

## **TRADE SECRETS: NEED FOR STATUTORY PROTECTION IN INDIA**

*Written by Astha Satapathy\* & Sweta Sapar\*\**

*\* 4th Year, BBA.LL.B (Hons.) Student, Symbiosis Law School, Pune*

*\*\* 4th Year, BBA.LL.B (Hons.) Student, Symbiosis Law School, Pune*

---

### **ABSTRACT**

Trade Secrets are that morsel of intangible assets for a company, which have the prowess to provide a cutting edge to the companies over competitors. The intensification of market competition has driven the companies to protect such trade secrets within contours of the business. However, the Indian regime has lagged behind in ensuring adequate protection to trade secrets. While trade secrets are treated subservient to other prominent aspects of Intellectual Property Rights, it is of paramount significance to the companies in order to safeguard their confidential data and processes. In India, Trade secrets are either contractually enforced or made enforceable through a primitive resort to common law principles. This paper tries to track down the regime of trade secret protection in India and its grave implications of inadequate trade secret protection on the market conditions. Through this paper, the authors try to establish the need for a separate legislation regulating the domain of trade secrets. The approach adopted is founded on secondary research, including a study of the law under various regimes across the world. The paper concludes that in the light of the potential that trade secrets behold for a business, it is imperative to formulate adequate protection under the Indian IPR regime in order to boost the growth of a globalised economy. The paper seeks to aid the existing literature with respect to trade secrets and its protection in India, while delving upon the exclusive provisions made in this regard in other countries.

**Keywords:** Business, Equity Principles, Protection, Trade Secrets

## **TRADE SECRETS AS AN INTELLECTUAL PROPERTY: INTRODUCTION**

Globalisation and liberalisation are two phenomena which marked the beginning competitive markets by virtue of a plethora of companies entering the industrial as well as commercial spheres. These markets opened up the vistas for securing diverse customer-groups spread across the world. Such a conceptualisation of global businesses and competition has underlined the need to renovate and protect secrecy, which is the lifeline of any business. Trade secrets refer to such business secrets or confidential information, the unauthorised use of which can be treated as an unfair practise. Trade Secrets not only encapsulate the characteristic intricacy of a business but may also include mere facts which the business intends to be confidential. Trade secrets come to the refuge of the business when it seeks to attain and retain its competitive advantage in the market.

Despite being an inevitably integral intangible asset for any business, trade secrets as an intellectual property is rather unpopular in comparison with other intellectual property rights. Such unpopularity can be attributed to many reasons: Firstly, trade secrets do not require mandatory registration. The evolution of trade secrets and their protection is usually attributed to the usual practises in business and business ethics. Secondly, trade secret regulations are based upon evolved principles of law; however, the regime of enforcement is not well established. Thirdly, the disputes pertaining to such secrecy are not open to public debate as a result of which familiarity with such matters is often limited thereby making trade secrets relatively unpopular.<sup>1</sup> Fourthly, unlike other intellectual property rights, trade secrets do not confer the exclusive right to exploit the information on the holder. Such right may get vested with others when the information is either developed independently or derived by the reverse engineering process.<sup>2</sup> The stark contrast inherent in its nature has alienated trade secrets from the core intellectual property rights. While the regime of intellectual property strives towards sharing of intellectually-developed products, knowledge and

---

<sup>1</sup>James Pooley, *Trade Secrets: The Other IP Right*, WORLD INTELLECTUAL PROPERTY ORGANISATION, (Mar. 2013), [http://www.wipo.int/wipo\\_magazine/en/2013/03/article\\_0001.html](http://www.wipo.int/wipo_magazine/en/2013/03/article_0001.html)

<sup>2</sup>Thomas Duston et al., *Intellectual Property Protection for Trade Secrets and Know-how*, INTELLECTUAL PROPERTY ORGANISATION, (Apr. 2013), [http://www.ipo.org/wp-content/uploads/2013/04/IP\\_Protection\\_for\\_Trade\\_Secrets\\_and\\_Know-how1076598753.pdf](http://www.ipo.org/wp-content/uploads/2013/04/IP_Protection_for_Trade_Secrets_and_Know-how1076598753.pdf)

its management, the domain of trade secret is heavily dependent on confidentiality for its functionality.<sup>3</sup>

The domain of trade secrets is founded on the relationships of trust. Secrecy, as it is commonly known has been used in trade since inception. The historical instance of the Chinese laudably safeguarding the secret of silk production which led to flourishing economy as a consequence of the global demand which the Chinese silk was catering to.<sup>4</sup>Such nuances of business were earlier a well-guarded secret in families which owned small businesses before the advent of industrialisation. With the industries embracing dynamism, the magnanimity and scope of such secrets of trade changed significantly thereby creating the need to regulate trade secrets.

## REVIEW OF LITERATURE

The origin of trade secret remains disputed as there have been diverse reasons put forth in this regard stating that the origin of trade secrets can be traced back to relational obligations, property rights, a tortious liability arising out of unfair competitions or the common law principles of fairness and equity. While the belief of it having originated as an extension to the theory of fiduciary relationships is popularly relied on (Pooley, 2013)<sup>5</sup>, there have been other propositions which state that trade secret does not owe its origin to any unified theory rather is a collection of norms relating to the protection of business information (Claeys, 2011)<sup>6</sup>. A popular common law remedy in trade secret actions has been achieved through an action under breach of confidence which re-affirms its origin being based on the relationship-based approach (Gurry, 2012)<sup>7</sup>.

---

<sup>3</sup>Md. Zafar et al., *Intellection of Trade Secret and Innovation Laws in India*, 16 IJPR 341, 341 (2011).

