential at all. The servant is at liberty to impart it during his service or afterwards to anyone he pleases, even his master's competitor... This class of information, however, must not be extended too readily...”.
- Category 2: “Information which the employee must treat as confidential (either because he is expressly told it is so or because from its character it is obviously confidential) but which once learned necessarily remained in the employee's head and became part of his own skill and knowledge applied in the course of his employer's business.”
- Category 3: “...specific trade secrets so confidential that, even though they may necessarily have been learned by heart, and even though the servant may have left the service, they cannot lawfully be used for anyone's benefit but the master's...”.

The critical distinction is therefore between that which the employee can continue to use after the termination of employment (because it has become part of his or her skill and knowledge) and that which the employee cannot use after termination of employment (because it is a specific trade secret).

Where a “trade secret” is found to exist, the employee can theoretically be prevented from using that information indefinitely. However, no restraint of trade issue arises because, by virtue of the information being a “trade secret”, the information in question is not something that the employee reasonably needs to use in order to earn a living.

This situation in turn arises from the criteria that are applied in order to determine whether the information is a trade secret - almost by definition, a trade secret is not something that the employee needs to use in order to be able to continue to operate his or her trade/profession (see further below as to the criteria that are applied as to whether information might be a “trade

secret”).

The law relating to unlawful restraints of trade and the law relating to confidential information therefore dovetail neatly in this area. The doctrine of unlawful restraints of trade is however a free-standing area of English law that is of more general scope/application (e.g. it can apply to any contractual provisions that seek to restrict an employee’s future activities, not merely those relating to confidential information).

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?

As discussed above, the case law differentiates between different categories of information for these purposes.

Certain information will not be regarded as confidential at all, such that the issue of whether it is part of the employee’s general skill and knowledge or is a trade secret does not arise. For instance, information that is readily available in the public domain cannot be confidential. Additionally, information that is trivial also cannot be protected as confidential. In either case, the information would fall within the first category from the *Faccenda Chicken* case referred to above.

Of the information made available to an employee that can be regarded as confidential, there is then the further distinction to be drawn between that which is a “trade secret” (i.e. the third category from *Faccenda Chicken*) and that which merely forms part of the employee’s skill and knowledge (i.e. the second category from *Faccenda Chicken*).

This distinction seeks to take account of the employer’s legitimate interest in protecting its confidential information. However, it also seeks carefully to protect the employee’s ability to use his or her skills and knowledge to continue to earn a living, as well as the wider public interest in employees being able to compete fairly with their previous employers, in order to encourage an efficient and competitive economy. The fundamental principle is that the employee will not be fettered from making proper use of his or her skills. To this end, insofar as knowledge gained in confidence has become part of the employee’s general skill and knowledge, he or she owes no duty after the termination of his or her employment to refrain from using it in other employment.

As regards the distinction between “confidential information” and “trade secrets”, it is notable that this does not hinge on whether or not the information is known to the employee. For instance, in the case of *Printers & Finishers Ltd v Holloway*, it was said, in relation to whether or not the class of information is known to the employee, that:

“The mere fact that the confidential information is not embodied in a document but is carried away by the employee in his head is not, of course of itself a reason against the granting of an injunction to prevent its use or disclosure by him. If the information in question can fairly be regarded as a separate part of the employee’s stock of knowledge which a man of ordinary honesty and intelligence would recognise to be the property of his employer, and not his own to do as he likes with, then the court, if it thinks that there is a danger of the information being used or disclosed by the ex-employee to the detriment of the old employer, will do what it can to prevent that result by granting an injunction. Thus an ex-employee will be restrained from using or disclosing a chemical formula or a list of customers which he has committed to memory.”

There is however no fixed methodology by which trade secrets can be identified – it is a question of degree which involves deciding whether the knowledge might be regarded as forming part of the employee’s general stock of accumulated know-how or whether the information constitutes specific details which should be regarded as belonging to his employer.

