

Trade Secret Protection in India: Adequacy and Challenges

Sushmitha Balachandar¹

I. ABSTRACT

The relevance of Intellectual Property Rights (IPR) in the context of current global economy has risen multi-fold and is an area of high focus and criticality. This is due to the continuing endeavours being made by companies to differentiate themselves through competitive solutions and create a niche for themselves vis-a-vis competition. Obviously, this will be associated with their willingness to invest huge sums of money to maintain the competitive edge and hence protection for their investment is of paramount importance. India is no exception to this global phenomena and this manuscript tries to evaluate the adequacy of protection made available specifically to the aspect of Trade Secrets and the challenges arising out of the same. Trade secret encompasses within itself a wide range of transactions - from a mere compilation of data or information to any process, design, machinery, tools, method, computer program, chemical process, practice, piece of equipment or even pricing information involved in the evolution of the product and it is imminent that such artifacts need to be protected at every stage of their evolution. The author is of the view that more stringent protection to violation of rights against Trade Secrets is desirable and currently does not seem to be in a level plane with other IP components. The author has tried to analyse the position by evaluation of the available laws and the case laws based on the rulings made by the august courts in India. The author has also tried to identify some of the possible solutions that may be of help to mitigate the current position in this regard.

II. INTRODUCTION

Modern life is not driven by just the Law of Nature but influenced by human interactions resulting in ever evolving inventions and technological advancements. New inventions or even improvements upon an existing machine or product tends to result in a unique function or may lead to a radical breakthrough. With competitive edge determining the basic survival of the organisation, to stay relevant in the market, companies are willing to commit enormous resources for research and development, and are willing to protect their intellectual property equally.

In today's economy the value of intangible assets, i.e. intellectual property (IP) has risen and constitutes a bigger part of one's worth. IP is one of the fundamental reasons for the success of any economy and its protection is of paramount importance. Laws relating to IP have evolved over the years to offer the required

¹ Author is a Final Year student of law at School of Excellence in Law, Chennai, India

protection to such emerging intellectual assets, however, their treatment and coverage to address the different components of such assets is still a subject matter of debate. While the coverage and protection available to other popular IPs like Patents and Copyrights appear to be much more significant, Trade Secrets due to its still emerging nature, does not appear to have attracted the eyes of such law makers. The protection available for Trade Secrets is still at a nascent level and not concrete or lucid enough to provide total protection as available to other significant IPs and hence seem to come with its own inherent challenges. Just like any other form of IP, trade secrets also add value and aid in the growth of a company. As the name suggests, a trade secret is that which is undisclosed to the public due to willful attempt by the owner to conceal the same in order protect an economic advantage over competitors. A trade secret is information which, if disclosed to a competitor, would cause a real or significant harm to the owner of the Secret.

III. TRADE SECRET AND ITS GENERAL GOVERNING PRINCIPLES

Trade secret is information which includes a formula, pattern, compilation, program, device, method, program that derives independent economic value from not being generally known to or not being easily ascertainable by proper means by others who can obtain economic value² from its disclosure or is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.³ It is imperative to protect confidential information, technical know-how and business processes apart from protecting the final product or invention.⁴ A trade secret may range from a mere compilation of data or information to any process, design, machinery, tools, method, computer program, chemical process⁵, practice, piece of equipment or even pricing information involved in the evolution of the product. It can thus include not only secret formulae for the manufacturing of goods, but also, where appropriate, the names of customers and description of goods, etc.⁶ “Information having commercial value, which is not in the public domain, and for which reasonable steps have been taken to maintain its secrecy”.⁷ A significant part of trade secrets is the information because since it is unknown to others as owner has attempted to keep it secret⁸, so it is so valuable. Another vital part of trade secrets is the Secrecy rather than novelty.⁹

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which is an international agreement administered by the World Trade Organization, enumerates three essential conditions that have to be

² This proviso is a limiting factor in the definition of a trade secret in the Uniform Trade Secrets Act, 1(4)(i). 14 U.L.A. 537, 542 (1980).

