

Law Relating to Corporate Trade Secrets in India: A Critical Study

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Abstract: *In this research paper, the researcher wants to explain the Legal regime of Trade Secret Protection in India. This research paper will offer an analysis of trade secret law as it exists today. The trade secrets protection is fundamental to encourage innovative steps, foreign investment and to promote healthy competition. Trade secrets present the commerce a spirited edge over the competitors and consequently one must ensure that he effectively protects his business related confidential information from his competitor. Trade secret as a new form of intellectual property is very important and it is garnering ample importance because in the era of globalization, failure or success of any company depends on its secrets let them be policies related secrets or Information of their clients. Through in this research paper, the researcher is putting an effort to highlight the laws dealing with trade secrets in India.*

Keywords: Trade Secret, Undisclosed Information, Intellectual Property, Undisclosure Agreement, Obligation

1. Introduction

A trade secret is information which if get disclosed to a competitor then would cause a real harm to the real owner of the Secret¹. These types of information are associated with the industrial and commercial activity and used in trade or business. The Trade Secrets generally refers to data or information relating to the business that is not generally known to the public which the owner reasonably attempts to keep secret and confidential. A trade secret can be a method, computer program, practice, piece of equipment, pricing information etc. If any piece of information which has economic value and being kept private then it can be treated as a trade secret. It gives the business a competitive edge over their rivals because of its confidential nature. The policy of trade secret law is to protect, maintain and promote standards of commercial ethics and fair dealing and it encourages innovations as well. The unauthorized use of such information by persons other than the holder is regarded as an unfair practice and violation of trade secrets.

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which is an international agreement administered by the World Trade Organization, regarding any information as Trade Secrets lays down under its own Article 39 that:

Trade secret must not be generally known or readily accessible by people who normally deal with such type of information. Trade secret must have commercial value as a secret.

1.1 Trade Secrets

Trade secret is a formula, process, device or other business information that is kept confidential to maintain an advantage over the competitors. It is the information which includes formula, pattern, compilation, programme, device, method, technique, or process, that derives independent economic value from not being generally known or readily ascertainable. [1] Therefore, the ingredients of trade secrets are- (a) it is such information not generally known to the public which in turn confers economic or commercial benefit through the maintenance of confidentiality and exclusivity, and (b) it is subjected to reasonable efforts of secrecy since disclosure would result in undue enrichment of

others. For example, Coca-Cola's formula for its aerated drinks and KFC's recipe for its delicious fried chicken are considered to be trade secrets which have been preserved for many decades.

1.2 Obligation of India under International Organizations

The Intellectual Property Rights protection has achieved wider appreciation mainly under Agreement on Trade Related Aspects of Intellectual Property (TRIPS), North Atlantic Free Trade Agreement (NAFTA) and also under Paris Convention.

Trips- The main aim of TRIPS agreement is to protect intellectual Property Rights. The provisions of TRIPS provide protection of Trade Secrets with the help of term "Undisclosed Information". Under Article 39 (2) of TRIPS, all members will protect undisclosed information from commercial exploitation and under clause 3 of Article 39, data and information submitted to Government for regulatory or other approvals have to be protected from leakage to or theft by third parties. India is party to this Agreement but in 1989, but it along with Brazil refused the insertion of Trade Secret on their programme, as they think that it is not a form of Intellectual Property Right and the protection against unfair competition under Article 10b of the Paris Convention would be sufficient. It is the embodiment of worlds law of American and European notion of protecting confidential information in order to protect the Intellectual Property Rights. It is the first multilateral Agreement which acknowledges the role of Trade Secret in the industry. The aim of TRIPS Agreement is to boost patent protection and trade secret protection. The law of trade secret would protect only unpatentable know-how that may not be reverse engineered by analysing the product put to the market. Article 39 of TRIPS requires the Contracting Parties to protect Undisclosed Information with the help of some theories:

1.3 India's Policy Approach

The 1989 GATT (General Agreement on Tariffs and Trade) discussion paper [2] of India sets out that as per India, trade secrets cannot be considered to be intellectual property rights, because while the fundamental basis of intellectual

property right rests in its disclosure, publication and registration, trade secrets are premised upon secrecy and confidentiality. It may be noted that disclosure and publication are necessary before according the protection of exclusivity when viewed from the IPR context since the prosecution stage involves challenges and objections which test the grant of said exclusivity. The paper further goes on to state that the observance and enforcement of secrecy and confidentiality should be governed by contractual obligations and the provisions of appropriate Civil Law but not by intellectual property law.

1.4 India's Common Law Approach

The Delhi High Court in *American Express Bank Ltd. v. Priya Puri*, [3] defined trade secret as formulae, technical know-how or a method of business adopted by an employer which is unknown to others and such information has reasonable impact on organizational expansion and economic interests. Indian courts have approached trade secrets protection on the basis of principles of equity, action of breach of confidence and contractual obligations.

Breach of Confidence

In *Zee Telefilms Ltd. v. Sundial Communications Pvt. Ltd.*, it was laid down that in an action of breach of confidence, the obligation of confidence is not limited to the original recipient but also extends to those persons who received the information with knowledge acquired at the time or subsequently that it was originally given in confidence. In *Diljeet Titus v. Alfred Adevare & Ors*, it was held that the Court must step in to restrain a breach of confidence independent of any right under law and that such an obligation need not be expressed but be implied and the breach of such confidence is independent of any other right. Therefore, it is submitted that the protection of trade secrets does not always necessarily stem from the owner of such secret having a right per se in respect of the same but from the implied obligation to maintain confidence by virtue of the nature of trade secrets in general.

Contractual Obligations

In *Niranjan Shankar Golikari v. Century Spinning* [4], it was held that negative covenants in employment agreements pertaining to non-disclosure of confidential information operative during the period of the contract of employment and even thereafter, are generally not regarded as restraint of trade and therefore do not fall under Section 27 of the Contract Act, 1872 as a former employee should not be allowed to take unfair advantage of the employer's trade secrets which are vital for business. Post service restraint in maintaining confidentiality and also carrying on any other business for a limited period is permissible under the exception to Section 27 of the Contract Act, as was held in *Homag India Pvt. Ltd. v. Mr. Ulfath Ali Khan*. [5]

1.5 Importance of Trade Secret Protection

Trade secret of a company is the most important asset which allows company to keep its reputation and position in market integral. There is no requirement for a company being huge corporation to get trade secret protection.

(i) New technology: As we know now computers and other systems are developed for keeping information secret but earlier it was stored in physical forms. For getting information from this physical form, thief has to go through various stages then he could do unfair use of that information. But now the access to the secret information becomes easy with the new technology. The file which is stored in computer network may be encrypted, password protected and it is restricted to employees on a need-to-know basis. If an employee wants to access those information from computer network then he could easily download it, email it, post it on internet or simply save it on a flash drive and walk out the front door undetected with thousands of information in his hand [6]. The digital world is no friend to trade secrets [7]. Now a days hackers break into networks and get confidential information of a company including trade secrets in such a manner which is not expected by anyone. For example, the F.B.I handled nearly 1,500 hacking cases in 2002 and in 2010, it handled 2,500. One recent case on it is Philip Gabriel, "Stakkato" who was indicated on five counts involving trade secret misappropriation. In this case he allegedly hacked into the ostensibly secure computer systems at Cisco System and NASA including NASA's Advanced Supercomputing Division and a Peterson, 16 yrs old swede is accused of committing these hackings from 5,000 miles away.