In *Faccenda Chicken* itself, the Court of Appeal identified four factors that were relevant to whether

confidential information amounted to a trade secret:

- the nature of the employment;
- the nature of the information;
- the extent to which the employer impressed the information’s confidentiality upon the employee; and
- the ease with which the information could be isolated from other information that the ex-employee was free to use.

Likely damage to the claimant is frequently cited as a relevant criterion in assessing whether the information in question is a trade secret.

Other relevant factors might include whether the employee can realistically or practically be expected to abstain from using such information consciously or unconsciously, and if so for how long. Similarly, the extent of the “severability” / “separability” of the information in question will be relevant. That is, whether it is easy to isolate and distinguish the information from an employee's acquired skill and knowledge acquired by working in the trade.

The value of the information to competitors may also be relevant – if the information is fundamental to the profitability and competitiveness of the business, such as to give the competitor key information, it is more likely to be a trade secret. Likewise, the expense of production of the information and, closely related, the difficulty in acquiring or duplicating the information will also be relevant.

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

As regards question (3)(a), it is generally speaking unlikely that equitable obligations of confidentiality will be found to exist that are of wider scope than contractual confidentiality provisions (although it is possible).

Contractual provisions will not conclusively change whether a particular piece of information constitutes a “trade secret”. However, by recording the agreed position in a contractual document as to how particular information will be handled, contractual provisions may in some cases influence the analysis (e.g. by demonstrating that the information was regarded as highly sensitive and was agreed to be treated carefully by both parties meaning that it is harder for the recipient to argue that the information is not confidential as they have already agreed in a contract that it is).

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?

As regards question (3)(b), as noted above, an employee can theoretically be prevented from using trade secrets indefinitely, provided they continue to constitute trade secrets. This is the case regardless of how the employee's obligations arise.

That said, it would be possible for parties to agree a finite term in respect of any confidentiality obligations (e.g. a 5 year confidentiality period, following which the parties are released from those obligations).

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?:

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?:
 Yes. An employee who is also a director of a company owes fiduciary duties to the company, including a duty of confidentiality. The individual must guard against any conflict between their personal interests and their duties to the company. They must disclose to the company any profit or benefit which they obtain from their position. For example a director cannot without the authority of the company disclose any confidential information which the individual has obtained as a director.

Aspect (ii) - Ensuring confidentiality during Court proceedings

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

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 general rule in England and Wales is that all hearings are carried out in public.^[1] A party wishing to protect confidential information may seek an order restricting public attendance at proceedings.^[2] The circumstances in which a hearing may be held in private include where “*publicity would defeat the object of the hearing*” and/or where confidential information is involved and publicity would damage that confidentiality.^[3]

The courts give great weight to the principle of open justice, and are generally reluctant to allow hearings to take place in private.^[4] In addition, there is no general exception to the open justice rule where privacy or confidentiality is in issue.^[5] The courts will consider exceptions based on the particular facts of the case, and must be satisfied that justice can only be done if the public is excluded. If the court does restrict access to a hearing, the restrictions will be limited to what is required in the circumstances.^[6] Recent cases have suggested that in most commercial cases it will be very difficult to satisfy the court that a private hearing is necessary.^[7]

Note, however, that merely because a hearing is open to the public, it does not follow that all that is done at the hearing will be made public. The court may, for instance, refer to and read, but not read aloud, confidential information.

The open justice principle plays a strong role in the approach to access to evidence. Parties to proceedings should generally have access to all relevant information. The fact that a document is confidential or commercially secret does not of itself entitle a party to refuse to produce it e.g. during disclosure.

However, in an appropriate case, such as one involving trade secrets where there is a concern that relevant documents obtained through disclosure will be used for purposes other than the proceedings, the court may impose additional safeguards on the parties. These may include specific confidentiality undertakings and specifying the individuals who may inspect the documents (also

see answer to Question 6(b) below).

