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# Study of Trade Secret Laws in India in Comparison to United States

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## ABSTRACT

*In the present scenario trade secrets protection is prime to encourage innovative steps, foreign investment and to promote healthy competition. Trade secrets give the commerce a spirited edge over the competitors and thus one must make sure that he adequately protects his business-related confidential information from his competitor. Trade secret as a new form of Intellectual Property could be very substantial and it is garnering wide significance because in the era of globalization, failure or success of any company depends on its secrets allow them to be policies related secrets or information of their clients. Through this paper, the author has tried to put an effort to highlight the Trade Secrets laws protected in India and deficiency of Indian Laws with respect of Trade Secrets laws governing in United States.*

## I. INTRODUCTION

A trade secret is a piece of information, not generally known or reasonably ascertainable, that offers a business an economic gain or advantage over its competitors. It simply refers to any data or information relating to the business which is not generally known to the public and reasonable attempts have been made to keep the information as secret and confidential. Trade Secret Protection needs reasonable efforts to maintain secrecy.

However, there are also some disadvantages in the protection of secret information. The producer will maintain secret about the research until it can be protected by means of Law of Patent, thereby leading to a great deal of duplicated research which isn't always efficient. These considerations need to be kept in mind while deciding what information should be protected. In certain circumstances, it has been decided that the misuse of secrets should be considered for taking action. If the disadvantage outweighs the advantages, the Civil Law should not intervene.

### Trade Secret Laws under NAFTA

According to North American Free Trade Agreement (NAFTA), a trade secret defines as

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“information having commercial value, which isn’t within the public domain, and that reasonable steps have been taken to maintain its secrecy<sup>2</sup>”. Trade secret” means information, including a formula, pattern, compilation, program, device, technique, or process<sup>3</sup>, that-

- i) Derives independent economic value, actual or potential, from not being typically regarded to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- ii) Is the topic of efforts that are reasonable under the circumstances to take care of its secrecy.

### **Trade Secret under Trips Agreement**

Article 39 of the Trade-related Aspects of Intellectual Property Rights (TRIPS) states three norms for in view of any information as undisclosed information<sup>4</sup>. Those norms or conditions are as follows-

- (a) the information isn’t, as a body or within the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally affect the type of data in question;
- (b) the information has actual or potential commercial value because it’s secret; and
- (c) the person lawfully in control of the information has taken responsible steps under the situations to make it secret.

### **Essentials of Trade Secret**

1. Trade secret is not readily accessible.
2. Trade secret must have commercial value as a secret.
3. Lawful owner must take necessary steps to retain secrecy.
4. Some of the famous trade secrets include recipe, algorithm, computer program, manufacturing process, technical information, etc.

### **How Long does Trade Secrets Last?**

1. If the information continues to meet the norms and if it is not revealed, it remains a trade secret.

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<sup>2</sup>Article 1711 of NAFTA

<sup>3</sup> Section 1(4) of the Uniform Trade Secrets Act, 1985 Amendments

<sup>4</sup> Article 39.2 of the Trade-related Aspects of Intellectual Property Rights (TRIPS)

2. This indefinite life span means that trade secret can be very much valuable assets for any company.
3. However, rights in a trade secret only exists as long as the secret is maintained.

## **II. PROTECTION OF CONFIDENTIAL INFORMATION**

A person who receives valuable or secret information in confidence owes an obligation or duty referred to as “a duty of confidence” neither to disclose nor make use of that information for any use other than that for which the disclosure was made without the consent. Should the receiver of such information threaten to do so, the person who imposed it to him or her is entitled to an injunction to restrain such unauthorized use or disclosure. Confidentiality is an ethical principle associated with several professionals are “privileged and may not be discussed to third parties. In those jurisdiction in which the law makes provision for such confidentiality, there are usually penalties for its violation.