(ii) Increasing Value of Trade Secret Information: trade Secrets are becoming important like all other Intellectual Property and play a very expanding role in the economy of the country. The Congressional Research Service found that this trend is even applicable to Trade Secrets: "As the United States continues its shift to a knowledge and service based economy, the strength and competitiveness of domestic firms increasingly depends upon their know-how and intangible. Trade Secret is form of the Intellectual Property which protects this type of Confidential Information. Earlier the economy is based on physical assets such as natural resources and capital goods but now with the change modern industries rely extensively on intellectual property for their value.

The rise of international threats: There is threats not only on domestic level but the threat is increasing from foreign individuals, companies and governments which also contribute to large extent towards the importance of trade secret. The reason for increasing threats at international level is mainly the internationalization of business. When the company operate internationally then threat for misappropriation rises. Other reason for increasing international threats is new technology. The hackers can get the access of any information from the any part of the world. They only need computer with internet connections. One of the recent examples which involve trade secret theft is the case in china of Xiang Dong "Mike" Yu, a project engineer for the Ford Motor Company who smuggled Ford Trade Secrets to China while on a job hunt that led to a position with one of Ford's Competitors.

(iii) The USTA: The USTA development of is one of the reason for rise in Trade Secrets and trade secrets litigation. The widespread adoption of USTA has increased the awareness about trade secret law among lawyers,

companies, judges and others and has provided greater consistency in the application of trade secret law and the within the other laws as well. Before USTA, the states had greater disparities on various trade secret issues from the types of conduct to the remedies. The USTA is not perfect but it gave a starting point to establish the legal remedies for trade secret misappropriation [8].

(iv) Abundant source of litigation: There is much chances of trade secret based litigation in the present vague economic climate, and especially in highly fluid and competitive knowledge-based industries,. like if a company's survival is threatened then its members will be motivated to defect. For a threatened company, this will be an additional threat which earlier would have been marginal one and it would be seen as more critical. So for this company will devote its resources to protect its rights more than before.

Trade Secrets Protection–Legal Position in India

The spirit of the commercial world is fair play with honesty. It can be only done through protection of trade practice. In India there are certain laws regarding every forms of Intellectual Property expect trade secret. No law has been enacted by the legislation of India. The member's countries of Trade Related Aspects of Intellectual Property Rights (TRIPS) except India have already laws for the protection of trade secret. In India, Trade Secrets are most isolated field because there is no proper law for trade secrets protection. Trade secrets are protected in India under Indian Contract Act, 1872, under Section 27 which provides for remedies and also restrict any person from disclosing any information which he acquires at the time of employment or through contract. But in this provision there is only civil remedy and no criminal remedies. According to this section any information must be highly confidential to be constituted as Trade Secret. There are few criteria for deciding that whether any information amounts to trade secret or not i.e.,

- The status of the employee and nature of his work.
- The nature of information itself.
- Whether the information could easily be isolated from other information which the employee was free to use.

2. Legal Framework in India

To establish the violation of Trade Secret

Main issues are: [9]

- 1) Was the information indeed secret?
- 2) Were reasonable steps taken to maintain the secrecy?

To establish violation of trade secret rights, the owner of a trade secret must be able to show the following:

- 1) Infringement by or competitive advantage gained by the person/company which has misappropriated the trade secret.
- 2) The owner had taken all reasonable steps to maintain it as a secret.
- 3) There is misuse as the information obtained has been used or disclosed in violation of the honest commercial practices.

For Trade Secret Protection in India, an attempt was made in

2008 by passing National Innovation Act, 2008. The draft of Indian Innovation Act, 2008 is generally based on the American Competes Act. It's one of the objective was to codify and consolidate the law of confidentiality in aid to protect the confidential information, Trade Secrets and Innovation. The chapter VI of National Innovation Act, 2008 talks about "Confidentiality and Confidential Information's and Remedies and Offences". This provision allows the parties to set out their rights and obligation contractually related to confidential Information and protects the information from being misappropriated. But this statute may very well protect and maintain the India's Innovation through other schemes. The connection of innovation, trade secret and confidential information can be best addressed by a specific legislation which particularly deals with protection of Trade Secrets. In a case of **V.N Deshpande v. Arvind Mills**³⁶, where there was a clause in the agreement which prevents the appellants from revealing any secret Information of nature mentioned in that clause after termination of his service. The defendant was not prevented from acquiring information which makes him better employee for the public for future employment. It only prevents from revealing any secret information but he received as Respondents employee to another party. Therefore it was held that the words use in agreement was proper and injunction granted was reasonable.