Statements of case (but not documents filed with or attached to them) are available to the public from the court file.^[8] A party wishing to keep the contents of its statement of case secret may apply to court for an order to restrict public access. The court has wide powers to restrict such access, including completely preventing non-parties from accessing the court file (known as “sealing the court file”) or ordering the filing of a redacted, non-confidential version alongside the unredacted, sealed version. In practice, parties often attach a “confidential schedule” to a statement of case, rather than seeking a formal order restricting access. This approach has not been tested in court and may not be upheld on every challenge. The safer option is to obtain an order to seal the “confidential schedule”.^[9]

Footnotes

1. [^](#) *CPR 39.2(1)*; also see *Lord Neuberger MR in Practice Guidance (Interim Non-Disclosure Orders)*
2. [^](#) *CPR 39.2(3)*
3. [^](#) *CPR 39.2(3)(a)&(c)*
4. [^](#) *Scott v Scott [1913] A.C. 417*
5. [^](#) *Practice Guidance (Interim Non-Disclosure Orders)*
6. [^](#) *G v Wikimedia Foundation Inc [2009] EWHC 3148 (QB)*
7. [^](#) See, for example, *McKillen v Misland (Cyprus) Investments Ltd and others [2012] EWHC 1157 (Ch)*
8. [^](#) *CPR 5.4C(4)*
9. [^](#) *Under CPR 5.4C(4)*

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

Information cannot generally be relied on in court without being disclosed to an opposing party. The court may, however, limit the individuals permitted to inspect documents. This could include ordering that only the legal representatives of the opponent may inspect particularly sensitive documents.^[1]

Parties may, by order of the court, establish a “confidentiality club” which imposes restrictions on the disclosure process. The rules of the “confidentiality club” are subject to the court’s discretion, and may include restrictions on:

- who may access the disclosed documents;
- how those documents may be copied;
- where the documents may be viewed; and
- the dissemination of information contained in the documents.

“Confidentiality clubs” are particularly common at the pre-trial stage. As trial approaches, it becomes increasingly difficult to exclude the opponent themselves from a confidentiality club. The court may deny a party access to the evidence at trial, but this is considered highly exceptional.^[2]

Footnotes

1. [^](#) See *IPCom GmbH & Co KG v HTC Europe Co Ltd [2013] EWHC 52 (Pat)*
2. [^](#) *McKillen v Misland (Cyprus) Investments Ltd and others [2012] EWHC 1157 (Ch)*

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

Redaction of documents during the disclosure process is widely used. Commercial sensitivity and confidentiality, by themselves, are not sufficient grounds on which to withhold disclosure of documents (or parts of documents). But, where a document contains both disclosable material and irrelevant confidential material, the irrelevant confidential material can be redacted.

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

The general rule is that judgments and orders are public (including if the hearing was held in private). However, it is usually possible for the court to either (i) give judgment in a form which can be published by omitting or sufficiently generalising the confidential or private information, or (ii) grant an order prohibiting the publication of a party's name and/or confidential information relating to proceedings.^[1] The rules give judges flexibility to craft confidentiality restrictions to the particular circumstances of the case. Wherever possible, though, judges must give an open judgment, limiting restrictions to necessary redactions of confidential information.^[2]

Super-injunctions

The courts may grant a form of injunction, commonly known as a "super-injunction", which restrains a person from: (i) publishing information which concerns the applicant and is said to be confidential or private; and (ii) publicising or informing others of the existence of the order and the proceedings. These orders are therefore a significant derogation from the principle of open justice but they are rare.

The basis for claiming a "super-injunction" is that the injunction itself would be ineffective unless there is a restraint on the defendant from publishing or communicating to others the existence of the order or the proceedings.

Footnotes

1. [^](#) *Section 11 of the Contempt of Court Act 1981; CPR 39.2(4).*
2. [^](#) *CDE v MGN Ltd [2010] EWHC 3308 (QB)*

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?