<sup>4</sup>Carl Roper, *Trade Secret Theft, Industrial Espionage and the China Retreat*, Pg. 35, available at [https://books.google.co.in/books?id=LmjNBQAAQBAJ&pg=PA35&lpg=PA35&dq=china+silk+trade+secret&source=bl&ots=cpMVwRbMuU&sig=qB6A9ImEtqIQ\\_IDL3jTCS9ofGWc&hl=en&sa=X&ved=0ahUKEwii4LB3LrWAhUGKo8KHXvYBDUQ6AEIOzAG#v=onepage&q=china%20silk%20trade%20secret&f=false](https://books.google.co.in/books?id=LmjNBQAAQBAJ&pg=PA35&lpg=PA35&dq=china+silk+trade+secret&source=bl&ots=cpMVwRbMuU&sig=qB6A9ImEtqIQ_IDL3jTCS9ofGWc&hl=en&sa=X&ved=0ahUKEwii4LB3LrWAhUGKo8KHXvYBDUQ6AEIOzAG#v=onepage&q=china%20silk%20trade%20secret&f=false)

<sup>5</sup>Pooley, *supra note 01*.

<sup>6</sup>E. R. Claeys, *The Use Requirement at Common Law and Under the Uniform Trade Secrets Act*, 33 Hamline Law Review, 583 (2010).

<sup>7</sup>T. Aplin & F. Gurry, *Gurry on Breach of Confidence: The Protection of Confidential Information*, (2012) OXFORD UNIVERSITY PRESS, Oxford, UK.

The inherent nature of trade secrets as a tangible form of property has also been subject to debate due to the major limitation of non-exclusivity. An alignment with the reasoning of property as put forth by John Locke and Blackstone would inevitably lead us to the inference that trade secret can be classified as a tangible property as ‘property’ includes the product of individual ‘labour and invention’.<sup>8</sup> However a counter-claim to the inclusion of trade secrets as property relies on the non-exclusivity of trade secrets against the world (Bone, 1998)<sup>9</sup>. Trade Secrets has also been treated as a different form of property right, termed as usufructory right which confers the right to use and to be free from interference but does not extend to the right to exclude others who derive benefits from it by independent efforts (Claeys, 2011)<sup>10</sup>. Trade Secrets have also been treated as a right which arises by virtue of corresponding duties between parties. This line of reasoning draws its foundation from the common law treatment accorded to trade secret actions under breach of confidence (Gurry, 2012)<sup>11</sup>.

Such debates have sparked different approaches being adopted across jurisdictions in relation to the treatment accorded to trade secret and the consequential disputes arising therefrom. While in the United States the precedents have pressed for the inclusion of trade secrets under the scope of property rights, on the other hand the European countries still rely on the fiduciary remedies to address trade secret issues.

## **SIGNIFICANCE OF TRADE SECRETS**

Trade secrets can be made effective even at an inchoate stage of the business, when the research and development is not well-equipped to attract the process of patentability. Such apprehension about patent eligibility often lures firms to resort to trade secrets specifically in relation to biotechnology and software inventions.<sup>12</sup>

---

<sup>8</sup>*Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002-1003 (1984).

<sup>9</sup>R.G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 California Law Review, 241 (1998).

<sup>10</sup>Claeys, *supra* note 06.

<sup>11</sup>Gurry, *supra* note 07.

<sup>12</sup>Andre Barbe and Katherine Linton, *Trade Secrets: International Trade Policy and Empirical Research*, (Aug. 05, 2016), <https://www.oecd.org/sti/144%20-%20OECD%20Trade%20Secrets%202016-8-5.pdf>

Trade secrets provide the business with various economic incentives. It creates economic security for the business by ensuring them adequate returns on any innovation when backed by sufficient trade secret protection. It does not require the institution of any expensive mechanism in order to prevent breach. Further, puts to rest the apprehensions relating to misuse of business information consequential to a knowledge spill-over.

Trade secrets while relying on maintenance of confidentiality through fair means, balances such secrecy with adequate disclosures which may result into dissemination of knowledge or independent creation pursuant thereto. The limitation of non-exclusivity provides for a perfect balance of ensuring secrecy but maintaining the much-needed distinction from absolute secrecy.<sup>13</sup>

- **Comparison of Trade Secrets and Patents**

Trade secrets protection does not only encapsulate a broader subject-matter but also last longer unlike patents which extend to a period of 20 years. Furthermore, there are no stipulated conditions that need to be met in relation to the registration and filing of trade secrets unlike patents which require an application to be filed with the administrative agency and can only become effective once approved or reviewed by such agency.<sup>14</sup>

The incidence of rights in relation to trade secrets, however, is much narrower than that of patents by reason of its non-exclusive nature. Trade secret violation to be made out requires misappropriation and does not include obtaining information by fair and honest means. Further discovery through reverse engineering is placed outside the purview of trade secret protection which largely impairs the extent of such protection. Once such disclosure is made the confidential value of the information is lost thereby the protection applicable under law is also rendered inapplicable. The only remedy in actions for trade secrets is thus restricted to damages which require a significantly higher degree of proof. Thus, the in-built flexibility of trade secret protection on one hand while providing incentives also limits the remedies that can be sought in cases of violation. Hence patent protection is often sought by business firms to consolidate their exclusive rights over any invention.

---

<sup>13</sup> Approaches to the Protection of Trade Secrets, <https://www.oecd.org/sti/ieconomy/Chapter3-KBC2-IP.pdf> (Last visited on 24th Sep. of 2017 at 19.01 hrs).

<sup>14</sup> Linton, *supra note* 12.

Patent protection is exclusive and is granted on first-to-file basis. The infringer's claims of innocence and fair practises do not affect the determination of patent infringement. Patent protection is only accorded to specific technological inventions satisfying the test of utility, novelty and non-obviousness. On the other hand the broad scope of trade secrets also covers such subject matter which may not be patentable along with know-how. The choice of protection can also have a societal impact.<sup>15</sup> While patents by virtue of its exclusive and well-established regime, may bring about social welfare; the impact of trade secrets on the societal front can be at the maximum be termed as optimal.