³ Uniform Trade Secret Act

⁴ *Ambiance India Pvt. Ltd. v. Shri Naveen Jain*, 122 (2005) D.L.T. 421, para. 6.; *see also American Express Bank, Ltd. v. Priya Puri*, (2006) 3 L.L.N. 217.

⁵ *Kewanee Oil Co. v. Bicron Corp.*, 4 16 U.S. 470 (1974)

⁶ *Burlington Home Shopping Pvt. Ltd v. Rajnish Chibber*, 1995(61) DLT 6

⁷ North American Free Trade Agreement (NAFTA)

⁸ *ABBA Rubber Co. v. Seaquist*, 235 Cal.App.3d 1, 18 (1991).

⁹ *Dionne v. Southeast Foam Converting & Packaging, Inc.*, 240 Va.297, 302 (1990).

met before any information can be given the protection of a trade secret : It must not be generally known or easily accessible to persons who normally deal with the kind of information in question, it must have some economic value as a result of being a secret and must allow for commercial exploitation and the owner must have taken reasonable steps to extend protection of the secret.¹⁰ The Agreement does not provide for the trade secret to be treated like property, but the person lawfully in control of such secret must reasonably prevent disclosure, acquisition or usage without consent in a manner contrary to honest commercial practices. Therefore, it is only the consequence of breach of confidence or trust in legal contracts or an inducement to breach that are protected. All member countries are obliged to protect undisclosed information from commercial exploitation¹¹, and if a business discloses such secret to the Government for satisfaction of regulations or for approval in case of pharmaceutical or agricultural products that use chemicals, protection from leakage or theft by third parties must be ensured.¹² Members must protect such data against disclosure, except where necessary to protect public interest, or unless steps are taken to ensure that the data are protected against unfair commercial use. The moment any secret information is disclosed it loses its every spirit as trade secret.¹³

IV. RELEVANCE OF TRADE SECRET PROTECTION

The commercial world is extremely competitive and all the players must engage in fair play. The spirit of honesty can be achieved only by extending protection to trade practices. All the member countries of TRIPS are under the obligation to incorporate the protection given to IP under the agreement, into their own domestic laws to bring its Intellectual Property Rights within the conformity of International standards. There is an obligation on India to promote respect for international law and treaties¹⁴. India and Brazil refused the insertion of Trade Secret as they thought individual laws were unnecessary and the protection against unfair competition under the Paris Convention¹⁵ suffices. Therefore, there are no specific effective legislations that regulate the protection of trade secrets in India¹⁶ when laws exist regarding every other form of IP.

Trade secret of a company is the most important asset which widens reputation and position in market. The law protecting trade secrets has evolved from the common law of unfair competition developed in the nineteenth century by English Courts. The need for its protection increased with the rapid increase in new technology, rise in international threats, increase in value of trade secrets, Uniform Trade Secrets Act (UTSA) which is not

¹⁰ Article 39.2 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS)

¹¹ Ibid

¹² Article 39.3 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS)

¹³ State ex rel. Lucas County Board of Commissioner v/s. Ohio Environmental Protection Agency; 88 Ohio St.3d 166, 174 (2000)

¹⁴ Article 51 of The Constitution of India

¹⁵ Article 10b of the Paris Convention

¹⁶ Zafar Mahfood Rahmani & Faizanur Rahman, Intellection of Trade Secret and Innovation Laws in India, 16(4) J. Intellectual Property Rights. 341, 347 (July 2011)

perfect, but gave a starting point to establish the legal remedies for trade secret misappropriation¹⁷, and abundant scope for litigation.

V. TRADE SECRET PROTECTION IN INDIA

In India, among the IPs, Trade Secrets appear to be the most isolated from a legal perspective because there is no proper law for trade secrets protection. Nevertheless, there is a dire need to extend protection in order to encourage innovation and promote standards of commercial ethics and fair dealing.

“In India, the law of contract has to be relied upon for the protection of the secrets.”¹⁸ It imposes a restriction on any person from disclosing information which he acquires at the time of employment or through contract and provides remedies to the aggrieved party¹⁹, but this is only a civil liability.

