

# United Kingdom

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## 1. Substantive aspects of both criminal and civil law

### 1.1 Legal theories and principal sources of law

Trade secrets are not the subject of any specific legal regime in the United Kingdom but fall within the scope of the action for breach of confidence, the name given to proceedings brought in the civil courts to protect confidential information. Such actions often have a contractual basis (for example in the context of employment agreements or non-disclosure agreements), in which case they are founded on express or implied terms in such contracts; but it is not necessary that there be a contractual relationship for such an action, and although the precise legal basis in such non-contractual cases is controversial, it is generally now characterised as an equitable obligation.<sup>1</sup> As stated in a recent court case, an “equitable obligation of confidence will arise as a result of the acquisition or receipt of confidential information if (but only if) the acquirer or recipient either knows or has notice (objectively assessed by reference to a reasonable person standing in his shoes) that the information is confidential”.<sup>2</sup>

Neither the contractual basis for an action for breach of confidence nor the non-contractual or equitable basis has been codified in statute, but their precise scope and the relationship between them has been explored in case law, which has recognised that the two can coexist<sup>3</sup> and that “a contract may embrace categories of information within the protection of confidentiality even if, without a contract, equity would not recognise such a duty”.<sup>4</sup> However, “where the parties have specified the information to be treated as confidential and/or the extent or duration of the obligations, the court will not ordinarily impose additional or more extensive equitable obligations”.<sup>5</sup>

Much English case law on confidential information concerns the activities of ex-employees, but these can provide a somewhat misleading impression of the law in general as the English courts are scrupulous in ensuring that actions for breach of confidence not be used as a disguised means of preventing ex-employees from

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1 The non-contractual basis for the action is generally traced back to the early 19th-century case of *Prince Albert v Strange* [1849] EWHC Ch J20.

2 *Innovia Films Ltd v Frito-Lay North America Inc* [2012] EWHC 790 (Pat) at [101], citing *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [224] and the cases there cited.

3 *Robb v Green* [1895] 2 QB 315; *Nichrotherm Electrical Company Ltd v Percy* [1957] RPC 207.

4 *Ministry of Defence v Griffin* [2008] EWHC 1542, at [26].

5 *CF Partners Limited v Barclays Bank plc* [2014] EWHC 3049 (Ch) at [131], citing *Vercoe and Pratt v Rutland Fund Management Ltd* [2010] EWHC 424(Ch) at [329].

competing or from using for their own benefit or that of third parties information which forms part of their own skill, knowledge and experience even if it is confidential and was learnt during the course of their employment, subject to protecting trade secrets of the former employer. This thereby recognises that the law of breach of confidence allows, in other situations, more to be protected than trade secrets in the strict sense meant in the context of ex-employees. Where an employment relationship subsists, it is not only the contractual and equitable obligations of confidence that apply to an employee but the more extensive ones of good faith.

There is no protection in the United Kingdom under the criminal law for trade secrets or other confidential information as such,<sup>6</sup> although certain specific types of trade secret or certain means of gaining access to them may in practice be protected by criminal law statutes, such as the Official Secrets Act 1911 and the Computer Misuse Act 1990.

## 1.2 Qualification for protection

It has been observed that “three elements are normally required if ... an action for breach of confidence is to succeed. First, the information itself must have the ‘necessary quality of confidence’ about it. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it”.<sup>7</sup> Moreover, the information in respect of which confidence is asserted must be identified with precision.<sup>8</sup>

There is no limit to the types of information which can be protected by an action for breach of confidence, and (other than those cases in which the law has been used to protect private information or government secrets), the law has protected matters as diverse as industrial devices and processes,<sup>9</sup> formulations or recipes,<sup>10</sup> proposals for commercial ventures,<sup>11</sup> and customer details.<sup>12</sup>

English law has only had need to distinguish between ‘trade secrets’ and other types of confidential information in the context of the obligations of ex-employees, where only trade secrets can in general be protected under the law of breach of confidence, and as to which it was held by the English Court of Appeal in *Faccenda Chicken Ltd*<sup>13</sup> that “the obligation not to use or disclose information may cover secret

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6 See *Oxford v Moss* (1979) 68 Cr App Rep 183, in which it was held that it was not the criminal act of theft illicitly to remove an examination paper in advance of the examination and to copy it when it had been replaced where it had been found, as there was no intention permanently to deprive the owner of the paper of it.

