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Trade Secrets 2022

UK: Trends & Developments

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Trends and Developments

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Protecting Innovation

Across industries, there is an increasing appreciation of the critical importance of trade secrets in protecting innovation.

In April 2021, the UK Intellectual Property Office (IPO) published its report, The economic and innovation impacts of trade secrets, stating the "[g]lobal legal and economic trends suggest that growth in the use of trade secrets is outpacing that of patents". It also reported the following:

- trade secrets are a preferred strategy for innovative UK firms – some 70% of UK firms who develop product and process innovations use trade secrets to protect these innovations;
- the use of trade secret protection is higher among those entities that also use patents; and
- trade secrets are particularly important to UK firms in the R&D services, tech, and across manufacturing and non-manufacturing sectors, including in the services sector where trade secrets can be used to protect key service processes.

We can certainly confirm that trends and developments we have seen within our work for clients over the last 12 months support the above findings. For us, a key trend has been clients' increasing focus on trade secrets as an intellectual asset class for artificial intelligence (AI).

There has been a dramatic increase in advisory work to develop trade secret management policies, agreements, training, registers and procedures for practical implementation. This looks set to continue apace over the coming 12 months.

The Rise of AI

The use of AI, including machine learning (ML), is turbo-charging the need for active and effective trade secrets management. The situation is highly nuanced, but traditional IP rights, including patents and copyright, were not designed for data or the techniques and outputs of AI and especially ML. Trade secrets have emerged as the default de facto protection.

- Data, in the sense of information per se, are largely excluded from traditional IP rights.
- Patenting of AI/ML techniques may be prevented in the world's key jurisdictions (including the UK, Europe more generally, the USA and China) by prohibitions against certain types of subject matter, such as mathematical methods and computer programs as such.
- The outputs of AI/ML, such as artistic work, programs or inventions are largely excluded from copyright protection and patent protection. The UK is an outlier in providing for protection of computer-generated designs and copyright works, and even the latter may not be compatible with the current law on originality. Meanwhile, attempts by the Artificial Inventor Project to secure patent protection for two inventions said to have been devised by an AI, "DABUS", have been rejected by the EPO, USPTO, UKIPO and on subsequent appeals, including before the UK Court of Appeal in September 2021.

The result is that data, AI techniques and AI outputs are, in many cases, most effectively protected as trade secrets. Consistent with the above, the UK has seen a significant increase in the need for nuanced and strategic legal advice on protecting these assets as trade secrets.

This trend is unsurprising perhaps given that the UK has, from time to time, been ranked the top economy in Europe by investment in AI, and third globally after the USA and China (for example, see the UK government's National AI Strategy published 22 September 2021). Any casual survey of the trending topics at IP conferences and industry seminars will show the extent and the interest generated in the field of trade secrets and AI/ML. This is clearly set to continue to grow throughout 2022.

While AI has applications in all sectors, we have seen the biggest demand for trade secrets advice in life sciences, automotive and FinTech. Business models in life sciences, in particular, have traditionally depended on patents and much work is needed to re-evaluate the significance of trade secrets in market strategy and internal procedures.

Other Sectors Experiencing High Demand

Other hyper-competitive, high-growth sectors are following the trend to protect more data assets, knowhow and technology via trade secrets. Typically, these are sectors that have traditionally found innovations either difficult or impossible to protect with patents. Examples include digital banking services and social media.

Key trends and themes are:

- the increased value placed by stakeholders upon innovation;
- a recognition of the risk of severe loss of value where trade secrets "walk out the door" with departing employees or are stolen by cyber-exfiltration;
- an increased understanding of how successfully trade secret protection can be used to protect value in these innovations.

We see these general trends – together with the growing importance of AI/ML – as key drivers of the importance of trade secrets over the coming year.

The UK's Implementation of the EU's Trade Secrets Directive

In the coming months, we also expect to see further and increasingly significant cases brought under the UK's implementation of the EU Trade Secrets Directive (The UK Trade Secrets (Enforcement, Etc.) Regulations 2018), referred to here as the "Regulations".

As the Regulations only entered into force in June 2018, there have been only a limited number of court decisions under the Regulations so far, but we expect the rate of cases to increase over the coming 12 months. We set out below some examples of the cases that are starting to come through.

The first significant reported case under the Regulations was in relation to separators for EV batteries (the case of Shenzen Senior Technology Material Co Ltd v Celgard LLC [2020] EWCA Civ 1293), in which the Court of Appeal upheld a preliminary injunction restraining the import of the appellant's battery separators into the UK. This case confirmed both the utility and effectiveness of the Regulations for technical trade secrets owners seeking to restrain import, dealing, sales, etc, of so-called "infringing goods" – that is, goods which significantly benefit from a trade secret that has been unlawfully acquired, used or disclosed. The fact that the Regulations allow the seizure of infringing goods entering the UK that were made outside of the jurisdiction (perhaps in a territory in which trade secrets enforcement is difficult or impossible) will, we believe, encourage trade secret owners to bring enforcement action in the UK.