Applications for court orders will always need to be supported by evidence. Applications seeking a derogation from the principle of open justice must be established by clear and cogent evidence which demonstrates that without the specific exception, justice could not be done.^[1]

Footnotes

1. [^](#) *Scott v Scott [1913] A.C. 417; also see Lord Neuberger MR in Practice Guidance (Interim Non-Disclosure Orders)*

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?

A party to whom a document has been disclosed may use the document for any purpose after proceedings if the document has been read to or by the court, or referred to, at a public hearing.^[1] This rule provides a basis for a party to supply information to third parties including the press which that

party has obtained during proceedings.

The court may restrict or prohibit the use of a document which has been disclosed, even where the document has been read or used at a public hearing.^[2] The starting point, however, is that “*very good reasons are required for departing from the normal rule of publicity.*”^[3] Simple assertions of confidentiality and the damage that would be done are unlikely to be sufficient; rather, the court requires specific reasons why a party would be damaged by the publication of a document.

Footnotes

1. [^ CPR 31.22\(1\)](#)
2. [^ CPR 31.22\(2\)](#)
3. [^ SmithKline Beecham Biologicals S.A. v Connaught Laboratories Inc \[1999\] All E.R. 498](#)

Aspect (iii) - Valuation of loss

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

Aspect (iv) - Proving infringement

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

In addition to establishing that a trade secret exists (for which, see above), it is also necessary to prove that the trade secret has been used or disclosed without permission (or at least in a way that exceeds any given permission).

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?

If an action for breach of confidence is brought against a former employee, as discussed above, it will be necessary for the claimant to demonstrate that the information in question was not merely part of the employee’s general skill and knowledge, but that it constituted a trade secret. See above.

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?

no

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, the law of England and Wales provides for discovery of documents (known as "disclosure"). Discovery by deposition does not exist in litigation in England and Wales.

The court has power to order disclosure of documents (not information per se) before proceedings start, from a person who appears to the court likely to be a party to the proceedings and to be likely to have or have had in his possession, custody or power documents which are relevant to an issue arising or likely to arise out of the claim^[1]. The order may provide that such documents be produced, on such conditions as may be specified in the order, to the applicant's legal advisors.

An application for such disclosure has to be supported by evidence. The court may only make an order for pre-action disclosure where, as well as the respondent, the applicant is likely to be a party to subsequent proceedings and disclosure before proceedings have started is desirable to dispose fairly of the anticipated proceedings, assist the dispute to be resolved without proceedings or to save costs.

There is a similar pre-action power to order the inspection, photographing, preservation, custody and detention of property which appears to the court to be property which may become the subject of subsequent proceedings, or as to which any question may arise in the proceedings, and the taking of samples of any such property and carrying out of any experiment on or with such property^[2].

The court has power to order disclosure of documents by and inspection etc. of property of a person who is not a party to the proceedings^[3]. The application must be supported by evidence. The court may only make an order for non-party disclosure where the documents of which disclosure is sought are likely to support the case of the applicant or adversely affect the case of one of the other parties to the proceedings and disclosure is necessary in order to dispose fairly of the claim or to save costs.

Orders for pre-action disclosure and non-party disclosure must specify the documents or the classes of documents which the respondent must disclose and require him, when making disclosure, to specify any of the documents which are no longer in his control or in respect of which he claims a right or duty to withhold inspection. The order may require the respondent to indicate what has happened to any documents which are no longer in his control and specify a time and place for disclosure and inspection.

The court also has power, in certain circumstances, to order that a person attend court or produce a document or for a party to obtain evidence before a hearing to be used at the hearing. But these are considered to be aspects of evidence rather than discovery/disclosure.