### **V.N. Deshpande v. Arvind Mills<sup>5</sup>**

In this case Court considered a clause concerning confidentiality of information and stated that, a clause, namely, Clause 9 of the agreement prevents the Appellant from divulging any secret information of such nature mentioned therein clause after getting termination of his service. The Defendant isn't prevented from acquiring knowledge, which makes him a far better employee for the general public for future employment, but, it only prevents him from divulging information, which he has received as respondents' employee to different party. Hence, it is clear that the clause as worded is proper and an injunction granted in terms thereof is not unreasonable or wider latitude than justified in law.

## **III. DIFFERENCE BETWEEN TRADE SECRET AND CONFIDENTIAL INFORMATION**

### **Brown v. Rollet Bros Trucking**

In this case, the court made a distinction between access to an actual trade secret and less valuable confidential information. The latter is not amenable to protection through a non-complete. In this case, access to a rate sheet listing his ex- employer's shipping rate and fuel surcharges has given to a dispatcher. That sheet was adjusted at various times- sometimes monthly and sometimes annually. Relying on ling- standing Missouri Precedent, the court observed that this types of Confidential Information was not a Trade Secret. In so holding, the court specifically noted the key difference between the two legal concepts, i.e.,

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<sup>5</sup> <https://indiankanoon.org/doc/1150206>

Confidential Information is usually limited to a one or ephemeral event within the conduct of a business, whereas a trade secret is may be a process or device for continuous use in the operation of a business. Concerning to pricing out a customer job, a trade secret is frequently found if the employer uses a specifically developed code or formula to churn out bids. However, as it was in the Brown Case and in countless other fields, pricing information is often fleeting with sales managers given huge discretion to match a completes bid or adjust prices based on a fluctuating cost of materials.

#### **IV. PROTECTION OF TRADE SECRET IN INDIA**

In India trade secrets is a most ignored field as there is no proper policy framework for the protection of trade secrets. Trade secrets in India are protected mainly through contract law or through the equitable doctrine of breach of confidentiality. It is common to insert clauses in the agreement with the employees, that protect the confidentiality of the secrets of the company not only at their employment period but also after they're terminated. In a case of *Attwood v. Lamont*, 1920, it was stated that one of the principles is that a master is not entitled to stop his servant after the determination or termination of employment from offering competition, but he is entitled to reasonable protection against exploitation of Trade Secrets<sup>6</sup>.

##### **1. The Indian Contract Act, 1872**

The Indian court relies on the common law remedies for the protection due to the lack of law for the protection of trade secrets. Reliance is placed by Indian courts on the case of *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.*, 1948<sup>7</sup>, where the issue is of confidential information, whether or not a manufacturer owed a duty of confidence to a company who had supplied them drawings and designs to produce tools to make leather punches. Basically, India has Indian Contract Act to be relied upon for the protection of Trade Secret.

Section 27 of the Contract Act, provides remedy and it restricts a person from disclosing any information which he acquires at the time of employment or through a contract. but there is not a single provision of criminal remedy in it. According to Section 27 of the Contract Act confidential information must be highly confidential before it could be considered as a trade secret. It also decides whether information amounted to a trade secret or not. There are following relevant factors for the same—

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<sup>6</sup>Avtar Singh, *Contract & Specific Relief*, Twelfth Edition.

<sup>7</sup>*Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.*, 1948 (65) R.P.C. 203.

- (i) The nature of the work of the employee and his status.
- (ii) The nature of the information itself
- (iii) Whether the employer impressed the confidentiality of the information on his employees
- (iv) Whether the information could easily be isolated from other information which the employee was free to use<sup>8</sup>.

An employer can prohibit lawfully his employee from accepting, after determining his employment, such a position where he is likely to utilize the information of secret processes and trade secrets acquired by him during the course of employment. He can also covenant to ban his employee from fixing up on his own, or accepting employment with the employer's competitors likely to destroy the employer's trade connections by a misuse of acquaintance with the employer's clients.

## **2. Copyright Act, 1957**

In the case of *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*<sup>9</sup>, Court observed that the law of Trade Secretaries to protect a good range of business data, Customer lists and other compilations of business data could also be copyrightable as a fact works. Law of Trade secret and Law of Copyright protect different sections of compiled business data, with copyright protecting the expression in these compilations and trade secret law protecting the underlying data. However, protection of Copyright and Trade Secret for compilations of business data frequently converge. In this specific case Defendant was restrained from using database of Plaintiff consisting of compilation of the addressed of the clients. Court held that if the Defendant is permitted to form use of the database of Plaintiff, it's bound to cause an injury to the plaintiff, which might be incapable of being estimated in terms of money.