## **INTERNATIONAL REGULATIONS RELATING TO TRADE SECRETS**

The North Atlantic Free Trade Agreement (NAFTA) which came into being in 1994 became the first treaty which pioneered the creation of an international regime on Trade Secrets protection. Chapter 17 of the NAFTA recognises trade secret rights as being a crucial intellectual property required for the promotion of international trade and breaking the barriers to legitimate trade between the state parties.<sup>16</sup>

Trade secrets have the latent potential to convert the intangible value into economic advantage either by competitive benefits or retention of the market. In a stride to promote free market economies, the significance of trade secrets to protect a majority of functional businesses and their technology has been globally recognised. Such recognition has culminated in efforts being made at the international level to protect trade secrets. The primary leads in this regard emanate from the ratification of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) during the Uruguay round of the General Agreement of Tariff and Trade (GATT).<sup>17</sup>

TRIPS Agreement does not include the exact term but includes the ingredients of such undisclosed information.<sup>18</sup> It mentions about the plausible protection that can be afforded to secret information

---

<sup>15</sup> *Supra* note 13, at Pg. 136.

<sup>16</sup> John Terry et al., *NAFTA: The First Trade Treaty to protect IP Rights*, BUILDING IP VALUE, [http://www.buildingipvalue.com/05\\_XB/052\\_055.htm](http://www.buildingipvalue.com/05_XB/052_055.htm) (Last visited on 9th April, 2018 at 23.03 hrs)

<sup>17</sup> Md. Zafar et al., *Intellection of Trade Secret and Innovation Laws in India*, 16 IJPR 341, 341 (2011).

<sup>18</sup> Art. 39.2of TRIPS, 1995.

which has a commercial value, against unlawful disclosure or acquisition carried out without the consent of the holder of such information. The Paris Convention further casts an obligation on the member states to protect such undisclosed information.<sup>19</sup> The Article broadly adumbrates the scope of undisclosed information and also addresses the concerns over misappropriation of data by government agencies during the pendency of approvals with respect to specific products especially pharmaceuticals.

The TRIPS agreement draws a line between upholding the confidentiality and making adequate disclosures to the government in public interest. However the applicability of this limitation is confined to pharmaceutical and chemical-agricultural products. It further enunciates the vital purpose that such confidentiality is intended to serve by stating that such information cannot be made use of for unfair competition.<sup>20</sup> These provisions have been accepted and enforced as law of trade secrets and include three primordial grounds, namely: secrecy, commercial value and reasonable efforts to maintain such secrecy. While such an interpretation empowers the term with an all-pervasive scope, including both technical and other confidential business information, what is carved out from the protection is independent creations, learning by fair means and reverse engineering methods which may jeopardize the exclusivity of trade secrets. Thus as has been discussed earlier, trade secret protection does envisage the vesting of exclusive rights, which despite being reasonable can be perceived as an inherent limitation.

On one hand where the TRIPS mandates its members states to adopt a system to provide the protections mentioned under TRIPS, on the other hand Art. 39 does not include an elaborate framework for the protection of secret information as a result of which member state have dispensed with the need to enact a specific legislation on the matter and have rather covered this aspect under ancillary remedies as provided under various laws, predominantly the breach of contract. Such importation may have significant bearing thereby disregarding the economic effects which constitute an important consideration in the light of enforcement of trade secrets.

On the contrary, under the legal regime of the European Union, trade secret is left out of the scope of intellectual property thereby creating concerns over its effective protection. One of the primary

---

<sup>19</sup> Art. 10 bis of the Paris Convention, 1967.

<sup>20</sup> Art. 39.3 of TRIPS, 1995.

limitations that surfaces while extending legal protection to Trade Secrets is the inability to adequately assess the economic benefits that might accrue from such secrecy and protection or the extent of economic loss that might ensue in cases of a breach. However, the European Chemical Industry Council attempted to adumbrate the factors which estimate the economic loss at approximately 30% of the firm's revenue.<sup>21</sup> The potential areas of loss would therein include loss of goodwill, reputation, profitability and core technology along with the basic competitive advantage. The European Union has specifically adopted the Directive on the Protection of Trade Secrets 2016 in order to call for administrative and legal compliance by June 9, 2018.<sup>22</sup>

## **TRADE SECRETS PROTECTION UNDER THE INDIAN REGIME**

Recognising the growth potential of the Indian market and the pressure from the Multi-National Companies (MNCs) the Government of India appointed the Satwant Reddy Committee in February 2004. The Committee was assigned the task to recommend a data exclusivity policy and these recommendations were submitted in 2007. The Satwant Reddy Committee recommended 3 years of exclusivity of data in case of agro-chemicals and provided for two alternative models with respect to pharmaceuticals.<sup>23</sup> However, due to vehement opposition, the recommendations were put in abeyance. India thus does not have any specific legislation for the protection of trade secrets; however, the Indian Courts have played a pro-active role in enforcing trade secrets as under Art. 39.3 of the TRIPS.

The Indian Government in another attempt to ensure trade secrets protection by the draft National Innovation Act of 2008. Chapter VI of the Act dealt with confidentiality, confidential information and the related remedies. The Act allowed the parties to set out the terms and conditions in relation

---

<sup>21</sup> CEFIC, *Report on the Importance of Trade Secrets for Chemical Companies*, The European Chemical Industry Council, Nov. 15, 2012

<sup>22</sup> Raunak Singh, *Protecting Trade Secrets and Confidential Data- A Growing Legal Battle*, MONDAQ, (June 19, 2017), <http://www.mondaq.com/india/x/603312/Trade+Secrets/Protecting+Trade+Secrets+Confidential+Data+A+Growing+Legal+Battle> (last visited on 9<sup>th</sup> April, 2018 at 22.52 hrs)

<sup>23</sup> *Supra note 03*, at Pg. 345.

to confidential information and to regulate its disclosures.<sup>24</sup> The Act further provided for the court to restrict the disclosure of any information which a party claims to be confidential without any prior orders of the court in this regard.<sup>25</sup> The draft bill under S. 11 provided for the exceptions to the protection of confidential information which included availability of the information in the public domain, independently derived information or disclosures made in public interest. The legislation draft, however, could not see the light of the day due to massive opposition.