Footnotes

1. [^] *Senior Courts Act 1981, s33(2); rules of court are to be found in Civil Procedure Rules 25.1(1)(j) and 31.16*
2. [^] *Senior Courts Act 1981, s33(1); CPR 25.1(i)*
3. [^] *Senior Courts Act 1981, s34(2); CPR 31.17*

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?

yes

If yes, what is this threshold?:

Although the general rule is that the person that asserts bears the burden of proof, with the standard of proof in civil cases being the balance of probabilities, the evidential burden can shift to the defendant to establish that has been no violation, if the claimant is able to establish facts from which a prima facie case of misuse can be inferred. In such circumstances, the defendant is at risk of being held to have misused trade secrets if it adduces no evidence to rebut the prima facie case. There is no particular threshold.

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?:

The Court in England and Wales has the power to make orders for the purpose of securing, in the case

of any existing or proposed proceedings, the preservation of evidence. Such an order may direct any person to permit any person described in the order to enter premises in England and Wales and, while on the premises, to take in accordance with the terms of the order any of a number of steps. Those steps include the carrying out of a search for, or inspection of, anything described in the order and to make or obtain a copy, photograph, sample or other record of anything so described. The order may also direct the person concerned to provide any information or article described in the order and to allow any person described in the order to retain for safe keeping anything described in the order.

The application for a so-called "search order" is usually made without notice to the other party. The order is only made if it is necessary in the interests of justice. There must be a strong prima facie case, suspicion not being enough. The danger to the claimant to be avoided by the grant of the order must be serious. If an order is sought to forestall the destruction of evidence, the evidence in question must be major, if not of critical importance. There must be clear evidence that the defendants had in their possession incriminating documents or things. There must be a real reason to believe that the respondent will disobey an injunction for the preservation of the evidence in question. If the court is not satisfied of this risk, it will decline to make the order. In such circumstances, the court will consider there is no reason why the usual inter partes disclosure procedures will not suffice.

The application has to be supported by an affidavit (i.e. sworn statement), which must disclose very fully the reason the order is sought, including the probability that relevant material would disappear if the order were not made. Failure to make full disclosure of all relevant facts can be regarded as a serious matter. It can result in the order being discharged.

There are many safeguards that are put in place. These include (and this list is not exhaustive):

- The order has to be served by a so called "Supervising Solicitor", unless the court orders otherwise. The Supervising Solicitor must not be an employee or member of the applicant's firm of solicitors.
- The Supervising Solicitor may be accompanied only by the persons mentioned in the order.
- The Supervising Solicitor must explain the terms and effect of the order to the respondent in everyday terms and advise him of his right to take legal advice and to apply to vary or discharge the order and that he may be entitled to avail himself of legal professional privilege and privilege against self-incrimination (albeit the scope of the latter in "Intellectual Property" cases is severely limited by section 72 of the Senior Courts Act).
- The order may only be served between 9.30am and 5.30pm Monday to Friday unless the court otherwise directs.
- The applicant/claimant has to give an undertaking in damages to compensate the respondent for loss caused by the order if it later turns out that it was wrongfully made.
- No material is to be removed unless clearly covered by the terms of the order.
- The premises must not be searched and no items shall be removed from them except in the presence of the respondent or a person who appears to be a responsible employee of the respondent.
- Where copies of documents are sought, the documents should be retained for no more than 2 days before return to the owner.
- Where material in dispute is removed pending trial, the applicant's solicitors should place it in custody of the respondent's solicitors on their undertaking to retain it in safekeeping and to produce it to the court when required.
- In appropriate cases the applicant should ensure the material is retained in the respondent's solicitors' custody.
- The Supervising Solicitor must make a list of all material removed from the premises and supply a copy of the list to the respondent.
- No material shall be removed from the premises until the respondent has had reasonable time to check the list.
- There will be a so called "return date", which is another hearing scheduled before the court subsequent to the execution of the order, at which both claimant and respondent are to attend.

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?
	The material that is obtained by the applicant pursuant to a search order can in general only be used as evidence in the case with permission of the court. There is a standard undertaking that the applicant gives to the court when the search order is granted that the applicant will not, without permission of the court, use any information or documents obtained as a result of carrying out the order except for the purpose of the proceedings.