More recently, September and December 2021 saw decisions in another case brought under the Regulations. The trade secret owner brought its case under the English common law of breach of confidence, but nevertheless relied upon the Regulations to obtain a particular remedy available under the Regulations. The case in point was in the maritime sector (regarding the design of cable-laying vessels): Salt Ship Design AS v Prysmian Powerlink SRL [2021] EWHC 3583.

The defendant was held by the court to be in breach of confidence over certain vessel designs. The claimant also asked the court for a ruling that there had also been a breach of the Regulations in order to secure a specific form of relief available under Regulation 18 of the Regulations: a so-called "publicity order".

Regulation 18 provides that the court may order, at the expense of the infringer, appropriate measures for the dissemination of information concerning the judgment, including its publication in whole or in part.

The court granted the order (the first time one had been granted under the Regulations) ordering the defendant to display on its website, for six months (in no smaller than 12-point type) a statement declaring that the court had ruled that the defendant had misused the claimant's confidential information in relation to the specified cable-laying vessel, with a link to the full judgment.

Finally, February 2022 saw judgment handed down in the case of Mulsanne Insurance Company Limited v Marshmallow Financial Services Limited and others [2022] EWHC 276 (Ch), in the Intellectual Property Court of the High Court. This case illustrates the importance in the financial services sector of trade secrets and rights in confidential information (indeed, these are often the only form of protection over innovation in the sector).

Marshmallow had been a broker/intermediary for motoring insurance policies provided by Mulsanne, but after a time had decided to form its own insurance company to sell motor policies. It informed Mulsanne that it was exiting the agreement to broker Mulsanne policies, but was then faced with a claim by Mulsanne that, in walking away and setting up its own underwriting business, it was misusing Mulsanne's confidential information and trade secrets, including information provided by Mulsanne that had been used for feeding into the ratings engines for underwriting purposes, together with certain underwriting rules.

Despite Mulsanne establishing breach of confidence with regard to limited amounts of its information, the court was ultimately of the view, overall, that the breaches were not serious, being more in the nature of incidental or accidental breaches, and that Marshmallow had consciously sought to avoid using Mulsanne trade secrets when setting up its own business. This latter point highlights the importance, as a recipient of another party's trade secrets, of taking steps to make sure that the information is not misused, whether this is information received under a collaboration or other contractual arrangement, information coming in via new employee hires, or otherwise.

Other Trends

Given the increased importance of trade secret protection in various sectors, we expect a rise in trade secret enforcement litigation in the UK. Increased litigation may also result from the recent change in working practices. The COVID-19 pandemic has driven a wave of employee turnover, potentially increasing the likelihood of unlawful trade secret use. Together with the rise of hybrid and remote working, this may be

weakening companies' control over confidential information and trade secrets.

One of the criteria that must be shown in order to have an enforceable trade secret under the Regulations is that the information "has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret".

Given that the Regulations have been in force for less than three years and the limited number of court judgments under them so far, there is as yet no clear judicial guidance on what does, or does not, amount to "reasonable steps".

In contrast, in the USA there has long been a requirement that the information owner take "reasonable measures". Accordingly, there are a significant number of US cases that have explored the meaning of "reasonable measures" and whether a claimant has an enforceable trade secret or not.

We predict, as more cases are brought under the Regulations in the UK, that "reasonable steps" will become an area that defendants will seek to challenge trade secret owners on when defending infringement claims, and that we should start seeing some guidance from the courts on this critical aspect of trade secrets law.

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Gowling WLG has an intellectual property practice of 220 professionals, working in seven jurisdictions. Gowling WLG is the trusted advisor for those seeking global IP expertise with significant strength in prosecution, enforcement and litigation, and transactional work across all sectors. Directly through its offices in the UK, Canada, China, France, Germany, the UAE and its exclusive association with JurisAsia in Singapore, the firm offers the full range of IP law. Furthermore, it includes professionals with trade secret expertise that helps companies to identify intangible assets, put policies in place to keep them enforceable as trade secrets and, when needed, take action against breaches. Recently, the firm advised a global pharma company on its trade secret strategy for AI, created an information-loss response plan for a global bank, conducted a trade secret audit and set up the trade secret management system for a technology company, and represented a global engineering conglomerate in a case of misuse of background/foreground know-how and trade secrets.

AUTHORS

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Arnie Francis has worked in the intellectual property profession since 2011 and is a qualified UK and European patent attorney. He has worked in both private practice and in-house at one of the world's leading telecommunication companies, providing him with wide-ranging experience in nurturing effective policies to protect a company's intellectual property. Over the course of his career, Arnie has worked with clients across a diverse range of technology sectors, including graphics and computer processing, telecommunications, robotics, biometrics, machine learning and automotive. He has a degree in natural sciences (astrophysics) and a Master's degree in computational methods for aeronautics.

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