3. Judicial Approach

In a case of **American Express Bank Ltd. V. Priya Puri**, the Delhi High Court defined Trade Secret as formulae, technical know-how or a method of business adopted by an employer which is unknown to others and such information has reasonable impact on organizational expansion and economic interests. In another case of **Bhrahmaputra Tea Co v. E Scarth**, where an attempt was made to restrain a servant from competing for five years after the period of service, the Calcutta High Court said that:

"Contracts by which persons are restrained from competing, after the term of their agreement is over, with their former employers within reasonable limits, are well known in English Law, and the omission to make any such contract an exception to the general prohibition contained in Section 27 indicates that it was not intended to give them legal effect in this country".

In a case of **Niranjan Shankar Golikari v. Century Spg & Mfg Co. Ltd.**, in which question was raised regarding the validity of agreements in terms of Section 27 of Indian Contract Act. The facts of this case were that a foreign producer collaborated with accompany manufacturing tyre cord yarn by an agreement which stated that the company would maintain secrecy of all technical information. The respondents company signed a non-disclosure agreement with the appellants, at the time of its employment. Clause 9 of the agreement states that during the continuance of his employment as well as thereafter the employee shall keep confidential and prevent revealing of any information. The Court held that there is an implied term in a contract of employment that a former employee may not make use of his former employers trade secrets.

Therefore, in order to protect the storehouse of undisclosed information (Trade Secret) as defined under TRIPS in India, there should be a legislation to protect it.

4. Conclusion

It is submitted that as explained hereinabove, the common law trinity of equity, breach of confidence and contractual obligations for the protection of trade secrets is well suited to business requirements in India. India's position should not be mistaken to connote that there is insufficient protection accorded to trade secrets and confidential information in the country. In fact, it must be clarified that Intellectual Property may not be the correct form of protection accorded to trade secrets. Trade Secrets rely on their nature of secrecy which precludes the quid pro quo disclosure required by the State before granting a statutory right of monopoly. Moreover, secrecy prevents the subject matter from being tested with regards to the scope of "has commercial value" and "has been subjected to reasonable steps of secrecy". It is also pertinent to note that statutory enactment may not be sufficient to define the scope of what constitutes trade secret and protection thereof which could be more adequately handled on a case to case basis by the common law approach. It would be apposite to mention that legal proceedings and pleadings pertaining to trade secrets should be based on high modicum of confidentiality to protect the nature of the information as such.

References

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- [2] MTN.GNG/NG11/W/37.
- [3] (2006) HI LLJ 540 (Del).
- [4] AIR 1967 SC 1098.
- [5] Agreement in restraint of trade is void.
- [6] *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 923 F.Supp. 1231, 1254 (N.D.Cal.1995) (applying California version of UTSA). Elizabeth A. Rowe, *Saving Trade Secret Disclosures on the Internet through Sequential Preservation*, 42 *Wake Forest L. Review.* 1, 2 (2007)(proposing a new test regarding the disclosure of trade secret information on the Internet.)
- [7] Victoria A. Cundiff, *Reasonable Measures to Protect Secrets in a Digital Environment*, 49 *IDEA* 359, 361 (2009)
- [8] Michael Risch, *A failure of Uniform Law*, 159 *U.Pa .L Review.* PENN umbra 1, 12 (2010), (stating that "uniform laws like the USTA" provide "a consistent set of rules to provide settled expectations for interstate activities").
- [9] Available at http://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_panorama_4_learning_points.pdf last retrieved on July 22, 2016