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?
	<p>yes</p> <p>If so, what limits? :</p> <p>An appropriate balance needs to be struck between (i) an employer’s legitimate interest in the preservation of trade secrets and confidential information, and (ii) the interests of the individual employee and the broader public in employees being able to carry on their trades freely. The protection of trade secrets, like any other restraint of trade, should be unenforceable unless it: (a) protects a legitimate interest of the party protected, (b) is reasonable as between the parties, and (c) is not contrary to the public interest. Such a test provides the flexibility to accommodate the employer’s and employee’s competing rights and interests across a range of employment situations.</p>

18)	Should different obligations of confidence / non-use apply to different employees? Why/why not?
	<p>Rather than seek to define different types of employees and apply different legal standards to different classes of employee, leading to a variety of legal tests and increased complexities, we favour a streamlined but flexible approach which is similar to the current English approach. Determining which trade secrets are so confidential that an employee cannot use them even after he or she has left the employer’s service should be assessed holistically, in light of all the circumstances of the case. Such circumstances include the nature of the employer, the type of work involved, the seniority of the employee, and how easily the information can be isolated from information which the employee is properly free to disclose.</p> <p>As a general rule, information which one employee possesses which is sufficiently confidential that it should not be used other than in the service of the employer, should properly be classified in the same way for any other employees of that employer. In certain, perhaps rare, cases a different outcome may be justified. For example, one might argue that a paparazzo should be permitted to continue to use his knowledge of the addresses and habits of celebrities that he acquired when employed by a newspaper, but that the newspaper’s secretaries or accountants should not be free to share this knowledge with their future employers. A common holistic assessment applied to all types of employees can accommodate this scenario, by factoring in the differences in the nature of their duties, and the ease with which information is severable from each employee’s stock in trade.</p>

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?
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Yes, provided that the trade secret is genuinely confidential. It is crucial that genuinely confidential trade secrets are kept confidential during court proceedings. If they are not, this would often undermine the very purpose of the proceedings, in so far as they relate to actions for breach of confidence. In addition, if information is not kept confidential in the course of proceedings, then parties will be reluctant to bring (or defend) actions in the courts. That would undermine justice and the proper enforcement of legal rights.

The principle that confidential information should be kept confidential in proceedings is an extremely important one and should apply in all cases. It therefore applies irrespective of whether the defendant has been successful or not in defending against the alleged trade secret violation.

It is recognised that this may mean that the defendant is at a disadvantage, because it may learn of a trade secret that it must thereafter keep confidential and not use. However, generally, this situation is extremely rare. The court has procedures to avoid this. For example, it is possible for information not to be read out in open court. The court can hear the proceedings in private, excluding all members of public, and the relevant party can also be excluded or choose to be excluded. A party can also choose to be excluded, or can be required to be excluded, from the group of people entitled to see documents which are disclosed in the course of the disclosure (discovery) stage of proceedings, relying on its lawyers to review the documents. While it is not ideal for any party to be excluded from any part of the proceedings, because it is then less able to give full instructions to its legal representatives, this is the lesser evil than the public disclosure of genuinely confidential trade secrets, which would have the negative consequences discussed above. Similarly, it is recognised that on extremely rare occasions, there may be no choice other than to expose a party to a new trade secret. This may arise, for example, if a party needs to be cross-examined about it. Again, this is the lesser evil, particularly as it happens so rarely.

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?

If a defendant (or any other party) has developed or otherwise acquired confidential information independently, prior to the trade secret proceedings, and prior to having seen that information on a confidential basis anywhere else, then obligations of confidentiality should not attach to it. That would be grossly unfair. There is no reason why a party should cease to be free to use information that it was free to use beforehand.

