



## Trade Secrets

### What is a Trade Secret?

Any commercially valuable information may be protected as a trade secret. Trade secrets are a little different from other types of intellectual property rights. There is no registration process and, by definition, no requirement to disclose the information to the public in exchange for protection. Instead, trade secret protection arises as a consequence of how the secret information is treated.

Protection for trade secrets in the UK is set out in the Trade Secrets (Enforcement etc.) Regulations 2018. Although these Regulations are derived from an EU directive, they remain in force post-Brexit. According to the Regulations, a “trade secret” means information which:

- a. is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among, or readily accessible to, persons within the circles that normally deal with the kind of information in question;
- b. has commercial value because it is secret; and
- c. has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

The Regulations state that the acquisition, use or disclosure of a trade secret is unlawful where the acquisition, use or disclosure constitutes a breach of confidence in confidential information.

From English case law, it has become widely accepted that in order to bring an action against another party for a breach of confidence relating to the use of information, three criteria must be satisfied. These are:

- The information was of a confidential nature. In other words, it must not be something which is

public property and public knowledge.

- The information was communicated in circumstances imparting an obligation of confidence.
- There was an unauthorised use of the information.

Each of these criteria should be considered very carefully by anyone hoping to benefit from trade secret protection in the UK.

## Why keep a Trade Secret?

### It can cover anything...

...that you can keep a secret. In contrast, legal restrictions are in place for what can be protected by patents, registered designs and copyright.

At the time of writing, one of the biggest talking-points in the intellectual property world is artificial intelligence (AI). While the UK and European Patent offices continue to discuss how AI inventions may be patented, it may be worth considering whether your AI invention could be effectively protected by keeping it as a trade secret. A trade secret can protect an expression or concatenation of data, which may be extremely useful in the realm of AI.

### It's free...

...at least in theory. The only costs associated with keeping a trade secret stem from your efforts to keep the trade secret a secret.

For most firms, this might just be the cost of purchasing high quality shredders and drafting non-disclosure agreements for employees, contractors and suppliers.

For some firms, like Coca-Cola, this might amount to the cost of keeping certain documents in the secure underground vault of a bank.

### It lasts forever...

...if you can keep your trade secret a secret. Obviously, once that cat is out of the bag, it's very hard to put it back in. But if you can keep yourself and anyone else "in the know" from spilling the beans, then you can have protection for your idea indefinitely.

Most other types of intellectual property rights are time-limited. In the UK, copyright protection can last for up to 70 years, depending on the type of work being protected. A UK registered design can last for up to 25 years, whereas a patent provides protection for 20 years. For example, if Coca-Cola had opted to protect their precious formula with a patent, the patent would have expired before the Second World War. Instead, Coca-Cola simply kept it a secret, as it is to this day.

## How can a Trade Secret be kept?

### Keep the information out of the public domain

Firstly, consider whether or not the information is already in the public domain.

Secondly, consider whether the information you wish to keep secret may enter the public domain as a result of your operations. For example, it would be extremely difficult to keep **a design of a shoe** secret, since the shoe will eventually end up on the shelves for all to see and copy. However, keeping **a process of manufacturing a shoe** a secret would likely be much easier.

How easy would it be for someone else to reverse-engineer your product and figure out your secret?

### Communicate carefully with outsiders

No company is an island, and so you will almost certainly have to share the information you wish to keep secret with suppliers, creditors, stakeholders or other third parties. This should not affect your ability to keep the information a secret, so long as you always communicate in circumstances imparting an obligation of confidence. You should be especially careful when communicating with

parties who are based overseas, since the legal protection for trade secrets may be different to the UK.

An effective way to ensure that your communications with third parties remain confidential is to enter into written agreements with third parties in advance of any disclosure of information. These are often known as non-disclosure agreements (NDAs). Although NDAs are **not** required for your communications to be considered to impart an obligation of confidence, we would strongly advise that you do put such agreements in place where practicable. Having an NDA in place should remove any doubt as to whether your communications are in confidence, which can both deter third parties from handling your trade secrets improperly and be extremely useful in any legal action you may need to take in the future.

### Keep your own house in order

It can often be extremely important that information which might be (or become) a trade secret is kept a secret from the outset. Many things which would benefit from protection as a trade secret are (unintentionally) disclosed shortly after they are conceived or developed because no one realises the importance of secrecy until it is too late.

There is also an important distinction under UK law between trade secrets (which employees must not use or disclose even after they leave a company), and other confidential information that an employee acquires during the normal course of their duties and that become part of their own experience and skills. Employees must keep this second type of information confidential during their term of employment, but they are free to use and disclose the information after they leave their employer. It is therefore very important that employees are aware of the nature of a trade secret if it is shared with them. Often, the simple act of marking certain documents as 'confidential – trade secret' will suffice, but this should only be done sparingly to prevent the meaning of the term 'trade secret' from being watered-down in the eyes of your employees.

One way of ensuring that information which might later be designated as a trade secret is kept secret is to implement an "information capture system". Many firms use such systems to capture developments and innovations from their employees early in the research and development cycle. This allows any developments and/or innovations to be assessed and categorised as being suitable for protection as a trade secret, a registered design or a patent, for example.