7 *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41.

8 *CMI-Centres for Medical Innovation v Phytopharm plc* [1998] EWHC (Pat) 308 at [25], citing *John Zinc Co Ltd v Wilkinson* [1973] RPC 7170.

9 *Seager v Copydex Ltd [No 1]* [1967] 2 All ER 415.

10 *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2011] EWHC 424; *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch); *Goldenfry Foods v Austin* [2011] EWHC 137 (QB).

11 *Fraser v Thames TV* [1984] QB 44; *Vercoe and Pratt v Rutland Fund Management Ltd* [2010] EWHC 424(Ch); *CF Partners Limited v Barclays Bank plc* [2014] EWHC 3049 (Ch).

12 *First Conferences Services Ltd v Bracchi* [2009] EWHC 2176 (Ch); *JN Dairies Ltd v Johal Dairies Ltd* [2009] EWHC 1331 (Ch) [2010], EWCA Civ 348.

13 *Faccenda Chicken Ltd v Fowler* [1987] Ch 177 at [135G]–[138H].

processes of manufacture such as chemical formulae (*Amber Size and Chemical Co Ltd v Menzel* [1913] 2 Ch 239), or designs or special methods of construction (*Reid & Sigrist Ltd v Moss and Mechanism Ltd* (1932) 49 RPC 461), and other information which is of a sufficiently high degree of confidentiality as to amount to a trade secret *eo nomine* [ie, by that name]<sup>14</sup>. The court went on to observe: “It is clearly impossible to provide a list of matters which will qualify as trade secrets or their equivalent. Secret processes of manufacture provide obvious examples, but innumerable other pieces of information are capable of being trade secrets, though the secrecy of some information may be only short-lived.”

### 1.3 Assignment and transfer of trade secrets

There has been considerable controversy in recent years in the English courts as to whether confidential information (and thus trade secrets) is ‘property’. Thus in *Douglas v Hello*<sup>14</sup> the House of Lords differed from the Court of Appeal (as to personal information) in rejecting the proposition that confidential information was a property right that can be owned and transferred. However, in *Fairstar Heavy Transport NV*<sup>15</sup> the Court of Appeal, deciding the matter on other grounds, expressed the view that it would be unwise for it to endorse the proposition that there can never be property in information without knowing more about the nature of the information in dispute and the circumstances in which a property right was being asserted, noting that “some kinds of information, such as non-patentable know-how, are more akin to property in their specificity and exclusivity than, say, personal information about private life”.

Thus it is suggested that it would be unwise to rely under English law on a simple purported ‘assignment’ of trade secrets and that this ought instead be effected by an agreement which, at a minimum, obliges the transferor not only to disclose the trade secrets to the transferee, but also to warrant that those trade secrets have not been disclosed to any third party, and to undertake henceforth to preserve their confidentiality and not itself to use them. Similarly, an exclusive licence of trade secrets should include a warranty on the part of the licensor that the trade secrets have not been disclosed to any third party, and an undertaking henceforth to preserve their confidentiality and not itself to use them.

Moreover, in order for a technology rights licence which includes otherwise restrictive provisions relating to licensed trade secrets to be able, where appropriate, to benefit from the ‘safe harbour’ from Article 101 of the Treaty on the Functioning of the European Union provided by the Technology Transfer Block Exemption,<sup>16</sup> the licensed ‘know-how’ (as the block exemption describes this) must comply with the definition that it gives of ‘know-how’ as “a package of practical information, resulting from experience and testing, which is: (i) secret, that is to say, not generally known or easily accessible, (ii) substantial, that is to say, significant and useful for the

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14 *Douglas v Hello* [2005] EWCA Civ 505, [2007] UKHL 21.