## **3. SEBI**

- (i) The SEBI has issued SEBI (Prohibition of Insider Trading) regulations, 1992 which renders use and disclosure of Confidential Information by an insider subject to protection under SEBI Act of 1992.
- (ii) In one respect this regulation also crystallizes the obligation of confidence arising out of relationship between an insider and the company and in certain cases will protect information qualifying as "Trade Secret".

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<sup>8</sup>Pollock & Mulla, *Indian Contract and Specific Relief Acts*, Thirteenth Edition.

<sup>9</sup> <https://indiankanoon.org/doc/130087>

- (iii) However, a third party who makes use of this information is not made liable.
- (iv) It was observed in a case that activities like Insider Trading fraudulent trade practices and professional misconduct are absolutely detrimental to the interests of ordinary investors and are strongly deprecated under the SEBI Act, 1992 and therefore the Regulations made there under. No punishment is to serve for those indulging such activities<sup>10</sup>.

#### **4. It Act, 2000**

While the Information Technology Act of 2000 (IT Act), has provisions regarding cyber and related IT laws in India and delineates the scope of access that a party may have to on data stored on a computer, computer system or computer network, the provisions of the IT Act don't address the need for a stringent data protection law being in place.

The Information Technology Act, 2000 has recently been amended to satisfy challenges in Cybercrime. it has introduced two important provisions that have a robust pertaining to the legal regime for data protection. These are sections 43A and 72A, inserted into the IT Act by the amendment Act.

However, this amendment Act hasn't specified the meaning of the term "sensitive personal data or information" and merely states that it'd mean such personal information as could even be prescribed by the Union government in consultation with such professional bodies or associations because it going to deem fit.

#### **5. Design act, 2000**

In this case picture emerges that the court shall entertain injunction only as long as an equivalent is protected either through Copyright or Designs along-side a non-disclosure agreement.

#### **6. Civil Procedure Code**

The trade secrets, during the proceedings can be protected and there is no compulsion on Plaintiff to disclose the details during litigation. However, disclosures may be sought by either of the parties against each other to prove or disapprove the fact as to whether the information was confidential in nature and was shared with the defendant under such understanding.

#### **7. Indian Penal Code**

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<sup>10</sup>Samir C. Arora vs Securities and Exchange Board of INDIA, 2005 59 SCL 96 SAT

In a case, the Respondent contending that the action of the petitioner's amounts to Criminal Breach of Trust and cheating because the technical expertise know-how acquired by the respondents amounts to 'property', filed a criminal-complaints. Court didn't answer the question of whether or not a trade secret amounts to being a property, because the case had not satisfied the other conditions for attracting criminal liability. The plaintiffs did not prove the dishonest intention on the-part of the appellants. The court evades choose on whether it might amount to 'property.'. But, the court had made an observation that if the petitioners use the technical knows how in contravention of the agreement of service, then section 408 and 420 are often attracted. But because the burden of proof is much higher in criminal cases, its scope is minimized<sup>11</sup>.

#### **8. National innovation act, 2008.**

1. National Innovation Act of 2008 has been released by department of Science and Technology.
2. The government in the pursuance has invited comments to the same.
3. The aim of the National Innovation Act of 2008 is to push to innovation and exploitation of technology bridging the gap between innovation and lack of it in the present Patent Law. Defining and dealing with new inventions, satisfying the criteria of utility, novelty, non- obviousness and industrial applicability, the Patent Act does not allow innovations to be exploited under its provisions.

#### **V. OBJECTIVE OF NATIONAL INNOVATION ACT, 2008.**

1. The Preamble of this Act aims to aid innovators and researchers exploit the fruits of their innovations to the maximum possible extent.
2. The Preamble reads as-
  - a- An Act to facilitate public, private or public- private partnership initiatives for building an innovations support system to encourage innovation, evolve a Nation. Integrated Science and Technology Plan and codify and consolidate the law of confidentiality in aid of protecting Confidential Information, Trade Secret and Innovation<sup>12</sup>.

