Team Moves, Trade Secrets and Remedies: the latest thinking

DEFINING THE INDEFINABLE: THE LINE BETWEEN "TRADE SECRETS" AND "KNOW-HOW"

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Defining the indefinable: the line between "Trade Secrets" and "Know-How"[1]

I. The Problem

1. As is well-known, the Court of Appeal's decision in *Faccenda Chicken v Fowler* [1987] Ch 117, established the concept of three classes of information, to which different considerations apply:
   1.1. **Class 1:** trivial or public information which is not confidential at all, and which an employee is free to disclose or use.
   1.2. **Class 2:** information which the employee must treat as confidential (either because he is expressly told that it is confidential or because from its character it obviously is so) but which once learned necessarily remains in the servant's head and becomes part of his own skill and knowledge applied in the course of his master's business. It might well be a breach of the employee's duties if he were to disclose this information whilst employed, but there is generally no restriction on him using or disclosing such information after termination of the employment.
   1.3. **Class 3:** specific trade secrets so confidential that, even though they may necessarily have been learned by heart and even though the employee may have left the service, they cannot lawfully be used for anyone's benefit but the master's.

2. This is fine in conceptual theory, but for an employer (or ex-employee) who wants to know what information derived from previous employment can and cannot be used for the benefit of a new employer, trying to work out the difference between Class 2 (**"Know-How"**) and Class 3 (**"Trade Secrets"**) can be very difficult in practice. As discussed below, over the years the courts have made various attempts to articulate ways of distinguishing the two types of knowledge, but none is entirely satisfactory.

II. Pleading and particularity

3. For the potential claimant, the problem of trying to protect trade secrets is made all the more acute by the stringent approach which has been taken to pleading claims for breach of confidence, and the difficulty of creating any effective express confidentiality covenants which are likely to be sufficiently precise to be enforceable.

4. There are numerous examples in the law reports of cases in which claimants trying to protect what they perceive to be their trade secrets have been variously castigated for bringing insufficiently particularised claims for breach of confidence, accused of acting oppressively and/or in abuse of process, and/or attempting to rely on hopelessly broad express confidentiality covenants: see, for example:
   4.1. Templeman LJ in *GD Searle & Co Ltd v Celltech Ltd* [1982] FSR 92, 104, where he memorably held that the injunctions sought by the plaintiffs in that case would have created "***a new form of industrial slavery***".

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[1] This topic is discussed at paras 3.26 to 3.64 of *Employee Competition: Covenants, Confidentiality, and Garden Leave* (2nd ed, 2011).

4.2. The classic (and frequently cited) statement by Laddie J in *Ocular Sciences Ltd v Aspect Vision Care Ltd (No 2)* [1997] RPC 289, 360:

> The requirement of particularity may impose a heavy burden on the plaintiff. … The normal approach of the court is that if a plaintiff wishes to seek relief against a defendant for misuse of confidential information it is his duty to ensure that the defendant knows what information is in issue. … This is not only for the reasons set out by Edmund Davies L.J.in John Zink but for at least two other reasons. First, the plaintiff usually seeks an injunction to restrain the defendant from using its confidential information. Unless the confidential information is properly identified, an injunction in such terms is of uncertain scope and may be difficult to enforce: See for example P.A. Thomas & Co. v. Mould [1968] 2 Q.B. 913and Suhner & Co. AG v. Transradio Ltd. [1967] R.P.C. 329. Secondly, the defendant must know what he has to meet. He may wish to show that the items of information relied on by the plaintiff are matters of public knowledge. His ability to defend himself will be compromised if the plaintiff can rely on matters of which no proper warning was given. It is for all these reasons that failure to give proper particulars may be a particularly damaging abuse of process.
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> These principles do not apply only to the question of the content of the pleadings. Just as it may be an abuse of process to fail properly to identify the information on which the plaintiff relies, it can be an abuse to give proper particulars but of information which is not, in fact, confidential. A claim based even in part on wide and unsupportable claims of confidentiality can be used as an instrument of oppression or harassment against a defendant.

Other statements to similar effect can be found in *Printers & Finishers Ltd v Holloway* [1965] 1 WLR 1, 6 *per* Cross J; *John Zink Co Ltd v Wilkinson* [1973] RPC 717, CA, 727 *per* Stamp LJ; *John Zink Co Ltd v Lloyds Bank* [1975] RPC 385, 392 *per* Templeman J; *Ixora Trading v Jones* [1990] FSR 251 (Mummery J); *Speed Seal Products v Paddington* [1984] FSR 77 (Harman J); [1985] 1 WLR 1327, CA, 1332.; *Mainmet Holdings v Austin* [1991] FSR 538, 544 (Lionel Swift QC).