The National IPR Policy 2016 which encompassed the aspects of further research and effective legislative measures in order to expand the current Intellectual Property Rights framework mentioned the need to consider Trade Secrets protection under the existent protection and enforcement regime. The policy aims at creation of a strong brand value to reap the benefits in the commercial market<sup>26</sup>; however, such brand creation is impeded in the absence of adequate Trade Secrets Protection, thereby calling for research on the subject. The US-India Trade Policy Forum which met at New Delhi in October 2016 also delved upon the plausibility of a Trade Secret regime in India.<sup>27</sup> In light of these initiatives India has opened up the way for an independent legislation. It is pertinent to note, that the development of such Trade Secret protection attains special significance amidst the recent economic strides through Make in India campaigns which aims to make India self-sufficient and a start-ups friendly nation. In light of such policies the significance that such legislation might have on the SMEs cannot be ignored.

- **Analysis of the National Innovation Bill, 2008**

The Draft National Innovation Bill, in unambiguous terms worded the scope of ‘trade secrets’ that had earlier been referred to under the Indian regime in subjective terms. Further, such confidentiality under the Bill included both contractual and non-contractual aspects that are broader in scope than the present legal standing. Further, the Bill did not provide for exclusivity

---

<sup>24</sup>RavinderChhaba&Shyam Sunder Chhaba, *Inadequacy of the Trade Secret’s Protection Laws in India and the Legal Regime Existing in the U.S.*, MANUPATRA, <http://www.manupatra.com/roundup/369/Articles/Inadequacy.pdf> (Last visited on the 24<sup>th</sup> of September 2017, at 18.27 hrs).

<sup>25</sup> S. 10 of the National Innovation Act (Draft Bill of 2008).

<sup>26</sup> Mehak Chhabra, *Everything you need to know about the New IPR Policy*, YOUR STORY, (May 16, 2016), <https://yourstory.com/2016/05/new-ipr-policy-india/> (Last visited on 9<sup>th</sup> April, 2018 at 23.41 hrs)

<sup>27</sup> *India’s Protection to the Secrets of Trade*, KHURANA & KHURANA, (Aug. 26, 2017), [http://www.khuranaandkhurana.com/2017/08/26/indias-protection-to-secrets-of-trade/?utm\\_source=Mondaq&utm\\_medium=syndication&utm\\_campaign=View-Original](http://www.khuranaandkhurana.com/2017/08/26/indias-protection-to-secrets-of-trade/?utm_source=Mondaq&utm_medium=syndication&utm_campaign=View-Original) (Last visited on 9<sup>th</sup> April, 2018 at 23.36 hrs)

of remedies under the draft Act which also seems apt in the light of subjectivity involved in the loss and damages that may be incurred by a resultant breach by businesses and firms. While the definition of Trade Secrets is consistent with the one provided under the statutory framework of USA<sup>28</sup>; however, the Bill does not provide for any criminal liability for the theft of Trade Secrets which in the absence of such liability do not add substantially to the existing pool of civil remedies relating to Trade Secrets. Further, S. 13 of the Bill provided for mandatory damages on the proof of breach of confidentiality. In the absence of any set of parameters for the proof of such breach of confidentiality, the provision of mandatory damages is hit by vagueness. Given that, such breach pertains to confidential information, different standards need to be adopted with respect to the standard of proof of breach which had not been covered under the Bill.

Under the Bill, the Government was vested with the power to lay down the role and rights for the persons who are in a way or other associated with such confidential information. However, such powers under the Bill are discretionary which if enacted would have been hit by Art. 14 of the Constitution of India. Further, the immunity under the Bill had been left open to further rules and regulations that might be made. Such provision for future amendments inherently imports subjectivity to the Bill thereby striking its efficacy on the practical front. While the Bill sought to codify the remedies available under the civil law and equity it did not add on to the pool of remedies which seems to be the primary need under a sacrosanct legislation.

## **REMEDIES: POSITION OF TRADE SECRETS IN INDIA**

At present, India is devoid of any specific legislation which can afford protection to trade secrets and confidential information, which is fundamental to advance innovation and foreign investment. Currently, the only way in which protection has been granted to trade secrets by the courts is on the basis of erstwhile Common Law Principles of equity and at times, upon a common law action of breach of confidence, which in effect amounts a breach of contractual obligation.

---

<sup>28</sup> Anirudh Hariani, *The Draft National Innovation Act: Breaking the Shackles of Indian Innovation*, INDIA LAW JOURNAL, [http://www.indialawjournal.org/archives/volume3/issue\\_1/article\\_by\\_anirudh.html](http://www.indialawjournal.org/archives/volume3/issue_1/article_by_anirudh.html) (Last visited on 10th April, 2018 at 00.54 hrs)

In India, Non-Disclosure Agreements can be enforced contractually by way of which parties can be made contractually bound. To prevent abuse of trade secrets, it is a common prudent custom to enter into non-disclosure agreements. The Delhi High Court observed that even in the absence of an express confidentiality clause in the contract, confidentiality is implied and that the defendant is liable for breach of the confidentiality obligations.<sup>29</sup>

A proper framework laying down rules and regulations governing the creation and performance of a contract is given in the form of the Indian Contract Act, 1872. The courts while adjudicating matters have referred to Section 27 of the Act. It deals with the legitimacy of non-compete covenants and stipulates that an agreement, which restrains anyone from carrying on a lawful profession, trade or business, is void to that extent.<sup>30</sup> Agreement in restraint of trade is defined as the one in which a party concurs with any other party to restrict his liberty in the present or in the future to carry on or undertake a specified trade or profession with other persons who are not parties to the contract without the exclusive permission of the latter party in such manner as he chooses.