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<sup>11</sup>Pramod s\o LaxmikantSisamkar and UdayNarayanraoKirpekar Vs Garware Plastics and Polyester Ltd. and Anr

<sup>12</sup> <https://www.prsindia.org/uploads/media/draftinnovationlaw.pdf>

b- There was a Bill proposed called the National Innovation Bill of 2008 in which Chapter VI talked about the Confidentiality of Information. It broadly says three things which are as follows-

- (i) Confidentiality
- (ii) Misappropriation
- (iii) Damages and Injunction

Describing what aims and objectives to be included in the ambit of a “Innovation”, the draft legislation states innovation to be a process for incremental or significant technical advance or change which provides enhancement of measurable economic value, and shall include-

- (i) Introducing new or improved goods or services
- (ii) Implementing new or improved operational processes
- (iii) Implementing new or improved organizational/ managerial process.

Further Court may restrict any person or class of persons impleaded in an action not to disclose the Confidential Information mentioned in the claim without prior orders of the court<sup>13</sup>.

Additionally, there’s a provision which provides exception<sup>14</sup>, in these conditions confidential information shall not be misappropriated where, the Confidential Information was available within the public in large; or the Confidential Information has been alone derived by the alleged Misappropriator, or by any third party from whom the alleged Misappropriator received the information; or where disclosure of the Confidential Information is held to be in the interest of public by a court of law. But this draft couldn’t come into existence.

## **VI. PROTECTION OF TRADE SECRET IN U.S.A**

In the United States of America., the relevant laws for prohibiting unauthorised commercial use of a trade secret are as follows-

### **1. The Uniform Trade Secret Act (UTSA)**

The most important goal of UTSA is to make the state laws which governs the trade secrets trade uniformly, especially important for those companies that operate in more than one state. Uniform Trade Secret Act defines “Trade secret” as an information, consist of a formula, pattern, compilation, program device, method, technique, or process, that:

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<sup>13</sup>Section 10 of the National Innovation Act, 2008.

<sup>14</sup>Section 11 of the National Innovation Act, 2008.

- (i) procure independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who may obtain economic value from its disclosure or use, and
- (ii) is the subject matter of efforts that are reasonable under the circumstances to maintain its secrecy. To decide what amount or forms of safeguards are reasonable to guard the secrecy of proprietary information, for this there's no clear cut formula. In the *Economy Roofing & Insulating Co. v. Zumaris*, the Court said that: "there's virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret.
- (iii) Section 5 of the Act says that in an action under UTSA, a Court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in reference to discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering a person involved within the litigation to not disclose an alleged trade secret without prior court approval.

The UTSA has also defined the definition of "Improper means" and "Misappropriation".

## **2. Economic Espionage Act of 1996**

Under the Economic Espionage Act of 1996, an information will be considered as Trade Secret if-

- (a) the owner has taken reasonable measures to keep such information secret; and
- (b) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by the general public. The requirement 'not being generally known to the public or other persons' doesn't require that information be generally known to the public for trade secret right to be lost. If the principle person, one can obtain economic benefit from information is conscious of it, there's no trade secret. If a company discovers a competitor's trade secret through proper means, the secret will be known as two companies but will not be generally known.

In a case of the *United States v. Genovese*<sup>15</sup>, court held that a trade secret doesn't lose its protection under the Economic Espionage Act, if it is temporarily, accidentally or illicitly released to the public, provided it doesn't become 'generally known' or 'readily ascertainable through proper means'.

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<sup>15</sup> 409 F. Supp. 2d 253, 257 (S.D.N.Y. 2005)

Further the Act has provision to punish the provider and the receiver of unauthorised trade secrets<sup>16</sup>.