5. It is easy to understand why various judges confronted with apparently nebulous claims for breach of confidence, or clauses containing very broad definitions of "confidential information", have reacted in this way. On the other hand, the fact is that, in the real world, many employers may have developed highly specialised production processes or systems, or other bodies of specialised knowledge, which are very valuable, but the boundaries of which are inevitably blurred with more general knowledge. And, equally, in many cases it is virtually impossible to produce an express clause in advance of a problem which precisely defines confidential information. Furthermore, even if it was possible to draft such a clause for a particular aspect of a particular business at a particular time, it would be likely to become rapidly out of date.

6. To compound the problem, in many cases the employer will not know precisely what information the ex-employee has taken. Nowadays, the offending download, upload, usb, laptop, internet vault (or whatever) may easily contain a vast range of information of indeterminate scope. The employer finds himself forced to put forward a broad claim because, understandably, he wants to cast the net as widely as possible.

III. Various Proposed Tests

7. In the *Faccenda Chicken* case itself, the Court of Appeal suggested that in order to determine whether any particular item of information comes within Class 3 it is necessary to consider 'all the circumstances of the case' including, but not limited to, the nature of the employment, the nature of the information, whether the employer impressed on the employee the confidentiality of the information, and whether such information may be easily isolated from other information which the employee is free to use or disclose.

8. This is a general test which provides some guidance but not much certainty. As a result, various additional tests for distinguishing between Class 2 and Class 3 information have been proposed. These include:

8.1. **An "objective" vs "subjective test**: In *SBJ Stephenson Ltd v Mandy*,[2] Bell J suggested that the correct test is to distinguish between 'objective' and 'subjective' knowledge. This distinction derives from a passage in Lord Shaw's speech in *Herbert Morris Ltd v Saxelby*:[3]

> Trade secrets, the names of customers, all such things which in sound philosophical language are denominated objective knowledge—these may not be given away by a servant; they are his master's property, and there is no rule of public interest which prevents a transfer of them against the master's will being restrained. On the other hand, a man's aptitudes, his skill, his dexterity, his manual or mental ability—all those things which in sound philosophical language are not objective, but subjective—they may and they ought not to be relinquished by a servant; they are not his master's property; they are his own property; they are himself. There is no public interest which compels the rendering of those things dormant or sterile or unavailing; on the contrary, the right to use and expand his powers is advantageous to every citizen, and maybe highly so for the country at large.

8.2. **The "honesty" test:** Propounded by the CA in *FSS Travel v Johnson*[4], this test derives from an earlier passage in the judgment of Cross J in *Printers & Finishers Ltd v Holloway*:[5]

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2 [2000] IRLR 233.

3 [1916] 1 AC 688, 714, approved, along with *Faccenda Chicken v Fowler*, in *Berkeley Administration Inc v McClelland* [1990] FSR 505, 524.

4 [1998] IRLR 382, CA.

5 [1965] 1 WLR 1, 5, cited with approval in *FSS Travel*, ibid para 34.

> 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 old employer and not his own to do as he likes with, then the court, if it thinks that there is a danger in 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.

8.3. **The "Harm" Test:** Staughton LJ in *Lansing Linde v Kerr*[6] put the test in another way—he proposed a 'harm' principle:[7]

> It appears to me that the problem is one of definition: what are trade secrets, and how do they differ (if at all) from confidential information? Mr. Poulton suggested that a trade secret is information which, if disclosed to a competitor, would be liable to cause real (or significant) harm to the owner of the secret. I would add first, that it must be information used in a trade or business, and secondly that the owner must limit the dissemination of it or at least not encourage or permit widespread publication.

9. The main difficulty with all these proposed tests is that they are neither particularly pragmatic nor certain: although they reach for an overarching idea on which to distinguish one category of information from another, they depend on very general concepts – or even matters of individual impression.

IV. A Possible Solution – Arnold J to the rescue?

10. Helpfully, in a characteristically thorough judgment, Arnold J has recently carried out a review of the authorities, and of the proper approach in principle to this issue, in ***Vestergaard Frandsen A/S v Bestnet Europe Ltd*** [2009] EWHC 657 (Ch) ("***Bestnet***")[8]. This was a complex and involved claim for breach of confidence by an employer against some former employees (and their new employer, amongst others), concerning certain confidential information consisting of technical trade secrets relating to the manufacture of mosquito nets.

11. In ***Bestnet*** Arnold J summarised the guidance provided in (1) ***Faccenda Chicken Ltd v Fowler*** [1987] Ch 117 (CA) ("***Faccenda Chicken***") at 135G-138H, (2) ***Thomas Marshall Ltd v Guinie*** [1979] Ch 227 at 248E-H, and (3) ***Lancashire Fires Ltd v SA Lyons & Co Ltd*** [1996] FSR 629 (CA) ("***Lancashire Fires***") at 668-9. He concluded that these cases generated a list of relevant factors in light of which to assess whether the confidential information with which he was concerned (data recorded in a database concerning the development of a polyethelene net, and in particular

[6] [1991] 1 WLR 251, CA.