15 *Fairstar Heavy Transport NV v Adkins* [2013] EWCA Civ 886.

16 Commission Regulation (EU) 316/2014 of March 21 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements – reported at *OJ* L93 of March 28 2014, p 17.

production of the contract products, and (iii) identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality”.

#### 1.4 Right to assert misuse of trade secrets

In any assertion of misuse of a trade secret, a claimant must be a person who is entitled to the confidence and to have it respected.<sup>17</sup> Indeed, it has been observed “that requires the claimant to show that he has a sufficient interest in the information to entitle him to maintain an action to restrain its unauthorised dissemination or use ... [and] the appropriate inquiry should be directed to considering whether the claimant has demonstrated that [it] made a sufficient contribution to the creation of the relevant confidential information, in the furtherance of its own commercial interests, to justify the imposition of a duty, recognised by the courts and owed to [the claimant], to keep that information secret, and entitling them to restrain its unauthorised use.”<sup>18</sup>

Thus it is not necessary that the claimant demonstrates ‘title’ or ‘ownership’.

#### 1.5 Threshold for the breach of a trade secret

It is a breach of confidence to make unauthorised use of a trade secret (and thus to manufacture articles making use of it, subject to the degree to which these make use of it) or to make an unauthorised disclosure of it to third parties. Subconscious misuse will suffice.<sup>19</sup> The issue of what activities are authorised can, absent contractual provision, prove problematic in some cases. Thus it has been held that where confidential information developed for a project belonged jointly to several members of a team, then if one member of the team could be excluded from the project, that member could not, after such exclusion, prevent the others from using the information as they pleased.<sup>20</sup>

As to the threshold of confidentiality that is required for an action for breach of confidence to succeed, confidentiality “does not attach to trivial or useless information: but the measure is not its commercial value; it is whether the preservation of its confidentiality is of substantial concern to the claimant, and the threshold in this regard is not a high one”.<sup>21</sup> Thus in *Seager v Copydex Ltd*,<sup>22</sup> the Court of Appeal disagreed with the judge at first instance as to the significance of the confidential information in issue to hold that “it was the springboard which enabled them to go on to devise” their product and to apply for a patent for it. Although

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17 *Fraser v Evans* [1969] 1 QB 349 at 361, holding that a consultant who had, under contract, produced a confidential report for a government, was not entitled to restrain a newspaper from publishing information from that report, and that the government was the only party in a position to object to the information being published as they “were the people entitled to the information ... It follows that they alone have any standing to complain if anyone obtains the information surreptitiously or proposes to publish it ...”.

18 *Robert Andrew Jones v IOS (RUK) Ltd (in members’ voluntary liquidation)* [2012] EWHC 348 (Ch) at [40].

19 *Seager v Copydex Ltd (No 1)* [1967] 2 All ER 415; *Terrapin Ltd v Builders Supply Co (Hayes) Ltd* [1967] RPC 375.

20 *Murray v Yorkshire Fund Managers* [1998] 2 All ER 1015.

21 *CF Partners Limited v Barclays Bank plc* [2014] EWHC 3049 (Ch) at [123], citing *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch) at [223].

22 *Seager v Copydex Ltd* [1967] 2 All ER 415.

information cannot be treated as confidential if it is common knowledge or generally accessible and in the public domain, it is not necessary for a claimant to show that no one else knew of or had access to it.<sup>23</sup> Moreover, confidentiality may reside in a particular combination or presentation of information, the individual components of which are not of themselves or individually confidential and thus “it is perfectly possible to have a confidential document, be it a formula, a plan, a sketch, or something of that kind, which is the result of work done by the maker on materials which may be available for the use of anybody; but what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process”.<sup>24</sup>

### 1.6 Direct and indirect liability for the breach of a trade secret

Generally, the subsequent recipient of confidential information who neither knew or ought to have known of its confidential nature will not be liable for breach of confidence arising from his disclosure of it, although once on notice of the confidential nature of such information he is potentially liable and can be restrained from continuing to use or rely upon the confidential information, but it is unlikely that he would have any liability for damages in respect of activities undertaken whilst not on notice.