Section 27 of the Act entails that, to be valid, an agreement in restraint of trade must be reasonable as between the parties and in consonance with the interest of the public. However, an injunction to enforce a negative contract, that places a restriction with respect to time, can be issued in order to safeguard the employer's interests.<sup>31</sup> The objective is not to refrain an individual from gaining knowledge that helps him to become a better employee. What is desisted is divulging such information to another party. The restraint may not be greater than necessary to protect the employer, nor unduly harsh or oppressive to the employee.<sup>32</sup>

Trade secrets are formulae, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.<sup>33</sup> There are three sets of circumstances out of which proceedings may arise<sup>34</sup> –

---

<sup>29</sup> *John Richard Brady And Ors v. Chemical Process Equipments P. Ltd. and Anr* [AIR 1987 Delhi 372].

<sup>30</sup> Section 27 of Indian Contract Act, 1872.

<sup>31</sup> *Niranjan Shankar Golikari v. The Century Spinning & Mfg. Co. Ltd.*, AIR 1967 SC 1098.

<sup>32</sup> *Superintendence Company of India (P) Ltd. v. Shri. Krishna Murgai*, AIR 1980 SC 1717.

<sup>33</sup> *American Express Bank Ltd. v. Ms. Priya Puri*, (2006) IILLJ 540 Del.

<sup>34</sup> *Saltman Engineering Co Ltd vs. Campbell Engineering Co Ltd*, 1948 (65) RPC 203.

1. Where an employee comes into possession of secret and confidential information, in the normal course of his work and either carelessly or deliberately passes that information to an unauthorized person.
2. Where an unauthorized person (such as a new employee) incites such an employee to provide him with such confidential information; and
3. Where, under a license for the use of know-how, a licensee is in breach of a condition, either expressed in any agreement or implied from conduct, to maintain secrecy in respect of such know-how and fails to do so.

A trade secret could be any formula, a document, a sketch, a plan or anything in those lines that is the consequence of work undertaken by the maker using materials and resources that are available for the use of everyone. What characterizes a trade secret as confidential is the fact that an individual has used his brain and skills to produce a result in the shape of a concept.<sup>35</sup> Someone who goes through the same process can only reproduce the concept.

There are numerous cases in which an attempt has been made to protect the trade secrets under Copyright Act, 1957 and Design Act, 2000.

In the landmark case of *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*<sup>36</sup> the Delhi High Court declared that a database consisting of compilation of mailing addresses of customers can be subject matter of a copyright and if used by the defendant will amount to an infringement. In the case of *Diljeet Titus v. Alfred A. Adebare and Ors.*, the Court opined that a list of clients and their addresses amounts to “literary work”, which falls under the purview of the copyright act.

The concept developed and evolved by the plaintiff is the result of the work done by the plaintiff upon material which may be available for the use of anybody but what makes it confidential is the fact that the plaintiff has used his brain and thus produced a result in the shape of a concept. And therefore the plaintiff can claim copyright over it.<sup>37</sup>

---

<sup>35</sup> *Anil Gupta and Anr. v. Kunal Dasgupta and Ors.*, AIR 2002 Delhi 379.

<sup>36</sup> 1995 (15) PTC 278.

<sup>37</sup> *Supra*, note 8.

With respect to the remedy of injunction, the court held that in order to prove that the confidential information will be or is being used by the ex-employee, it has to be established to the satisfaction of the court that the ex-employees or the defendant, by virtue of the position they hold in the employment, had access to the secret information which was not available to any outsider unless this is proved there is no scope of granting injunction.<sup>38</sup>

A positive attempt has been made by the Indian Courts to protect their trade secrets under Copyright Act. The primary attempt of the Court in the above cases is to determine whether the trade secret falls within the definition of designs and copyrights in the respective Acts. But the courts have failed to show consistency in their stand. An attempt was also made to declare a trade secret as a “property” thereby attracting criminal liability.<sup>39</sup> However, the burden of proof to be discharged before a court of law in criminal cases is much higher and hence the scope of attracting criminal liability in case of infringement of a trade secret is limited and not a sustainable option.

Hence, trade secrets in India are protected contractually and there is no provision of criminal remedy as such so far.

## **COMPARISON OF IPR REGIMES**

The legal regime of India in terms of affording protection to trade secrets has improved overtime but is still inadequate when compared to the existing framework of some of the other parts of the world.

### **China**

People's Republic of China (PRC) enacted Anti-Unfair Competition Law (AUCL), promulgated by the State Council in September 1993. It became effective on December 1, 1993 and is China's first trade secret law. China has developed a far-reaching legal framework aimed to afford protection and enforcement of trade secrets, offering more protection vis-à-vis the Indian laws.

---

<sup>38</sup> *Control Print (India) Limited v. Sanjay Sribastab and Ors*, (2006) 2 CALLT 145 HC.

<sup>39</sup> *Pramod s/o Laxmikant Sisamkar & Uday Narayanrao Kirpekar v. Garware Plastics and Polyester Ltd. and Anr*, 1986 (3) BomCR 411.