In principle, the position would be the same if the information were developed independently after the trade secret proceedings. However, if it is the same or very similar information, it is scarcely credible that it was developed independently. How would the defendant be able to put the information it has learnt out of its mind? Furthermore, evidentially, it would be extremely difficult for a party to establish that it had developed information independently in those circumstances, for the same reasons.

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?

yes

If so please comment.:

Damages should be available in all circumstances if required to compensate the victim

b) only where injunctive relief is not adequate

yes

If so please comment.:

See above

c) only where injunctive relief is not necessary?

yes

If so please comment.:

See above

d) If by default, why?

The reasons for the above answers is that damages are primarily to compensate the victim of a wrong, and in certain circumstances, to punish the wrongdoer. If the victim has not suffered any injury as a result of the wrong, then it is open to the court to award only nominal damages.

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? :

On the assumption that what is intended to be asked is whether the actual knowledge of the ex-employee should be imputed to the new employer; the answer is 'no'. (If the question is to be taken as written then the answer is also "no" for the reasons that will appear below.)

One exception is where an ex-employee establishes a company which he manages for the purpose of making use of the trade secrets that he has learnt from his former employer and he then becomes an employee of the new company. In those circumstances, the company would be treated as misusing the information because the company would have deemed knowledge via its management.

In this group's opinion, the introduction of the concept of constructive knowledge in this context would be undesirable and unnecessary. It is undesirable because (a) it could lead to injustice by creating financial liability for innocent behaviour (b) it would potentially act as a restriction on the free movement of labour and (c) if the test is whether the employer "ought to have known" this is difficult to apply and leads to uncertainty. (Of course if the new employer has actual knowledge that the information has been illicitly obtained then there is no difficulty in finding them primarily liable.) A company would assume liability once the nature and source of the information was learnt and would thereafter be subject to an injunction/damages for subsequent use.

23) Availability of pre-action evidence orders and seizure orders.

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. These are essential procedural tools in trade secrets cases, because in many cases the defendant will be dishonest and consequently they cannot be relied upon to identify and preserve evidence unless compelled to do so.

It is likely that in the event of a defendant being given notice of an application to preserve or disclose, evidence will be concealed or destroyed. Consequently not only are orders for preservation and seizure necessary but also court-sanctioned searches should be available in appropriate circumstances where there is good cause to believe that the potential defendant is likely to act dishonestly. In some jurisdictions there is provision for searches to be undertaken by court officials. This may be satisfactory in some simple cases but not where the factual background is technical and/or complex. Consequently searches should be carried out by the claimant's legal representatives, under supervision by a lawyer appointed by the court. In these circumstances the searchers would normally have the requisite background and technical knowledge to identify relevant evidence and where it is likely to be located. Such provisions already exist in England and experience shows convincingly that without such procedures in many cases the nature and extent of wrongdoing would never have been discovered.

This group recommends that the kinds of procedures, necessary requirements and safeguards outlined in Question 15 (above) should be adopted in all jurisdictions seeking to provide effective trade secrets protection.

It is essential that hearings to decide whether to grant such search, seizure and preservation orders should be able to take place ex parte (without notice to the putative defendant(s)), including before the commencement of proceedings, in urgent cases, where there is a demonstrable risk that given notice of the application for such an order the defendant might take steps to destroy or conceal relevant evidence in the face of the court's Order. Further, to avoid the risk of the other potential defendants being tipped off such orders should in appropriate cases include prohibitions on the proposed defendant disclosing the existence of the order to anyone other than his lawyers.

As the law stands in the UK it is effective but difficulties arise in cross-border cases where the non-UK courts are not prepared to make similar orders and dishonest defendants can escape justice.

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?:

The answer to this section has been dealt with above. Pre-action search and seizure is also an essential tool to preserve evidence in cases where evidence may be destroyed or hid or otherwise kept from a claimant.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

We refer to the answer to Question 19 above. A seizure is part of the proceedings. Therefore, in so far as genuinely confidential trade secrets are learned in the course of a seizure, or any other part of the proceedings, they should thereafter be kept confidential, for the reasons discussed previously. Of course, the new trade secrets learnt by the claimant may be used in the proceedings themselves, on a confidential basis, if they are relevant.

