



Law Society
of Scotland

Consultation Response

Consultation on draft regulations concerning trade secrets

March 2018



Introduction

The Law Society of Scotland is the professional body for over 11,000 Scottish solicitors. With our overarching objective of leading legal excellence, we strive to excel and to be a world-class professional body, understanding and serving the needs of our members and the public. We set and uphold standards to ensure the provision of excellent legal services and ensure the public can have confidence in Scotland's solicitor profession.

We have a statutory duty to work in the public interest, a duty which we are strongly committed to achieving through our work to promote a strong, varied and effective solicitor profession working in the interests of the public and protecting and promoting the rule of law. We seek to influence the creation of a fairer and more just society through our active engagement with the Scottish and United Kingdom Governments, Parliaments, wider stakeholders and our membership.

The Society's Intellectual Property Law Sub-committee welcomes the opportunity to consider and respond to the Intellectual Property Office's consultation on the *Draft Trade Secrets (Enforcement, etc.) Regulations 2018*.¹ The Sub-committee would like to put forward the following comments on the drafting of the Regulations for consideration.

Our comments are confined to application of the Regulations in a Scottish context, although some of the principles may have relevance for the law of other UK jurisdictions.

Response to questions

Q1. Do you agree that regulations 2 and 3 implement effectively the definitions in the Directive?

We do not consider that the Regulations as currently drafted fully implement the Directive.

Under the Directive,² an “infringer” means any natural or legal person who has unlawfully acquired, used or disclosed a trade secret”.³ However, under the draft regulations, an “infringer” means a person who has acted in breach of confidence in relation to a trade secret”.⁴ This seems to offer a narrower definition of “infringer” as it presupposes an obligation of confidentiality.

This is in line with the current Scottish law governing trade secrets. This stems from an obligation to maintain confidentiality resulting from a particular legal relationship between the parties, the circumstances

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/682184/Consultation_Trade_Secrets_Directive.pdf

² <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016L0943>

³ Article 2(3).

⁴ Regulation 2.

of disclosure of the secret (to the person later charged with a breach), or a contractual duty. For there to be a breach of confidence, there must be a duty of confidence in the first place. However, on our view the EU legislation approaches the issue from a different perspective, attaching rights to the body or configuration of information itself. The relevant rights of the trade secrets holder do not, therefore, spring from the relationship between two persons but arise as a result of ownership of the intellectual property - a right “*in rem*” – which include determining who can use the information.

The Directive therefore requires a change in approach, albeit that the idea of protecting trade secrets under Scots law is not a novel one. We also consider that references to “confidence” or “breach of confidence” and associated terms may serve to constrain the rights which the Directive is intended to confer on the trade secret holder. The trade secret should be protected, wherever it has been unlawfully acquired, used or disclosed, including where the infringer had no existing direct relationship to the trade secret holder.

We note that if the Directive did not create a new kind of right but merely enhanced the law of breach of confidentiality, a question would arise as to whether a legislative consent (Sewel) motion was required, having regard to the competences of the Scottish Parliament.

Q2. What are your views on the rules set out in regulations 4 – 9?

Firstly, in relation to 4(3), as detailed in the previous answer, we consider that the reference to “breach of confidence” may unduly limit the scope of protection for trade secrets and could give rise to confusion where there was no relationship between the party asserting that they are a trade secret holder and the alleged infringer.

We consider that regulations 4 to 9 go beyond what is required to implement the Directive in terms of prescription. We confine our comments here to the impact in relation to the law of prescription in Scotland as other stakeholders will be better placed to comment on the other jurisdictions.

Regulations 4 and 5 restrict the period for bringing an action for breach of confidence to 5 years, in line with the rules set out in the Prescription and Limitation (Scotland) Act 1973. At the same time, regulation 6 sets out a test for the beginning of the limitation or prescriptive period. We do not consider that these rules are necessary.

Substantive intellectual property rights are set at a UK level (apart from the Scottish registration of plant varieties and seeds) but the property in those rights and their enforcement is determined by the legal systems of the jurisdictions of the three parts of the United Kingdom. Enforcement encompasses the applicable prescriptive periods and the tests to determine the point from which the prescriptive period runs. As identified in the regulations, at present this is set by the Prescription and Limitation (Scotland) Act 1973

in Scotland. It is important to note in this regard the Prescription (Scotland) Bill⁵ currently making its way through the Scottish Parliament, which we do not expect to alter the general law of prescription in relation to actions concerning trade secrets as envisaged by the regulations.

While we recognise that Article 8 of the Directive refers to Member States laying down rules on the limitation periods applicable and the point at which those periods would run, we do not consider that this requires rules to be specifically set out in implementing legislation where they already exist as a matter of general law. The European Court of Justice⁶ judgement in the *Marleasing*⁷ case is instructive here:

*“8. In order to reply to that question, it should be observed that, as the Court pointed out in its judgment in Case 14/83 Von Colson and Kamann v Land Nordrhein-Westfalen [1984] ECR 1891, paragraph 26, the Member States' obligation arising from a directive to achieve the result envisaged by the directive and their duty under Article 5 of the Treaty to take all appropriate measures, whether general or particular, to ensure the fulfilment of that obligation, is binding on all the authorities of Member States including, for matters within their jurisdiction, the courts. **It follows that, in applying national law, whether the provisions in question were adopted before or after the directive, the national court called upon to interpret it is required to do so, as far as possible, in the light of the wording and the purpose of the directive in order to achieve the result pursued by the latter and thereby comply with the third paragraph of Article 189 of the Treaty.**”*

Member States are not bound to re-enact law which already exists to implement legislation: the duty is to make any changes which are required to ensure the obligation is fulfilled. Furthermore, as the judgment relays, in applying national law, provisions are to be interpreted in order to ensure that the objective of the Directive is achieved. We consider that the current general law of prescription would therefore satisfy the intended objective of the legislation.