Article 10 of the Act lays down the definition of trade secret as technical and operational information that is not in the public domain or not known to the public, is capable of giving economic benefits to the owner of trade secret and has practical applicability. It must also be established that the owner of the rights has taken positive measures to maintain its secrecy. This condition places the burden of proof on the owner who in case of an infringement is required to establish that he took reasonable measures to protect the information. All four conditions must be satisfied in order to enforce a trade secret against violation. It should be noted that the term “public” does not constitute general public of China but refers to the competitors in the market or prospective competitors in the industry that have an interest in the trade secret and wish to derive economic benefits by exploiting them. The definition is territorial i.e. the term “public” is inclusive only of Chinese public. If a trade secret is known to people outside China but is a secret within the country, the same shall be considered as unknown to public as per this definition. The trade secret should have industrial applicability and capable of generating economic benefits by way of affording the owner a competitive edge over other players in the industry.

Article 10 of the Act lays down means of infringing upon trade secrets. As per the general principle, the person who claims infringement bears the burden to prove that all the conditions of a trade secret are being met and that the defendant has used unlawful means.

The current legal framework provides for remedies by way of civil, criminal and contractual actions to protect the legal rights of the owners of trade secrets and to combat misuse of trade secrets. The onus is on the owner to successfully establish that all the conditions are being met to prove that the information was indeed a trade secret. The definition of trade secret remains constant for all three forms of actions. Article 20 provides for legal basis of civil action. It is the most common approach followed by trade secret owners by way of which a person who causes damage to the infringed business operators shall be liable to pay compensation for the damage. In cases where the damage cannot be accurately estimated, the law provides that the profits derived by the infringer out of violation of the provisions of law causing infringement during the period of infringement shall be the damages to be paid. The infringer is also made to make good the costs borne by the infringed business operator for investigating the infringer’s unfair competition acts. A viable and effective remedy of injunction is provided for under Article 25 in case of an

infringement. Supervision and inspection department can order ceasing of the illegal acts by the infringers and holds the power to impose penalty of not less than 10,000 yuan with maximum amount of penalty up-to the limit of 20,000 yuan. Article 29 provides for appeal if a party is not satisfied with the punishment levied by the supervision and inspection department, to be filed at the next higher authority within 15 days of receipt of the decision. Under the Criminal Law of China, Article 219 provides for imprisonment up-to maximum of three years if found to have violated a trade secret by committing any of the prescribed acts in the provision thereby causing serious losses to the trade secret owner. In case of an aggravated misappropriation of trade secret causing particularly serious damage to the right holder, imprisonment of three to seven years and a fine can be levied. Article 43 of the Contract Law entails liability for damages for disclosure or improper use of trade secrets.

By way of these provisions, China has made substantial progress to curb the violation and enforce protection of undisclosed information called trade secrets and thereby encourage innovation in the industry in the backdrop of growing competition.

- **U.S.A.**

The U.S. saw significant development in trade secret regime resulting into enactment of federal and state level trade secret laws. The relevant laws for prohibiting infringement of a trade secret or its commercial abuse are the Uniform Trade Secret Act 1979 (UTSA) and the Economic Espionage Act 1996 (EEA), which makes the theft or misappropriation of a trade secret a federal crime. These Acts were promulgated in an effort to provide a concrete legal framework to protect trade secrets. The UTSA was enacted with an objective to make state laws governing trade secrets uniform.

Under the UTSA, trade secret is any information or process out of which economic or commercial benefits are derived owing to the fact that it's not publicly known and not readily ascertainable and the owner must have put reasonable efforts in maintaining its secrecy.<sup>40</sup> The information need not be protected from public in general but only in the industry that stands to profit from it. The moment it becomes known within the community that could derive commercial value, it ceases to

---

<sup>40</sup> Section 1(4) of the Uniform Trade Secret Act, 1979.

be a trade secret. It must be noted that the Act does not recognize reverse engineering of as a violation of a trade secret. A party that reverse engineers a trade secret is also allowed to claim trade secret protection provided it's non-trivial. In a contrasting position to that of the Chinese law, it is not obligatory for information under the U.S. trade secret law to have immediate practical applicability. UTSA does not provide for third party liability against a party that was the recipient of the trade secret from someone who stole it. Liability on the third party can only be levied when there was knowledge or based on the circumstances, the party should've known that the trade secret was wrongfully disclosed.

The U.S. Supreme Court has explained that for subject matter to be protected as a trade secret, the material must meet minimal standards of novelty and inventiveness to avoid extending trade secret protection to matters of general or common knowledge in the industry in which it is used.<sup>41</sup> Commenting upon as to what amount of steps or safeguards undertaken will be considered reasonable, in *In Re Innovative Constr. Sys., Inc.*,<sup>42</sup> it was held that determination of the same requires careful assessment of measures and the extent to which the measures in question would minimize the risk of disclosure. There is no straightjacket assessment formula as the measures are subjective and depends on the circumstances of the case.

The Act provides for remedies in the form of injunction, damages and attorney fees. Every claim of misappropriation must be brought within three years of its discovery or by exercise of reasonable diligence should have been determined. Section 2 of the Act provides for the remedy of injunction in case of trade secret misappropriation. Infringer may also be levied with the liability of damages.<sup>43</sup> Damages are inclusive of actual loss caused to the trade secret owner as well as unjust enrichment caused by violation of trade secret that is excluded in determining the actual loss. Where the misappropriation is found to be willful and malicious, court has the power to award

---

<sup>41</sup> *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974); *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002 (1984).

<sup>42</sup> 793 F.2d 875, 884 (7<sup>th</sup> Cir. 1986)

<sup>43</sup> Section 3(a) of the Uniform Trade Secret Act, 1979.

damages twice the amount determined under Section 3(a).<sup>44</sup> The Act also provides for awarding attorney's fees for action initiated in bad faith or *mala fide* intention.<sup>45</sup>

Enactment of EEA is the second significant development in the regime of protection of trade secrets with a broader ambit. Under the EEA, information, “whether tangible or intangible”, will be considered as trade secret if the owner thereof has taken such reasonable steps to keep such information secret and the information in question derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by way of proper means, by public.<sup>46</sup>

The Act aims to penalize those individuals who misappropriate trade secrets with the objective of converting the same to the economic benefit of any person other than the owner thereof. There are two provisions criminalizing two sorts of activity. The first forbids the violation of trade secrets with the intention or knowledge of benefiting a foreign power.<sup>47</sup> The second outlaws the misappropriation of trade secrets for commercial or economic purpose with the knowledge or intention that the misappropriation will cause damage to the owner of the trade secret.<sup>48</sup> While penalties for violation of provisions of EEA are severe and entails imprisonment as well as fine, India lacks any form of criminal liability for misappropriation of trade secrets. In 2016, Defend Trade Secrets Act (DTSA) was made into law that aims to provide the trade secret owners with an access to federal courts to file civil lawsuits, a provision not provided for under the UTSA.