If the information is deemed as being a potential trade secret at this stage, internal communications can earmark the information as a trade secret, which helps to ensure that no unintentional disclosures affect your ability to protect your trade secret and all of your employees are aware that it is a trade secret.

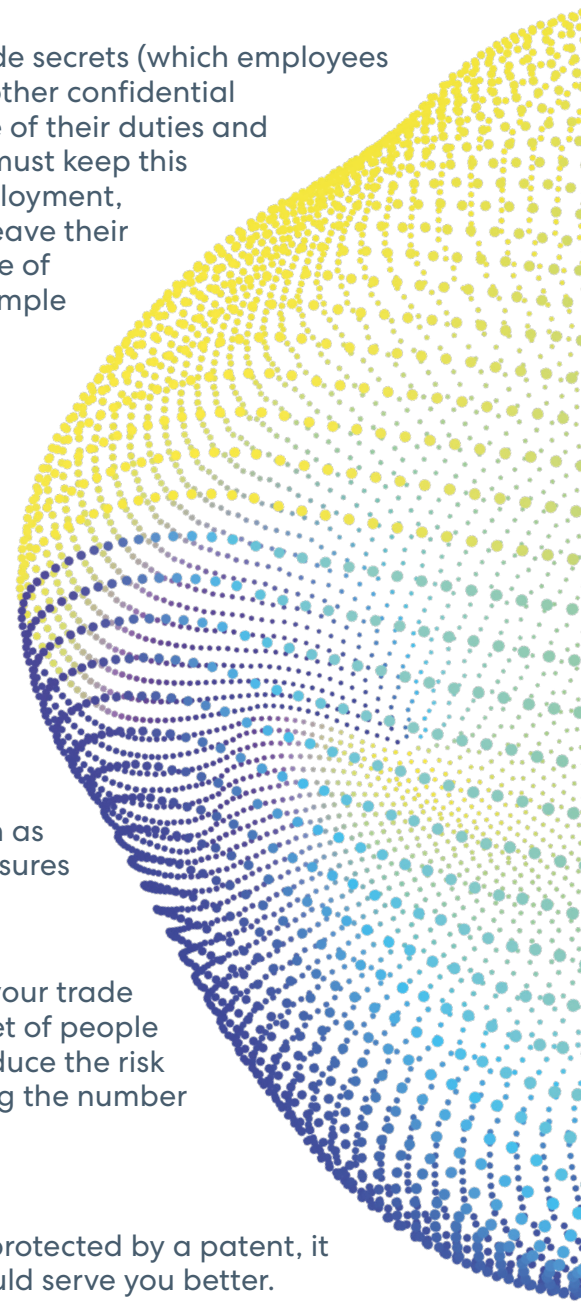
Categorising information early on may also enable you to keep your trade secret on a "need-to-know" basis by keeping a list from the outset of people or parties who are privy to your trade secret. This may further reduce the risk of any unintentional disclosures of your trade secret by controlling the number of people or parties who have access to your trade secret.

### What about a patent?

If your trade secret is protecting something which could also be protected by a patent, it might be worth considering whether or not patent protection could serve you better.

### Under license

Keeping your invention as a trade secret can only bring financial benefits so long as you are



“actively” commercially exploiting your invention yourself. However, for any number of reasons, it may be that you are not in a position to fully commercially exploit your invention after you have developed it. In this instance, a patent allows you to commercially exploit your invention in a more “passive” fashion. A granted patent enables you to issue licenses to other parties in exchange for a fee or a royalty. Accordingly, it is possible to collect revenue derived from your patented invention without actively manufacturing or producing your invention.

### Independent inventors

Another important consideration is that a trade secret does not protect you from a competitor who develops a similar (or identical) idea independently. If you are concerned that a competitor’s research and development programme will eventually catch up with you and develop a similar idea, patent protection may be more suitable than a trade secret.

At first sight, it may seem unlikely that a competitor will independently invent your invention. However, many well-known inventions have been independently developed around the same time throughout recorded history. For example, Thomas Edison and Joseph Swan independently developed incandescent light bulbs in 1879, and Ewald Georg von Kleist and Pieter van Musschenbroek independently invented the world’s first electrical capacitor (known as the “Leyden jar”) between 1745 and 1746.

### Reverse engineers

Earlier, we mentioned the risk of someone reverse engineering your product and figuring out your trade secret. If this happens, the person who did the reverse engineering would be free to do whatever they like with your secret, including making an identical product themselves.

A patent prevents any would-be reverse engineers from using or benefitting from your idea or invention. Therefore, if you think that someone would be able to find out your trade secret through reverse engineering, a patent may be a more suitable form of protection than a trade secret.

### How HLK can help

HLK can advise you as to whether keeping a trade secret is an advisable strategy for you, your firm and your product. We can help you take steps to prevent your trade secret from being shared outside of your firm and trusted stakeholders.

For further information or for an informal discussion about any of the issues raised in this briefing note, please contact our Trade Secrets team:

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