III. Proposals for harmonisation

25)	Is harmonisation in this area desirable?
	Yes, provided it can be achieved without resulting in a de facto decrease in protection for companies.

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.
	See the answer to Question 17 above for the position under English law, which we agree with. As regards a former employee, any attempt to enforce confidentiality in respect of information that does not constitute a trade secret should fail.

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?
	In such circumstances, the court should still prevent any publication of the information in question, since this would damage the interests of the former employer without assisting the former employee to continue to perform his or her trade.

28)	Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?
	See the answer to Question 5 above for the position under English law, which we agree with.

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?
	<p>First, the Court should employ procedures which avoid or minimise the risk of confidential trade secrets being disclosed publicly in open court. As regards oral proceedings where the material may be referred to, if the amount of material is small, parties should be required to avoid reading it out or referring to it in oral submissions. Where the amount of material is substantial, or where it is key to the proceedings and express reference to it cannot be avoided, the oral proceedings can take place in private, that is to say not open to the public.</p> <p>As regards documents that are filed with the court such that they become publicly available (whether they are existing documents or documents created for proceedings), the Court should permit them to be redacted so as to remove the confidential information. In appropriate cases, the confidential information can be contained in an un-redacted version or in a confidential annex, which is not made available to the public.</p> <p>Secondly, to the extent that information has been referred to in proceedings which would ordinarily</p>

result in the information becoming public, and therefore losing its confidentiality, the Court should have the power to order that the information nonetheless retain its confidentiality, and that use of the information be prohibited or restricted.

Thirdly, the Court shall have powers to restrict or prevent the use by the parties themselves of confidential information which is disclosed during the course of proceedings. In particular, procedures should be available which (i) limit the disclosure to certain specified people within an organisation, or in rare cases, to the legal representatives only, and (ii) require those to whom information has been disclosed to retain confidentiality, and not to use or disclose that information (save to the extent that the recipient was already familiar with the information, having obtained it independently). In the event that a party discloses confidential information contrary to that prohibition or restriction, punitive sanctions should be available from the Court, beyond the usual remedies for breach of contract or infringement.

What conditions should be satisfied?

In order for the above procedures to be available, the information must be genuinely confidential. That is to say, it should be the type of the information which can be protected by trade secret laws and it should be out of the public domain.

As regards the obligations imposed on parties to whom documents are disclosed, as stated, these should not apply where the information was already known by that party, by virtue of it having obtained the information independently.

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?

If the enforcement action fails because the information which was the subject of the action was not, in fact, a trade secret, no obligation should apply to the information.

However, in so far as different confidential information has been disclosed during proceedings, which was not already known by the party receiving the information, then confidentiality obligations should apply to that party. Those obligations should prevent the receiving party from using or disclosing the information in any way in the future, until that information loses that confidentiality by virtue of becoming public. Furthermore, the Court should make orders maintaining the confidentiality of that information, in so far as it is necessary to do so, if the information was referred to in open court.

Aspect (iii) - Valuation of loss

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

See the answer to Question 9 above for the position under English law, which we agree with.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

Moral damages for breach of confidence should be available where such damage has been suffered, which is likely to be only in exceptional circumstances. They should be compensatory and proportionate. However, if they are to be made available, some level of definition as to what constitutes

moral prejudice damages should be made.

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

The availability of proportionate documentary discovery is of considerable value to the claimant in trade secret cases. Similarly search orders in the limited circumstances, and subject to the safeguards, described in the answers to questions 15 and 23 are often crucial when there is a risk of destruction of significant evidence.

34) What restrictions should apply to the use of seized evidence by the claimant?

Seized material should only be used for the purposes of the proceedings pending or contemplated when the application for the order is made, except with permission of the court.

Summary

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