We note the correlation between the provisions of the draft regulations and provisions relating to prescription set out in Schedule 1 of the *Claims in respect of Loss or Damage arising from Competition Infringements (Competition Act 1998 and Other Enactments (Amendment)) Regulations 2017*⁸, which inserts a new Schedule 8A into the Competition Act 1998. The provisions relating to limitation/prescription can be found at Schedule 8A, Part 5, in paragraphs 17, 18 and 19. In particular, paragraph 19 lays down the test for the beginning of the limitation or prescriptive period, the terms of which are effectively replicated in regulation 6. However, the competition regulations were passed to implement the new Damages Directive.⁹ Article 10 of the Damages Directive specifically introduced a harmonised test for the

⁵ <http://www.parliament.scot/parliamentarybusiness/Bills/107653.aspx>

⁶ Now the Court of Justice of the European Union

⁷ C-106/89 *Marleasing v Comercial Internacional de Alimentación* <http://curia.europa.eu/juris/liste.jsf?%20language=en&jur=C,T,F&num=C-106/89&td=ALL>

⁸ <https://www.legislation.gov.uk/ukxi/2017/385/schedule/1/made>

⁹ Directive 2014/104/EU of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union Text with EEA relevance.

commencement of the limitation period: no such test is set out under the Trade Secrets Directive and accordingly, we do not think that it is necessary to include equivalent provisions in these regulations.

Furthermore, the creation of an additional test, perhaps particularly at the same time a new test is being introduced in the Prescription (Scotland) Bill, could create unnecessary confusion. We therefore consider that the general Scottish law of prescription should suffice. A specific reference to the Prescription and Limitation (Scotland) Act 1973, as amended, could be helpful in directing a reader of the regulations to the relevant Scottish rules.

Q3. Do you agree that regulation 10 provides the appropriate level of clarity and transparency with regard to preserving the confidentiality of trade secrets in proceedings?

We support the objective of preserving the confidentiality of trade secrets in proceedings, however, we consider that the original drafting of Article 9 of the Directive is clearer than regulation 10.

The concept of confidentiality is incorporated in the drafting at regulation 10(1) but as discussed in our response to question 1, this may cause confusion in the context of implementing the Trade Secrets Directive. We consider that a simple reference to “trade secret or alleged trade secret” would provide sufficient protection and greater clarity.

A further issue arises under regulation 10(2), which relates to a situation “where legal proceedings have concluded”. However, “legal proceedings” could be considered to have concluded when judgement has been given, even where there was still the potential to appeal. We consider that the wording in the regulation is less clear than the wording of “by a final decision” which more clearly indicates the possibility of an appeal or appeals at the end of which the ultimate decision would be made and the obligation would formally cease if the final decision found it did not fulfil the requirements of a “trade secret”.¹⁰

Q4. Do you agree that regulation 11 is necessary to ensure that the UK complies with Article 10 of the Directive?

We consider that a regulation setting out provisional and precautionary measures may be helpful. However, regulation 11 does not appear to implement all the measures set out in Article 10 of the Directive. The remedies set out in Article 10 are potentially cumulative. There is no basis for the “alternative” basis of Regulation 11(2). We consider that the drafting of Article 10 offers greater clarity.

¹⁰ Section 12 of the Prescription (Scotland) Bill currently before the Scottish Parliament may be instructive in this regard. It sets out a definition of “final disposal” which includes expiry of the period during which an appeal might be launched, where an appeal has been refused or where no further appeal is possible (because the matter has reached the highest court).

Q5. Do you agree that regulation 12 is necessary to ensure certainty and compliance with the Directive?

We agree that something in terms similar to regulation 12 is necessary to ensure compliance. Again, we consider that the reference to confidentiality is misconceived and not congruent with “infringement” under the Directive.

Q6. Do you agree that regulation 13 is necessary to ensure that the UK complies with Article 11(3) of the Directive?

We have no comment on this question.

Q7. Do you agree that regulations 14 and 15 are necessary in order to ensure that the UK complies with Articles 12 and 13(1) of the Directive?

Generally we do but, as noted above, we consider that the reference to confidentiality is misconceived.

Under regulation 14(3), it is not clear why the wording “where withdrawal does not undermine the protection of the trade secret in question” has been included. We consider that the rights holder should be able to seek withdrawal from the market where infringement has been established.

Q8. Do you agree that regulation 16 is necessary in order to implement Article 13(3) of the Directive?

Yes.

Q9. Do you agree that regulation 17 is necessary in order to implement Article 14 of the Directive?

Yes.

Q10. Do you agree that regulation 18 is necessary in order to implement Article 15 of the Directive?

Yes.

Q11. Do you agree with the overall approach taken to implement the Directive?

One of the themes of our responses above is that the references to confidentiality are unhelpful and could serve to narrow the scope of protection which seems to be envisaged by the Directive. The Directive creates the concept of a “trade secret” that can be “unlawfully acquired” and “infringed”. The protection depends upon the holders having taken “reasonable steps under the circumstances... to keep it secret”.¹¹ The concept is akin to confidentiality but it is not the same. The protection accompanies the information

¹¹ Article 2(1)(c).

irrespective of the existence of any duty of confidentiality attributable to those having knowledge of it. It should not be assumed that Scots common law would find the duty which the Regulation appears to take as axiomatic.

We also consider that regulations 4 to 8 go beyond what is necessary to ensure implementation of, and compliance with, the Directive.

Q12. Do you agree that we have correctly identified all the relevant articles in the Directive that need implementing in UK law to ensure the UK complies with the Directive?

We have no comment on this question.

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