Protection of trade secrets can be extended in case of contractual obligations between the owner of the Trade Secret and to whom the trade secret is communicated.²⁰ There is an implied duty upon an employee to serve his master with good faith and fidelity.²¹ If there is existence of fiduciary relationship then duty of not disclosing the trade secrets is implied.²²

For the violation of trust, there are only civil or equitable remedies available in India that seldom impose strict liabilities for contravention, let alone criminal liability. The remedies include an injunction preventing third parties from disclosure, returning all confidential and proprietary information, and compensation or damages to the aggrieved party.²³ The court may also order the party at fault to “deliver-up” such materials.²⁴ There are certain rules that the courts summarised to determine whether to award an interim or permanent injunction²⁵ Evidently, disclosure of trade secrets is not actionable in all cases and trade secrets owners have recourse only against misappropriation. There are numerous defenses to disclosure of trade secrets like general knowledge, parallel development, reverse engineering, innocent acquisition, statutory obligation or public interest.²⁶ Once trade secrets have been exposed to the public, they cannot be evoked²⁷ even in case the use of the product itself

¹⁷ 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”).

¹⁸ Sonia Baldia, Offshoring to India: Are Your Trade Secrets and Confidential Information Adequately Protected?, Mayer Brown Bus. & Tech. Sourcing Rev., Mar. 1, 2008, at 10

¹⁹ Section 27 of the Indian Contract Act, 1872

²⁰ Tipping v. Clark (1843) 2 Hare 393

²¹ Sanders v. Parry [1967] 1 W L R 753

²² Yovatt v. Winyard 1 J and W 394(1820)

²³ Deepak Gogia, Chakravarty’s Intellectual Property Law 753 (2010).

²⁴ Parameswaran Narayanan, Intellectual Property Law 331 (1990).

²⁵ Gujarat Bottling Co. Ltd. v. Coca Cola Co., (1995) 5 S.C.C. 545, para. 43.

²⁶ Seetharaman R, Legal protection of trade secret, 1 Supreme Court Cases (2004) 22

²⁷ Religious Technology Center v. Netcom On-Line Communication Services, Inc., 923 F.Supp. 1231, 1254 (N.D.Cal.1995) (applying California version of UTSA).

causes disclosure²⁸. There will be no protection of trade secret if in the process of using, it gets disclosed.²⁹ As a result, there is a need for adopting laws to impose criminal liability upon infringers.

It is quite clear from the cases that the courts have taken different stands in different circumstances depending on the facts of each case. Therefore, decisions are made upon the discretion of each judge which leads to uncertainty and ambiguity. For example, a Judge enumerated that, “routine day-to-day affairs of employer which are in the knowledge of many and are commonly known to others cannot be called trade secrets.”³⁰ This apprehension and instability discourages development of ideas and investment by companies. It is also a crucial factor that influences the growth of a company due to sufficient safeguards and transparency that will consequently increase Foreign Direct Investment (FDI).

VI. CONCLUSION

There is an urgent need for drafting legislation to properly safeguard the trade secret in India for good functioning and fair competition of a company in the market. India should adopt the ‘Sui Generis’ system as provided under Article 10 *bis* of the Paris Convention and Article 39(2) and 39(3) of TRIPS. Also, the provisions provided under the Uniform Trade Secret Act and Economic Espionage Act, 1996 in the USA must be comprehended in the domestic laws in order to remove uncertainty and provide uniformity. This would go a long way in developing a way of respecting trade secrets and undisclosed information as proprietary assets and will help in attaining efficient transparency in the commercial transactions. With an efficient and effective codified regime or proper mechanism through enacting a legislation, the violation of the fundamental right to privacy can be safeguarded.

²⁸ *Vacco Industries, Inc v. Van Den Berg*, 5 Cal.App.4th 34, 49-50(1992).

²⁹ *Harvey Barnett, Inc v. Shidler*, 143 F.Supp.2d 1247, 1252-1253 (D.Colo.2001) (applying Colorado version of UTSA).

³⁰ *Ambiance India Pvt. Ltd. v. Shri Naveen Jain*, para. 6.