### **Doctrine of “Inevitable Disclosure”**

Some of the US Courts have recognized that the trade secret misappropriation is inevitable if an employee with knowledge of a company’s specialized trade secrets accepts an equivalent position with a competitor. In that situation, they find that an employee who wants to do good work will inevitably rely on whatever he knows, which also includes the former employer’s trade secrets. In a famous case, an employee was prohibited from working in a particular field because he had worked as an engineer in the plaintiff’s space suit program, and then left to work for a competitor in the same area. It was held that it would be impossible to perform his managerial functions without relying on his knowledge of the plaintiff’s trade secrets.

In the case of *Pepsico, Inc. v. Williame Redmond*, defendant (William Redmond), worked for PepsiCo from 1984 to 1994, Redmond became the Manager of the Northern California Business Unit in June, 1993, and he got promoted one year later to General Manager of the business unit which covers all units of California. Redmond's relatively high-level position at PCNA gave him details of access to inside information and trade secrets. Redmond, same as other PepsiCo management employees, had signed a confidentiality agreement with PepsiCo. Afterwards he joined a competing company, known as Quaker. Against this PepsiCo filed a suit, seeking a non- permanent restraining order to enjoin Redmond from assuming his duties at Quaker and to stop him from disclosing trade secrets or confidential information. The District Court issued an order enjoining Redmond from assuming his position at Quaker through May, 1995, and permanently from using or disclosing any trade secrets or confidential information. Court found that Redmond's new job posed a transparent threat of misappropriation of trade secrets and confidential information that would be enjoined under Illinois statutory and customary law. Against this an appeal was made to the United States Court of Appeals for the Seventh Circuit, the Seventh Circuit affirmed the District Court's order.

## **VII. INADEQUACY OF SUI GENERIS LAWS FOR TRADE SECRETS IN INDIA**

In India, Trade Secret protection is largely based on common law. The law relies on common Law principles like breach of trust and breach of confidence. The only statutory provision governing trade secrets law is Section 27 of the Indian Contract Act, which states that every agreement by which a person is restrained from carrying on any trade, business or profession,

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<sup>16</sup> Sec. 1832 of the Act

is invalid. This provision brings within its ambit non-disclosure and non-complete agreements, which are indispensable for the protection of trade secrets may be located include the Securities Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, which renders the use and disclosure of confidential (undisclosed) information by an Insider subject to prosecution under the Securities Exchange Board of India Act. But there is no uniformity in the views of the Courts over this issue. Unlike US, there is no provision of criminal liability in India.

There is no established Law when Information is improperly obtained. In a case<sup>17</sup>, it was held that equity would only supervene if the information been communicated in circumstances importing an obligation of confidence. But, the case was silent as to the applicability of the principle in other circumstances like when then information is obtained surreptitiously.

### **VIII. CONCLUSION**

Though the law of trade secrets fits into the existing framework of law of contracts and other laws, there are certain problems with respect to its inception in the field of intellectual property rights. Therefore, a separate legislation for trade secrets might do away with that disparity as well. India, being a growing nation have to have a sturdy regulation for shielding or protecting trade secrets. The TRIPS Agreement mandated that its Member States have to ex-alternate their legal guidelines and convey in new legislation to satisfy the obligations as under the TRIPS Agreement. It is time now for a statutory law to come into force in India that not only protects trade secrets and confidentiality but also makes suitable amendments regarding the same.

The criminal law of the country, the Indian Penal Code, 1860, also needs amending that provides for criminal liability in cases where there's breach of confidence or disclosure of trade secrets just like what exists in one of a similar Countries. The mere presence of a criminal law doesn't act as deterrence for individuals who indulge in such practices and accordingly intensive action and practice likewise had to maintain such incidents at bay.

Therefore, for the protection of trade secrets a transparent, clear and definite policy with regard to trade secrets protection is need of the time. This clearly underlines the need for a comprehensive legislation on trade secrets, in compliance with Article 39 of TRIPS.

The provisions provided under Uniform Trade Secret Act and Economic Espionage Act of 1996 in US must be followed in India also, therefore a legislation which provides civil also

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<sup>17</sup>Coco v. A.N. Clark Ltd.

criminal liabilities should be put into practice. Indian legislature should take recourse to the provisions laid down under the UTSA and EEA in US.

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