The degree to which common design and joint tortfeasance theories should be applied to breach of confidence actions, in an analogous manner to the intellectual property torts of strict liability such as patent infringement, has caused difficulty; and the UK Supreme Court has held that an ex-employee who has not received confidential information from his employer but unknowingly assists others improperly to use confidential information of that ex-employer is not thereby rendered liable for such misuse.<sup>25</sup>

### 1.7 Defences available

Most actions for breach of confidence are defended on the basis that there has been no use of the information in issue or, more usually, that such information lacks the necessary quality of confidence.

An ex-employee may have a defence to allegations as to the misuse of certain types of confidential information because, as observed at sections 1.1 and 1.2 above, once an employment relationship has ceased an employee has a continuing obligation of confidentiality as to information which “can properly be classed as a trade secret or as material which, while not properly to be described as a trade secret, is in all the circumstances of such a highly confidential nature as to require the same protection as a trade secret”; but the obligation does not extend “to cover all information which is given to or acquired by the employee while in his employment, and in particular may not cover information which is only ‘confidential’ in the sense that an unauthorised disclosure of such information to a third party while the employment subsisted would

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23 *CF Partners Limited v Barclays Bank plc* [2014] EWHC 3049 (Ch) at [124].

24 *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203 at 215.

25 *Vestergaard Frandsen A/S (now called mvf3 Apps) v Bestnet Europe Ltd* [2013] UKSC 31 at [44].

be a clear breach of the duty of good faith".<sup>26</sup> This distinction has also been applied to a consultant, although this was by agreement between the parties and the trial judge questioned whether such an approach would apply to all consultants.<sup>27</sup>

Reverse-engineering a product that one has lawfully acquired, including reverse-engineering information encrypted for security, is not a misuse of confidential information.<sup>28</sup>

A statutory duty to use confidential information or a court order mandating its disclosure<sup>29</sup> will provide a defence to such use or disclosure. As to the former, it has been held – in relation to information submitted to regulatory authorities when seeking a marketing authorisation for a medicine in order to allow them to assess the safety, quality and efficacy of such medicine – that although it would have been a breach of confidence for such authorities to disclose such information to third parties, it was not a breach to use information that they had the right and duty to make use of for the purposes of discharging their statutory duties (such as, and as was the case here, using it in the course of assessing an application for a marketing authorisation of a competing medicine).<sup>30</sup>

## 1.8 Liability of claimants

Unlike many other areas of intellectual property (namely patents, designs and trademarks), a wrongful threat of proceedings for breach of confidence is not in itself actionable under English law, although depending on the circumstances it may in extreme cases give rise to liability on some other basis such as an interference with contractual relations.

Commencing an action for breach of confidence without an adequate basis to do so may be penalised by way of an adverse costs order against the claimant being made on an indemnity rather than the standard basis, and an unjustified failure to follow the pre-action protocol may also be penalised by way of an adverse costs order against the claimant.

*This is an extract from the chapter 'United Kingdom' by Trevor Cook in Trade Secret Protection, A Global Guide, published by Globe Law and Business.*

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26 *Faccenda Chicken Pty Ltd v Fowler* [1985] 1 All ER 724.

27 *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2009] EWHC 657 at [648].

28 *Mars v Teknowledge* [2000] FSR 138, but see *Volkswagen v Garcia* [2013] EWHC 1832 (Ch) for an unsuccessful attempt on the facts to rely on this defence in seeking to resist an interim injunction.

29 *Science Research Council v Nasse* [1980] AC 1028.

30 *Smith Kline & French Laboratories Ltd v Attorney General* [1989] FSR 418. Such activity would now be subject to Article 39(3) of the TRIPs Agreement.