Trade secret protection may extend indefinitely, lasting as long as the subject matter of the trade secret is commercially valuable and is kept confidential.<sup>49</sup> However, the trade secret status of information may be lost if the information is accidentally or intentionally disclosed by anyone.<sup>50</sup>

---

<sup>44</sup> Section 3(b) of the Uniform Trade Secret Act, 1979.

<sup>45</sup> Section 4 of the Uniform Trade Secret Act, 1979.

<sup>46</sup> Section 18 of the Economic Espionage Act, 1996.

<sup>47</sup> 18 U.S.C. § 1831 of the Act.

<sup>48</sup> 18 U.S.C. § 1832 of the Act.

<sup>49</sup> *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933).

<sup>50</sup> *Religious Tech. Ctr. v. Netcom On-Line Communication Servs.*, 923 F. Supp. 1231, 1256 (N.D. Cal. 1995).

- **U.K.**

On a similar footing as that of India, the U.K. does not provide for statutory protection of trade secrets. However, grant of protection is done by way of a range of remedies available under English Law in the form of principles of equity. In consequence, trade secrets cannot be classified as property and there is no criminal sanction against disclosure or use of the same. While there is no definite ambit defined as to what constitutes a trade secret and what can be protected, in order to establish that there has been a breach of confidence, something more than mere breach is looked-for, such as a situation or a relationship that imposes a burden or an obligation on the infringer to maintain secrecy. Since it is not established as to what constitutes the term trade secret, anything, which is not too trivial, can be afforded protection. In the absence of such a relationship, imposing obligation, a non-disclosure agreement or trade restriction clause or a confidentiality clause in a contract can be worked to administer such an obligation, giving rise to an action of breach of contract.

Although there does not exist a legal framework, equitable remedies are provided for, which include injunctive relief inhibiting the use or disclosure of trade secrets to any third party. In certain cases, damages are awarded based on loss to the profit of claimant.<sup>51</sup>

## **RECOMMENDATIONS**

In the light of the impetus provided for the development of small and medium-sized enterprises in India and the thrust towards development of a Trade Secret Regime, it is imperative to analyse the prospects of enforcement of such Trade Secrets in India.

- Under the present mode of contractual enforcement, there is a need to lay down the guidelines to direct the determination of damages in every case of trade secret violations. The determination of loss incurred as a result of such violation is often undermined due to the certainty relating to such assessment. Hence specific guidelines in the regard

---

<sup>51</sup> *Vestergaard Frandsen A/S & Ors v. Bestnet Europe Ltd & Ors*, [2013] UKSC 31.

determining the threshold for damages to initiate an action for trade secrets shall help the enforcement of such contractual obligations.

- A non-exclusive statute may further be enacted as an ancillary resort in addition to the existing remedies. The definition of Trade Secrets can be defined taking its attributes as under the TRIPS Agreement and the legislation in USA. Further, the statute may envisage criminal remedies such as for the theft of trade secrets in addition to the existing civil remedies. The statute shall also mention the standard of proof in such cases of breach of confidentiality which has been left to subjective judicial consideration till date.
- A primary issue in this regard is to efficiently adumbrate the scope of confidential information in order to cater to the needs of public interest and development in the R&D sector. Further, caution must be observed in order to distinguish generic information from that of Trade Secrets which would otherwise lead to a faltered legal position. It must also be noted, that the use of the phrase 'Trade Secrets' in itself has a limited scope than 'confidential or undisclosed information' hence significant alteration of scope which would technically effectuate juxtaposition of phrases shall be avoided.

## **CONCLUSION**

The influence and significance of trade secrets has increased greatly in the industrial economy in the past few years due to manifold reasons. In the past few decades, the changes in technology have been rapid. The pace of this change has momentous implications on the economies, both local and global. This technological progress has impacted the realm of intellectual property rights as the evolution has surpassed the existing laws enacted to grant protection to inventions and innovations. In many ways, trade-secret theft is a foreseeable outgrowth of expanding international markets. At present, India lacks any codified law for safeguarding Trade Secrets. From the cases discussed it can be clearly seen that in India trade secrets have been protected using common law principles. These Common Law principles, though of practical value, have lost their connotation in the face of fast developing economy. There is an urgent need for statutory protection of Trade Secrets in the form a proper policy framework to facilitate regulation of protection instead of

depending only on Common Law Principles. There are innumerable companies in various disciplines who prefer affording protection to Trade Secrets as a form of Intellectual Property.

Due to no policy framework, a lot of companies retract from investing in the country, owing to which India stands to lose out on major Foreign Direct Investment that in turn affects the progress of the economy. Protection of trade secrets has become imperative and one of the most exigent tasks for the Indian Government. Foreign investors have to be infested with confidence and assurance of the protection of their trade secrets so that they can do business with our country. The Courts have mainly referred to Section 27 of the Indian Contract Act in most of the cases. Reliefs claimed in these cases are majorly enforcement of non-disclosure agreements between the employee and the employer. From what can be derived by the trend in adjudication, the courts have been very averse when it comes to enforcing covenants which put post-employment restrains on the employee. Such cases have put the courts into dilemma on multiple occasions. The courts have seen these cases as a clash of two interests, the right to livelihood of the employee versus right to make profit of the employer, to which there is no uniform rule that can be followed.