[7] ibid 260, emphasis added.

[8] Cited with approval by the Court of Session in ***EFH Technologies Ltd Rytium Technology FZC t/a TRB Rytium*** [2010] CSOH 143 ("***Rytium***") (§28)

certain recipes for manufacture and certain results of testing) constituted a trade secret. On the facts as found, each of the relevant factors suggested that the confidential information constituted a trade secret (see §§649 to 660). As a result, Arnold J concluded that it did constitute a trade secret.

12. The factors Arnold J considered relevant are set out below. These are supplemented where necessary with statements made in earlier cases clarifying the nature and precise relevance of the particular factor:

12.1. **The nature of the work undertaken by the employee**:

(1) It is significant if a person has been engaged to develop new products for manufacture and sale by the employer, as in these circumstances trade secrets might reasonably be expected to result from the work (***Bestnet***, §653);

(2) In **Faccenda Chicken** it was stated that "*employment in a capacity where 'confidential' material is habitually handled may impose a high obligation of confidentiality because the employee can be expected to realise its sensitive nature to a greater extent than if he were employed in a capacity where such material reaches him only occasionally or incidentally*" (p.137).

12.2. **The nature of the information itself**: Arnold J held "*it has frequently been held that secret formulas and secret manufacturing processes are precisely the kind of information which can in appropriate circumstances constitute trade secrets. In my view,* ***experimental results, particularly concerning products under development****, fall into the same category*" (**Bestnet**, §654; emphasis added).

12.3. **The attitude of the employer at the time**:

(1) It is significant if the employer has indicated to the employee that the information is to be kept confidential at the time it is produced or comes into the hands of the employee (***Bestnet***, §655);

(2) ***Lancashire Fires*** demonstrates, however, the Court should not expect an employer to define narrowly and precisely all of the information that he considers to be a trade secret. *"We do accept that it is incumbent on an employer to point out to his employee the precise limits of that which he seeks to protect as confidential, particularly where, as here, what is new is an integral part of a process. The limits are not easy to draw even with the assistance of expert witnesses"* (p.674).

12.4. **The steps taken to protect the information**: an employer is usually expected to take steps to protect trade secrets by, for example, limiting the dissemination of the information and asking third parties to enter into secrecy agreements (***Bestnet***, §656).

12.5. **The separability of the information from the general skill, knowledge and experience of the relevant employee**:

(1) Following **Lancashire Fires**, this is an important factor. "*If an employer is to succeed in protecting information as confidential, he must succeed in showing that it does not form part of an employee's own stock of knowledge, skill and experience*" (per Sir Thomas Bingham MR at p.668).

(2) As to whether particular information constitutes part of the general stock of skill, knowledge and experience of an employee, this will be an issue of fact to be determined in each case. The level of detail of the information is relevant, as is how closely the information relates to the particular employee's generic job on the one hand and the

employer's particular business on the other. Further the methods by which the information has been retained may also be informative. Where, for example, an employee has had to memorise certain information or to take copies of information before leaving, this would suggest quite strongly that it did not form part of his general skill and knowledge.

(3) In that regard, Arnold J held (consistent with previous authorities) that it did not matter if an employee carried the relevant trade secret in his head, in the sense that he had memorised it, as long as the trade secret was separate in principle from his general skill, knowledge and experience (see ***Bestnet***, §666). According to Arnold J, information such as a specific detailed recipe for a particular product might be apt to be characterised as not forming part of the general skill and knowledge of the employee (see §657).

12.6. **The commercial value of the information**: Arnold J considered it relevant whether the information was regarded as of commercial value at the time it was produced, and also whether, objectively, the information was in fact of commercial value (***Bestnet***, §658). In other cases, the courts have referred variously to the sensitivity of the information and the likely harm to the employer if it is disclosed; and

12.7. **The use and practices of the trade**: it is relevant to consider whether the type of information in question is considered to be a trade secret within the relevant trade (***Bestnet***, §659).

13. HHJ Behrens (sitting in the Leeds Mercantile Court) has recently applied this approach in *Goldenfry Foods v Austin et al* [2011] EWHC 137 (QB). The claimant, a producer of gravy granules, claimed that three former employees had taken and misused various trade secrets relating to methods for production of a possible new range of granules, in order to set up a business producing competing gravy granules. The ex-employees contended that they had only used their know-how; and that the information in question was therefore not protected once they had left their employment. The judge, by reference to the various factors identified by Arnold J, decided that certain of the information did constitute trade secrets, and that the defendants had accordingly acted in breach of confidence.

V. Conclusion

14. Of course, if possible, it is always preferable to be able to rely on clear post-termination covenants than to be forced to resort to the generalised law related to trade secrets. However, *Bestnet* now has the advantage of providing a useful list of relevant factors (albeit non-exhaustive) which can be applied in a reasonably pragmatic way, so as to try to identify whether particular categories of information are likely to be regarded as trade secrets.

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