A concrete legislation for protection of trade secrets in India is the need of the hour in order to provide a sense of security among the foreign investors and encourage them regarding their trade secrets which will further help boost the Indian economy. Indian legislators can resort to the provisions of UTSA or EEA to come up with a robust policy framework.

## **REFERENCES**

- **Online Articles and Journals**
- Andre Barbe and Katherine Linton, *Trade Secrets: International Trade Policy and Empirical Research*, (Aug. 05, 2016), <https://www.oecd.org/sti/144%20-%20OECD%20Trade%20Secrets%202016-8-5.pdf>
- Approaches to the Protection of Trade Secrets, <https://www.oecd.org/sti/ieconomy/Chapter3-KBC2-IP.pdf>(Last visited on 24th Sep. of 2017 at 19.01 hrs)

- Carl Roper, *Trade Secret Theft, Industrial Espionage and the China Retreat*, Pg. 35, available at [https://books.google.co.in/books?id=LmjNBQAAQBAJ&pg=PA35&lp=PA35&dq=china+silk+trade+secret&source=bl&ots=cpMVwRbMuU&sig=qB6A9ImEtqIQ\\_IDL3jTCS9ofGWc&hl=en&sa=X&ved=0ahUKEwii4LB3LrWAhUGKo8KHxvYBDUQ6AEIOzAG#v=onepage&q=china%20silk%20trade%20secret&f=false](https://books.google.co.in/books?id=LmjNBQAAQBAJ&pg=PA35&lp=PA35&dq=china+silk+trade+secret&source=bl&ots=cpMVwRbMuU&sig=qB6A9ImEtqIQ_IDL3jTCS9ofGWc&hl=en&sa=X&ved=0ahUKEwii4LB3LrWAhUGKo8KHxvYBDUQ6AEIOzAG#v=onepage&q=china%20silk%20trade%20secret&f=false)
  - E. R. Claeys, *The Use Requirement at Common Law and Under the Uniform Trade Secrets Act*, 33 Hamline Law Review, 583 (2010).
  - James Pooley, *Trade Secrets: The Other IP Right*, WORLD INTELLECTUAL PROPERTY ORGANISATION, (Mar. 2013), [http://www.wipo.int/wipo\\_magazine/en/2013/03/article\\_0001.html](http://www.wipo.int/wipo_magazine/en/2013/03/article_0001.html)
  - Md. Zafar et al., *Intellection of Trade Secret and Innovation Laws in India*, 16 IJPR 341, 341 (2011)
  - Md. Zafar et al., *Intellection of Trade Secret and Innovation Laws in India*, 16 IJPR 341, 341 (2011)
  - R.G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 California Law Review, 241 (1998).
  - Ravinder Chhaba & Shyam Sunder Chhaba, *Inadequacy of the Trade Secret's Protection Laws in India and the Legal Regime Existing in the U.S.*, MANUPATRA, <http://www.manupatra.com/roundup/369/Articles/Inadequacy.pdf> (Last visited on the 24<sup>th</sup> of September 2017, at 18.27 hrs)
  - T. Aplin & F. Gurry, *Gurry on Breach of Confidence: The Protection of Confidential Information*, (2012) OXFORD UNIVERSITY PRESS, Oxford, UK
  - Thomas Duston et al., *Intellectual Property Protection for Trade Secrets and Know-how*, INTELLECTUAL PROPERTY ORGANISATION, (Apr. 2013), [http://www.ipo.org/wp-content/uploads/2013/04/IP\\_Protection\\_for\\_Trade\\_Secrets\\_and\\_Know-how1076598753.pdf](http://www.ipo.org/wp-content/uploads/2013/04/IP_Protection_for_Trade_Secrets_and_Know-how1076598753.pdf)
- **International Conventions, Legislations and Drafts**
  - The Agreement on Trade-Related Aspects of Intellectual Property, 1995

- The National Innovation Act (Draft Bill of 2008)
- The Paris Convention for the Protection of Industrial Property, 1967
- Indian Contract Act, 1872
- Uniform Trade Secret Act, 1979
- Economic Espionage Act, 1996

- **Cases**

Indian Cases:

- *American Express Bank Ltd. v. Ms. Priya Puri*, (2006) III LLJ 540 Del.
- *Anil Gupta and Anr. v. Kunal Dasgupta and Ors.*, AIR 2002 Delhi 379.
- *Control Print (India) Limited v. Sanjay Sribastab and Ors*, (2006) 2 CALLT 145 HC.
- *John Richard Brady And Ors v. Chemical Process Equipments P. Ltd. and Anr* [AIR 1987 Delhi 372].
- *Niranjan Shankar Golikari v. The Century Spinning & Mfg. Co. Ltd.*, AIR 1967 SC 1098.
- *Pramod s\o Laxmikant Sisamkar & Uday Narayanrao Kirpekar v. Garware Plastics and Polyester Ltd. and Anr*, 1986 (3) BomCR 411.
- *Saltman Engineering Co Ltd vs. Campbell Engineering Co Ltd*, 1948 (65) RPC 203.
- *Superintendence Company of India (P) Ltd. v. Shri. Krishna Murgai*, AIR 1980 SC 1717.
- 

Foreign Cases:

- *Economy Roofing & Insulating Co. v. Zumaris*, 538 N. W. 2d 641, 647 (Iowa 1995).
- *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974)
- *Religious Tech. Ctr. v. Netcom On-Line Communication Servs.*, 923 F. Supp. 1231, 1256 (N.D. Cal. 1995).
- *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002-1003 (1984)
- *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933).
- *Vestergaard Frandsen A/S & Ors v. Bestnet Europe Ltd & Ors*, [2013] UKSC 31.